

## Withholding & Estimated Tax Payments

By [Gina L. Gwozdz, CPA](#)

Originally Published: December 12, 2006

As far as income taxes are concerned, we have a "pay as you go" system. We called it this because income taxes are required to be paid as you generate taxable income either through withholding or estimated tax payments.

**Withholding** is the amount of taxes that are taken out of your paycheck as you earn your money. This allows the government to track how much money you are making and how much taxes they are collecting throughout the year. It also makes it harder for you to realize how much taxes you are paying.

If you are self-employed then you will not have wages so the IRS requires that you make **estimated tax payments** on a quarterly basis. You are required to estimate your total taxes for the year, and then pay the appropriate quarterly amount due. For 2006, you should have paid 22.5% by April 17, 2006, 45% by June 15, 2006, 67.5% by September 15, 2006 and **should pay 90% by January 16, 2007**.

If you do not pay in enough federal income taxes by the end of the year you will owe the IRS interest on the taxes you should have paid, when you should have paid them. In order to avoid paying interest in 2006, the amount that you would need to withhold (or pay in estimated tax payments) depends on your 2005 Adjusted Gross Income (AGI). If your 2005 AGI was \$150,000 or less, you'll need to withhold 100% of the amount of your 2005 tax liability or 90% of your 2006 tax liability. If your 2005 Adjusted Gross Income was more than \$150,000, you'll need to withhold 110% of your 2005 tax liability or 90% of your 2006 tax liability.

**However, if you pay in more federal taxes than you are required to, the IRS keeps your money interest free.** Since your taxable income is rarely computed based on your wages alone, and often times your tax situation changes throughout the year is it advisable to review and adjust your withholding (or estimated tax payments) throughout the year.

---

**Gina L. Gwozdz** is a CPA who has chosen to specialize in taxes. Visit her website at <http://GLGcpa.com> to view more Tax Tip Articles.