Tax Payments, Interest & Penalties

Reliable Number Management

The IRS (the federal tax agency) & state tax departments require that taxes be prepaid throughout the year. This is generally done in two ways: through withholding and by making estimated tax payments. For many people, the tax withheld from their salaries & wages and sometimes from other income, sufficiently covers their prepayment requirement.

If there is no withholding, or if the withholding is insufficient or does not cover all forms of income, estimated tax payments must be made. These are due in four equal installments, usually on April 15, June 15, September 15, and January 15 of the following year (but still claimed for the current tax year you are making the payment for).

An estimated tax penalty is assessed when insufficient tax is paid during the year. For the federal tax return, the threshold for the penalty is 100% of last year's tax or 90% of this year's tax, unless you are considered higher income. In that case, if your adjusted gross income is over $150,000 ($75,000 if married filing separately), the threshold for the penalty is 110% of last year's tax or 100% of this year's tax. If you have paid at least these amounts, either through withholding or estimates made by the four due dates, or both, you will avoid the penalty. This penalty is calculated using the current IRS interest rate, which has lately been 3%.

If your current year's tax is higher than last year's tax, you could end up with a balance of tax due, but you won't be assessed an estimated tax penalty if you paid in the amount of last year's tax as described above.

Late Penalties & Interest (on returns filed after the initial deadline):

The deadline for tax payments for individual tax returns is the regular due date of the tax return, usually April 15 (unless April 15 falls on a weekend). If you file after April 15 and are due a refund, you will not be assessed with interest and penalties.

If you pay a tax balance after the regular due date of the tax return (April 15), the following late penalties and interest will apply to your federal tax return:

Interest: Federal short-term rate plus 3%, compounded daily.

Late Payment Penalty: One-half of one percent for each month, or part of a month, up to a maximum of 25% on the amount of tax that remains unpaid from the due date of the return until paid in full.

Late Filing Penalty: If you did not file your tax return by the regular due date of the tax return, generally April 15 (June 15 for U.S. expatriates, October 15 for taxpayers who filed an extension), the late filing penalty is usually five percent of the tax owed for each month, or part of a month that your return is late, up to five months. If your return is over 60 days late, there is also a minimum penalty for late filing; it is the lesser of $135 or 100 percent of the tax owed unless you had reasonable cause and acted in good faith.