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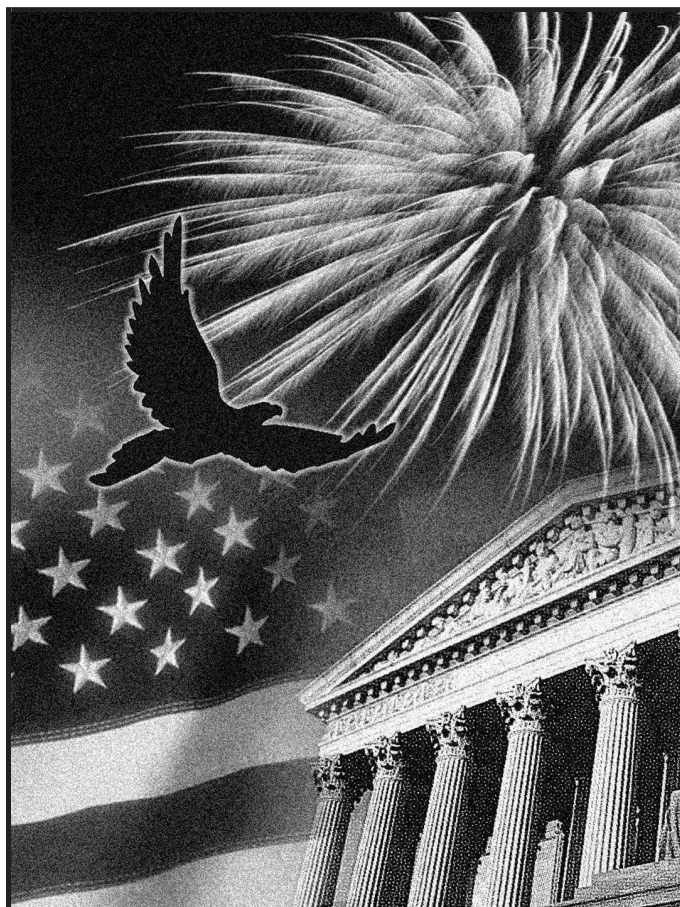
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Tax Withholding and Estimated Tax



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Introduction

The federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. There are two ways to pay as you go.

- **Withholding.** If you are an employee, your employer probably withholds income tax from your pay. In addition, tax may be withheld from certain other income, including pensions, bonuses, commissions, and gambling winnings. In each case, the amount withheld is paid to the Internal Revenue Service (IRS) in your name.
- **Estimated tax.** If you do not pay your tax through withholding, or do not pay enough

tax that way, you might have to pay estimated tax. People who are in business for themselves generally will have to pay their tax this way. You may have to pay estimated tax if you receive income such as dividends, interest, capital gains, rents, and royalties. Estimated tax is used to pay not only income tax, but self-employment tax and alternative minimum tax as well.

This publication explains both of these methods. It also explains how to take credit on your return for the tax that was withheld and for your estimated tax payments.

If you did not pay enough tax during the year, either through withholding or by making estimated tax payments, you may have to pay a penalty. Generally, the IRS can figure this penalty for you. This underpayment penalty, and the exceptions to it, are discussed in chapter 4.

Nonresident aliens. If you are a nonresident alien, see chapter 8 in Publication 519, U.S. Tax Guide for Aliens, for a discussion of Form 1040-ES (NR) and withholding.

What's new for 2007 and 2008. This information is placed in the appropriate chapters. See *What's New for 2008* in chapters 1 and 2, and *What's New for 2007* in chapters 3 and 4.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

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Reminders

Social security (FICA) tax. Generally, each employer for whom you work during the tax year must withhold social security tax up to the annual limit.

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

1.

Tax Withholding for 2008

What's New for 2008

Poker winnings of more than \$5,000. Payments of more than \$5,000 made to winners of poker tournaments on or after March 4, 2008, will be subject to income tax withholding. See *Gambling Winnings*, later in this chapter.

Introduction

This chapter discusses income tax withholding on:

- Salaries and wages,
- Tips,
- Taxable fringe benefits,
- Sick pay,
- Pensions and annuities,
- Gambling winnings,
- Unemployment compensation, and
- Certain federal payments.

This chapter explains in detail the rules for withholding tax from each of these types of income. The discussion of salaries and wages includes an explanation of how to complete Form W-4.

This chapter also covers backup withholding on interest, dividends, and other payments.

Useful Items

You may want to see:

Publication

- ❑ **919** How Do I Adjust My Tax Withholding?

Form (and Instructions)

- ❑ **W-4** Employee's Withholding Allowance Certificate
- ❑ **W-4P** Withholding Certificate for Pension or Annuity Payments
- ❑ **W-4S** Request for Federal Income Tax Withholding From Sick Pay
- ❑ **W-4V** Voluntary Withholding Request

See chapter 5 of this publication for information about getting these publications and forms.

Salaries and Wages

Income tax is withheld from the pay of most employees. Your pay includes your regular pay,

bonuses, commissions, and vacation allowances. It also includes reimbursements and other expense allowances paid under a nonaccountable plan. See *Supplemental Wages* on page 13 for definitions of accountable and nonaccountable plans.

If your income is low enough that you will not have to pay income tax for the year, you may be exempt from withholding. This is explained under *Exemption From Withholding* starting on page 12.

Military retirees. Military retirement pay is treated in the same manner as regular pay for income tax withholding purposes, even though it is treated as a pension or annuity for other tax purposes.

Household workers. If you are a household worker, you can ask your employer to withhold income tax from your pay. A household worker is an employee who performs household work in a private home, local college club, or local fraternity or sorority chapter.

Tax is withheld only if you want it withheld and your employer agrees to withhold it. If you do not have enough income tax withheld, you may have to pay estimated tax, as discussed in chapter 2.

Farmworkers. Generally, income tax is withheld from your cash wages for work on a farm unless your employer both:

- Pays you cash wages of less than \$150 during the year, and
- Has expenditures for agricultural labor totaling less than \$2,500 during the year.

You can ask your employer to withhold income tax from noncash wages and other wages not subject to withholding. If your employer does not agree to withhold tax, or if not enough is withheld, you may have to pay estimated tax, as discussed in chapter 2.

Determining Amount of Tax Withheld Using Form W-4

The amount of income tax your employer withholds from your regular pay depends on two things.

- The amount you earn.
- The information you give your employer on Form W-4.

Form W-4 includes three types of information that your employer will use to figure your withholding.

- Whether to withhold at the single rate or at the lower married rate.
- How many withholding allowances you claim (each allowance reduces the amount withheld).
- Whether you want an additional amount withheld.

Note. You must specify a filing status and a number of withholding allowances on Form W-4. You cannot specify only a dollar amount of withholding.

New Job

When you start a new job, you must fill out a Form W-4 and give it to your employer. Your employer should have copies of the form. If you need to change the information later, you must fill out a new form.

If you work only part of the year (for example, you start working after the beginning of the year), too much tax may be withheld. You may be able to avoid overwithholding if your employer agrees to use the part-year method, explained on page 8.

Employee also receiving pension income. If you receive pension or annuity income and begin a new job, you will need to file Form W-4 with your new employer. However, you can choose to split your withholding allowances between your pension and job in any manner. See Publication 919 for more information.

Changing Your Withholding

Events during the year may change your marital status or the exemptions, adjustments, deductions, or credits you expect to claim on your tax return. When this happens, you may need to give your employer a new Form W-4 to change your withholding status or number of allowances.

If the event changes your withholding status or the number of allowances you are claiming, you must give your employer a new Form W-4 within 10 days after either of the following.

- Your divorce, if you have been claiming married status.
- Any event that decreases the number of withholding allowances you can claim.

Events that will decrease the number of withholding allowances you can claim include the following.

- You have been claiming an allowance for your spouse, but you get divorced or your spouse begins claiming his or her own allowance on a separate Form W-4.
- You have been claiming an allowance for a dependent who is a qualifying relative, but you no longer expect to provide more than half the dependent's support for the year.
- You have been claiming an allowance for your qualifying child, but you now find that he or she will provide more than half of his or her own support during the year.
- You have been claiming allowances for your expected deductions, but you now find they will be less than expected.
- You filed for bankruptcy under Chapter 11 of the Bankruptcy Code and you may not be entitled to the same number of allowances or the estate may be taxed at a higher rate.

Generally, you can submit a new Form W-4 whenever you wish to change the number of your withholding allowances for any other reason.

If you change the number of your withholding allowances, you can request that your employer

withhold using the cumulative wage method, explained on page 8.

Changing your withholding for 2009. If events in 2008 will decrease the number of your withholding allowances for 2009, you must give your employer a new Form W-4 by December 1, 2008. If an event occurs in December 2008, submit a new Form W-4 within 10 days. Events that will decrease the number of your allowances include the following.

- You claimed allowances for 2008 based on child care expenses, moving expenses, or large medical expenses, but you will not have these expenses in 2009.
- You have been claiming an allowance for your spouse, but he or she died in 2008.

Note. Because you can file a joint return for 2008, your spouse's death will not affect the number of your withholding allowances until 2009. You will have to change from married to single status for 2009, unless you can file as a qualifying widow or widower because you have a dependent child, or you remarry.

You must file a new Form W-4 showing single status by December 1 of the last year you are eligible to file as qualifying widow or widower.

Checking Your Withholding

After you have given your employer a Form W-4, you can check to see whether the amount of tax withheld from your pay is too little or too much. See *Publication 919* on page 8. If too much or too little tax is being withheld, you should give your employer a new Form W-4 to change your withholding.

Note. You cannot give your employer a payment to cover federal income tax withholding on salaries and wages for past pay periods or a payment for estimated tax.

Completing Form W-4 and Worksheets

When reading the following discussion, you may find it helpful to refer to the filled-in Form W-4 on pages 9 and 10.

Marital Status (Line 3 of Form W-4)

There is a lower withholding rate for people who qualify to check the "Married" box on line 3 of Form W-4. Everyone else must have tax withheld at the higher single rate.

Single. You must check the "Single" box if any of the following applies.

- You are single. If you are divorced, or separated from your spouse under a court decree of separate maintenance, you are considered single.
- You are married, but neither you nor your spouse is a citizen or resident of the United States.

- You are married, either you or your spouse is a nonresident alien, and you have not chosen to have that person treated as a resident alien for tax purposes. For more information, see *Nonresident Spouse Treated as a Resident* in chapter 1 of Publication 519.

Married. You qualify to check the "Married" box if any of the following applies.

- You are married and neither you nor your spouse is a nonresident alien. You are considered married for the whole year even if your spouse died during the year.
- You are married, either you or your spouse is a nonresident alien, and you have chosen to have that person treated as a resident alien for tax purposes. For more information, see *Nonresident Spouse Treated as a Resident* in chapter 1 of Publication 519.
- You expect to be able to file your return as a qualifying widow or widower. You usually can use this filing status if your spouse died within the previous 2 years and you provide more than half the cost of keeping up a home that was the main home for you and your dependent child for the entire year. However, you must file a new Form W-4 showing your filing status as single by December 1 of the last year you are eligible to file as a qualifying widow or widower. For more information on this filing status, see *Qualifying Widow(er) With Dependent Child* under *Filing Status* in Publication 501, *Exemptions, Standard Deduction, and Filing Information*.

Married, but withhold at higher single rate. Some married people find that they do not have enough tax withheld at the married rate. This can happen, for example, when both spouses work. To avoid this, you can check the "Married, but withhold at higher Single rate" box (even if you qualify for the married rate). Also, you may find that more tax is withheld if you fill out the Two-Earners/Multiple Jobs Worksheet, explained on page 7.

Withholding Allowances (Line 5 of Form W-4)

The more allowances you claim on Form W-4, the less income tax your employer will withhold. You will have the most tax withheld if you claim "0" allowances. The number of allowances you can claim depends on the following factors.

- How many exemptions you can take on your tax return.
- Whether you have income from more than one job.
- What deductions, adjustments to income, and credits you expect to have for the year.
- Whether you will file as head of household.

If you are married, it also depends on whether your spouse also works and claims any allowances on his or her own Form W-4.

Form W-4 worksheets. Form W-4 has worksheets to help you figure how many withholding allowances you can claim. The worksheets are for your own records. Do not give them to your employer.

Complete only one set of Form W-4 worksheets, no matter how many jobs you have. If you are married and will file a joint return, complete only one set of worksheets for you and your spouse, even if you both earn wages and must each give a Form W-4 to your employers. Complete separate sets of worksheets only if you and your spouse will file separate returns.

If you are not exempt from withholding (see *Exemption From Withholding* starting on page 12), complete the Personal Allowances Worksheet on page 1 of the form. Also, use the worksheets on page 2 of the form to adjust the number of your withholding allowances for itemized deductions and adjustments to income, and for two-earner or multiple-job situations. If you want to adjust the number of your withholding allowances for certain tax credits, use the Deductions and Adjustments Worksheet on page 2 of Form W-4, even if you do not have any deductions or adjustments.

Complete all worksheets that apply to your situation. The worksheets will help you figure the maximum number of withholding allowances you are entitled to claim so that the amount of income tax withheld from your wages will match, as closely as possible, the amount of income tax you will owe at the end of the year.

Multiple jobs. If you have income from more than one job at the same time, complete only one set of Form W-4 worksheets. Then split your allowances between the Forms W-4 for each job. You cannot claim the same allowances with more than one employer at the same time. You can claim all your allowances with one employer and none with the other(s), or divide them any other way.

Married individuals. If both you and your spouse are employed and expect to file a joint return, figure your withholding allowances using your combined income, adjustments, deductions, exemptions, and credits. Use only one set of worksheets. You can divide your total allowances any way, but you cannot claim an allowance that your spouse also claims.

If you and your spouse expect to file separate returns, figure your allowances using separate worksheets based on your own individual income, adjustments, deductions, exemptions, and credits.

Alternative method of figuring withholding allowances. You do not have to use the Form W-4 worksheets if you use a more accurate method of figuring the number of withholding allowances.

The method you use must be based on withholding schedules, the tax rate schedules, and the 2008 Estimated Tax Worksheet in chapter 2. It must take into account only the items of income, adjustments to income, deductions, and tax credits that are taken into account on Form W-4.

You can use the number of withholding allowances determined under an alternative method rather than the number determined using the Form W-4 worksheets. You must still give your employer a Form W-4 claiming your withholding allowances.

Employees who are not citizens or residents. If you are neither a citizen nor a resident of the United States, you usually can claim only one withholding allowance. However, this rule does not apply if you are a resident of Canada or Mexico, or if you are a U.S. national. It also does not apply if your spouse is a U.S. citizen or resident and you have chosen to be treated as a resident of the United States. Special rules apply to residents of Korea and India. For more information, see *Withholding From Compensation* in chapter 8 of Publication 519.

Personal Allowances Worksheet

Use the Personal Allowances Worksheet on page 1 of Form W-4 to figure your withholding allowances based on all of the following that apply.

- Exemptions.
- Only one job.
- Head of household filing status.
- Child and dependent care credit.
- Child tax credit.

Exemptions (worksheet lines A, C, and D). You can claim one withholding allowance for each exemption you expect to claim on your tax return.

Self. You can claim an allowance for your exemption on line A unless another person can claim an exemption for you on his or her tax return. If another person is entitled to claim an exemption for you, you cannot claim an allowance for your exemption even if the other person will not claim your exemption or the exemption will be reduced.

Spouse. You can claim an allowance for your spouse's exemption on line C unless your spouse is claiming his or her own exemption or another person can claim an exemption for your

spouse. Do not claim this allowance if you and your spouse expect to file separate returns.

Dependents. You can claim one allowance on line D for each exemption you will claim for a dependent on your tax return.



Reduction of personal allowances. For 2008, your deduction for personal exemptions on your tax return is reduced if your adjusted gross income (AGI) is more than the AGI shown below for your filing status.

Single	\$159,950
Married filing jointly or qualifying widow(er)	\$239,950
Married filing separately	\$119,975
Head of household	\$199,950

If you expect your AGI to be more than that amount, use Worksheet 1-1 below to figure your reduced number of personal allowances on lines A, C, and D of the Personal Allowances Worksheet.

Only one job (worksheet line B). You can claim an additional withholding allowance if any of the following apply for 2008.

- You are single, and you have only one job at a time.
- You are married, you have only one job at a time, and your spouse does not work.
- Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less.

If you qualify for this allowance, enter "1" on line B of the worksheet.

Head of household filing status (worksheet line E). You can file as head of household if you are unmarried and pay more than half the cost of keeping up a home that:

- Was the main home for all of 2008 of your parent whom you can claim as a dependent, or

- You lived in for more than half the year with your qualifying child or any other person you can claim as a dependent.

For more information, see Publication 501.

If you expect to file as head of household on your 2008 tax return, enter "1" on line E of the worksheet.

Child and dependent care credit (worksheet line F). Enter "1" on line F if you expect to claim a credit for at least \$1,500 of qualifying child or dependent care expenses on your 2008 return. Generally, qualifying expenses are those you pay for the care of your dependent who is your qualifying child under age 13 or for your spouse or dependent who is not able to care for himself or herself so that you can work or look for work. For more information, get Publication 503.

Instead of using line F, you can choose to take the credit into account on line 5 of the Deductions and Adjustments Worksheet, as explained under *Tax credits* on page 7.

Child tax credit (worksheet line G). If your total income will be less than \$58,000 (\$86,000 if married), enter "2" on line G for each eligible child.

If your total income will be between \$58,000 and \$84,000 (\$86,000 and \$119,000 if married), enter "1" on line G for each eligible child plus "1" additional if you have four or more eligible children.

An eligible child is any child:

- Who is your son, daughter, stepchild, foster child, brother, sister, stepbrother, step-sister, or a descendant of any of them (for example, your grandchild),
- Who was under age 17 at the end of 2008,
- Who did not provide over half of his or her own support for 2008,
- Who lived with you for more than half of 2008, and
- Who was a U.S. citizen, U.S. national, or a resident of the United States.

For more information about the child tax credit, see the instructions in your Form 1040 or Form 1040A tax package.

Instead of using line G, you can choose to take the credit into account on line 5 of the Deductions and Adjustments Worksheet, as explained under *Tax credits* on page 7.

Total personal allowances (worksheet line H). Add lines A through G and enter the total on line H. If you do not use either of the worksheets on the back of Form W-4, enter the number from line H on line 5 of Form W-4.

Deductions and Adjustments Worksheet

Use the Deductions and Adjustments Worksheet on page 2 of Form W-4 only if you plan to itemize your deductions, claim certain credits, or claim adjustments to the income on your 2008 tax return and you want to reduce your withholding. Also, complete this worksheet when you have changes to those items to see if you need to change your withholding.

Worksheet 1-1. Personal Allowances Worksheet (Form W-4) Reduction of Personal Allowances if AGI Above Phaseout Threshold

1. Enter the total number of allowances on lines A, C, and D of the Personal Allowances Worksheet without regard to the phaseout rule	1. _____
2. Enter your expected AGI	2. _____
3. Enter: \$159,950 if single \$239,950 if married filing jointly or qualifying widow(er) \$119,975 if married filing separately \$199,950 if head of household	3. _____
4. Subtract line 3 from line 2	4. _____
5. Divide line 4 by \$125,000 (\$62,500 if married filing separately). Enter the result as a decimal	5. _____
6. Multiply line 1 by line 5. If the result is not a whole number, increase it to the next higher whole number	6. _____
7. Divide line 6 by 3.0	7. _____
8. Subtract line 7 from line 1. The total of the numbers you enter on lines A, C, and D of the Personal Allowances Worksheet cannot be more than this amount	8. _____

Use the amount of each item you can reasonably expect to show on your return. However, do not use more than:

1. The amount shown for that item on your 2007 return (or your 2006 return if you have not yet filed your 2007 return), plus
2. Any additional amount related to a transaction or occurrence (such as the signing of an agreement or the sale of property) that you can prove has happened or will happen during 2007 or 2008.

Do not include any amount shown on your last tax return that has been disallowed by the IRS.

Example. On June 29, 2007, you bought your first home. On your 2007 tax return, you claimed itemized deductions of \$6,600, the total mortgage interest and real estate tax you paid during the 6 months you owned your home. Based on your mortgage payment schedule and your real estate tax assessment, you can reasonably expect to claim deductions of \$13,200 for those items on your 2008 return. You can use \$13,200 to figure the number of your withholding allowances for itemized deductions.

Not itemizing deductions. If you expect to claim the standard deduction on your tax return, skip lines 1 and 2, and enter "0" on line 3 of the worksheet.

Itemized deductions (worksheet line 1). Enter your estimated total itemized deductions on line 1 of the worksheet.



Legislation during 2008 may extend the state and local sales tax deduction. For more details, see www.irs.gov, Highlights of Recent Tax Changes.

Listed below are some of the deductions you can take into account when figuring additional withholding allowances for 2008. You normally claim these deductions on Schedule A of Form 1040.

1. Medical and dental expenses that are more than 7.5% of your 2008 AGI (defined under AGI on this page).
2. State and local income taxes and property taxes.
3. Deductible home mortgage interest.
4. Investment interest up to net investment income.
5. Charitable contributions.
6. Casualty and theft losses that are more than 10% of your AGI.
7. Fully deductible miscellaneous itemized deductions, including:
 - a. Impairment-related work expenses of persons with disabilities,
 - b. Federal estate tax on income in respect of a decedent,
 - c. Repayment of more than \$3,000 of income held under a claim of right that you included in income in an earlier year because at the time you thought you had an unrestricted right to it,
 - d. Unrecovered investments in an annuity contract under which payments have

ceased because of the annuitant's death,

- e. Gambling losses up to the amount of gambling winnings reported on your return, and
 - f. Casualty and theft losses from income-producing property.
8. Other miscellaneous itemized deductions that are more than 2% of your AGI, including:
 - a. Unreimbursed employee business expenses, such as education expenses, work clothes and uniforms, union dues and fees, and the cost of work-related small tools and supplies,
 - b. Safe deposit box rental,
 - c. Tax counsel and assistance, and
 - d. Certain fees paid to an IRA trustee or custodian.

