

# THE SALON PROFESSIONAL'S GUIDE TO QUARTERLY ESTIMATED TAX PAYMENTS

This guide includes three sections: Frequently Asked Questions, Year-Round Tax Prep Tips for Beauty Professionals, and How to Pay Quarterly Estimated Taxes. I recommend reading this guide from beginning to end, rather than skipping around.

I've done my very best to keep this guide short and to-the-point. If you'd like a full education on business taxation and finance, I recommend checking out my 600+ page book, [Salon Ownership & Management: A Definitive Guide to the Professional Beauty Business](#).

## FREQUENTLY ASKED QUESTIONS

What are quarterly estimated tax payments and who has to pay them?

Tax is a pay-as-you-go system. All individuals and business owners pay taxes throughout the year. Business owners withhold employment tax from their employee's wages, match that amount with their own funds, and send all of that money to the IRS on a quarterly basis. However, when you're the business owner (or are self-employed in any capacity), you have to pay both portions (employer and employee) yourself.

*If you expect to owe more than \$1,000 in taxes when you file your annual return (\$500 if you own a corporation), you'll need to pay quarterly estimated taxes.*

You don't have to pay estimated tax year for the current year if you meet **all three** of the following conditions:

- You had no tax liability for the prior year.
- You were a US Citizen or resident for the whole year.
- Your prior tax year covered a 12-month period.

Who does the estimation? How much do I pay?

You do the estimation, but luckily, it doesn't have to be complicated.

How much was your previous year's tax liability? Divide that by four.  
...that's it. That's your quarterly payment amount.

You can use Form 1040-ES<sup>1</sup> (or Form 1120-W<sup>2</sup> if you're the owner of a corporation) to calculate your payments using that prior year data. (This form is for your records only. You don't have to submit it to the IRS.) However, I don't recommend following the IRS's guidance regarding estimating as it requires you to literally *guess* at what your annual revenue, expenses, deductions, and credits will be. I consider that silly and

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<sup>1</sup> <https://www.irs.gov/pub/irs-pdf/f1040es.pdf>

<sup>2</sup> <https://www.irs.gov/forms-pubs/about-form-1120-w>

unnecessarily complicated. Estimating in this way can result in massive over- or under-payments.

By paying 100% of what you paid last year, you'll avoid penalties. If you overestimated, you'll receive a refund. If you underestimated, you'll have to pay the IRS the difference, but you won't be penalized for the privilege.

### What if I discover my payments are too high or too low?

If you've overpaid, you can either continue to overpay (and get a refund) or adjust your future payment amount.

If you've underpaid (which is only possible if you've played the Form 1040-ES guessing game), rectify the underpayment and adjust your future payment amounts.

*Remember, you won't be penalized for underpaying so long as you pay 100% of what you paid last year since you technically are not underpaying.*

The IRS only considers someone to have underpaid when their tax payments are less than 90% of their payment due for that year *and* is less than 100% of what they paid last year.

### What if I miss a payment?

This is a good opportunity to inform you that the IRS is surprisingly flexible and forgiving for a federal institution. If you miss a payment due to a casualty event, disaster, or other unusual circumstance, the law allows the IRS to waive late payment penalties. They can also waive it if you retired or became disabled during the tax year or in the preceding tax year for which you should have made estimated payments, so long as the underpayment was due to reasonable cause and not willful neglect.

*Typically, you won't be penalized at all so long as your total estimated tax payments for the entire year equal or exceed 100% of what you paid last year.*

### Can't I just file my business taxes annually?

You're actually required to file your taxes annually, no matter what.

*Quarterly tax **payments** are not tax **filings**. They're payments based on the amount you expect to owe the IRS when you do file.*

Remember, tax is a pay-as-you-go system. You are required to pay quarterly, just like every other business owner and employee. Your estimated payments should eliminate (or severely reduce) the amount you owe. Should you not pay enough throughout the year, you may incur a penalty for underpayment, even if you're due a refund once your annual return has been sorted. Penalties are calculated based on the amount of underpayment for the number of days it remains unpaid, starting with the first quarter statement.

