ROBERTSON STEPHENS®

September 6, 2022 – Wealth Planning Commentary

Potential opportunity to reduce estimated tax payments

Third quarter estimated tax payments are due Thursday, Sept 15th, and the payment may require you to generate liquidity in your investment accounts by selling positions, drawing on margin or a pledged asset line. However, there may be an opportunity for you pay less than you expected.

The rules for estimated tax payments require you to follow one of two methods. The first method, that many of us rely on, is Safe Harbor and it is a payment of 100% of your previous year's tax liability, 110% if your adjusted gross income is greater than $150,000. Meeting the Safe Harbor requirement ensures that the IRS will not levy penalties and interest charges. As we mentioned two weeks ago, the IRS recently increased the interest rate for tax underpayments from 5% to 6%.

The other method that avoids penalties and interest is paying 90% of the current year's tax liability. To calculate the payment your CPA or accountant will need to generate a mini tax projection with live data from this year to ensure a sufficient payment is made by year-end.

If this year's income is meaningfully lower than last years and, you rely on the Safe Harbor method, there's an opportunity to save on tax payments this year. The benefit of paying less now, instead of waiting for a refund next year, is to reduce the amount of liquidity required to make the quarterly payment. Generating liquidity from margin, lines of credit, or selling positions may not be optimal.