AGI. For the purpose of estimating your itemized deductions, your AGI is your estimated total income for 2008 minus any estimated adjustments to income (discussed later on this page) that you include on line 4 of the Deductions and Adjustments Worksheet.



Phaseout of itemized deductions.

For 2008, your total itemized deductions may be phased out (reduced) if your AGI is more than \$159,950 (\$79,975 if married filing separately). If you expect your AGI to be more than that amount, use Worksheet 1-2 below to figure the amount to enter on line 1 of the Deductions and Adjustments Worksheet.

Adjustments to income (worksheet line 4). Enter your estimated total adjustments to income on line 4 of the Deductions and Adjustments Worksheet.

You can take the following adjustments to income into account when figuring additional withholding allowances for 2008. These adjustments appear on page 1 of your Form 1040 or 1040A.

- Net losses from Schedules C, D, E, and F of Form 1040 and from Part II of Form 4797, line 18b.
- Net operating loss carryovers.
- Certain business expenses of reservists, performing artists, and fee-based government officials.
- Health savings account or medical savings account deduction.
- Certain moving expenses.
- Deduction for one-half of self-employment tax.
- Deduction for contributions to self-employed SEP, and qualified SIMPLE plans.
- Self-employed health insurance deduction.
- Penalty on early withdrawal of savings.
- Alimony paid.
- IRA deduction.
- Student loan interest deduction.
- Jury duty pay given to your employer.
- Reforestation amortization and expenses.

Worksheet 1-2. Deductions and Adjustments Worksheet (Form W-4)—Line 1 Phaseout of Itemized Deductions

1. Enter the estimated total of your itemized deductions	1. _____
2. Enter the amount included in line 1 for medical and dental expenses, investment interest, casualty or theft losses, and gambling losses	2. _____
3. Is the amount on line 2 less than the amount on line 1?	
☐ No. Stop here. Your deduction is not limited. Enter the amount from line 1 above on line 1 of the Deductions and Adjustments Worksheet.	
☐ Yes. Subtract line 2 from line 1 3. _____	
4. Multiply line 3 by 80% (.80)	4. _____
5. Enter your expected AGI	5. _____
6. Enter \$159,950 (\$79,975 if married filing separately)	6. _____
7. Is the amount on line 6 less than the amount on line 5?	
☐ No. Stop here. Your deduction is not limited. Enter the amount from line 1 above on line 1 of the Deductions and Adjustments Worksheet.	
☐ Yes. Subtract line 6 from line 5 7. _____	
8. Multiply line 7 by 3% (.03)	8. _____
9. Enter the smaller of line 4 or line 8	9. _____
10. Divide line 9 by 1.5	10. _____
11. Subtract line 10 from line 9	11. _____
12. Subtract line 11 from line 1. Enter the result here and on line 1 of the Deductions and Adjustments Worksheet	12. _____

- Deductible expenses related to income reported on line 21 from the rental of personal property engaged in for profit.
- Repayment of certain supplemental unemployment benefits.
- Contributions to IRC 501(c)(18)(D) pension plans.
- Attorney fees and court costs for certain unlawful discrimination claims.
- Attorney fees and court costs for certain whistleblower awards.



Legislation during 2008 may extend the deductions for educator expenses and tuition and fees. For more details, see www.irs.gov, Highlights of Recent Tax Changes.

Tax credits (worksheet line 5). Although you can take most tax credits into account when figuring withholding allowances, the Personal Allowances Worksheet uses only the child and dependent care credit (line F) and the child tax credit (line G). But you can take these credits and others into account by adding an extra amount on line 5 of the Deductions and Adjustments Worksheet.

If you take the child and dependent care credit into account on line 5, do not use line F. If you take the child tax credit into account on line 5, do not use line G.

In addition to the child and dependent care credit and child tax credit, you can take into account the following credits.

- Foreign tax credit, except any credit that applies to wages not subject to U.S. income tax withholding because they are subject to income tax withholding by a foreign country. See Publication 514, Foreign Tax Credit for Individuals.
- Credit for the elderly or the disabled. See Publication 524, Credit for the Elderly or the Disabled.
- Hope credit. See Publication 970, Tax Benefits for Education.
- Lifetime learning credit. See Publication 970.
- Retirement savings contributions credit (saver's credit). See Publication 590, Individual Retirement Arrangements (IRAs).
- Adoption credit. See the instructions for Form 8839.
- Mortgage interest credit. See Publication 530, Tax Information for First-Time Homeowners.
- Credit for prior year minimum tax (both refundable and nonrefundable) if you paid alternative minimum tax in an earlier year. See the instructions for Form 8801.
- General business credit. See Form 3800.
- Earned income credit, unless you requested advance payment of the credit. See Publication 596, Earned Income Credit (EIC).
- Alternative motor vehicle credit. See Form 8910, Part III.

- Alternative fuel vehicle refueling property credit. See Form 8911, Part III.
- Credits for clean renewable energy bonds and Gulf bonds. See Form 8912.
- Qualified zone academy bond credit. See Form 8860.
- Health coverage tax credit. See Form 8885.
- Residential energy efficient property credit. See Form 5695.
- Empowerment zone and renewal community employment credit. See Form 8844.
- Credit for alcohol used as fuel. See Form 6478.
- Renewable electricity, refined coal, and Indian coal production credit. See Form 8835, Section B.
- Work opportunity credit. See Form 5884.
- Credit for employer social security and Medicare taxes paid on certain employee tips. See Form 8846.
- Carryforward from 2007 of New York Liberty Zone business employee credit. If you have a carryforward of this credit, see Form 5884.
- Carryforward from 2007 of District of Columbia First-Time Homebuyer Credit. See Form 8859.

Figuring line 5 entry. To figure the amount to add on line 5 for tax credits, multiply your estimated total credits by the appropriate number from Table 1-1 on this page.

Example. You are married and expect to file a joint return for 2008. Your combined estimated wages are \$68,000. Your estimated tax credits include a child and dependent care credit of \$960 and a mortgage interest credit of \$1,700 (total credits = \$2,660).

In Table 1-1, section A, the number corresponding to your combined estimated wages (\$37,001 – \$85,000) is 6.7. Multiply your total estimated tax credits of \$2,660 by 6.7. Add the result, \$17,822, to the amount you otherwise would show on line 5 of the Deductions and Adjustments Worksheet and enter the total on line 5. Because you choose to account for your child and dependent care credit this way, do not make an entry on line F of the Personal Allowances Worksheet.

Nonwage income (worksheet line 6). Enter on line 6 your estimated total nonwage income (other than tax-exempt income). Nonwage income includes interest, dividends, net rental income, unemployment compensation, alimony, gambling winnings, prizes and awards, hobby income, capital gains, royalties, and partnership income.

If line 6 is more than line 5, you may not have enough income tax withheld from your wages. See *Getting the Right Amount of Tax Withheld* on page 8.

Net deductions and adjustments (worksheet line 8). If line 7 is less than \$3,500, enter "0" on line 8. If line 7 is \$3,500 or more, divide it by \$3,500, drop any fraction, and enter the result on line 8.

Example. If line 7 is \$5,200, $\$5,200 \div \$3,500 = 1.48$. Drop the fraction (.48) and enter "1" on line 8.

Two-Earners/Multiple Jobs Worksheet

Complete the Two-Earners/Multiple Jobs Worksheet on page 2 of Form W-4 if you have more than one job or are married and you and your spouse both work and the combined earnings from all jobs are more than \$40,000 (\$25,000 if married).



If you use this worksheet and your earnings are more than \$130,000 (\$180,000 if you are married), see Publication 919 to check that you are having enough tax withheld.

Table 1-1. Deductions and Adjustments Worksheet (Form W-4) —Line 5

A. Married Filing Jointly or Qualifying Widow(er)

If combined income from all sources is:	Multiply credits by:
\$0 – 37,000	10.0
\$37,001 – 85,000	6.7
\$85,001 – 160,000	4.0
\$160,001 – 230,000	3.6
\$230,001 – 390,000	3.0
\$390,001 and over	2.8

B. Single

If combined income from all sources is:	Multiply credits by:
\$0 – 17,000	10.0
\$17,001 – 40,000	6.7
\$40,001 – 90,000	4.0
\$90,001 – 180,000	3.6
\$180,001 – 390,000	3.0
\$390,001 and over	2.8

C. Head of Household

If combined income from all sources is:	Multiply credits by:
\$0 – 26,000	10.0
\$26,001 – 60,000	6.7
\$60,001 – 130,000	4.0
\$130,001 – 200,000	3.6
\$200,001 – 390,000	3.0
\$390,001 and over	2.8

D. Married Filing Separately

If combined income from all sources is:	Multiply credits by:
\$0 – 18,500	10.0
\$18,501 – 42,500	6.7
\$42,501 – 80,000	4.0
\$80,001 – 115,000	3.6
\$115,001 – 195,000	3.0
\$195,001 and over	2.8

Reducing your allowances (worksheet lines 1–3). On line 1 of the worksheet, enter the

number from line H of the Personal Allowances Worksheet (or line 10 of the Deductions and Adjustments Worksheet, if used). Using Table 1 in the Two-Earners/Multiple Jobs Worksheet, find the number listed beside the amount of your estimated wages for the year from your lowest paying job (or if lower, your spouse's job). Enter that number on line 2.

Subtract line 2 from line 1 and enter the result (but not less than zero) on line 3 and on Form W-4, line 5. If line 1 is more than or equal to line 2, do not use the rest of the worksheet.

If line 1 is less than line 2, complete lines 4 through 9 of the worksheet to figure the additional withholding needed to avoid underwithholding.

Other amounts owed. If you expect to owe amounts other than income tax, such as self-employment tax, include them on line 8. The total is the additional withholding needed for the year.

Illustrated Example—Form W-4

Joyce Green works in a bookstore and expects to earn about \$13,300. Her husband, John, works full time at the Acme Corporation, where his expected pay is \$48,500. They file a joint income tax return and claim exemptions for their two children. Because they file jointly, they use only one set of Form W-4 worksheets to figure the number of withholding allowances. The Greens' worksheets and John's W-4 are shown in Figure 1-A, beginning on page 9.

Personal Allowances Worksheet. On this worksheet, John and Joyce claim allowances for themselves and their children by entering "1" on line A, "1" on line C, and "2" on line D. Because both John and Joyce will receive wages of more than \$1,000, they are not entitled to the additional withholding allowance on line B. The Greens expect to have child and dependent care expenses of \$2,400. They enter "1" on line F of the worksheet. Because they are married, their total income will be less than \$86,000, and they have two eligible children, they enter "4" on line G.

They enter their total personal allowances, "9," on line H.

Deductions and Adjustments Worksheet. Because they plan to itemize deductions and claim adjustments to income, the Greens use this worksheet to see whether they are entitled to additional allowances.

The Greens' estimated itemized deductions total \$11,300, which they enter on line 1 of the worksheet. Because they will file a joint return, they enter \$10,900 on line 2. They subtract \$10,900 from \$11,300 and enter the result, \$400, on line 3.

The Greens expect to have an adjustment to income of \$4,000 for their deductible IRA contributions. They do not expect to have any other adjustments to income. They enter \$4,000 on line 4.

The Greens add line 3 and line 4 and enter the total, \$4,400, on line 5.

Joyce and John expect to receive \$600 in interest and dividend income during the year. They enter \$600 on line 6 and subtract line 6 from line 5. They enter the result, \$3,800, on line 7. They divide line 7 by \$3,500, and drop the

fraction to determine one additional allowance. They enter "1" on line 8.

The Greens enter "9" (the number from line H of the Personal Allowances Worksheet) on line 9 and add it to line 8. They enter "10" on line 10.

Two-Earners/Multiple Jobs Worksheet. The Greens use this worksheet because they both work and together earn over \$25,000. They enter "10" (the number from line 10 of the Deductions and Adjustments Worksheet) on line 1.

Next, they use Table 1 to find the number to enter on line 2 of the worksheet. Because they will file a joint return and their expected wages from their lowest paying job are \$13,300, they enter "2" on line 2. They subtract line 2 from line 1 and enter "8" on line 3 of the worksheet and on Form W-4, line 5.

John and Joyce Green can take a total of 8 withholding allowances between them. They decide that John will take all 8 allowances on his Form W-4. Joyce, therefore, cannot claim any allowances on hers. She will enter "0" on line 5 of the Form W-4 she gives to her employer.

Getting the Right Amount of Tax Withheld

In most situations, the tax withheld from your pay will be close to the tax you figure on your return if you follow these two rules.

- You accurately complete all the Form W-4 worksheets that apply to you.
- You give your employer a new Form W-4 when changes occur.

But because the worksheets and withholding methods do not account for all possible situations, you may not be getting the right amount withheld. This is most likely to happen in the following situations.

- You are married and both you and your spouse work.
- You have more than one job at a time.
- You have nonwage income, such as interest, dividends, alimony, unemployment compensation, or self-employment income.
- You will owe additional amounts with your return, such as self-employment tax.
- Your withholding is based on obsolete Form W-4 information for a substantial part of the year.
- Your earnings are more than \$130,000 if you are single or \$180,000 if you are married.
- You work only part of the year.
- You change the number of your withholding allowances during the year.

Part-Year Method

If you work only part of the year and your employer agrees to use the part-year withholding method, less tax will be withheld from each wage payment than would be withheld if you worked all year. To be eligible for the part-year method, you must meet both of the following requirements.

- You must use the calendar year (the 12 months from January 1 through December 31) as your tax year. You cannot use a fiscal year.
- You must not expect to be employed for more than 245 days during the year. To figure this limit, count all calendar days that you are employed (including week-ends, vacations, and sick days) beginning with the first day you are on the job for pay and ending with your last day of work. If you are temporarily laid off for 30 days or less, count those days too. If you are laid off for more than 30 days, do not count those days. You will not meet this requirement if you begin working before May 1 and expect to work for the rest of the year.

How to apply for the part-year method. You must ask in writing that your employer use this method. The request must state all three of the following.

- The date of your last day of work for any prior employer during the current calendar year.
- That you do not expect to be employed more than 245 days during the current calendar year.
- That you use the calendar year as your tax year.

Cumulative Wage Method

If you change the number of your withholding allowances during the year, too much or too little tax may have been withheld for the period before you made the change. You may be able to compensate for this if your employer agrees to use the cumulative wage withholding method for the rest of the year. You must ask in writing that your employer use this method.

To be eligible, you must have been paid for the same kind of payroll period (weekly, bi-weekly, etc.) since the beginning of the year.

Publication 919

To make sure you are getting the right amount of tax withheld, get Publication 919. It will help you compare the total tax to be withheld during the year with the tax you can expect to figure on your return. It also will help you determine how much, if any, additional withholding is needed each payday to avoid owing tax when you file your return. If you do not have enough tax withheld, you may have to pay estimated tax. See chapter 2 for information about estimated tax.

Rules Your Employer Must Follow

It may be helpful for you to know some of the withholding rules your employer must follow. These rules can affect how to fill out your Form W-4 and how to handle problems that may arise.

New Form W-4. When you start a new job, your employer should give you a Form W-4 to fill out. Beginning with your first payday, your employer will use the information you give on the form to figure your withholding.

Figure 1-A. Form W-4—Illustrated (John and Joyce Green)

Form W-4 (2008)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2008 expires February 16, 2009. See Pub. 505, Tax Withholding and Estimated Tax.

Note. You cannot claim exemption from withholding if (a) your income exceeds \$900 and includes more than \$300 of unearned income (for example, interest and dividends) and (b) another person can claim you as a dependent on their tax return.

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 adjust your withholding allowances based on itemized deductions, certain credits,

adjustments to income, or two-earner/multiple job situations. Complete all worksheets that apply. However, you may claim fewer (or zero) allowances.

Head of household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 919, How Do I Adjust My Tax Withholding, for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax

payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 919 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 919 for details.

Nonresident alien. If you are a nonresident alien, see the Instructions for Form 8233 before completing this Form W-4.

Check your withholding. After your Form W-4 takes effect, use Pub. 919 to see how the dollar amount you are having withheld compares to your projected total tax for 2008. See Pub. 919, especially if your earnings exceed \$130,000 (Single) or \$180,000 (Married).

Personal Allowances Worksheet (Keep for your records.)

A	Enter "1" for yourself if no one else can claim you as a dependent	A	<u>1</u>
B	Enter "1" if: • You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less.	B	<u> </u>
C	Enter "1" for your spouse . But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.)	C	<u>1</u>
D	Enter number of dependents (other than your spouse or yourself) you will claim on your tax return	D	<u>2</u>
E	Enter "1" if you will file as head of household on your tax return (see conditions under Head of household above)	E	<u> </u>
F	Enter "1" if you have at least \$1,500 of child or dependent care expenses for which you plan to claim a credit	F	<u>1</u>
(Note. Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)			
G	Child Tax Credit (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information.		
	• If your total income will be less than \$58,000 (\$86,000 if married), enter "2" for each eligible child. • If your total income will be between \$58,000 and \$84,000 (\$86,000 and \$119,000 if married), enter "1" for each eligible child plus "1" additional if you have 4 or more eligible children.		
H	Add lines A through G and enter total here. (Note. This may be different from the number of exemptions you claim on your tax return.) ▶	H	<u>9</u>
For accuracy, complete all worksheets that apply. • If you plan to itemize or claim adjustments to income and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2. • If you have more than one job or are married and you and your spouse both work and the combined earnings from all jobs exceed \$40,000 (\$25,000 if married), see the Two-Earners/Multiple Jobs Worksheet on page 2 to avoid having too little tax withheld. • If neither of the above situations applies, stop here and enter the number from line H on line 5 of Form W-4 below.			

Cut here and give Form W-4 to your employer. Keep the top part for your records.

Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate ▶ Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.		OMB No. 1545-0074 2008
1 Type or print your first name and middle initial. John M.		Last name Green		2 Your social security number 444 00 4444
Home address (number and street or rural route) 28 Fairway		3 ☐ Single ☒ Married ☐ Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.		
City or town, state, and ZIP code Anytown, State 00000		4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ ☐		
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)		5 8		
6 Additional amount, if any, you want withheld from each paycheck		6 \$		
7 I claim exemption from withholding for 2008, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here ▶		7		
Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete. Employee's signature (Form is not valid unless you sign it.) ▶ John M. Green				
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		9 Office code (optional)		10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2.

Cat. No. 10220Q

Form **W-4** (2008)

Figure 1-A. Form W-4—Illustrated (John and Joyce Green) (Continued)

Form W-4 (2008)

Page **2**

Deductions and Adjustments Worksheet			
Note. Use this worksheet <i>only</i> if you plan to itemize deductions, claim certain credits, or claim adjustments to income on your 2008 tax return.			
1	Enter an estimate of your 2008 itemized deductions. These include qualifying home mortgage interest, charitable contributions, state and local taxes, medical expenses in excess of 7.5% of your income, and miscellaneous deductions. (For 2008, you may have to reduce your itemized deductions if your income is over \$159,950 (\$79,975 if married filing separately). See <i>Worksheet 2</i> in Pub. 919 for details.)	1	\$ 11,300
2	Enter: \$10,900 if married filing jointly or qualifying widow(er) \$ 8,000 if head of household \$ 5,450 if single or married filing separately }	2	\$ 10,900
3	Subtract line 2 from line 1. If zero or less, enter “-0-”	3	\$ 400
4	Enter an estimate of your 2008 adjustments to income, including alimony, deductible IRA contributions, and student loan interest	4	\$ 4,000
5	Add lines 3 and 4 and enter the total. (Include any amount for credits from <i>Worksheet 8</i> in Pub. 919)	5	\$ 4,400
6	Enter an estimate of your 2008 nonwage income (such as dividends or interest)	6	\$ 600
7	Subtract line 6 from line 5. If zero or less, enter “-0-”	7	\$ 3,800
8	Divide the amount on line 7 by \$3,500 and enter the result here. Drop any fraction	8	1
9	Enter the number from the Personal Allowances Worksheet , line H, page 1	9	9
10	Add lines 8 and 9 and enter the total here. If you plan to use the Two-Earners/Multiple Jobs Worksheet , also enter this total on line 1 below. Otherwise, stop here and enter this total on Form W-4, line 5, page 1	10	10

Two-Earners/Multiple Jobs Worksheet (See <i>Two earners or multiple jobs</i> on page 1.)			
Note. Use this worksheet <i>only</i> if the instructions under line H on page 1 direct you here.			
1	Enter the number from line H, page 1 (or from line 10 above if you used the Deductions and Adjustments Worksheet)	1	10
2	Find the number in Table 1 below that applies to the LOWEST paying job and enter it here. However , if you are married filing jointly and wages from the highest paying job are \$50,000 or less, do not enter more than “3.”	2	2
3	If line 1 is more than or equal to line 2, subtract line 2 from line 1. Enter the result here (if zero, enter “-0-”) and on Form W-4, line 5, page 1. Do not use the rest of this worksheet	3	8
Note. If line 1 is <i>less than</i> line 2, enter “-0-” on Form W-4, line 5, page 1. Complete lines 4–9 below to calculate the additional withholding amount necessary to avoid a year-end tax bill.			
4	Enter the number from line 2 of this worksheet	4	
5	Enter the number from line 1 of this worksheet	5	
6	Subtract line 5 from line 4	6	
7	Find the amount in Table 2 below that applies to the HIGHEST paying job and enter it here	7	\$
8	Multiply line 7 by line 6 and enter the result here. This is the additional annual withholding needed	8	\$
9	Divide line 8 by the number of pay periods remaining in 2008. For example, divide by 26 if you are paid every two weeks and you complete this form in December 2007. Enter the result here and on Form W-4, line 6, page 1. This is the additional amount to be withheld from each paycheck	9	\$

Table 1				Table 2			
Married Filing Jointly		All Others		Married Filing Jointly		All Others	
If wages from LOWEST paying job are—	Enter on line 2 above	If wages from LOWEST paying job are—	Enter on line 2 above	If wages from HIGHEST paying job are—	Enter on line 7 above	If wages from HIGHEST paying job are—	Enter on line 7 above
\$0 - \$4,500	0	\$0 - \$6,500	0	\$0 - \$65,000	\$530	\$0 - \$35,000	\$530
4,501 - 10,000	1	6,501 - 12,000	1	65,001 - 120,000	880	35,001 - 80,000	880
10,001 - 18,000	2	12,001 - 20,000	2	120,001 - 180,000	980	80,001 - 150,000	980
18,001 - 22,000	3	20,001 - 27,000	3	180,001 - 310,000	1,160	150,001 - 340,000	1,160
22,001 - 27,000	4	27,001 - 35,000	4	310,001 and over	1,230	340,001 and over	1,230
27,001 - 33,000	5	35,001 - 50,000	5				
33,001 - 40,000	6	50,001 - 65,000	6				
40,001 - 50,000	7	65,001 - 80,000	7				
50,001 - 55,000	8	80,001 - 95,000	8				
55,001 - 60,000	9	95,001 - 120,000	9				
60,001 - 65,000	10	120,001 and over	10				
65,001 - 75,000	11						
75,001 - 100,000	12						
100,001 - 110,000	13						
110,001 - 120,000	14						
120,001 and over	15						

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. The Internal Revenue Code requires this information under sections 3402(f)(2)(A) and 6109 and their regulations. Failure to provide a properly completed form will result in your being treated as a single person who claims no withholding allowances; providing fraudulent information may also subject you to penalties. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, to cities, states, and the District of Columbia for use in administering their tax laws, and using it in the National Directory of New Hires. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.