### What is the EFTPS?

EFTPS is the official, free Electronic Federal Tax Payment System provided by the IRS. You can access it at [EFTPS.gov](http://EFTPS.gov). Don't be jarred by how much the site looks like a low-

quality spoof of a government website. It has an embarrassingly dated design and looks like it hasn't been updated since 1998, but it's the real deal.

*With EFTPS, you can pay your business and personal taxes online or by phone from anywhere at any time.*

### Why should I use the EFTPS?

The EFTPS is free, convenient, and straightforward. What's not to love? Also, your alternative options include paper payment vouchers and snail mail, both of which are time-consuming and unreliable at best.

## YEAR-ROUND TAX PREP TIPS FOR BEAUTY PROFESSIONALS

Everyone is beholden to their tax obligations, no matter what line of work you're in, but in our industry, taxes can be particularly tricky—especially if you have been misclassifying your employees<sup>3</sup> or have been misclassified yourself.<sup>4</sup>

*If you want an efficient, stress-free tax season, you need a system that streamlines your recordkeeping throughout the year.*

Salon professionals need to stay ahead of the game when it comes to handling their taxes. Here's how to make it happen.

### 1. Use Bookkeeping Software That Syncs With a Mobile App

If you aren't using bookkeeping software, what decade are you living in? Don't get me wrong, I'm the kind of person who carries a physical planner and must hand-write things if I hope to remember them, but I refuse to go back to the days of keeping a manual ledger.

*As careful as we are, we're not perfect.*

Working in our industry often involves a lot of cash changing hands, which doesn't always have a paper trail. Around this time of year, I spend a lot of billable hours helping to uncover that trail for salon owners and renters who stuff cash in their pockets throughout the day and fail to record their transactions. Every point-of-sale app facilitates cash tracking and nearly every single platform comes with mobile app synchronization, making recording sales of all types as easy as opening the app and tapping a few buttons.

If you're not interested in an actual point-of-sale software, you can create a document on your phone and track transactions there throughout the day. I recommend saving this document to the cloud (Google Drive, OneDrive, Dropbox—take your pick) so it saves automatically and is accessible from multiple devices.

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<sup>3</sup> <https://www.thisuglybeautybusiness.com/2012/08/independent-contractor-general-contractor-subcontractor-and-self-employed-defined-for-the-beauty-industry.html>

<sup>4</sup> <https://www.thisuglybeautybusiness.com/2013/04/improperly-classified-what-to-do-when-youre-being-misclassified-as-an-independent-contractor.html>

No matter which method you choose, your transactions will sync with the cloud. You can classify it as a business transaction, and with a log kept every day, your taxes will be easy once it is time to file.

## 2. Make Expense Tracking Part of Your Purchase Process

Create a folder on your preferred cloud-based storage system and call it “[YEAR] Receipts.” Whenever you spend money on a business expense, snap your receipt and save the picture to that folder.

*If you have time for Instagram, you have time to snap your damn receipts.*



While the cashier does their thing, I’m waiting with my phone, card, and receipt envelope in hand. I grab a quick pic of the receipt and toss it into the envelope. (I prefer to buy [this pack of 12](#)<sup>5</sup> and use one each month.) When I purchase something online, I immediately print, snap, and store the purchase order.

At the end of the month, print out your business bank statement and fold it like a letter. Slip the receipts inside. Write the total revenue on the left side of the folded statement and total expenses on the right side. Put that statement/receipt bundle into your receipt envelope and

toss that envelope into the battered shoe box you’ve been using to store your collection of crumpled, faded receipts up until this point.

*Every time you fail to deduct a business expense, you’re losing money. Stop that.*

The better you keep track of everything that you spend, the better prepared you will be to handle the tax write-offs for your business.

## 3. Pay Your Estimated Taxes on Time and in Full

If you’re self-employed, pay your estimated taxes each quarter to avoid potential fees, penalties, and big tax bills.

