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Mid-Year Review of Estimated Taxes

It is ok to owe some tax money when you file your return, since you would rather have the use of the funds for as long as possible. What you want to avoid is having to pay the IRS a penalty for underpaying your taxes during the year. If you owe the estimated tax underpayment penalty, which is nondeductible, you are in effect paying the IRS interest for part of the money you should have prepaid during the year for taxes, but did not. On the other hand, if you got a big refund on last year's return, you made an interest-free loan to the government- something you may want to avoid this year. If that happened, you should consider reducing the amount of withholding taken from your salary and/or the amount of estimated tax payments you make.

Here are some pointers to keep in mind when it comes to estimated taxes:

Basic rules. There is no estimated tax underpayment penalty for the 2019 tax year if the total tax on your return reduced by withholding (but not by estimated tax payments) is less than $1,000. If the amount owed on an individual income tax

return comes to $1,000 or more after subtracting withheld tax, the estimated tax underpayment penalty generally won't apply if your "required annual payment"- i.e., the amount that must be prepaid during the year in the form of withholding tax and estimated tax payments equals at least the smaller of two amounts:

(1) 90% of your tax bill for 2019, or
(2) 100% of your tax bill for 2018.

Note that the IRS can waive an underpayment penalty if you didn't make the payment because of a casualty, disaster, or other unusual circumstance, and it would be inequitable to impose the penalty. The penalty also can be waived for reasonable cause during the first two years after you retire (after reaching age 62) or become disabled.

It's a pay-as-you-go system. In general, one-quarter of your required annual payment must be paid by April 15, 2019, June 16, 2019, September 16, 2019 and January 15, 2020. Keep in mind that tax withheld from your salary is treated as an estimated tax payment, and that an equal part of withheld tax generally is treated as paid on each installment date.

Annualized income method. You may be able to make smaller payments under the annualized income method, which is helpful to people whose income flow is not uniform over the year, perhaps because of a seasonal business. You may also want to use the annualized income method if a significant portion of your income comes from capital gains on the sale of securities which you sell at various times during the year.

Time for a checkup. Although you now know what your 2018 tax bill came to, you probably do not quite know what your 2019 tax will be. While it can not be predicted with absolute certainty, we can project what your 2019 tax will be based on your financial picture thus far, as well as on events you anticipate will occur and transactions you anticipate finalizing in the balance of this year. It would be a good idea for us to get together well in advance of the next estimated tax installment to see how your payments are tracking and make any necessary adjustments to your wage withholding and/or estimated tax payments. Keep in mind that our review of your situation may discover that you are withholding too much rather than too little.

We should also review whether changes in your personal or financial situation require a change in estimated tax payments or withholding. For example:

- If one of your children graduated college in January and is working and supporting himself or herself, you will have one less dependency exemption deduction for the year and may need to file a new W-4 to increase withholding.

- If you anticipate having substantial investment income in 2019, you may be subject to the net investment income tax (NIIT), a surtax equal to 3.8% of the lower of your net investment income or the excess of your modified adjusted gross income over a threshold amount (e.g., $250,000 for joint filers or surviving spouses). The NIIT may need to be included when you figure

estimated tax.

- If you intend to retire mid-year, you may wind up in a lower tax bracket for the 2019 tax year and may want to reduce your withholding.
- If you converted an IRA to a Roth IRA this will result in taxable income. If you make such a rollover this year, the income from it must be included in estimated tax calculations.
- If your filing status changed during the year, i.e. single to married, you should review your current tax calculations.
- If you moved or intend to move to a different state, you should review the tax rules for that particular state.

If you have any questions about how these regulations apply to your particular situation, please contact our office so we can assist you.

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