If you later fill out a new Form W-4, your employer can put it into effect as soon as possible. The deadline for putting it into effect is the start of the first payroll period ending 30 or more days after you turn it in.

No Form W-4. If you do not give your employer a completed Form W-4, your employer must withhold at the highest rate, as if you were single and claimed no withholding allowances.

Repaying withheld tax. If you find you are having too much tax withheld because you did not claim all the withholding allowances you are entitled to, you should give your employer a new Form W-4. Your employer cannot repay any of the tax previously withheld. Instead, claim the full amount withheld when you file your tax return.

However, if your employer has withheld more than the correct amount of tax for the Form W-4 you have in effect, you do not have to fill out a new Form W-4 to have your withholding lowered to the correct amount. Your employer can

repay the amount that was withheld incorrectly. If you are not repaid, your Form W-2, Wage and Tax Statement, will reflect the full amount actually withheld, which you would claim when you file your tax return.

IRS review of your withholding. Whether you are entitled to claim a certain number of allowances or complete exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of the Form W-4 to the IRS. There is a penalty for supplying false information on Form W-4. See *Penalties* on page 13.

If the IRS determines that you cannot claim more than a specified number of withholding allowances or claim a complete exemption from withholding, the IRS will issue a notice of the maximum number of withholding allowances permitted (commonly referred to as a "lock-in letter") to both you and your employer.

The IRS will provide a period of time during which you can dispute the determination before your employer adjusts your withholding. If you

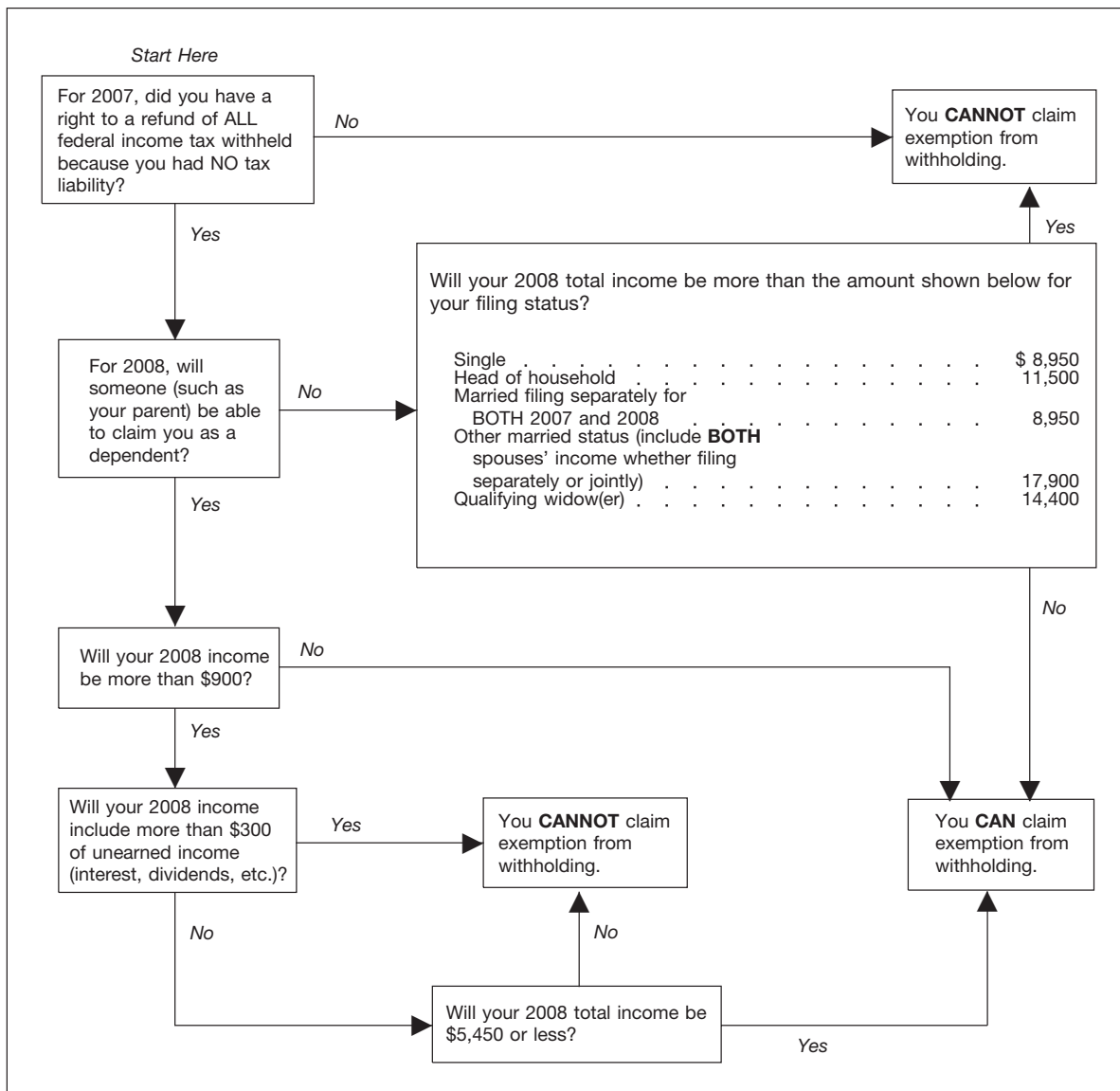
believe that you are entitled to claim complete exemption from withholding or claim more withholding allowances than the maximum number specified by the IRS in the lock-in letter, you must submit a new Form W-4 and a written statement to support your claims to the IRS. Contact information (a toll-free number and an IRS office address) will be provided in the lock-in letter. At the end of this period, if you have not responded or if your response is not adequate, your employer will be required to withhold based on the original lock-in letter.

After the lock-in letter takes effect, your employer must withhold tax on the basis of the withholding rate (marital status) and maximum number of withholding allowances specified in that letter.

If you later believe that you are entitled to claim exempt status or more allowances than the IRS determined, you can complete a new Form W-4 and a written statement to support the claims made on the Form W-4 and send them directly to the IRS address shown on the lock-in

Figure 1-B. Exemption From Withholding on Form W-4

Note. Do not use this chart if you are 65 or older or blind, or if you will itemize your deductions, or claim exemptions for dependents, or claim tax credits. Instead, see the discussions in this chapter under *Exemption From Withholding*.



letter. Your employer must continue to figure your withholding on the basis of the number of allowances previously determined by the IRS until the IRS advises your employer otherwise.

At any time, either before or after the lock-in letter becomes effective, you may give your employer a new Form W-4 that does not claim complete exemption from withholding and results in more income tax withheld than specified in the lock-in letter. Your employer must then withhold tax based on this new Form W-4.

Additional information is available on the IRS website at www.irs.gov. Enter the keyword "withholding compliance questions" in the search box.

Exemption From Withholding

If you claim exemption from withholding, your employer will not withhold federal income tax from your wages. The exemption applies only to income tax, not to social security or Medicare tax.

You can claim exemption from withholding for 2008 only if both of the following situations apply.

- For 2007 you had a right to a refund of all federal income tax withheld because you had no tax liability.
- For 2008 you expect a refund of all federal income tax withheld because you expect to have no tax liability.

Use Figure 1-B on page 11 to help you decide whether you can claim exemption from withholding. Do not use Figure 1-B if you:

- Are 65 or older.
- Are blind.
- Will itemize deductions on your 2008 return.
- Will claim an exemption for a dependent on your 2008 return.
- Will claim any tax credits on your 2008 return.

These situations are discussed later.

Students. If you are a student, you are not automatically exempt. If you work only part time or during the summer, you may qualify for exemption from withholding.

Example 1. You are a high school student and expect to earn \$2,500 from a summer job. You do not expect to have any other income during the year, and your parents will be able to claim an exemption for you on their tax return. You worked last summer and had \$375 federal income tax withheld from your pay. The entire \$375 was refunded when you filed your 2007 return. Using Figure 1-B, you find that you can claim exemption from withholding.

Example 2. The facts are the same as in Example 1, except that you also have a savings account and expect to have \$350 interest income during the year. Using Figure 1-B, you find that you cannot claim exemption from withholding because your unearned income will be more than \$300 and your total income will be more than \$900.



You may have to file a tax return, even if you are exempt from withholding. See Publication 501 to see whether you must file a return.



Age 65 or older or blind. If you are 65 or older or blind, use Worksheet 1-3 or Worksheet 1-4 below to help you decide whether you can claim exemption from

Worksheet 1-3. Exemption From Withholding for Persons Age 65 or Older or Blind

Use this worksheet only if, for **2007** you had a right to a refund of **all** federal income tax withheld because you had **no** tax liability.

Caution. This worksheet does not apply if you can be claimed as a dependent. See Worksheet 1-4 instead.

1. Check the boxes below that apply to you.		
65 or older	☐	Blind
2. Check the boxes below that apply to your spouse if you will claim your spouse's exemption on your 2008 return.		
65 or older	☐	Blind
3. Add the number of boxes you checked in 1 and 2 above. Enter the result		
You can claim exemption from withholding if:		
	and the number on line 3 above is:	and your 2008 total income will be no more than:
Your filing status is:		
Single	1	\$10,300
	2	11,650
Head of household	1	\$12,850
	2	14,200
Married filing separately for both 2007 and 2008	1	\$10,000
	2	11,050
	3	12,100
	4	13,150
Other married status	1	\$18,950*
	2	20,000*
	3	21,050*
	4	22,100*
* Include both spouses' income whether you will file separately or jointly.		
Qualifying widow(er)	1	\$15,450
	2	16,500
You cannot claim exemption from withholding if your total income will be more than the amount shown for your filing status.		

Worksheet 1-4. Exemption From Withholding for Dependents Age 65 or Older or Blind

Use this worksheet only if, for **2008**, you are a dependent and if, for **2007**, you had a right to a refund of **all** federal income tax withheld because you had **no** tax liability.

1. Enter your expected earned income plus \$300	1. _____
2. Minimum amount	2. \$ 900
3. Compare lines 1 and 2. Enter the larger amount	3. _____
4. Limit	4. 5,450
5. Compare lines 3 and 4. Enter the smaller amount	5. _____
6. Enter the appropriate amount from the following table	6. _____
Single	
Either 65 or older or blind	\$1,350
Both 65 or older and blind	2,700
Married filing separately	
Either 65 or older or blind	1,050
Both 65 or older and blind	2,100
7. Add lines 5 and 6. Enter the result	7. _____
8. Enter your total expected income	8. _____
You can claim exemption from withholding if line 7 is equal to or more than line 8. You cannot claim exemption from withholding if line 8 is more than line 7.	

withholding. Do not use either worksheet if you will itemize deductions, claim exemptions for dependents, or claim tax credits on your 2008 return—instead, see *Itemizing deductions or claiming exemptions or credits* next.

Itemizing deductions or claiming exemptions or credits. If you had no tax liability for 2007, and you will:

- Itemize deductions,
- Claim an exemption for a dependent, or
- Claim a tax credit,

use the 2008 Estimated Tax Worksheet in Form 1040-ES (also see chapter 2), to figure your 2008 expected tax liability. You can claim exemption from withholding only if your total expected tax liability (line 13c of the worksheet) is zero.

Claiming exemption from withholding. To claim exemption, you must give your employer a Form W-4. Do not complete lines 5 and 6. Enter “Exempt” on line 7.

If you claim exemption, but later your situation changes so that you will have to pay income tax after all, you must file a new Form W-4 within 10 days after the change. If you claim exemption in 2008, but you expect to owe income tax for 2009, you must file a new Form W-4 by December 1, 2008.

Your claim of exempt status may be reviewed by the IRS. See *IRS review of your withholding* on page 11.

An exemption is good for only one year.

You must give your employer a new Form W-4 by February 15 each year to continue your exemption.

Supplemental Wages

Supplemental wages include bonuses, commissions, overtime pay, vacation allowances, certain sick pay, and expense allowances under certain plans. The payer can figure withholding on supplemental wages using the same method used for your regular wages. However, if these payments are identified separately from regular wages, your employer or other payer of supplemental wages can withhold income tax from these wages at a flat rate.

Expense allowances. Reimbursements or other expense allowances paid by your employer under a nonaccountable plan are treated as supplemental wages. A nonaccountable plan is a reimbursement arrangement that does not require you to account for, or prove, your business expenses to your employer or does not require you to return your employer's payments that are more than your proven expenses.

Reimbursements or other expense allowances paid under an accountable plan that are more than your proven expenses are treated as paid under a nonaccountable plan if you do not return the excess payments within a reasonable period of time.

Accountable plan. To be an accountable plan, your employer's reimbursement or allowance arrangement must include all three of the following rules.

- Your expenses must have a business connection. That is, you must have paid or

incurred deductible expenses while performing services as an employee of your employer.

- You must adequately account to your employer for these expenses within a reasonable period of time.
- You must return any excess reimbursement or allowance within a reasonable period of time.

An excess reimbursement or allowance is any amount you are paid that is more than the business-related expenses that you adequately accounted for to your employer.

The definition of reasonable period of time depends on the facts and circumstances of your situation. However, regardless of those facts and circumstances, actions that take place within the times specified in the following list will be treated as taking place within a reasonable period of time.

- You receive an advance within 30 days of the time you have an expense.
- You adequately account for your expenses within 60 days after they were paid or incurred.
- You return any excess reimbursement within 120 days after the expense was paid or incurred.
- You are given a periodic statement (at least quarterly) that asks you to either return or adequately account for outstanding advances and you comply within 120 days of the statement.

Nonaccountable plan. Any plan that does not meet the definition of an accountable plan is considered a nonaccountable plan.

For more information about accountable and nonaccountable plans, see chapter 6 of Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.

Penalties

You may have to pay a penalty of \$500 if both of the following apply.

- You make statements or claim withholding allowances on your Form W-4 that reduce the amount of tax withheld.
- You have no reasonable basis for those statements or allowances at the time you prepare your Form W-4.

There is also a criminal penalty for willfully supplying false or fraudulent information on your Form W-4 or for willfully failing to supply information that would increase the amount withheld. The penalty upon conviction can be either a fine of up to \$1,000 or imprisonment for up to 1 year, or both.

These penalties will apply if you deliberately and knowingly falsify your Form W-4 in an attempt to reduce or eliminate the proper withholding of taxes. A simple error or an honest mistake will not result in one of these penalties. For example, a person who has tried to figure the number of withholding allowances correctly, but claims seven when the proper number is six, will not be charged a Form W-4 penalty. However,

see chapter 4 for information on the underpayment penalty.

Tips

The tips you receive while working on your job are considered part of your pay. You must include your tips on your tax return on the same line as your regular pay. However, tax is not withheld directly from tip income, as it is from your regular pay. Nevertheless, your employer will take into account the tips you report when figuring how much to withhold from your regular pay.

Reporting tips to your employer. If you receive tips of \$20 or more in a month while working for any one employer, you must report to your employer the total amount of tips you receive on the job during the month. The report is due by the 10th day of the following month.

If you have more than one job, make a separate report to each employer. Report only the tips you received while working for that employer, and only if they total \$20 or more for the month.

How employer figures amount to withhold.

The tips you report to your employer are counted as part of your income for the month you report them. Your employer can figure your withholding in either of two ways.

- By withholding at the regular rate on the sum of your pay plus your reported tips.
- By withholding at the regular rate on your pay plus a percentage of your reported tips.

Not enough pay to cover taxes. If your regular pay is not enough for your employer to withhold all the tax (including income tax, social security tax, Medicare tax, or railroad retirement tax) due on your pay plus your tips, you can give your employer money to cover the shortage.

If you do not give your employer money to cover the shortage, your employer first withholds as much social security tax, Medicare tax, or railroad retirement tax as possible, up to the proper amount, and then withholds income tax up to the full amount of your pay. If not enough tax is withheld, you may have to pay estimated tax. When you file your return, you also may have to pay any social security tax, Medicare tax, or railroad retirement tax your employer could not withhold.

Tips not reported to your employer. On your tax return, you must report all the tips you receive during the year, even tips you do not report to your employer. Make sure you are having enough tax withheld, or are paying enough estimated tax (see chapter 2), to cover all your tip income.

Allocated tips. If you work in a large establishment that serves food or beverages to customers, your employer may have to report an allocated amount of tips on your Form W-2.

Your employer should not withhold income tax, social security tax, Medicare tax, or railroad retirement tax on the allocated amount. Withholding is based only on your pay plus your

reported tips. Your employer should refund to you any incorrectly withheld tax.

More information. For more information on the reporting and withholding rules for tip income and on tip allocation, get Publication 531, *Reporting Tip Income*.

Taxable Fringe Benefits

The value of certain noncash fringe benefits you receive from your employer is considered part of your pay. Your employer generally must withhold income tax on these benefits from your regular pay.

Although the value of your personal use of an employer-provided car, truck, or other highway motor vehicle is taxable, your employer can choose not to withhold income tax on that amount. Your employer must notify you if this choice is made.

When benefits are considered paid. Your employer can choose to treat a fringe benefit as paid by the pay period, by the quarter, or on some other basis as long as the benefit is considered paid at least once a year. Your employer can treat the benefit as being paid on one or more dates during the year, even if you get the entire benefit at one time.

Special rule. Your employer can choose to treat a benefit provided during November or December as paid in the next year. Your employer must notify you if this rule is used.

Example. Your employer considers the value of benefits paid from November 1, 2006, through October 31, 2007, as paid to you in 2007. To determine the total value of benefits paid to you in 2008, your employer will add the value of any benefits paid in November and December of 2007 to the value of any benefits paid in January through October of 2008.

Exceptions. Your employer cannot choose when to withhold tax on the transfer of either real property or personal property of a kind normally held for investment (such as stock). Your employer must withhold tax on these benefits at the time of the transfer.

How withholding is figured. Your employer can either add the value of a fringe benefit to your regular pay and figure income tax withholding on the total or withhold a flat percentage of the benefit's value.

If the benefit's actual value cannot be determined when it is paid or treated as paid, your employer can use a reasonable estimate. Your employer must determine the actual value of the benefit by January 31 of the next year. If the actual value is more than the estimate, your employer must pay the IRS any additional withholding tax required. Your employer has until April 1 of that next year to recover from you the additional income tax paid to the IRS for you.

How your employer reports your benefits. Your employer must report on Form W-2 the total of the taxable fringe benefits paid or treated as paid to you during the year and the tax withheld for the benefits. These amounts can be shown either on the Form W-2 for your regular

pay or on a separate Form W-2. If your employer provided you with a car, truck, or other motor vehicle and chose to treat all of your use of it as personal, its value must be either separately shown on Form W-2 or reported to you on a separate statement.

More information. For information on fringe benefits, see *Fringe Benefits* under *Employee Compensation* in Publication 525, *Taxable and Nontaxable Income*.

Sick Pay

Sick pay is a payment to you to replace your regular wages while you are temporarily absent from work due to sickness or personal injury. To qualify as sick pay, it must be paid under a plan to which your employer is a party.

If you receive sick pay from your employer or an agent of your employer, income tax must be withheld. An agent who does not pay regular wages to you may choose to withhold income tax at a flat rate.

However, if you receive sick pay from a third party who is not acting as an agent of your employer, income tax will be withheld only if you choose to have it withheld. See *Form W-4S* below.

If you receive payments under a plan in which your employer does not participate (such as an accident or health plan where you paid all the premiums), the payments are not sick pay and usually are not taxable.

Union agreements. If you receive sick pay under a collective bargaining agreement between your union and your employer, the agreement may determine the amount of income tax withholding. See your union representative or your employer for more information.

Form W-4S. If you choose to have income tax withheld from sick pay paid by a third party, such as an insurance company, you must fill out Form W-4S. Its instructions contain a worksheet you can use to figure the amount you want withheld. They also explain restrictions that may apply.