Self-employment income isn’t subject to withholding. What does this mean? If you don’t withhold and remit taxes quarterly (breaking your annual tax due into a quarterly payment), you’ll likely end up with a really large annual tax bill come April.

*You must pay at least 90% of your estimated annual taxes to avoid penalties and fees.*

In this Guide, you’ll learn how to sign up to use the EFTPS (Electronic Federal Tax Payment System) through the IRS. Paying quarterly is quick, easy, and free. Payments can be made immediately. If you like getting money back from the IRS or hate the idea

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<sup>5</sup> If you’re unable to click this link, you can find it in the original article at <https://www.thisuglybeautybusiness.com/2020/02/year-round-tax-prep-tips-for-beauty-professionals.html>

of a large tax bill more than you hate the fact that the government will be earning interest from your overpayments, contribute more than you anticipate owing.

#### 4. Encourage Digital Payments

Apps allow people to use credit and debit cards, PayPal, Apple Pay, Google Pay, Cash App, and other services. Give your customers as many ways to pay digitally as possible. These services link payments to your bank account, giving you cleaner transaction records.

*Businesses that don't accept digital payment options will fall behind.*

Just as cards replaced checks and cash, digital payment options are quickly rising in popularity, replacing cards. In the next ten years, people will increasingly use smart devices (phones, watches, etc.) to process transactions. This is a trend, not a fad. Get ahead of it.

Contrary to popular belief, business owners actually aren't required by law to accept cash. If you want to fully automate your transaction tracking process, you can get real radical and stop accepting it altogether.

I quit taking cash years ago for a variety of reasons. Primarily, I consider the possession of cash a liability, and I really didn't like the tedious process of tracking cash transactions.

#### 5. Choose an Entrepreneur-Friendly Bank

Be selective about the banks you do business with and don't be afraid to switch when a better opportunity presents itself. Every bank offers special programs and incentives to lure business owners. Take advantage of them.

*If you don't have one already, immediately open a business checking account.*

I can't express this clearly enough—nothing annoys me more than having to go line-by-line through a client's monthly personal bank account statements to determine which transactions are business-related and which aren't. I'm willing to bet you don't want to endure that torture so do yourself (and/or your accountant) the massive favor of separating your business finances from your personal. This, combined with the envelope/snap system, will turn your tax filing into an hour-long data entry task instead of a nightmarish week-long hellscape.

#### 6. Keep Informed of IRS Changes

The IRS makes changes to the law each year. Some will be inconsequential, while others will directly affect the type of business you do. The IRS has social media accounts on Twitter and Facebook, but they also have an email newsletter. The newsletter is written for tax professionals, but anyone can sign up and receive updates.

#### 7. Rectify IRS Issues ASAP

Often, consulting clients tell me they're scared to file taxes because they've failed to file for so many years and/or have a lot of unclaimed income. As much as I hate to be the bearer of bad news, filing your taxes isn't optional and constitutes a big part of your responsibilities as both a citizen and business owner.

*Each year you delay resolving outstanding IRS issues, the worse the consequences will get.*

All is not lost if you run into tax trouble. Late filing penalties and payments aren't ideal, but they are not the end of the world. The IRS works directly with taxpayers to create realistic payment plans.

If you're hiding from the IRS, contact an Enrolled Agent to advocate on your behalf. They'll represent you in your dealings with the IRS to help you get the best outcome.

## 8. Hire a Tax Pro to Assist You

If you've determined that you aren't a "tax person" or an "accounting person," find someone who is.

*People who struggle to keep records and stay organized should seek help from a tax professional immediately.*

In addition to keeping your records in order, tax professionals can help you put together a tax strategy to minimize your tax responsibility and maximize your deductions. Let them handle the heavy lifting.

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Whether you are a hairdresser, nail technician, massage therapist, or another sort of beauty professional, putting in a little bit of effort every day will result in a quick, simplified filing process. Stop putting off for (a long, miserable) April what can be done easily today.

