

# Duvall & Associates, Inc.

## Taking Care of Business

### Payment of Taxes - Part Deux

"...when my travelling is over, I'll pay you back with interest..."  
Hollies

The general guideline to paying taxes through the year is - if you remit to the government at least 100% of the total prior year taxes - you will suffer no penalties or interest even if you owe additional taxes on April 15. [Click here for more detail.](#)

But inevitably in tax law, there exist a caveat. It is possible to owe penalties if taxes are not paid timely throughout the year, even if the above safety nets are achieved by year-end.

Example - In 2010 taxpayer owed \$20,000 Federal taxes for the entire year. In 2011, taxpayer pays in quarterly estimates of \$2,000 (April 15), \$3,000 (June 15), \$5,000 (Sept 15) and \$10,000 (Dec 15).

Even though the tax safety net (\$20,000) is achieved for the entire 2011 calendar year, penalty interest can still be owed for the first two quarters, each of which witnessed payments less than 25% (\$5,000) total annual taxes.

Caveat to above caveat - In the above example, the reduced tax payments in the first two quarters can avoid penalties if the taxpayer demonstrates his/her income in said quarters was reduced to a level justifying the lower tax payments.

Wage withholdings are generally treated as paid evenly during the year. So to stretch out payments, it is possible to withhold less taxes in early months - and increase balancing amounts in later months (or catch up through year-end bonuses).

Example - In 2010 taxpayer owed \$20,000 Federal taxes for the entire year. In the first 11 months of 2011 taxpayer withholds from his/her paychecks only \$5,000 - then receives a bonus on December 31 from which \$15,000 taxes are withheld.

Because 2011 tax withholdings total \$20,000 and are treated as paid in evenly throughout the year - the taxpayer will probably not suffer any late payment penalties for 2011.

Final caveat - Dogs and horses sometimes win, Pigs always lose. So use some discretion in applying these rules.

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