Give the completed form to the payer of your sick pay. The payer must withhold according to your directions on the form.

Form W-4S remains in effect until you change or cancel it, or stop receiving payments. You can change your withholding by giving a new Form W-4S or a written notice to the payer of your sick pay.

Estimated tax. If you do not request withholding on Form W-4S, or if you do not have enough tax withheld, you may have to pay estimated tax. If you do not pay enough tax, either through estimated tax or withholding, or a combination of both, you may have to pay a penalty. See chapters 2 and 4.

Pensions and Annuities

Income tax usually will be withheld from your pension or annuity distributions unless you choose not to have it withheld. This rule applies to distributions from:

- A traditional individual retirement arrangement (IRA);
- A life insurance company under an endowment, annuity, or life insurance contract;
- A pension, annuity, or profit-sharing plan;
- A stock bonus plan; and
- Any other plan that defers the time you receive compensation.

The amount withheld depends on whether you receive payments spread out over more than 1 year (periodic payments), within 1 year (nonperiodic payments), or as an eligible rollover distribution (ERD). You cannot choose not to have income tax withheld from an ERD. ERDs are discussed on page 15 under *Eligible Rollover Distributions*.

Nontaxable part. The part of your pension or annuity that is a return of your investment in your retirement plan, the amount you paid into the plan, or its cost to you, is not taxable. Income tax will not be withheld from the part of your pension or annuity that is not taxable. The tax withheld will be figured on, and cannot be more than, the taxable part.

For information about figuring the part of your pension or annuity that is not taxable, see Publication 575, *Pension and Annuity Income*.

Periodic Payments

Withholding from periodic payments of a pension or annuity is figured in the same way as withholding from salaries and wages. To tell the payer of your pension or annuity how much you want withheld, fill out Form W-4P or a similar form provided by the payer. Follow the rules discussed under *Salaries and Wages*, starting on page 3, to fill out your Form W-4P.

Note. Use Form W-4, not Form W-4P, if you receive any of the following.

- Military retirement pay.
- Payments from certain nonqualified deferred compensation plans. These are employer plans that pay part of your compensation at a later time, but are not tax-qualified deferred compensation plans. See *Nonqualified Deferred Compensation and Section 457 Plans* in Publication 957, *Reporting Back Pay and Special Wage Payments to the Social Security Administration*.
- Payments from a state or local deferred compensation plan (section 457 plan).

Withholding rules. The withholding rules for pensions and annuities differ from those for salaries and wages in the following ways.

- If you do not fill out a withholding certificate, tax will be withheld as if you were married and claiming three withholding allowances. This means that tax will be withheld only if your pension or annuity is at least \$1,560 a month (or \$18,720 a year).
- You can choose not to have tax withheld, regardless of how much tax you owed last year or expect to owe this year. You do

not have to qualify for exemption. See *Choosing Not To Have Income Tax Withheld* on this page.

- If you do not give the payer your social security number (in the required manner) or the IRS notifies the payer before any payment or distribution is made that you gave it an incorrect social security number, tax will be withheld as if you were single and were claiming no withholding allowances. This means that tax will be withheld if your pension or annuity is at least \$230 a month (or \$2,760 a year).

Effective date of withholding certificate. If you give your withholding certificate (Form W-4P or a similar form) to the payer on or before the date your payments start, it will be put into effect by the first payment made more than 30 days after you submit the certificate.

If you give the payer your certificate after your payments start, it will be put into effect with the first payment which is at least 30 days after you submit it. However, the payer can elect to put it into effect earlier.

Nonperiodic Payments

Tax will be withheld at a flat 10% rate on any nonperiodic payments you receive.

Because withholding on nonperiodic payments does not depend on withholding allowances or whether you are married or single, you cannot use Form W-4P to tell the payer how much to withhold. But you can use Form W-4P to specify that an additional amount be withheld. You also can use Form W-4P to choose not to have tax withheld or to revoke a choice not to have tax withheld.



You may need to use Form W-4P to ask for additional withholding. If you do not have enough tax withheld, you may need to pay estimated tax, as explained in chapter 2.

Eligible Rollover Distributions

A distribution you receive that is eligible to be rolled over tax free into a qualified retirement or annuity plan is called an eligible rollover distribution (ERD). This is the taxable part of any distribution from a qualified pension plan or tax-sheltered annuity that is not any of the following.

1. A required minimum distribution.
2. One of a series of substantially equal periodic pension or annuity payments made over:
 - a. Your life (or your life expectancy) or the joint lives of you and your beneficiary (or your life expectancies), or
 - b. A specified period of 10 or more years.
3. A hardship distribution.

The payer of a distribution must withhold at a flat 20% rate on any part of an ERD that is distributed rather than rolled over directly to another qualified plan. You cannot elect not to

have withholding on these distributions. No withholding is required on any part rolled over directly to another plan.

Choosing Not To Have Income Tax Withheld

For payments other than ERDs, you can choose not to have income tax withheld. The payer will tell you how to make this choice. If you use Form W-4P, check the box on line 1 to make this choice. This choice will remain in effect until you decide you want withholding.

The payer must withhold if either of the following applies:

- You do not give the payer your social security number (in the required manner), or
- The IRS notifies the payer, before any payment or distribution is made, that you gave it an incorrect social security number.

If you do not have any income tax withheld from your pension or annuity, or if you do not have enough withheld, you may have to pay estimated tax. See chapter 2.

If you do not pay enough tax either through estimated tax or withholding, or a combination of both, you may have to pay a penalty. See chapter 4.

Payments delivered outside the United States. You generally must have tax withheld from pension or annuity benefits delivered outside of the United States. However, if you are a U.S. citizen or resident alien, you can choose not to have tax withheld if you give the payer of the benefits a home address in the United States or in a U.S. possession. The payer must withhold tax if you provide a U.S. address for a nominee, trustee, or agent to whom the benefits are to be delivered, but do not provide your own home address in the United States or in a U.S. possession.

Notice required of payer. The payer of your pension or annuity must send you a notice telling you about your right to choose not to have tax withheld.

Generally, the payer will not send a notice to you if it is reasonable to believe that the entire amount you will be paid is not taxable.

Revoking a choice not to have tax withheld. The payer of your pension or annuity will tell you how to revoke your choice not to have income tax withheld from periodic or nonperiodic payments. If you use Form W-4P to revoke the choice, enter "Revoked" by the checkbox on line 1 of the form. This will instruct the payer to withhold as if you were married and claiming three allowances. However, you can tell the payer exactly how much to withhold by completing line 2 of the form.

Gambling Winnings

Income tax is withheld at a flat 25% rate from certain kinds of gambling winnings.

Gambling winnings of more than \$5,000 from the following sources are subject to income tax withholding.

- Any sweepstakes; wagering pool, including payments made to winners of poker tournaments on or after March 4, 2008; or lottery.
- Any other wager if the proceeds are at least 300 times the amount of the bet.

It does not matter whether your winnings are paid in cash, in property, or as an annuity. Winnings not paid in cash are taken into account at their fair market value.

Exception. Gambling winnings from bingo, keno, and slot machines are generally not subject to income tax withholding. However, you may need to provide the payer with a social security number to avoid withholding. See *Backup withholding on gambling winnings* below. If you receive gambling winnings not subject to withholding, you may need to pay estimated tax. See chapter 2.

If you do not pay enough tax, either through withholding or estimated tax, or a combination of both, you may have to pay a penalty. See chapter 4.

Form W-2G. If a payer withholds income tax from your gambling winnings, you should receive a Form W-2G, Certain Gambling Winnings, showing the amount you won and the amount withheld.

Report the tax withheld on Form 1040, line 64.

Information to give payer. If the payer asks, you must give the payer all the following information.

- Your name, address, and social security number.
- Whether you made identical wagers (explained below).
- Whether someone else is entitled to any part of the winnings subject to withholding. If so, you must complete Form 5754, Statement by Person(s) Receiving Gambling Winnings, and return it to the payer. The payer will use it to prepare a Form W-2G for each of the winners.

Identical wagers. You may have to give the payer a statement of the amount of your winnings, if any, from identical wagers. If this statement is required, the payer will ask you for it. You provide this statement by signing Form W-2G or, if required, Form 5754.

Identical wagers include two bets placed in a pari-mutuel pool on one horse to win a particular race. However, the bets are not identical if one bet is "to win" and one bet is "to place." In addition, they are not identical if the bets were placed in different pari-mutuel pools. For example, a bet in a pool conducted by the racetrack and a bet in a separate pool conducted by an offtrack betting establishment in which the bets are not pooled with those placed at the track are not identical wagers.

Backup withholding on gambling winnings. If you have any kind of gambling winnings and do not give the payer your social security number, the payer may have to withhold income tax at a flat 28% rate. This rule also applies to winnings of at least \$1,200 from bingo or slot machines or \$1,500 from keno, and to certain other gambling winnings of at least \$600.

Unemployment Compensation

You can choose to have income tax withheld from unemployment compensation. To make this choice, you will have to fill out Form W-4V (or a similar form provided by the payer) and give it to the payer.

Unemployment compensation is taxable. So, if you do not have income tax withheld, you may have to pay estimated tax. See chapter 2.

If you do not pay enough tax, either through withholding or estimated tax, or a combination of both, you may have to pay a penalty. See chapter 4.

Form 1099-G. If you receive \$10 or more in unemployment compensation, you will receive a Form 1099-G, Certain Government Payments. Box 1 will show the amount of unemployment compensation you got for the year. Box 4 will show the amount of federal income tax withheld, if any.

Federal Payments

You can choose to have income tax withheld from certain federal payments you receive. These payments are:

1. Social security benefits,
2. Tier 1 railroad retirement benefits,
3. Commodity credit loans you choose to include in your gross income, and
4. Payments under the Agricultural Act of 1949 (7 U.S.C. 1421 et seq.), or title II of the Disaster Assistance Act of 1988, as amended, that are treated as insurance proceeds and that you received because:
 - a. Your crops were destroyed or damaged by drought, flood, or any other natural disaster, or
 - b. You were unable to plant crops because of a natural disaster described in (a).

To make this choice, fill out Form W-4V (or a similar form provided by the payer) and give it to the payer.

If you do not choose to have income tax withheld, you may have to pay estimated tax. See chapter 2.

If you do not pay enough tax, either through withholding or estimated tax, or a combination of both, you may have to pay a penalty. See chapter 4.

More information. For more information about the tax treatment of social security and railroad retirement benefits, get Publication 915, Social Security and Equivalent Railroad Retirement Benefits. Get Publication 225, Farmer's Tax Guide, for information about the tax treatment of commodity credit loans or crop disaster payments.

Backup Withholding

Banks or other businesses that pay you certain kinds of income must file an information return (Form 1099) with the IRS. The information return shows how much you were paid during the year. It also includes your name and taxpayer identification number (TIN). TINs are explained later in this discussion.

These payments generally are not subject to withholding. However, "backup" withholding is required in certain situations.

Payments subject to backup withholding. Backup withholding can apply to most kinds of payments that are reported on Form 1099. These include:

- Interest payments (Form 1099-INT),
- Dividends (Form 1099-DIV),
- Patronage dividends, but only if at least half the payment is in money (Form 1099-PATR),
- Rents, profits, or other gains (Form 1099-MISC),
- Commissions, fees, or other payments for work you do as an independent contractor (Form 1099-MISC),
- Payments by brokers (Form 1099-B),
- Payments by fishing boat operators, but only the part that is in money and that represents a share of the proceeds of the catch (Form 1099-MISC), and
- Royalty payments (Form 1099-MISC).

Backup withholding also may apply to gambling winnings. See *Backup withholding on gambling winnings* under *Gambling Winnings* on page 15.

Payments not subject to backup withholding. Backup withholding does not apply to payments reported on Form 1099-MISC (other than payments by fishing boat operators and royalty payments) unless at least one of the following three situations applies.

- The amount you receive from any one payer is \$600 or more.
- The payer had to give you a Form 1099 last year.
- The payer made payments to you last year that were subject to backup withholding.

Form 1099 and backup withholding are generally not required for a payment of less than \$10.

Withholding rules. When you open a new account, make an investment, or begin to receive payments reported on Form 1099, the bank or other business will give you Form W-9, Request for Taxpayer Identification Number and Certification, or a similar form. You must enter your TIN on the form and, if your account or investment will earn interest or dividends, you also must certify (under penalties of perjury) that your TIN is correct and that you are not subject to backup withholding.

The payer must withhold at a flat 28% rate in the following situations.

- You do not give the payer your TIN in the required manner.
- The IRS notifies the payer that the TIN you gave is incorrect.
- You are required, but fail, to certify that you are not subject to backup withholding.
- The IRS notifies the payer to start withholding on interest or dividends because you have underreported interest or dividends on your income tax return. The IRS will do this only after it has mailed you four notices over at least a 210-day period.

Taxpayer identification number. Your TIN is one of the following three numbers.

- Your social security number (SSN).
- Your employer identification number.
- An IRS individual taxpayer identification number (ITIN). Aliens who do not have an SSN and are not eligible to get one should get an ITIN. Use Form W-7, Application for IRS Individual Taxpayer Identification Number, to apply for an ITIN.

An ITIN is for tax use only. It does not entitle you to social security benefits or change your employment or immigration status under U.S. law. For more information on ITINs, get Publication 1915, Understanding Your IRS Individual Taxpayer Identification Number.

How to prevent or stop backup withholding. If you have been notified by a payer that the TIN you gave is incorrect, you can usually prevent backup withholding from starting or stop backup withholding once it has begun by giving the payer your correct name and TIN. You must certify that the TIN you give is correct.

However, the payer will provide additional instructions if the TIN you gave needs to be validated by the Social Security Administration or by the IRS. This may happen if both the following conditions exist.

1. The IRS notifies the payer twice within 3 calendar years that a TIN you gave for the same account is incorrect.
2. The incorrect TIN is still being used on the account when the payer receives the second notice.

Underreported interest or dividends. If you have been notified that you underreported interest or dividends, you must request a determination from the IRS to prevent backup withholding from starting or to stop backup withholding once it has begun. You must show that at least one of the following situations applies.

- No underreporting occurred.
- You have a bona fide dispute with the IRS about whether an underreporting occurred.
- Backup withholding will cause or is causing an undue hardship and it is unlikely that you will underreport interest and dividends in the future.
- You have corrected the underreporting by filing an original return if you did not previously file one, or by filing an amended

return, and by paying all taxes, penalties, and interest due for any underreported interest or dividend payments.

If the IRS determines that backup withholding should stop, it will provide you with certification

and will notify the payers who were sent notices earlier.

Penalties. There are civil and criminal penalties for giving false information to avoid backup

withholding. The civil penalty is \$500. The criminal penalty, upon conviction, is a fine of up to \$1,000 or imprisonment of up to one year, or both.

2.

Estimated Tax for 2008

What's New for 2008

This section summarizes important changes that could affect your estimated tax payments for 2008.

Earned income credit (EIC). You may be able to take the EIC if:

- Two or more children lived with you and you earned less than \$38,646 (\$41,646 if married filing jointly),
- One child lived with you and you earned less than \$33,995 (\$36,995 if married filing jointly), or
- No children lived with you and you earned less than \$12,880 (\$15,880 if married filing jointly).

The maximum investment income you can have and still get the credit has increased to \$2,950.

For more information, see Publication 596, Earned Income Credit (EIC).

Retirement savings plans. The following paragraphs highlight changes that affect individual retirement arrangements (IRAs) and pension plans. For more information, see Publication 590, Individual Retirement Arrangements (IRAs).

Traditional IRA deduction limits increased. You and your spouse, if filing jointly, each may be able to deduct up to \$5,000 (\$6,000 if age 50 or older at the end of the year). You may be able to take an IRA deduction if you were covered by a retirement plan at work and your 2008 modified adjusted gross income (AGI) is less than \$63,000 (\$105,000 if married filing jointly or a qualifying widow(er)).

Retirement savings contributions credit (saver's credit). For 2008, the income limits have increased and you may be able to claim this credit if your modified AGI is not more than \$26,500 (\$53,000 if married filing jointly, \$39,750 if head of household).

Personal exemption and itemized deduction phaseouts reduced. The amount by which these deductions are reduced in 2008 will be one-half of the reduction that applied in 2007.

Standard mileage rates. Beginning in 2008, the standard mileage rate for the cost of operating your car is:

- 50½ cents a mile for all business miles driven,
- 19 cents a mile for the use of your car for medical reasons,
- 19 cents a mile for the use of your car for a deductible move, and

- 14 cents a mile for the use of your car for charitable reasons.

Tax on child's investment income. Form 8615 will be required to figure the tax for the following children with investment income of more than \$1,800.

1. Children under age 18 at the end of 2008.
2. The following children if their earned income is not more than half their support.
 - a. Children age 18 at the end of 2008.
 - b. Children over age 18 and under age 24 at the end of 2008 who are full-time students.

The election to report a child's investment income on a parent's return and the special rule for when a child must file Form 6251, Alternative Minimum Tax—Individuals, also will apply to the children listed above.

Forgiveness of mortgage debt. You may be able to exclude from income part or all of the mortgage debt forgiven on your principal residence. This applies for debt forgiven in 2007 through 2009. See Publication 553, Highlights of 2007 Tax Changes, for more details.

Volunteer firefighters and emergency medical responders. Certain qualified payments and other State and local tax benefits are not included in taxable income. For more information, see Publication 553.

Special rule for sales of principal residences by surviving spouses. A surviving spouse who sells his or her principal residence within 2 years after the spouse's date of death may be allowed to exclude up to \$500,000 of qualified gain instead of \$250,000. See Publication 553 for more information.

Capital gain tax rate reduced. The 5% capital gain tax rate is reduced to zero.

Extended tax benefits. The deduction for qualified mortgage insurance premiums was extended through 2010.

Expiring tax benefits.



Legislation during 2008 may extend one or more of the following benefits. For the latest information, see Highlights of Recent Tax Changes, at www.irs.gov.

The following tax benefits are scheduled to expire at the end of 2007 and will not apply for 2008.

- Deduction for educator expenses in figuring AGI.
- Tuition and fees deduction.
- The exclusion from income of qualified charitable distributions.
- Credit for nonbusiness energy property.
- District of Columbia first-time homebuyer credit (for homes purchased after 2007).
- Deduction for state and local general sales tax.

- The election to include nontaxable combat pay in earned income for the EIC.
- Penalty-free withdrawals from retirement plans for individuals called to active duty.
- Tax credit for research and experimentation expenses.
- Indian employment tax credit.
- Credit for energy efficient appliances.

Introduction

Estimated tax is the method used to pay tax on income that is not subject to withholding. This includes income from self-employment, interest, dividends, alimony, rent, gains from the sale of assets, prizes, and awards. You also may have to pay estimated tax if the amount of income tax being withheld from your salary, pension, or other income is not enough.

Estimated tax is used to pay both income tax and self-employment tax, as well as other taxes and amounts reported on your tax return. If you do not pay enough tax, either through withholding or estimated tax, or a combination of both, you may have to pay a penalty. If you do not pay enough by the due date of each payment period (see *When To Pay Estimated Tax* on page 23), you may be charged a penalty even if you are due a refund when you file your tax return. For information on when the penalty applies, see chapter 4.



It would be helpful for you to keep a copy of your 2007 tax return and an estimate of your 2008 income nearby while reading this chapter.

Topics

This chapter discusses:

- Who must pay estimated tax,
- How to figure estimated tax (including illustrated examples),
- When to pay estimated tax,
- How to figure each payment, and
- How to pay estimated tax.

Useful Items

You may want to see:

Publication

- ❑ **553** Highlights of 2007 Tax Changes

Form (and Instructions)

- ❑ **1040-ES** Estimated Tax for Individuals

See chapter 5 for information about how to get this publication and form.

Worksheets. You may need to use several of the blank worksheets included in this chapter. See Table 2-2 on page 32 to locate what you need.

Who Does Not Have To Pay Estimated Tax

If you receive salaries and wages, you can avoid having to pay estimated tax by asking your employer to take more tax out of your earnings. To do this, file a new Form W-4 with your employer. See chapter 1.

Estimated tax not required. You do not have to pay estimated tax for 2008 if you meet all three of the following conditions.

- You had no tax liability for 2007.
- You were a U.S. citizen or resident alien for the whole year.
- Your 2007 tax year covered a 12-month period.

You had no tax liability for 2007 if your total tax (defined on page 23 under *Required Annual Payment—Line 14c*) was zero or you did not have to file an income tax return.

Who Must Pay Estimated Tax

If you owed additional tax for 2007, you may have to pay estimated tax for 2008.

General Rule

You must pay estimated tax for 2008 if both of the following apply.

1. You expect to owe at least \$1,000 in tax for 2008, after subtracting your withholding and credits.
2. You expect your withholding and credits to be less than the smaller of:
 - a. 90% of the tax to be shown on your 2008 tax return, or
 - b. 100% of the tax shown on your 2007 tax return. Your 2007 tax return must cover all 12 months.

Note. These percentages may be different if you are a farmer, fisherman, or higher income taxpayer. See *Special Rules* on the next page.

You may find Figure 2-A below helpful in determining if you must pay estimated tax.



If all your income will be subject to income tax withholding, you probably do not need to pay estimated tax.

Example 1. To figure whether she should pay estimated tax for 2008, Jane, who files as head of household, uses Figure 2-A and the following information.

