

# How to Calculate EQ\$

## The Amount for your Estimated Quarterly Tax Payments - to the IRS

Background: The IRS is a Pay-as-you-go tax system. They require small businesses to send in 4 estimated quarterly tax payments each year (Apr 15, Jun 15, Sep 15, Jan 15) instead of sending all at once. Filing your annual taxes is a *True Up* time. The actual taxes are calculated ... if you over paid, you'll get a refund. If you underpaid, you will owe more. The IRS has an official process for determining the amount of your EQ\$ payments. You can find it on the 1040-ES instructions. It's a tad complicated. Below, are 3 simpler versions, offered for your consideration. This is NOT tax advice for you. It is for educational purposes only.

### \*\* For all Methods - first, estimate your tax rate

%

*This includes 2 types of tax - income tax and self-employment tax  
Most people are somewhere between 15% ..... 20% ..... 25% ..... 30%  
Not sure? Choose 30% to be the most conservative.*

#### Method 1 - Whole Year + 4 Equal Payments

Estimate profit for the entire calendar year. Calculate taxes. Divide by 4. This is your payment amount.  
Send equal tax payments on the due dates.  
Use the worksheet below all the way to Step 5.

#### Method 2 - Calculate Each Quarter

Look up Gross Sales and Costs of Business. Calculate profit for the last quarter and tax owed.  
Send in a unique payment each time, based on your calculations.  
Repeat each quarter.  
Use the worksheet below to Step 4.

#### Method 3 - Transfer Savings each time

Always transfer \_\_\_\_ % (your tax rate) of earnings to savings, whenever you get paid.  
When EQ\$ is due, simply send in the amount in your savings account.

#### worksheet

1	<b>Estimate* Gross Sales</b> <i>Total \$ collected from buyers/clients</i>		\$	Never includes Sales Tax
2	<b>Estimate* Cost of Business</b> <i>Supplies, business expenses</i>	-	\$	
3	<b>Find Estimated Profit</b> <i>Subtract cost of business from gross sales</i>	=	\$	
4	<b>Estimate Tax</b> <i>Multiply profit from above x tax rate If calculating for each quarter, stop here</i>	X	____%	Your tax rate
		=	\$	
5	<b>Calculate 4 equal payments</b> <i>If calculating for the year, divide tax by 4</i>	=	/4	
		=	\$	

\* Or, use actual amounts if doing Method 2