# HOW TO PAY QUARTERLY ESTIMATED TAXES

## Step 1: Enroll in EFTPS.

You can do this online by going to [EFTPS.gov](https://eftps.gov). Follow the prompts and wait 5-7 business days to receive your PIN from the IRS. You'll use this number to finalize your enrollment later.

## Step 2: Set calendar reminders.

Right after you submit your application, you'll want to immediately set some calendar reminders so you never forget a filing date. I recommend setting reminders so they trigger a week or two before the due date. (Go for the full two weeks if you're new to filing quarterly.)

The following dates are for 2020.

PERIOD	DUE DATE
September 1 <sup>st</sup> to December 31 <sup>st</sup> (2019)	January 15 <sup>th</sup> (2020)
January 1 <sup>st</sup> to March 31 <sup>st</sup> (2020)	April 15 <sup>th</sup> (2020)
April 1 <sup>st</sup> to May 31 <sup>st</sup> (2020)	June 17 <sup>th</sup> (2020)
June 1 <sup>st</sup> to August 31 <sup>st</sup> (2020)	September 16 <sup>th</sup> (2020)
September 1 <sup>st</sup> to December 31 <sup>st</sup> (2020)	January 15 <sup>th</sup> (2021)

Payments must be scheduled by 8 p.m. ET the calendar day before the due date to be timely. However, I recommend paying by the end of the first week of the month in which the payment is due. Typically, these dates don't coincide with regular calendar quarters.

*Assume the payment is due by the end of the first week of the month and you'll never make a late payment.*

### Step 3: Estimate your tax payments.

Divide the amount you paid in taxes last year by four (if you want to ensure you won't be penalized) or use the appropriate form<sup>6</sup> to play a not-so-fun guessing game that may or may not result in you being penalized to calculate your quarterly tax payments.

Write that number down and keep it somewhere accessible. You'll need it when it's time to finalize your EFTPS account registration and establish your payment schedule.

### Step 4: Create a password.

Once you receive notification from the IRS that your EFTPS account has been created, you'll need to go to [EFTPS.gov](https://eftps.gov) to create a password using the four-digit PIN number provided on the letter.

*Do yourself a favor and get this done as soon as you receive the letter.*

Should you have an issue creating a password (like I did), you may have to wait several business days for the IRS to correct the situation. If you waited until the last minute to submit your first payment (also like I did), you'll be kicking yourself for not having straightened that password business out in advance.

### Step 5: Pay.

You have two options.

- 1.) **Go to EFTPS.gov and log in.** You'll select the tax form, payment type, tax period, and the amount. You can also select the date you want your payment to be processed. EFTPS also allows you to schedule payment instructions up to 120 days in advance for businesses and supports weekly, bi-weekly, monthly, and quarterly payment options.
- 2.) **Install IRS2Go and pay via the app.** The future is now, apparently. (Personally, I found the app to be buggy, so I prefer to use the EFTPS.)

Choose the process that works best for you. I prefer to manually remit payment on a quarterly basis by submitting it via the EFTPS website two weeks prior to the due date as part of my quarterly accounting ritual.<sup>7</sup>

### Step 6: Print your EFT Acknowledgement.

The EFT Acknowledgement Number is your confirmation of payment. Treat it like the rest of your receipts—fold it up, stuff that quarter's monthly bundles into it, and stick it into a new envelope labeled with the quarter and the year. (For example, Q1 2020.)

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<sup>6</sup> 1040-ES or 1120-W

<sup>7</sup> I worry about automated payments failing. With a website that looks like it was built on GeoCities, the IRS doesn't inspire much confidence in their technological prowess.

Now, toss that envelope into the box or drawer it will live in until you do your annual filing.

## NEED HELP?

If you need help, call the EFTPS Customer Service Hotline to speak directly to a Customer Service Representative.

English: 1-800-555-4477

Spanish: 1-800-244-4829

TDD: 1-800-733-4829

## LINKS

To click these links, access this PDF from a computer or mobile device.

[Official EFTPS Website](#)

[Self-Employed Individuals Tax Center](#)

[IRS Recordkeeping Information](#)

[Form 1040-ES](#)

[Form 2210](#)