Expected AGI for 2008	\$79,800
AGI for 2007	\$73,700
Tax shown on 2007 return	\$ 9,944
Tax expected to be shown on 2008 return	\$11,263
Tax expected to be withheld in 2008	\$10,200

Jane's answer to the chart's first question is YES; she expects to owe at least \$1,000 for 2008 after subtracting her withholding from her expected tax (\$11,263 – \$10,200 = \$1,063). Her answer to the chart's second question is also YES; she expects her income tax withholding

(\$10,200) to be at least 90% of the tax to be shown on her 2008 return (\$11,263 × 90% = \$10,137). Jane does not need to pay estimated tax.

Example 2. The facts are the same as in *Example 1*, except that Jane expects only \$8,500 tax to be withheld in 2008. Because that is less than \$10,137, her answer to the chart's second question is NO.

Jane's answer to the chart's third question is also NO; she does not expect her income tax withholding (\$8,500) to be at least 100% of the tax shown on her 2007 return (\$9,944). Jane must pay estimated tax for 2008.

Example 3. The facts are the same as in *Example 2*, except that the tax shown on Jane's 2007 return was \$8,000. Because she expects to have more than \$8,000 withheld in 2008 (\$8,500), her answer to the chart's third question is YES. Jane does not need to pay estimated tax for 2008.

Married Taxpayers

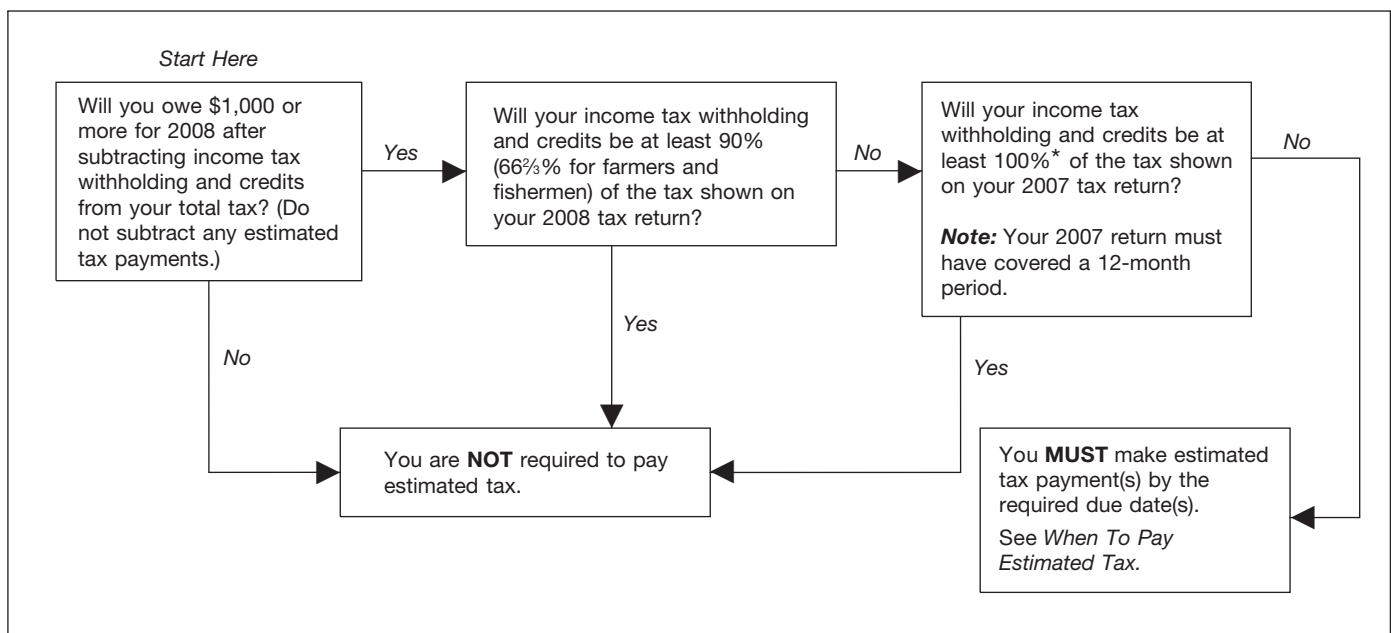
If you qualify to make joint estimated tax payments, apply the rules discussed here to your joint estimated income.

You and your spouse can qualify to make joint estimated tax payments even if you are not living together.

However, you and your spouse cannot make joint estimated tax payments if:

- You are legally separated under a decree of divorce or separate maintenance,
- You and your spouse have different tax years, or

Figure 2-A. Do You Have To Pay Estimated Tax?



* 110% if less than two-thirds of your gross income for 2007 and 2008 is from farming or fishing and your 2007 adjusted gross income was more than \$150,000 (\$75,000 if your filing status for 2008 is married filing a separate return).

- Either spouse is a nonresident alien (unless that spouse elected to be treated as a resident alien). See *Choosing Resident Alien Status* in Publication 519.

If you do not qualify to make joint estimated tax payments, apply these rules to your separate estimated income.

Making joint or separate estimated tax payments will not affect your choice of filing a joint tax return or separate returns for 2008.

2007 separate returns and 2008 joint return.

If you plan to file a joint return with your spouse for 2008, but you filed separate returns for 2007, your 2007 tax is the total of the tax shown on your separate returns. You filed a separate return if you filed as single, head of household, or married filing separately.

2007 joint return and 2008 separate returns.

If you plan to file a separate return for 2008, but you filed a joint return for 2007, your 2007 tax is your share of the tax on the joint return. You file a separate return if you file as single, head of household, or married filing separately.

To figure your share of the tax on a joint return, first figure the tax both you and your spouse would have paid had you filed separate returns for 2007 using the same filing status as for 2008. Then multiply the tax on the joint return by the following fraction.

The tax you would have paid
had you filed a separate return

The total tax you and your
spouse would have paid had
you filed separate returns

Example. Joe and Heather filed a joint return for 2007 showing taxable income of \$48,500 and a tax of \$6,496. Of the \$48,500 taxable income, \$40,100 was Joe's and the rest was Heather's. For 2008, they plan to file married filing separately. Joe figures his share of the tax on the 2007 joint return as follows:

Tax on \$40,100 based on separate return	\$6,455
Tax on \$8,400 based on separate return . . .	873
Total	\$7,328
Joe's percentage of total (\$6,455 ÷ \$7,328)	88%
Joe's share of tax on joint return (\$6,496 × 88%)	<u>\$5,716</u>

Special Rules

There are special rules for farmers, fishermen, and certain higher income taxpayers.

Farmers and Fishermen

If at least two-thirds of your gross income for 2007 or 2008 is from farming or fishing, substitute 66⅔% for 90% in (2a) under *General Rule* on the previous page.

Gross income. Your gross income is all income you receive in the form of money, goods, property, and services that is not exempt from tax. To determine whether two-thirds of your gross income for 2007 was from farming or fishing, use as your gross income the total of the income (not loss) amounts.

Joint returns. On a joint return, you must add your spouse's gross income to your gross income to determine if at least two-thirds of your total gross income is from farming or fishing.

Gross income from farming. This is income from cultivating the soil or raising agricultural commodities. It includes the following amounts.

- Income from operating a stock, dairy, poultry, bee, fruit, or truck farm.
- Income from a plantation, ranch, nursery, range, orchard, or oyster bed.
- Crop shares for the use of your land.
- Gains from sales of draft, breeding, dairy, or sporting livestock.

For 2007, gross income from farming is the total of the amounts from:

- Schedule F (Form 1040), Profit or Loss From Farming, line 11;
- Form 4835, Farm Rental Income and Expenses, line 7;
- Your share of the gross income from farming of a partnership, S corporation, estate or trust, from Schedule K-1 (Form 1065), Box 14, code B; Schedule K-1 (Form 1120S), Box 17, code T; or Schedule K-1 (Form 1041), Box 14, code F; and
- Your gains from sales of draft, breeding, dairy, or sporting livestock shown on Form 4797, Sales of Business Property.

Wages you receive as a farm employee and wages you receive from a farm corporation are not gross income from farming.

Gross income from fishing. This is income from catching, taking, harvesting, cultivating, or farming any kind of fish, shellfish (for example, clams and mussels), crustaceans (for example, lobsters, crabs, and shrimp), sponges, seaweeds, or other aquatic forms of animal and vegetable life.

Gross income from fishing includes the following amounts.

- Schedule C (Form 1040), Profit or Loss From Business, line 7.
- Income for services as an officer or crew member of a vessel while the vessel is engaged in fishing.
- Your share of the gross income from fishing of a partnership, S corporation, estate or trust, from Schedule K-1 (Form 1065), Box 14, code B; Schedule K-1 (Form 1120S), Box 17, code T; or Schedule K-1 (Form 1041), Box 14, code F.
- Income for services normally performed in connection with fishing.

Services normally performed in connection with fishing include:

- Shore service as an officer or crew member of a vessel engaged in fishing, and
- Services that are necessary for the immediate preservation of the catch, such as cleaning, icing, and packing the catch.

Higher Income Taxpayers

If your AGI for 2007 was more than \$150,000 (\$75,000 if your filing status for 2008 is married filing a separate return), substitute 110% for 100% in (2b) under *General Rule* on page 19.

For 2007, AGI is the amount shown on Form 1040, line 37; Form 1040A, line 21; and Form 1040EZ, line 4.

Note. This rule does not apply to farmers and fishermen.

Aliens

Resident and nonresident aliens also may have to pay estimated tax. Resident aliens should follow the rules in this publication, unless noted otherwise. Nonresident aliens should get Form 1040-ES (NR), U.S. Estimated Tax for Nonresident Alien Individuals.

You are an alien if you are not a citizen or national of the United States. You are a resident alien if you either have a green card or meet the substantial presence test.

See Publication 519 for more information about Form 1040-ES (NR) and withholding (chapter 8) and the substantial presence test (chapter 1).

Estates and Trusts

Estates and trusts also must pay estimated tax. However, estates (and certain grantor trusts that receive the residue of the decedent's estate under the decedent's will) are exempt from paying estimated tax for the first two years after the decedent's death.

Estates and trusts must use Form 1041-ES, Estimated Income Tax for Estates and Trusts, to figure and pay estimated tax.

How To Figure Estimated Tax

To figure your estimated tax, you must figure your expected AGI, taxable income, taxes, deductions, and credits for the year.

When figuring your 2008 estimated tax, it may be helpful to use your income, deductions, and credits for 2007 as a starting point. Use your 2007 federal tax return as a guide. You can use Form 1040-ES to figure your estimated tax. Nonresident aliens use Form 1040-ES (NR) to figure estimated tax.

You must make adjustments both for changes in your own situation and for recent changes in the tax law. For 2008, there are several changes in the law. Some of these changes are discussed under *What's New for 2008* at the beginning of this chapter. For information about these and other changes in the law, get Publication 553 or visit the IRS website at www.irs.gov.

Figure 2-B. Page 4 of the Instructions for 2008 Form 1040-ES



The 2008 Estimated Tax Worksheet is found on page 4 of the instructions for Form 1040-ES. When this worksheet refers you to instructions (for example, "see instructions below") or to specific page numbers, you can find the information on pages 1-7 of the instructions for 2008 Form 1040-ES.

2008 Estimated Tax Worksheet

Keep for Your Records



1	Adjusted gross income you expect in 2008 (see instructions below)	1	
2	If you plan to itemize deductions, enter the estimated total of your itemized deductions.	2	
	Caution: If line 1 above is over \$159,950 (\$79,975 if married filing separately), your deduction may be reduced. See Pub. 505 for details.		
	If you do not plan to itemize deductions, enter your standard deduction from page 1.		
3	Subtract line 2 from line 1	3	
4	Exemptions. Multiply \$3,500 by the number of personal exemptions. Caution: See Pub. 505 to figure the amount to enter if line 1 above is over: \$239,950 if married filing jointly or qualifying widow(er); \$199,950 if head of household; \$159,950 if single; or \$119,975 if married filing separately	4	
5	Subtract line 4 from line 3	5	
6	Tax. Figure your tax on the amount on line 5 by using the 2008 Tax Rate Schedules on page 5. Caution: If you will have qualified dividends or a net capital gain, or expect to claim the foreign earned income exclusion or housing exclusion, see Pub. 505 to figure the tax	6	
7	Alternative minimum tax from Form 6251	7	
8	Add lines 6 and 7. Add to this amount any other taxes you expect to include in the total on Form 1040, line 44, or Form 1040A, line 28	8	
9	Credits (see instructions below). Do not include any income tax withholding on this line	9	
10	Subtract line 9 from line 8. If zero or less, enter -0-	10	
11	Self-employment tax (see instructions below). Estimate of 2008 net earnings from self-employment \$; if \$102,000 or less , multiply the amount by 15.3%; if more than \$102,000 , multiply the amount by 2.9%, add \$12,648 to the result, and enter the total. Caution: If you also have wages subject to social security tax, see Pub. 505 to figure the amount to enter	11	
12	Other taxes (see instructions below)	12	
13a	Add lines 10 through 12	13a	
b	Earned income credit, additional child tax credit, and credits from Forms 4136, 8801 (line 27), and 8885	13b	
c	Total 2008 estimated tax. Subtract line 13b from line 13a. If zero or less, enter -0-	13c	
14a	Multiply line 13c by 90% (66% for farmers and fishermen)	14a	
b	Enter the tax shown on your 2007 tax return (110% of that amount if you are not a farmer or fisherman and the adjusted gross income shown on that return is more than \$150,000 or, if married filing separately for 2008, more than \$75,000)	14b	
c	Required annual payment to avoid a penalty. Enter the smaller of line 14a or 14b	14c	
	Caution: Generally, if you do not prepay (through income tax withholding and estimated tax payments) at least the amount on line 14c, you may owe a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 13c is as accurate as possible. Even if you pay the required annual payment, you may still owe tax when you file your return. If you prefer, you can pay the amount shown on line 13c. For details, see Pub. 505.		
15	Income tax withheld and estimated to be withheld during 2008 (including income tax withholding on pensions, annuities, certain deferred income, etc.)	15	
16a	Subtract line 15 from line 14c	16a	
	Is the result zero or less?		
	☐ Yes. Stop here. You are not required to make estimated tax payments.		
	☐ No. Go to line 16b.		
b	Subtract line 15 from line 13c	16b	
	Is the result less than \$1,000?		
	☐ Yes. Stop here. You are not required to make estimated tax payments.		
	☐ No. Go to line 17 to figure your required payment.		
17	If the first payment you are required to make is due April 15, 2008, enter $\frac{1}{4}$ of line 16a (minus any 2007 overpayment that you are applying to this installment) here, and on your estimated tax payment voucher(s) if you are paying by check or money order. (Note: Household employers, see instructions below.)	17	

The instructions for Form 1040-ES include a worksheet to help you figure your estimated tax. Keep the worksheet for your records.

2008 Estimated Tax Worksheet

Use the worksheet (Figure 2-B) above to help guide you through the information about completing the 2008 Estimated Tax Worksheet. You also will find a blank worksheet on page 33.

Expected AGI—Line 1

Your expected AGI for 2008 (line 1) is your expected total income minus your expected adjustments to income.

Total income. Include in your total income all the income you expect to receive during the year, even income that is subject to withholding. However, do not include income that is tax exempt.

Total income includes all income and loss for 2008 that, if you had received it in 2007, would

have been included on your 2007 tax return in the total on line 22 of Form 1040, line 15 of Form 1040A, or line 4 of Form 1040EZ.



Social security and railroad retirement benefits. If you expect to receive social security or tier 1 railroad retirement benefits during 2008, use Worksheet 2-1 on page 34 to figure the amount of expected taxable benefits you should include on line 1.

Adjustments to income. Be sure to subtract from your expected total income all of the adjustments you expect to take on your 2008 tax

return. If you are using your 2007 return as a guide and filed Form 1040, your adjustments for 2007 were on lines 23–35, plus any write-in adjustments on line 36. If you filed Form 1040A, your 2007 adjustments were on lines 16–19.



Self-employed. If you expect to have income from self-employment, use Worksheet 2-2 on page 34 to figure your expected self-employment tax and your deduction for one-half of your self-employment tax. Include the amount from line 10 of Worksheet 2-2 in your expected adjustments to income. If you file a joint return and both you and your spouse have net earnings from self-employment, each of you must complete a separate worksheet.

Expected Taxable Income— Lines 2–5

Reduce your expected AGI for 2008 (line 1) by either your expected itemized deductions or your standard deduction and by your exemptions (lines 2 through 5).

Itemized deductions—line 2. If you expect to claim itemized deductions on your 2008 tax return, subtract the estimated amount from your expected AGI.

Itemized deductions are the deductions that can be claimed on Schedule A of Form 1040.



Phaseout of itemized deductions. For 2008, your total itemized deductions may be reduced if your AGI is more than \$159,950 (\$79,975 if married filing separately). If you expect your AGI to be more than that amount, use Worksheet 2-3 on page 35 to figure the amount to enter on line 2.

Standard deduction—line 2. If you expect to claim the standard deduction on your 2008 tax return, subtract it from your expected AGI. Use the 2008 Standard Deduction Tables on page 43 to find your standard deduction.

No standard deduction. The standard deduction for some individuals is zero. Your standard deduction will be zero if you:

- File a separate return and your spouse itemizes deductions,
- Are a dual-status alien, or
- File a return for a period of less than 12 months because you change your accounting period.

Exemptions—line 4. After you have subtracted either your expected itemized deductions or your standard deduction from your expected AGI, reduce the amount remaining by \$3,500 for each exemption you expect to take on your 2008 tax return. If another person (such as your parent) can claim an exemption for you on his or her tax return, you cannot claim your own personal exemption. This is true even if the other person will not claim your exemption or the exemption will be reduced or eliminated under the phaseout rule.



Reduction of personal exemption amount. For 2008, your deduction for personal exemptions is reduced if your AGI is larger than the AGI shown below for your filing status.

Single	\$159,950
Married filing jointly or qualifying widow(er)	\$239,950
Married filing separately	\$119,975
Head of household	\$199,950

If you expect your AGI to be more than that amount, use Worksheet 2-4 on page 35 to figure the amount to enter on line 4.

Expected Taxes and Credits— Lines 6–13c

After you have figured your expected taxable income (line 5), follow the steps below to figure your expected taxes, credits, and total tax for 2008. Most people will have entries for only a few of these steps. However, you should check every step to be sure you do not overlook anything.

Step 1. Figure your expected income tax (line 6). Generally, you will use the 2008 Tax Rate Schedules, found on page 40 or in the instructions to Form 1040-ES, to figure your expected income tax. However, see below for situations where you must use a different method to compute your estimated tax.

Tax on child's investment income. You must use a special method to figure tax on the income of the following children who have more than \$1,800 of investment income.

1. Children under age 18 at the end of 2008.
2. The following children if their earned income is not more than half their support.
 - a. Children age 18 at the end of 2008.
 - b. Children over age 18 and under age 24 at the end of 2008 who are full-time students.

See Publication 929, Tax Rules for Children and Dependents. Although the ages and dollar amounts in the publication will be different in the 2008 revision, this reference will give you basic information for figuring the tax.

Tax on net capital gain. The regular income tax rates for individuals do not apply to a net capital gain. Instead, your net capital gain is taxed at a lower maximum rate.

The term "net capital gain" means the amount by which your net long-term capital gain for the year is more than your net short-term capital loss.

Tax on qualified dividends. The maximum tax rate for qualified dividends is 15% (generally, 0% for people whose other income is taxed at the 10% or 15% rate).



Tax on capital gain and qualified dividends. If you expect to have a net capital gain or qualified dividends, use Worksheet 2-5 on page 36 to figure your tax.



Tax if excluding foreign earned income or housing. If you expect to claim the foreign earned income exclusion or the housing exclusion on Form 2555 or Form 2555-EZ, use Worksheet 2-6 on page 37 to figure your estimated tax.

Step 2. Total your expected taxes (line 8). Include on line 8 the sum of:

1. Your tax on line 6;
2. Your expected alternative minimum tax (AMT) from Form 6251 (or included on Form 1040A, line 28) on line 7;
3. Your expected additional taxes from Form 8814, Parents' Election To Report Child's Interest and Dividends, and Form 4972, Tax on Lump-Sum Distributions (line 44, boxes a and b, of the 2007 Form 1040); and
4. Any recapture of education credits.

Step 3. Subtract your expected credits (line 9). If you are using your 2007 return as a guide and filed Form 1040, your total credits for 2007 were shown on line 56. If you filed Form 1040A, your total credits for 2007 were on line 34.

If your credits on line 9 are more than your taxes on line 8, enter "0-" on line 10 and go to Step 4.

Step 4. Add your expected self-employment tax (line 11). You already should have figured your self-employment tax (see *Self-employed* under *Expected AGI—Line 1* on page 21).

Step 5. Add your expected other taxes (line 12).

Other taxes include:

1. Taxes on early distributions from:
 - a. An IRA or other qualified plan,
 - b. An annuity, or
 - c. A modified endowment contract entered into after June 20, 1988;
2. Advance earned income credit payments;
3. Household employment taxes (before subtracting advance EIC payments made to your employee(s)) if:
 - a. You will have federal income tax withheld from wages, pensions, annuities, gambling winnings, or other income, or
 - b. You would be required to make estimated tax payments even if you did not include household employment taxes when figuring your estimated tax; and
4. Amounts written in on Form 1040, line 63. But, do not include tax on recapture of a federal mortgage subsidy, tax on golden parachute payments, excise tax on insider stock compensation from an expatriated corporation, or uncollected employee social security, Medicare, or RRTA tax on tips or group-term life insurance.

If you filed a 2007 Form 1040A, your only other tax was any advance earned income credit payments on line 36.

Step 6. Subtract your expected earned income credit, additional child tax credit, Form

4136 fuel tax credit, Form 8885 health coverage tax credit, and Form 8801 (line 27) refundable credit for prior year minimum tax (line 13b). These are shown on the 2007 Form 1040, lines 66a, 68, 70b, 70c, and 71.

