Estimated Taxes

Estimated tax is the method used to pay tax on income that is not subject to withholding. This includes income from self-employment as a family child care provider. Estimated tax is used to pay both income tax and self-employment tax, as well as other taxes and amounts reported on your tax return. If you do not pay enough through withholding or estimated tax payments, you may be charged a penalty. If you do not pay enough by the due date of each payment period, you may be charged a penalty even if you are due a refund when you file your tax return.

Who Must Pay Estimated Tax

If you had a tax liability for the previous year, you may have to pay estimated tax for the current year.

General Rule

You must pay estimated tax for the current year if both of the following apply.

- You expect to owe at least $1,000 in tax for the previous year after subtracting your withholding and credits.
- You expect your withholding and credits to be less than the smaller of:
  - 90% of the tax to be shown on your current tax return, or
  - 100% of the tax shown on your last year's tax return. Your last year's tax return must cover all 12 months.

Family child care providers generally have to make estimated tax payments if you expect to owe tax of $1,000 or more when you file your return. However, most providers who are married do not pay quarterly estimated taxes because their spouse has enough withheld from his/her paycheck to cover them both. Your spouse can ask his/her employer to take more tax out of his/her earnings by filing a new Form W-4 with the employer. If you are single then you probably will have to make estimated tax payments. Use Form 1040-ES, Estimated Tax for Individuals, to figure and pay your estimated tax. For additional information, refer to Publication 505, Tax Withholding and Estimated Tax.

Estimated tax not required

You do not have to pay estimated tax for the current year if you meet all three of the following conditions:

- You have no tax liability for the past year as a family.
- You were a US citizen or resident for the whole year.
- Your last tax year covered a 12-month period.

You had no tax liability for last if your total tax was zero or you did not have to file an income tax return. For additional information on how to figure your estimated tax, refer to Publication 505, Tax Withholding and Estimated Tax.

How To Figure Estimated Tax

To figure your estimated tax, you must figure your expected adjusted gross income, taxable income, taxes, deductions, and credits for the year.

When figuring your current year estimated tax, it may be helpful to use your income, deductions, and credits for last year as a starting point. Use your last year federal tax return as a guide. If you were not in business for all of last year, a rough rule of thumb is that your taxes will be about 20% of your gross income. This can vary depending on your personal situation. You can use Form W-4 with the employer. If you are single then you probably will have to make estimated tax payments. Use Form 1040-ES to figure your estimated tax.

When To Pay Estimated Taxes

For estimated tax purposes, the year is divided into four payment periods. Each period has a specific payment due date. The dates are April 15th, June 16th, September 15th, and January 15th. If you do not pay enough tax by the due date of each of the payment periods, you may be charged a penalty even if you are due a refund when you file your income tax return.

This article was taken from the IRS Web site, www.irs.gov, and slightly edited.

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