To figure your expected fuel tax credit, do not include fuel tax for the first three quarters of the year that you expect to have refunded to you.

The earned income credit is shown on the 2007 Form 1040A, line 40a, and the additional child tax credit is shown on line 41.

The result of steps 1 through 6 is your total estimated tax for 2008 (line 13c).

Required Annual Payment—Line 14c

On lines 14a through 14c, figure the total amount you must pay for 2008, through withholding and estimated tax payments, to avoid paying a penalty.

General rule. The total amount you must pay is the smaller of:

1. 90% of your total expected tax for 2008, or
2. 100% of the total tax shown on your 2007 return. Your 2007 tax return must cover all 12 months.

Special rules. There are special rules for certain higher income taxpayers and for farmers and fishermen.

Higher income taxpayers. If your AGI for 2007 was more than \$150,000 (\$75,000 if your filing status for 2008 is married filing separately), substitute 110% for 100% in (2) above. This rule does not apply to farmers and fishermen.

For 2007, AGI is the amount shown on Form 1040, line 37; Form 1040A, line 21; and Form 1040EZ, line 4.

Example. Jeremy Martin's total tax on his 2007 return was \$42,581, and his expected tax for 2008 is \$71,253. His 2007 AGI was \$180,000. Because Jeremy had more than \$150,000 of AGI in 2007, he figures his required annual payment as follows. He determines that 90% of his expected tax for 2008 is \$64,128 (.90 × \$71,253). Next, he determines that 110% of the tax shown on his 2007 return is \$46,839 (1.10 × \$42,581). Finally, he determines that his required annual payment is \$46,839, the smaller of the two.

Farmers and fishermen. If at least two-thirds of your gross income for 2007 or 2008 is from farming or fishing, your required annual payment is the smaller of:

1. 66⅔% (.6667) of your total tax for 2008, or
2. 100% of the total tax shown on your 2007 return. (Your 2007 tax return must cover all 12 months.)

For definitions of "gross income from farming" and "gross income from fishing," see *Farmers and Fishermen*, under *Special Rules* on page 20.

Total tax for 2007. Your 2007 total tax on Form 1040 is the amount on line 63 reduced by the total of the following.

1. The amounts on lines 59, 66a, 68, and 71.

2. The following amounts included on line 60.

- a. Any tax on excess contributions to IRAs, Archer MSAs, Coverdell education savings accounts, and health savings accounts.
- b. Any tax on excess accumulations in qualified retirement plans from Form 5329.

3. The following amounts included on line 63.

- a. Any recapture of a federal mortgage subsidy.
- b. Any tax on golden parachute payments.
- c. Excise tax on insider stock compensation from an expatriated corporation.
- d. Any uncollected employee social security, Medicare, or railroad retirement tax on tips or group-term life insurance.

4. Any credit from Form 4136 or Form 8885 included on line 70.

On Form 1040A, it is the amount on line 37 reduced by the amount on lines 40a and 41. On Form 1040EZ, it is the amount on line 10 reduced by the amount on line 8a.

Total Estimated Tax Payments Needed—Line 16a

Use lines 15 and 16a to figure the total estimated tax you must pay for 2008. Subtract your expected withholding from your required annual payment. You usually must pay this difference in four equal installments. (See *When To Pay Estimated Tax* on this page and *How To Figure Each Payment* on page 24.)

You do not have to pay estimated tax if:

- Line 14c minus line 15 is zero or less, or
- Line 13c minus line 15 is less than \$1,000.

Withholding. Your expected withholding for 2008 (line 15) includes the income tax you expect to be withheld from all sources (wages, pensions and annuities, etc.). It also includes excess social security and railroad retirement tax you expect to be withheld from your wages.

For this purpose, you will have excess social security or tier 1 railroad retirement tax withholding for 2008 only if your wages from two or more employers are more than \$102,000. (See *Excess Social Security or Railroad Retirement Tax Withholding* in chapter 3.)

When To Pay Estimated Tax

For estimated tax purposes, the year is divided into four payment periods. Each period has a specific payment due date. If you do not pay enough tax by the due date of each of the payment periods, you may be charged a penalty even if you are due a refund when you file your income tax return. The payment periods and due dates for estimated tax payments are shown next.

For the period:

Due date:

Jan. 1 ¹ – March 31	April 15
April 1 – May 31	June 15
June 1 – August 31	September 15
Sept. 1 – Dec. 31	January 15 next year ²

¹ If your tax year does not begin on January 1, see *Fiscal year taxpayers* below.

² See *January payment* below.

Saturday, Sunday, holiday rule. If the due date for an estimated tax payment falls on a Saturday, Sunday, or legal holiday, the payment will be on time if you make it on the next business day. For example, a payment due on Sunday, June 15, 2008, will be on time if you make it by Monday, June 16, 2008.

January payment. If you file your 2008 Form 1040 or Form 1040A by February 2, 2009, and pay the rest of the tax you owe, you do not need to make the payment due on January 15, 2009.

Example. Janet Adams does not pay any estimated tax for 2008. She files her 2008 income tax return and pays the balance due shown on her return on January 26, 2009.

Janet's estimated tax for the fourth payment period is considered to have been paid on time. However, she may owe a penalty for not making the first three estimated tax payments. Any penalty for not making those payments will be figured up to January 26, 2009.

Fiscal year taxpayers. If your tax year does not start on January 1, your payment due dates are:

1. The 15th day of the 4th month of your fiscal year,
2. The 15th day of the 6th month of your fiscal year,
3. The 15th day of the 9th month of your fiscal year, and
4. The 15th day of the 1st month after the end of your fiscal year.

You do not have to make the last payment listed above if you file your income tax return by the last day of the first month after the end of your fiscal year and pay all the tax you owe with your return.

When To Start

You do not have to make estimated tax payments until you have income on which you will owe the tax. If you have income subject to estimated tax during the first payment period, you must make your first payment by the due date for the first payment period. You can pay all your estimated tax at that time, or you can pay it in installments. If you choose to pay in installments, make your first payment by the due date for the first payment period. Make your remaining installment payments by the due dates for the later periods.

No income subject to estimated tax during first period. If you do not have income subject to estimated tax until a later payment period, you must make your first payment by the due date for that period. You can pay your entire estimated tax by the due date for that period or you

can pay it in installments by the due date for that period and the due dates for the remaining periods. Table 2-1 below shows the dates for making installment payments.

How much to pay to avoid penalty. To determine how much you should pay by each payment due date, see *How To Figure Each Payment* beginning on this page.

Table 2-1. Due Dates for Estimated Tax Installment Payments

If you first have income on which you must pay estimated tax:	Make a payment by:*	Make later installments by:*
Before April 1	April 15	June 15 Sept. 15 Jan. 15 next year
April 1–May 31	June 15	Sept. 15 Jan. 15 next year
June 1–Aug. 31	Sept. 15	Jan. 15 next year
After Aug. 31	Jan. 15 next year	(None)

*See *January payment* and *Saturday, Sunday, holiday rule* on page 23.

Farmers and Fishermen

If at least two-thirds of your gross income for 2007 or 2008 is from farming or fishing, you have only one payment due date for your 2008 estimated tax, January 15, 2009. The due dates for the first three payment periods, discussed under *When To Pay Estimated Tax* on page 23, do not apply to you.

If you file your 2008 Form 1040 by March 2, 2009, and pay all the tax you owe, you do not need to make an estimated tax payment.

Fiscal year farmers and fishermen. If you are a farmer or fisherman, but your tax year does not start on January 1, you can either:

- Pay all your estimated tax by the 15th day after the end of your tax year, or
- File your return and pay all the tax you owe by the 1st day of the 3rd month after the end of your tax year.

How To Figure Each Payment

After you have figured your total estimated tax, figure how much you must pay by the due date of each payment period. You should pay enough by each due date to avoid a penalty for that period. If you do not pay enough during any payment period, you may be charged a penalty even if you are due a refund when you file your tax return. The penalty is discussed in chapter 4.

Regular Installment Method

If your first estimated tax payment is due April 15, 2008, you can figure your required payment for each period by dividing your annual estimated tax due (line 16a of the 2008 Estimated Tax Worksheet) by 4. Enter this amount on line 17. However, use this method only if your income is basically the same throughout the year.

Household employers. Reduce your required payment for each period by the amount of advance EIC payments you paid during the period.

Change in estimated tax. After you make an estimated tax payment, changes in your income, adjustments, deductions, credits, or exemptions may make it necessary for you to refigure your estimated tax. Pay the unpaid balance of your amended estimated tax by the next payment due date after the change or in installments by that date and the due dates for the remaining payment periods.

If you do not receive your income evenly throughout the year, your required estimated tax payments may not be the same for each period. See *Annualized Income Installment Method* below.



Amended estimated tax. If you refigure your estimated tax during the year, or if your first estimated tax payment is due after April 15, 2008, figure your required payment for each remaining payment period using Worksheet 2-7 on page 37.

Example. Early in 2008, Mira Roberts figures that her estimated tax due is \$1,800. She makes estimated tax payments on April 15 and June 15 of \$450 each (\$1,800 ÷ 4).

On July 10, she sells investment property at a gain. Her refigured estimated tax is \$4,100. Her required estimated tax payment for the third payment period is \$2,175, as shown in her filled-in Worksheet 2-7 on this page.

If Mira's estimated tax does not change again, her required estimated tax payment for the fourth payment period will be \$1,025.

Underpayment penalty. If your estimated tax payment for a previous period is less than one-fourth of your amended estimated tax, you may be charged a penalty for underpayment of estimated tax for that period when you file your tax return. See chapter 4 for more information.

Annualized Income Installment Method

If you do not receive your income evenly throughout the year (for example, your income from a repair shop you operate is much larger in the summer than it is during the rest of the year), your required estimated tax payment for one or more periods may be less than the amount figured using the regular installment method.

The annualized income installment method annualizes your tax at the end of each period based on a reasonable estimate of your income, deductions, and other items relating to events that occurred from the beginning of the tax year through the end of the period. To see whether you can pay less for any period, complete the 2008 Annualized Estimated Tax Worksheet (Worksheet 2-8) beginning on page 38.



You first must complete the 2008 Estimated Tax Worksheet through line 16b. (See page 33 for blank worksheet.)

Use the result you figure on line 28 of the Annualized Estimated Tax Worksheet to make your estimated tax payments and complete your payment vouchers.

See *Example 2*, beginning on page 28, to see how the worksheet is completed.

Note. If you use the annualized income installment method to figure your estimated tax

Worksheet 2-7. Amended Estimated Tax Worksheet—Illustrated

1. Amended total estimated tax due	1. <u>\$4,100</u>
2. Multiply line 1 by:	
50% (.50) if next payment is due June 15, 2008	
75% (.75) if next payment is due September 15, 2008	
100% (1.00) if next payment is due January 15, 2009	2. <u>3,075</u>
3. Estimated tax payments for all previous periods . . .	3. <u>900</u>
4. Next required payment: Subtract line 3 from line 2 and enter the result (but not less than zero) here and on your payment voucher for your next required payment	
	4. <u>\$2,175</u>
Note. If the payment on line 4 is due January 15, 2009, stop here. Otherwise, go to line 5.	
5. Add lines 3 and 4	5. <u>3,075</u>
6. Subtract line 5 from line 1 and enter the result (but not less than zero)	6. <u>1,025</u>
7. Each following required payment: If the payment on line 4 is due June 15, 2008, enter one-half of the amount on line 6 here and on the payment vouchers for your payments due September 15, 2008, and January 15, 2009. If the amount on line 4 is due September 15, 2008, enter the full amount on line 6 here and on the payment voucher for your payment due January 15, 2009	
	7. <u>\$1,025</u>

payments, you must file Form 2210 with your 2008 tax return. See *Annualized Income Installment Method (Schedule AI)* in chapter 4 for more information.

Instructions for the 2008 Annualized Estimated Tax Worksheet (Worksheet 2-8)



Use Figure 2-C on page 26 to help you follow these instructions. Another worksheet is available for your use on pages 38 and 39.

The purpose of this worksheet is to determine your estimated tax liability as your income accumulates throughout the year, rather than dividing your entire year's estimated tax liability by four as if your income was earned equally throughout the year. The top of the worksheet (see page 26) shows the dates for each payment period. The periods build; that is, each period includes all previous periods. After the end of each payment period, complete the corresponding worksheet column to figure the payment due for that period.

Line 1. Enter your AGI for the period. This is your gross income, including your share of partnership or S corporation income or loss, for the period, minus your adjustments to income for that period. (See *Expected AGI—Line 1* on page 21.)

Self-employment income. If you had self-employment income, first complete Section B of this worksheet. Use the amounts on line 39 when figuring the AGI to enter in each column of Section A, line 1.

Line 4. Be sure to consider all deduction limits figured on Schedule A, such as reducing your medical expenses by 7.5% of your AGI, or reducing certain miscellaneous deductions by 2% of your AGI. Figure your deduction limits using your expected AGI in the corresponding column of line 1 (2008 Annualized Estimated Tax Worksheet).

Line 6. Multiply line 4 by line 5 and enter the result on line 6, unless line 3 is more than \$159,950 (\$79,975 if married filing separately). In that case, use Worksheet 2-9 on page 39 to figure the amount to enter on line 6. Complete this worksheet for each period, as necessary.

Line 7. If you will not itemize your deductions, see the 2008 Standard Deduction Tables on page 43. Find your standard deduction in the appropriate table.

Line 10. Multiply \$3,500 by your total expected exemptions, unless line 3 is more than the amount shown below for your filing status.

Single	\$159,950
Married filing jointly or qualifying widow(er)	\$239,950
Married filing separately	\$119,975
Head of household	\$199,950

In that case, use Worksheet 2-10 on page 40 to figure the amount to enter on line 10.

Line 12. Generally, you will use the 2008 Tax Rate Schedules on page 40 or in the instructions to Form 1040-ES to figure your annualized income tax. However, see below for situations

where you must use a different method to compute your estimated tax.

Tax on child's investment income. You must use a special method to figure tax on the income of the following children who have more than \$1,800 investment income.

1. Children under age 18 at the end of 2008.
2. The following children if their earned income is not more than half their support.
 - a. Children age 18 at the end of 2008.
 - b. Children over age 18 and under age 24 at the end of 2008 who are full-time students.

See Publication 929.

Tax on net capital gain. The regular income tax rates for individuals do not apply to a net capital gain. Instead, your net capital gain is taxed at a lower maximum rate.

The term "net capital gain" means the amount by which your net long-term capital gain for the year is more than your net short-term capital loss.

Tax on qualified dividends. Generally, the maximum tax rate for qualified dividends is 15% (0% for people whose other income is taxed at the 10% or 15% rate).



Tax on capital gain and qualified dividends. If the amount on line 1 includes capital gains or qualified dividends, use Worksheet 2-11 on page 41 to figure the amount to enter on line 12.



Tax if excluding foreign earned income or housing. If you expect to claim the foreign earned income exclusion or the housing exclusion on Form 2555 or Form 2555-EZ, use Worksheet 2-12 on page 42 to figure the amount to enter on line 12.

Line 13. Enter your self-employment tax for the period from Section B, line 37.

Line 14. Include all the taxes you expect to owe (other than income tax and self-employment tax) because of events that occurred during the period. These taxes include:

- Tax on early distributions from qualified plans, including IRAs and other tax-favored accounts,
- Advance earned income credit payments,
- Tax from Form 4972,
- Tax from Form 8814,
- Tax from recapture of an education credit,
- Household employment taxes that are reported on your income tax return, and
- Amounts written in on Form 1040, line 63 (but see *Exceptions* below).

Exceptions. Do not include tax on recapture of a federal mortgage subsidy, tax on golden parachute payments, excise tax on insider stock compensation from an expatriated corporation, and any uncollected social security, Medicare, or railroad retirement tax on tips or group-term life insurance.

Alternative minimum tax (AMT). Use Form 6251 to see if you also owe the AMT. Figure alternative minimum taxable income based on your income and deductions during the period shown in the column headings. Multiply this amount by the annualization amounts shown for each column on line 2 of the 2008 Annualized Estimated Tax Worksheet. Include any AMT owed in the amount on line 14 of this worksheet.

Line 16. Include all the credits (other than withholding credits) you can claim because of events that occurred during the period. If you are using your 2007 return as a guide and filed Form 1040, your 2007 credits included the total credits on line 56, and the credits shown on lines 66a, 68, 70 boxes b and c, and 71. If you filed Form 1040A, your 2007 credits included the credits on lines 34, 40a, and 41.

Line 25. If line 24 is smaller than line 21 and you are not certain of the estimate of your 2008 tax, you can avoid a penalty by entering the amount from line 21 on line 25.

Line 27. For each period, include estimated tax payments made and any excess social security and railroad retirement tax.

Also include estimated federal income tax withholding. One-fourth of your estimated withholding is considered withheld on the due date of each payment period. To figure the amount to include on line 27 for each period, multiply your total expected withholding for 2008 by:

- 25% (.25) for the first period,
- 50% (.50) for the second period,
- 75% (.75) for the third period, and
- 100% (1.00) for the fourth period.

However, you may choose to include your withholding according to the actual dates on which the amounts were withheld. For each period, include payments made from the beginning of the period up to and including the payment due date. You can make this choice separately for the taxes withheld from your wages and all other withholding. For an explanation of what to include in withholding, see *Total Estimated Tax Payments Needed—Line 16a* on page 23.

Section B. If you had income from self-employment during any period, complete the worksheet column for that period to figure your annualized self-employment tax before you complete the worksheet column for that period in Section A.

Nonresident aliens. If you will file Form 1040NR and you do not receive wages as an employee subject to U.S. income tax withholding, the instructions for the worksheet are modified as follows.

1. Skip column (a).
2. On line 1, enter your income for the period that is effectively connected with a U.S. trade or business.
3. On line 17, increase your entry by the amount determined by multiplying your income for the period that is not effectively connected with a U.S. trade or business by the following.
 - a. 72% for column (b).

Figure 2-C. Worksheet for Annualized Income Installment Method

Worksheet 2-8. 2008 Annualized Estimated Tax Worksheet

Section A (For Figuring Your Annualized Estimated Tax Payments)—Complete each column after end of period shown.

Estates and trusts: Use the following ending dates in columns (a)–(d) 2/29, 4/30, 7/31, 11/30.

	(a) 1/1/08–3/31/08	(b) 1/1/08–5/31/08	(c) 1/1/08–8/31/08	(d) 1/1/08–12/31/08
1 Adjusted gross income (AGI) for each period. (Caution: See instructions.) Self-employed: Complete Section B first.	1			
2 Annualization amounts	2 4	2.4	1.5	1
3 Annualized income. Multiply line 1 by line 2	3			
4 Itemized deductions for period. If you do not expect to itemize, enter -0- and skip to line 7.	4			
5 Annualization amounts	5 4	2.4	1.5	1
6 Multiply line 4 by line 5. (Caution: See instructions and Worksheet 2-9)	6			
7 Standard deduction from 2008 tables	7			
8 Enter the larger of line 6 or line 7	8			
9 Subtract line 8 from line 3	9			
10 Multiply \$3,500 by your total expected exemptions. (Caution: See instructions and Worksheet 2-10).	10			
11 Subtract line 10 from line 9.	11			
12 Tax on the amount on line 11 from the 2008 Tax Rate Schedules. (Caution: See instructions and Worksheet 2-11.)	12			
13 Self-employment tax from line 37 of Section B	13			
14 Other taxes for each payment period	14			
15 Total tax. Add lines 12, 13, and 14	15			
16 Credits for each period. (Caution: See instructions.) Do not include any income tax withholding on this line.	16			
17 Subtract line 16 from line 15. (If less than zero, enter -0-.)	17			
18 Applicable percentage	18 22.5%	45%	67.5%	90%
19 Multiply line 17 by line 18	19			
20 Add amounts on line 25 of all preceding columns	20			
21 Annualized income installment. Subtract line 20 from line 19. (If less than zero, enter -0-.)	21			
22 Enter 25% (.25) of line 14c of the Form 1040-ES Estimated Tax Worksheet in each column	22			
23 Subtract line 25 of preceding column from line 24 of preceding column	23			
24 Add lines 22 and 23	24			
25 Enter the smaller of line 21 or line 24. (Caution: See instructions.)	25			
26 Total required payments for the period. Add lines 20 and 25	26			
27 Estimated tax payments made (line 28 of preceding columns) and tax withholding through the due date for the period.	27			
28 Estimated tax payment required by the next due date. Subtract line 27 from line 26 and enter the result (but not less than zero) here and on your payment voucher	28			

Section B (For Figuring Your Annualized Estimated Self-Employment Tax)—Complete each column after end of period shown.

29	Net earnings from self-employment for the period	29				
30	Prorated social security tax limit	30	\$25,500	\$42,500	\$68,000	\$102,000
31	Enter actual wages for the period subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax	31				
32	Subtract line 31 from line 30. If zero or less, enter -0-	32				
33	Annualization amounts	33	0.496	0.2976	0.186	0.124
34	Multiply line 33 by the smaller of line 29 or line 32.	34				
35	Annualization amounts	35	0.116	0.0696	0.0435	0.029
36	Multiply line 29 by line 35	36				
37	Add lines 34 and 36. Enter the result here and on line 13 of Section A	37				
38	Annualization amounts	38	8	4.8	3	2
39	Deduction for one-half of self-employment tax. Divide line 37 by line 38. Enter the result here. Also use this result to figure your AGI on line 1	39				

- b. 45% for column (c).
- c. 30% for column (d).

However, if you can use a treaty rate lower than 30%, use the percentages determined by multiplying your treaty rate by 2.4, 1.5, and 1, respectively.

4. On line 22, enter one-half of the amount from line 16c of the Form 1040-ES (NR) 2008 Estimated Tax Worksheet in column (b), and one-fourth in columns (c) and (d).
5. On lines 20 and 23, skip column (b).
6. On line 27, if you do not use the actual withholding method, include one-half of your total expected withholding in column (b) and one-fourth in columns (c) and (d).

See Publication 519 for more information.

Estimated Tax Payments Not Required

You do not have to pay estimated tax if your withholding in each payment period is at least as much as:

- One-fourth of your required annual payment, or
- Your required annualized income installment for that period.

You also do not have to pay estimated tax if you will pay enough through withholding to keep the amount you will owe with your return under \$1,000.

How To Pay Estimated Tax

There are five ways to pay estimated tax.

- Credit an overpayment on your 2007 return to your 2008 estimated tax.
- Send in your payment (check or money order) with a payment voucher from Form 1040-ES.
- Pay electronically using the Electronic Federal Tax Payment System (EFTPS).
- Pay by electronic funds withdrawal if you are filing Form 1040 or Form 1040A electronically.
- Pay by credit card using a pay-by-phone system or the Internet.

Credit an Overpayment

If you show an overpayment of tax after completing your Form 1040 or Form 1040A for 2007, you can apply part or all of it to your estimated tax for 2008. On line 75 of Form 1040, or line 45 of Form 1040A, enter the amount you want credited to your estimated tax rather than refunded. The amount you have credited should be taken into account when figuring your estimated tax payments.

If you are a beneficiary of an estate or trust, and the trustee elects to credit 2008 trust payments of estimated tax to you, you can treat the amount credited as paid by you on January 15, 2009.

The credit will be applied to your payments in the order necessary to avoid the penalty for underpayment of estimated tax. You cannot have any of that amount refunded to you until the close of that tax year. You also cannot use that overpayment in any other way.

Example. When Kathleen finished filling out her 2007 tax return, she saw that she had overpaid her taxes by \$750. Kathleen knew she would owe additional tax in 2008. She credited \$600 of the overpayment to her 2008 estimated tax and had the remaining \$150 refunded to her.

In September, she amended her 2007 return by filing Form 1040X, Amended U.S. Individual Income Tax Return. It turned out that she owed \$250 more in tax than she had thought. This reduced her 2007 overpayment from \$750 to \$500. Because the \$750 had already been applied to her 2008 estimated tax or refunded to her, the IRS billed her for the additional \$250 she owed, plus penalties and interest. Kathleen could not use any of the \$600 she had credited to her 2008 estimated tax to pay this bill.

Pay by Check or Money Order Using the Estimated Tax Payment Voucher

Each payment of estimated tax by check or money order must be accompanied by a payment voucher from Form 1040-ES. If you made estimated tax payments last year, you should receive a copy of the 2008 Form 1040-ES in the mail. It will have payment vouchers preprinted with your name, address, and social security number. Using the preprinted vouchers will speed processing, reduce the chance of error, and help save processing costs.

If you did not pay estimated tax last year, you will have to get a copy of Form 1040-ES from the IRS (see chapter 5). Follow the instructions in the package to make sure you use the vouchers correctly.

Use the window envelopes that came with your Form 1040-ES package. If you use your own envelopes, make sure you mail your payment vouchers to the address shown in the Form 1040-ES instructions for the place where you live.



Do not use the address shown in the Form 1040 or Form 1040A instructions.

If you file a joint return and are making joint estimated tax payments, enter the names and social security numbers on the payment voucher in the same order as they will appear on the joint return.

Change of address. You must notify the IRS if you are making estimated tax payments and you changed your address during the year. Send a clear and concise written statement to the Internal Revenue Service Center where you filed your last return and provide all of the following information.

- Your full name (and your spouse's full name).
- Your signature (and spouse's signature).
- Your old address (and spouse's old address if different).
- Your new address.
- Your social security number (and spouse's social security number).

You can use Form 8822, Change of Address, for this purpose.

Note. If you have preprinted payment vouchers, continue to use them until the IRS sends you new ones. However, do not correct the address on the old voucher.

Pay by Electronic Federal Tax Payment System (EFTPS)

EFTPS is a free tax payment system designed with all taxpayers in mind. Online or by phone, you input your tax payment information electronically and you are done. EFTPS offers you convenience. Through EFTPS, you can schedule one-time or recurring payments for withdrawal from your checking or savings account up to 365 days in advance. You also can modify or cancel payments up to 2 business days before the scheduled withdrawal date. To use EFTPS, you must enroll. Enroll online at www.eftps.gov or call 1-800-555-4477 (for business accounts) or 1-800-316-6541 (for individual accounts) to receive an enrollment form and instructions by mail. TTY/TDD help is available by calling 1-800-733-4829. Call 1-800-244-4829 for Spanish.

Pay by Electronic Funds Withdrawal (EFW)

If you electronically file your 2007 tax return, you can make up to four (4) 2008 estimated tax payments by EFW. This is a free option. The payments can be withdrawn from either a checking or savings account. At the same time you file your return, you may schedule estimated tax payments for any or all of the following dates: April 15, 2008, June 16, 2008, September 15, 2008, and January 15, 2009.

Check with your tax return preparer or tax preparation software for details. Your scheduled payments will be acknowledged when you file your tax return.

Payments scheduled through EFW can be cancelled up to 8 p.m. Eastern time, 2 business days before the scheduled payment date, by contacting the U.S. Treasury Financial Agent at 1-888-353-4537.

Pay by Credit Card

You can use your American Express® Card, Discover® Card, MasterCard® card, or Visa® card to make estimated tax payments. Call toll-free or visit the website of either service provider listed below and follow the instructions. A convenience fee will be charged by the service provider based on the amount you are paying. Fees may vary between providers. You will be told what the fee is during the transaction and you will have the option to either continue or cancel the transaction. You also can find out what the fee will be by calling the provider's toll-free automated customer service number or visiting the provider's website shown below.

Link2Gov Corporation
1-888-PAY-1040SM (1-888-729-1040)
1-888-658-5465 (Customer Service)
www.PAY1040.com

Official Payments Corporation
1-800-2PAY-TAXSM (1-800-272-9829)
1-877-754-4413 (Customer Service)
www.officialpayments.com

Illustrated Examples

The following examples show how to figure estimated tax payments under the regular installment method and under the annualized income installment method.

Example 1—Regular Installment Method

Early in 2008, Anne and Larry Jones figure their estimated tax payments for the year. They expect to receive the following income during 2008.

Larry's salary	\$35,900
Unemployment compensation	600
Anne's net profit from self-employment	40,100
Net rental income	2,784
Interest income	6,205
Total	\$85,589

They also use the following expected items to figure their estimated tax.

Adjustment to income for IRA contributions	\$ 1,000
Itemized deductions	11,525
Deduction for exemptions (\$3,500 × 2)	7,000
2007 total tax	14,496
Withholding	3,384

The Joneses plan to file a joint return. They use the 2008 Estimated Tax Worksheet included in Form 1040-ES to figure their estimated tax payments. See their filled-in worksheet (Figure 2-D) on page 30.

Expected AGI. Anne can claim an income tax deduction for one-half of her self-employment tax as a business expense. So before the Joneses figure their expected AGI, they figure

Anne's expected self-employment tax. See their filled-in Worksheet 2-2 on this page.

On line 11 of their 2008 Estimated Tax Worksheet, the Joneses enter \$37,032 on the dotted line and \$5,666 in the blank. They subtract one-half of that amount, \$2,833, and their \$1,000 adjustment for IRA contributions from their \$85,589 total income to find their expected AGI, \$81,756. They enter that amount on line 1 of the worksheet.

Expected taxable income. The Joneses find their standard deduction, \$10,900, in the 2008 Standard Deduction Tables on page 43. This is smaller than their expected itemized deductions, so they enter \$11,525 on line 2 of the worksheet. They subtract the amount on line 2 from the amount on line 1 and enter the result, \$70,231, on line 3. They enter their deduction for exemptions, \$7,000, on line 4. After subtracting this amount, their expected taxable income on line 5 is \$63,231.

Expected taxes and credits. The Joneses use the 2008 Tax Rate Schedule Y-1 on page 40 to figure their expected income tax, and enter \$8,682 on line 6 of the worksheet. They do not expect to owe any other taxes that would be entered on lines 7 or 12, or have any credits that would be entered on lines 9 or 13b, so they leave those lines blank.

The Joneses' total expected tax on line 13c, after adding Anne's self-employment tax, is \$14,348.

Estimated tax. The Joneses multiply their total expected tax by 90% and enter \$12,913 on line 14a of the worksheet. They enter their 2007 tax on line 14b. Their required annual payment on line 14c is the smaller amount, \$12,913.

They enter Larry's expected withholding, \$3,384, on line 15 and subtract it from their required annual payment. Their estimated tax on line 16a is \$9,529.

They are required to pay estimated tax because their estimated withholding (line 15) is:

Worksheet 2-2. Expected Self-Employment Tax—Illustrated (Anne Jones)

1. Enter your expected income and profits subject to self-employment tax*	1. <u>\$40,100</u>
2. Multiply line 1 by 92.35% (.9235)	2. <u>37,032</u>
3. Multiply line 2 by 2.9% (.029)	3. <u>1,074</u>
4. Social security tax maximum income	4. <u>\$102,000</u>
5. Enter your expected wages (if subject to social security tax)	5. <u>-0-</u>
6. Subtract line 5 from line 4	6. <u>102,000</u>
Note. If line 6 is zero or less, enter -0- on line 8 and skip to line 9.	
7. Enter the smaller of line 2 or line 6	7. <u>37,032</u>
8. Multiply line 7 by 12.4% (.124)	8. <u>4,592</u>
9. Add line 3 and line 8. Enter the result here and on line 11 of your 2008 Estimated Tax Worksheet	9. <u>\$ 5,666</u>
10. Multiply line 9 by .50. This is your expected deduction for one-half of your self-employment tax.	10. <u>\$ 2,833</u>

*Your net profit from self-employment is found on Schedule C, line 31; Schedule C-EZ, line 3; Schedule F, line 36; Schedule K-1 (Form 1065), box 14, code A; and Schedule K-1 (Form 1065-B), box 9, code J1.

- Less than their "required annual payment to avoid a penalty" (line 14c), and
- Not within \$1,000 of their "total 2008 estimated tax" (line 13c).

Required estimated tax payment. The Joneses must pay their first estimated tax payment by April 15, 2008. They enter one-fourth of their estimated tax (line 16a), \$2,382, on line 17 of the worksheet and on their Form 1040-ES payment voucher that shows "Due April 15, 2008." They mail the voucher with their payment to the address shown for their area in the Form 1040-ES instructions and record the payment on the Record of Estimated Tax Payments in the instructions.

If their estimated tax does not change during the year, the Joneses also will pay \$2,382 estimated tax by June 16 and September 15, 2008, and January 15, 2009.

Example 2—Annualized Income Installment Method

The facts are the same as in *Example 1—Regular Installment Method*, except that the Joneses do not expect to receive their income evenly throughout the year. Anne expects to receive the largest portion of her self-employment income during the last few months of the year, and the Joneses' rental income is from a vacation home rented only in the summer months.

After completing their 2008 Estimated Tax Worksheet, the Joneses decide to use the annualized income installment method to see if they can pay less than \$2,382 estimated tax for one or more payment periods. They complete the 2008 Annualized Estimated Tax Worksheet (Worksheet 2-8) in this chapter. See their filled-in worksheet (Figure 2-E) on page 31.

First Period

On April 1, 2008, the Joneses complete the first column of the worksheet for the period January 1 through March 31. They had the following income for the period.

Larry's salary	\$ 8,975
Unemployment compensation	600
Anne's net profit from self-employment	3,000
Net rental income	-0-
Interest income	990
Total	\$13,565

They also take into account the following items for the period.

Adjustment to income for IRA contributions	\$ 150
Itemized deductions	1,300
Withholding	846

Annualized AGI. Before the Joneses figure their AGI for the period, they first figure Anne's self-employment tax in Section B, and then her adjustment to income for self-employment tax.

On line 29 of Section B, they enter \$2,771, which is Anne's net profit from self-employment for the period (\$3,000 × .9235). The prorated social security tax limit is preprinted on line 30. She has no social security wages, so they enter zero on line 31, and \$25,500 on line 32. Anne's annualized social security tax on line 34 is \$1,374 (\$2,771 × .496). Her annualized Medicare tax on line 36 is \$321 (\$2,771 × .116). Her total annualized self-employment tax on line 37 is \$1,695. They enter that amount on line 13 of Section A.

The Joneses figure their adjustment to income for Anne's self-employment tax on lines 38 and 39 (Section B). That amount is \$212 (\$1,695 ÷ 8). They subtract that amount and their \$150 IRA contributions from their \$13,565 total income and enter their AGI for the period, \$13,203, on line 1 of Section A. They multiply that amount by 4 and enter their annualized AGI, \$52,812, on line 3.

Annualized taxable income. The Joneses figure their annualized itemized deductions (\$1,300 × 4) on lines 4 through 6 of Section A. Because the result is smaller than their standard deduction, they enter their \$10,900 standard deduction on line 8. After subtracting that amount and their \$7,000 deduction for exemptions, the Joneses' annualized taxable income on line 11 is \$34,912.

Annualized taxes and credits. The Joneses use the 2008 Tax Rate Schedule Y-1 on page 40 to figure their annualized income tax, \$4,434, which they enter on line 12 of Section A.

They have no other taxes or credits for the period that would be entered on lines 14 or 16, so they leave those lines blank and enter \$6,129 (\$4,434 + \$1,695) on lines 15 and 17. This is their annualized total tax.

Required estimated tax payment. The Joneses' annualized income installment on lines 19 and 21 of Section A is \$1,379 (\$6,129 × 22.5%). On lines 22 and 24 they enter \$3,228, one-fourth of their \$12,913 required annual payment (line 14c of their 2008 Estimated Tax Worksheet). Because \$1,379 is smaller, they enter that amount on lines 25 and 26.

Larry's total expected withholding for the year is \$3,384. The Joneses can treat one-fourth of that amount, \$846, as paid on April 15, or they can use Larry's actual withholding for the period. The Joneses enter \$846 on line 27.

On line 28, the Joneses' required estimated tax payment for the period under the annualized income installment method is \$533 (\$1,379 – \$846). They will send in an estimated tax payment of \$533 for the first period.

Second, Third, and Fourth Periods

After the end of each remaining payment period, the Joneses complete the column of the worksheet for that period (from the beginning of the year through the end of that payment period) in the same way they did for the first period. They had the following income for each period.

	Second Period	Third Period	Fourth Period
	Jan. 1- May 31	Jan. 1- Aug. 31	Jan. 1- Dec. 31
Larry's salary	\$14,958	\$23,933	\$35,900
Unemployment compensation	600	600	600
Anne's net profit from self-employment	6,000	16,000	40,100
Net rental income	696	2,784	2,784
Interest income	1,575	3,250	6,205
Total	\$23,829	\$46,567	\$85,589

They also take into account the following items for each period.

	Second Period	Third Period	Fourth Period
	Jan. 1- May 31	Jan. 1- Aug. 31	Jan. 1- Dec. 31
Adjustment to income for IRA contributions	\$ 250	\$ 400	\$ 1,000
Itemized deductions	2,970	7,025	11,525

For the second period, as for the first, the annualized income installment method allows the Joneses to pay less than their required payment under the regular installment method of figuring estimated tax payments. They make up the difference in the third and fourth periods when their income is higher.

Because the Joneses are using the annualized income installment method, they will file Form 2210 with their tax return for 2008.

Figure 2-D. Regular Installment Method—Illustrated Example 1 (Anne and Larry Jones)

2008 Estimated Tax Worksheet

Keep for Your Records



1	Adjusted gross income you expect in 2008 (see instructions below)	1	81,756
2	- If you plan to itemize deductions, enter the estimated total of your itemized deductions. Caution: If line 1 above is over \$159,950 (\$79,975 if married filing separately), your deduction may be reduced. See Pub. 505 for details. - If you do not plan to itemize deductions, enter your standard deduction from page 1.	2	11,525
3	Subtract line 2 from line 1	3	70,231
4	Exemptions. Multiply \$3,500 by the number of personal exemptions. Caution: See Pub. 505 to figure the amount to enter if line 1 above is over: \$239,950 if married filing jointly or qualifying widow(er); \$199,950 if head of household; \$159,950 if single; or \$119,975 if married filing separately	4	7,000
5	Subtract line 4 from line 3	5	63,231
6	Tax. Figure your tax on the amount on line 5 by using the 2008 Tax Rate Schedules on page 5. Caution: If you will have qualified dividends or a net capital gain, or expect to claim the foreign earned income exclusion or housing exclusion, see Pub. 505 to figure the tax	6	8,682
7	Alternative minimum tax from Form 6251	7	
8	Add lines 6 and 7. Add to this amount any other taxes you expect to include in the total on Form 1040, line 44, or Form 1040A, line 28	8	8,682
9	Credits (see instructions below). Do not include any income tax withholding on this line	9	
10	Subtract line 9 from line 8. If zero or less, enter -0-	10	8,682
11	Self-employment tax (see instructions below). Estimate of 2008 net earnings from self-employment \$ <u>37,032</u> ; if \$102,000 or less , multiply the amount by 15.3%; if more than \$102,000 , multiply the amount by 2.9%, add \$12,648 to the result, and enter the total. Caution: If you also have wages subject to social security tax, see Pub. 505 to figure the amount to enter	11	5,666
12	Other taxes (see instructions below)	12	
13a	Add lines 10 through 12	13a	14,348
b	Earned income credit, additional child tax credit, and credits from Forms 4136, 8801 (line 27), and 8885	13b	
c	Total 2008 estimated tax. Subtract line 13b from line 13a. If zero or less, enter -0-	13c	14,348
14a	Multiply line 13c by 90% (66% % for farmers and fishermen)	14a	12,913
b	Enter the tax shown on your 2007 tax return (110% of that amount if you are not a farmer or fisherman and the adjusted gross income shown on that return is more than \$150,000 or, if married filing separately for 2008, more than \$75,000)	14b	14,496
c	Required annual payment to avoid a penalty. Enter the smaller of line 14a or 14b	14c	12,913
Caution: Generally, if you do not prepay (through income tax withholding and estimated tax payments) at least the amount on line 14c, you may owe a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 13c is as accurate as possible. Even if you pay the required annual payment, you may still owe tax when you file your return. If you prefer, you can pay the amount shown on line 13c. For details, see Pub. 505.			
15	Income tax withheld and estimated to be withheld during 2008 (including income tax withholding on pensions, annuities, certain deferred income, etc.)	15	3,384
16a	Subtract line 15 from line 14c	16a	9,529
Is the result zero or less?			
☐ Yes. Stop here. You are not required to make estimated tax payments. ☒ No. Go to line 16b.			
b	Subtract line 15 from line 13c	16b	10,964
Is the result less than \$1,000?			
☐ Yes. Stop here. You are not required to make estimated tax payments. ☒ No. Go to line 17 to figure your required payment.			
17	If the first payment you are required to make is due April 15, 2008, enter ¼ of line 16a (minus any 2007 overpayment that you are applying to this installment) here, and on your estimated tax payment voucher(s) if you are paying by check or money order. (Note: Household employers, see instructions below.)	17	2,382

Figure 2-E. Annualized Income Installment Method—Illustrated Example 2 (Anne and Larry Jones)

Worksheet 2-8. 2008 Annualized Estimated Tax Worksheet

Note. For instructions, see Annualized Income Installment Method in chapter 2.

Section A (For Figuring Your Annualized Estimated Tax Payments)—Complete each column after end of period shown.

Estates and trusts: Use the following ending dates in columns (a)–(d) 2/29, 4/30, 7/31, 11/30.

	(a) 1/1/08–3/31/08	(b) 1/1/08–5/31/08	(c) 1/1/08–8/31/08	(d) 1/1/08–12/31/08
1 Adjusted gross income (AGI) for each period. (Caution: See instructions.) Self-employed: Complete Section B first.	1 13,203	23,155	45,037	81,756
2 Annualization amounts	2 4	2.4	1.5	1
3 Annualized income. Multiply line 1 by line 2	3 52,812	55,572	67,556	81,756
4 Itemized deductions for period. If you do not expect to itemize, enter -0- and skip to line 7.	4 1,300	2,970	7,025	11,525
5 Annualization amounts	5 4	2.4	1.5	1
6 Multiply line 4 by line 5. (Caution: See instructions and Worksheet 2-9)	6 5,200	7,128	10,538	11,525
7 Standard deduction from 2008 tables	7 10,900	10,900	10,900	10,900
8 Enter the larger of line 6 or line 7	8 10,900	10,900	10,900	11,525
9 Subtract line 8 from line 3	9 41,912	44,672	56,656	70,231
10 Multiply \$3,500 by your total expected exemptions. (Caution: See instructions and Worksheet 2-10)	10 7,000	7,000	7,000	7,000
11 Subtract line 10 from line 9	11 34,912	37,672	49,656	63,231
12 Tax on the amount on line 11 from the 2008 Tax Rate Schedules. (Caution: See instructions and Worksheet 2-11.)	12 4,434	4,848	6,646	8,682
13 Self-employment tax from line 37 of Section B	13 1,695	2,035	3,391	5,666
14 Other taxes for each payment period	14			
15 Total tax. Add lines 12, 13, and 14	15 6,129	6,883	10,037	14,348
16 Credits for each period. (Caution: See instructions.) Do not include any income tax withholding on this line	16			
17 Subtract line 16 from line 15. (If less than zero, enter -0-.)	17 6,129	6,883	10,037	14,348
18 Applicable percentage	18 22.5%	45%	67.5%	90%
19 Multiply line 17 by line 18	19 1,379	3,097	6,775	12,913
20 Add amounts on line 25 of all preceding columns	20	1,379	3,097	6,775
21 Annualized income installment. Subtract line 20 from line 19. (If less than zero, enter -0-.)	21 1,379	1,718	3,678	6,138
22 Enter 25% (.25) of line 14c of the Form 1040-ES Estimated Tax Worksheet in each column	22 3,228	3,228	3,228	3,228
23 Subtract line 25 of preceding column from line 24 of preceding column	23	1,849	3,359	2,909
24 Add lines 22 and 23	24 3,228	5,077	6,587	6,137
25 Enter the smaller of line 21 or line 24. (Caution: See instructions.)	25 1,379	1,718	3,678	6,137
26 Total required payments for the period. Add lines 20 and 25	26 1,379	3,097	6,775	12,912
27 Estimated tax payments made (line 28 of preceding columns) and tax withholding through the due date for the period.	27 846	2,225	3,943	7,621
28 Estimated tax payment required by the next due date. Subtract line 27 from line 26 and enter the result (but not less than zero) here and on your payment voucher	28 533	872	2,832	5,291

Section B (For Figuring Your Annualized Estimated Self-Employment Tax)—Complete each column after end of period shown.

29 Net earnings from self-employment for the period	29 2,771	5,541	14,776	37,032
30 Prorated social security tax limit	30 \$25,500	\$42,500	\$68,000	\$102,000
31 Enter actual wages for the period subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax	31 0	0	0	0
32 Subtract line 31 from line 30. If zero or less, enter -0-	32 25,500	42,500	68,000	102,000
33 Annualization amounts	33 0.496	0.2976	0.186	0.124
34 Multiply line 33 by the smaller of line 29 or line 32.	34 1,374	1,649	2,748	4,592
35 Annualization amounts	35 0.116	0.0696	0.0435	0.029
36 Multiply line 29 by line 35	36 321	386	643	1,074
37 Add lines 34 and 36. Enter the result here and on line 13 of Section A	37 1,695	2,035	3,391	5,666
38 Annualization amounts	38 8	4.8	3	2
39 Deduction for one-half of self-employment tax. Divide line 37 by line 38. Enter the result here. Also use this result to figure your AGI on line 1	39 212	424	1,130	2,833

Worksheets for Chapter 2

Table 2-2. Where To Find Worksheets

Use the following worksheets and tables to figure your correct estimated tax.

IF you need...	THEN use...	ON page...
the 2008 Estimated Tax Worksheet (ES Worksheet)		21, 33
to estimate your taxable social security and railroad retirement benefits—line 1 of ES Worksheet	Worksheet 2-1	34
to estimate your self-employment (SE) tax and your deduction for one-half of your SE tax—lines 1 and 11 of ES Worksheet	Worksheet 2-2	34
to reduce your itemized deductions because your estimated AGI is more than \$159,950 (\$79,975 if married filing separately)—line 2 of ES Worksheet	Worksheet 2-3	35
to reduce your exemption amount because your estimated AGI is more than \$119,975 —line 4 of ES Worksheet	Worksheet 2-4	35
to estimate your income tax if you have net capital gains or qualified dividends—line 6 of ES Worksheet	Worksheet 2-5	36
to estimate your income tax if you expect to claim a foreign earned income exclusion or housing exclusion on Form 2555 or Form 2555-EZ—line 6 of ES Worksheet	Worksheet 2-6	37
to refigure your estimated tax during the year	Worksheet 2-7	37
to figure your annualized estimated tax payments	Worksheet 2-8	38–39
to reduce your itemized deductions for line 6 of Worksheet 2-8 because line 3 of Worksheet 2-8 is more than \$159,950 (\$79,975 if married filing separately)	Worksheet 2-9	39
to reduce your exemptions for line 10 of Worksheet 2-8 because line 3 of Worksheet 2-8 is more than \$119,975	Worksheet 2-10	40
to estimate your income tax for line 12 of Worksheet 2-8 if estimated income includes capital gains or qualified dividends	Worksheet 2-11	41
to estimate your income tax for line 12 of Worksheet 2-8 if you expect to claim a foreign earned income exclusion or housing exclusion on Form 2555 or Form 2555-EZ	Worksheet 2-12	42
2008 Tax Rate Schedules		40
2008 Standard Deduction Tables		43

Page 4 of the Instructions for 2008 Form 1040-ES



The 2008 Estimated Tax Worksheet is found on page 4 of the instructions for Form 1040-ES. When this worksheet refers you to instructions (for example, "see instructions below") or to specific page numbers, you can find the information on pages 1-7 of the instructions for 2008 Form 1040-ES.

2008 Estimated Tax Worksheet

Keep for Your Records



1	Adjusted gross income you expect in 2008 (see instructions below)	1	
2	If you plan to itemize deductions, enter the estimated total of your itemized deductions.	2	
	Caution: If line 1 above is over \$159,950 (\$79,975 if married filing separately), your deduction may be reduced. See Pub. 505 for details.		
	If you do not plan to itemize deductions, enter your standard deduction from page 1.		
3	Subtract line 2 from line 1	3	
4	Exemptions. Multiply \$3,500 by the number of personal exemptions. Caution: See Pub. 505 to figure the amount to enter if line 1 above is over: \$239,950 if married filing jointly or qualifying widow(er); \$199,950 if head of household; \$159,950 if single; or \$119,975 if married filing separately	4	
5	Subtract line 4 from line 3	5	
6	Tax. Figure your tax on the amount on line 5 by using the 2008 Tax Rate Schedules on page 5. Caution: If you will have qualified dividends or a net capital gain, or expect to claim the foreign earned income exclusion or housing exclusion, see Pub. 505 to figure the tax	6	
7	Alternative minimum tax from Form 6251	7	
8	Add lines 6 and 7. Add to this amount any other taxes you expect to include in the total on Form 1040, line 44, or Form 1040A, line 28	8	
9	Credits (see instructions below). Do not include any income tax withholding on this line	9	
10	Subtract line 9 from line 8. If zero or less, enter -0-	10	
11	Self-employment tax (see instructions below). Estimate of 2008 net earnings from self-employment \$; if \$102,000 or less , multiply the amount by 15.3%; if more than \$102,000 , multiply the amount by 2.9%, add \$12,648 to the result, and enter the total. Caution: If you also have wages subject to social security tax, see Pub. 505 to figure the amount to enter	11	
12	Other taxes (see instructions below)	12	
13a	Add lines 10 through 12	13a	
b	Earned income credit, additional child tax credit, and credits from Forms 4136, 8801 (line 27), and 8885	13b	
c	Total 2008 estimated tax. Subtract line 13b from line 13a. If zero or less, enter -0-	13c	
14a	Multiply line 13c by 90% (66⅔% for farmers and fishermen)	14a	
b	Enter the tax shown on your 2007 tax return (110% of that amount if you are not a farmer or fisherman and the adjusted gross income shown on that return is more than \$150,000 or, if married filing separately for 2008, more than \$75,000)	14b	
c	Required annual payment to avoid a penalty. Enter the smaller of line 14a or 14b	14c	
	Caution: Generally, if you do not prepay (through income tax withholding and estimated tax payments) at least the amount on line 14c, you may owe a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 13c is as accurate as possible. Even if you pay the required annual payment, you may still owe tax when you file your return. If you prefer, you can pay the amount shown on line 13c. For details, see Pub. 505.		
15	Income tax withheld and estimated to be withheld during 2008 (including income tax withholding on pensions, annuities, certain deferred income, etc.)	15	
16a	Subtract line 15 from line 14c	16a	
	Is the result zero or less?		
	☐ Yes. Stop here. You are not required to make estimated tax payments.		
	☐ No. Go to line 16b.		
b	Subtract line 15 from line 13c	16b	
	Is the result less than \$1,000?		
	☐ Yes. Stop here. You are not required to make estimated tax payments.		
	☐ No. Go to line 17 to figure your required payment.		
17	If the first payment you are required to make is due April 15, 2008, enter ¼ of line 16a (minus any 2007 overpayment that you are applying to this installment) here, and on your estimated tax payment voucher(s) if you are paying by check or money order. (Note: Household employers, see instructions below.)	17	

Worksheet 2-1. **2008 Estimated Tax Worksheet—Line 1**
Expected Taxable Social Security and Railroad Retirement Benefits

1. Enter your expected social security and railroad retirement benefits	1. _____	
2. Enter one-half of line 1	2. _____	
3. Enter your expected total income. Do not include any social security and railroad retirement benefits, nontaxable interest income, nontaxable IRA distributions, or nontaxable pension distributions	3. _____	
4. Enter your expected nontaxable interest income	4. _____	
5. Enter the total of any exclusions or adjustments for:		
• Qualified U.S. savings bond interest		
• Adoption benefits		
• Foreign earned income or housing		
• Certain income of bona fide residents of American Samoa or Puerto Rico	5. _____	
6. Add lines 2, 3, 4, and 5	6. _____	
7. Enter your expected adjustments to income. Do not include any student loan interest deduction or domestic production activities deduction.	7. _____	
8. Subtract line 7 from line 6. If zero or less, stop here. Do not include any social security or railroad retirement benefits in the amount on line 1 of your 2008 Estimated Tax Worksheet	8. _____	
9. Enter \$25,000 (\$32,000 if you expect to file married filing jointly; \$0 if you expect to file married filing separately and expect to live with your spouse at any time during the year)	9. _____	
10. Subtract line 9 from line 8. If zero or less, stop here. Do not include any social security or railroad retirement benefits in the amount on line 1 of your 2008 Estimated Tax Worksheet	10. _____	
11. Enter \$9,000 (\$12,000 if you expect to file married filing jointly; \$0 if you expect to file married filing separately and expect to live with your spouse at any time during the year)	11. _____	
12. Subtract line 11 from line 10. If zero or less, enter -0-	12. _____	
13. Enter the smaller of line 10 or line 11	13. _____	
14. Enter one-half of line 13	14. _____	
15. Enter the smaller of line 2 or line 14	15. _____	
16. Multiply line 12 by 85% (.85). If line 12 is zero, enter -0-	16. _____	
17. Add lines 15 and 16	17. _____	
18. Multiply line 1 by 85% (.85)	18. _____	
19. Expected taxable social security and railroad retirement benefits. Enter the smaller of line 17 or line 18. Include this amount in the total on line 1 of your 2008 Estimated Tax Worksheet	19. _____	

Worksheet 2-2. **2008 Estimated Tax Worksheet—Lines 1 and 11**
Expected Self-Employment Tax and Deduction

1. Enter your expected income and profits subject to self-employment tax*	1. _____
2. Multiply line 1 by 92.35% (.9235)	2. _____
3. Multiply line 2 by 2.9% (.029)	3. _____
4. Social security tax maximum income	4. \$102,000
5. Enter your expected wages (if subject to social security tax or the 6.2% portion of tier 1 railroad retirement tax)	5. _____
6. Subtract line 5 from line 4 Note. If line 6 is zero or less, enter -0- on line 8 and skip to line 9.	6. _____
7. Enter the smaller of line 2 or line 6	7. _____
8. Multiply line 7 by 12.4% (.124)	8. _____
9. Add line 3 and line 8. Enter the result here and on line 11 of your 2008 Estimated Tax Worksheet	9. _____
10. Multiply line 9 by .50. This is your expected deduction for one-half of your self-employment tax. Subtract this amount when figuring your expected AGI on line 1 of your 2008 Estimated Tax Worksheet.	10. _____

*Your net profit from self-employment is found on Schedule C, line 31; Schedule C-EZ, line 3; Schedule F, line 36; Schedule K-1 (Form 1065), box 14, code A; and Schedule K-1 (Form 1065-B), box 9, code J1.

Worksheet 2-3. **2008 Estimated Tax Worksheet—Line 2**
Phaseout of Itemized Deductions

1. Enter the estimated total of your itemized deductions (after applying any limits, such as the 7.5%-of-AGI limit on medical expenses)	1. _____
2. Enter the amount included in line 1 for medical and dental expenses, investment interest, casualty or theft losses, and gambling losses (after applying the same limits used in line 1)	2. _____
3. Subtract line 2 from line 1	3. _____
Note. If line 3 is zero or less, your deduction is not limited. Stop here and enter line 1 of this worksheet on line 2 of your 2008 Estimated Tax Worksheet.	
4. Multiply line 3 by 80% (.80)	4. _____
5. Enter the amount from line 1 of the 2008 Estimated Tax Worksheet	5. _____
6. Enter \$159,950 (\$79,975 if married filing separately)	6. _____
7. Subtract line 6 from line 5	7. _____
Note. If line 7 is zero or less, your deduction is not limited. Stop here and enter line 1 of this worksheet on line 2 of your 2008 Estimated Tax Worksheet.	
8. Multiply line 7 by 3% (.03)	8. _____
9. Enter the smaller of line 4 or line 8	9. _____
10. Divide line 9 by 1.5.	10. _____
11. Subtract line 10 from line 9	11. _____
12. Total itemized deductions. Subtract line 11 from line 1. Enter the result here and on line 2 of your 2008 Estimated Tax Worksheet	12. _____

Worksheet 2-4. **2008 Estimated Tax Worksheet—Line 4**
Reduction of Exemption Amount

1. Multiply \$3,500 by the number of exemptions you plan to claim	1. _____
2. Enter the amount from line 1 of your 2008 Estimated Tax Worksheet	2. _____
3. Enter the amount shown below for your filing status. Single—\$159,950 Married filing jointly or qualifying widow(er)—\$239,950 Married filing separately—\$119,975 Head of household—\$199,950	3. _____
4. Subtract line 3 from line 2	4. _____
5. Is line 4 more than \$122,500 (more than \$61,250 if married filing separately)? ☐ Yes. Multiply \$2,333 by the number of exemptions you plan to claim and enter the result here and on line 4 of your 2008 Estimated Tax Worksheet. Do not complete the rest of this worksheet. ☐ No. Divide line 4 by \$2,500 (\$1,250 if married filing separately). If the result is not a whole number, increase it to the next higher whole number (for example, increase 0.0004 to 1)	5. _____
6. Multiply line 5 by 2% (.02). Enter the result as a decimal	6. _____
7. Multiply line 1 by line 6	7. _____
8. Divide line 7 by 3.0	8. _____
9. Deduction for exemptions. Subtract line 8 from line 1. Enter the result here and on line 4 of your 2008 Estimated Tax Worksheet	9. _____

Worksheet 2-5. **2008 Estimated Tax Worksheet—Line 6**
Qualified Dividends and Capital Gain Tax Worksheet

1. Enter the amount from line 5 of your 2008 Estimated Tax Worksheet (or if using Worksheet 2-6, enter the amount from line 3 of Worksheet 2-6)	1. _____
2. Enter your expected qualified dividends for 2008 ¹	2. _____
3. Enter the net capital gain expected for 2008 ¹	3. _____
4. Add lines 2 and 3	4. _____
5. Enter your 28% rate gain or loss expected for 2008 ²	5. _____
6. Enter the unrecaptured section 1250 gain expected for 2008	6. _____
7. Add lines 5 and 6	7. _____
8. Enter the smaller of line 3 or line 7	8. _____
9. Subtract line 8 from line 4	9. _____
10. Subtract line 9 from line 1. If zero or less, enter -0-	10. _____
11. Enter the smaller of line 1 or \$65,100 (\$32,550 if single or married filing separately, or \$43,650 if head of household)	11. _____
12. Enter the smaller of line 10 or line 11	12. _____
13. Subtract line 4 from line 1. If zero or less, enter -0-	13. _____
14. Enter the larger of line 12 or line 13	14. _____
Note. If line 11 and line 12 are the same, skip line 15 and go to line 16.	
15. Subtract line 12 from line 11	15. _____
Note. If lines 1 and 11 are the same, skip lines 16–28 and go to line 29.	
16. Enter the smaller of line 1 or line 9	16. _____
17. Enter the amount from line 15. If line 15 is blank, enter -0-	17. _____
18. Subtract line 17 from line 16. If zero or less, enter -0-	18. _____
19. Multiply line 18 by 15% (.15)	19. _____
Note. If line 6 is zero or blank, skip lines 20–25 and go to line 26.	
20. Enter the smaller of line 3 or line 6	20. _____
21. Add lines 4 and 14	21. _____
22. Enter the amount from line 1 above	22. _____
23. Subtract line 22 from line 21. If zero or less, enter -0-	23. _____
24. Subtract line 23 from line 20. If zero or less, enter -0-	24. _____
25. Multiply line 24 by 25% (.25)	25. _____
Note. If line 5 is zero or blank, skip lines 26–28 and go to line 29.	
26. Add lines 14, 15, 18, and 24	26. _____
27. Subtract line 26 from line 1	27. _____
28. Multiply line 27 by 28% (.28)	28. _____
29. Figure the tax on the amount on line 14 from the 2008 Tax Rate Schedules	29. _____
30. Add lines 19, 25, 28, and 29	30. _____
31. Figure the tax on the amount on line 1 from the 2008 Tax Rate Schedules	31. _____
32. Tax on all taxable income (including capital gains and qualified dividends). Enter the smaller of line 30 or line 31 here and on line 6 of the 2008 Estimated Tax Worksheet (or if using Worksheet 2-6, enter on line 4 of Worksheet 2-6)	32. _____

¹ If you expect to deduct investment interest expense, do not include on this line any qualified dividends or net capital gain that you will elect to treat as investment income.

² This includes a section 1202 exclusion from eligible gain on qualified small business stock and gain or loss from the sale or exchange of collectibles. See the instructions for Schedule D (Form 1040) for more information.

Worksheet 2-6. **2008 Estimated Tax Worksheet—Line 6**
Foreign Earned Income Tax Worksheet

Before you begin: If line 5 of your 2008 Estimated Tax Worksheet is zero, do not complete this worksheet.

- | | |
|--|----------|
| 1. Enter the amount from line 5 of your 2008 Estimated Tax Worksheet | 1. _____ |
| 2. Enter the total foreign earned income and housing amount you (and your spouse if filing jointly) expect to exclude in 2008 on Form 2555 or Form 2555-EZ | 2. _____ |
| 3. Add lines 1 and 2 | 3. _____ |
| 4. Tax on the amount on line 3. Use the 2008 Tax Rate Schedules or Worksheet 2-5,* as appropriate | 4. _____ |
| 5. Tax on the amount on line 2. Use the 2008 Tax Rate Schedules | 5. _____ |
| 6. Subtract line 5 from line 4. Enter the result here and on line 6 of your 2008 Estimated Tax Worksheet. If zero or less, enter -0- | 6. _____ |

**If using Worksheet 2-5 (Qualified Dividends and Capital Gain Tax Worksheet), enter the amount from line 3 above on line 1 of Worksheet 2-5. Complete Worksheet 2-5 through line 9. Next, determine if you have a capital gain excess.*

Figuring capital gain excess. To find out if you have a capital gain excess, subtract line 5 of your 2008 Estimated Tax Worksheet from line 9 of Worksheet 2-5. If the result is more than zero, that amount is your capital gain excess.

No capital gain excess. If you do not have a capital gain excess, complete the rest of Worksheet 2-5 according to its instructions. Then complete lines 5 and 6 above.

Capital gain excess. If you have a capital gain excess, complete a second Worksheet 2-5 as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above.

Make these modifications only for purposes of filling out Worksheet 2-6 above.

- Reduce the amount you otherwise would enter on line 3 of Worksheet 2-5 (but not below zero) by your capital gain excess.
- Reduce the amount you otherwise would enter on line 2 of Worksheet 2-5 (but not below zero) by any of your capital gain excess not used in (a) above.
- Reduce the amount you otherwise would enter on line 5 of Worksheet 2-5 (but not below zero) by your capital gain excess.
- Reduce the amount you otherwise would enter on line 6 of Worksheet 2-5 (but not below zero) by your capital gain excess.

Worksheet 2-7. **Amended Estimated Tax Worksheet**

- | | |
|--|----------|
| 1. Amended total estimated tax due | 1. _____ |
| 2. Multiply line 1 by:
50% (.50) if next payment is due June 16, 2008
75% (.75) if next payment is due September 15, 2008
100% (1.00) if next payment is due January 15, 2009 | 2. _____ |
| 3. Estimated tax payments made for all previous periods | 3. _____ |
| 4. Next required payment: Subtract line 3 from line 2 and enter the result (but not less than zero) here and on your payment voucher for your next required payment | 4. _____ |
| Note. If the payment on line 4 is due January 15, 2009, stop here. Otherwise, go to line 5. | |
| 5. Add lines 3 and 4 | 5. _____ |
| 6. Subtract line 5 from line 1 and enter the result (but not less than zero) | 6. _____ |
| 7. Each following required payment: If the payment on line 4 is due June 16, 2008, enter one-half of the amount on line 6 here and on the payment vouchers for your payments due September 15, 2008, and January 15, 2009. If the amount on line 4 is due September 15, 2008, enter the full amount on line 6 here and on the payment voucher for your payment due January 15, 2009 | 7. _____ |

Worksheet 2-8. **2008 Annualized Estimated Tax Worksheet****Note.** For instructions, see Annualized Income Installment Method in chapter 2.

Section A (For Figuring Your Annualized Estimated Tax Payments) —Complete each column after end of period shown.					
Estates and trusts: Use the following ending dates in columns (a)–(d)—2/29, 4/30, 7/31, 11/30.		(a) 1/1/08 to 3/31/08	(b) 1/1/08 to 5/31/08	(c) 1/1/08 to 8/31/08	(d) 1/1/08 to 12/31/08
1	Adjusted gross income (AGI) for each period. (Caution: See instructions.) Self-employed: Complete Section B first	1			
2	Annualization amounts	2	4	2.4	1.5
3	Annualized income. Multiply line 1 by line 2	3			
4	Itemized deductions for period (see instructions). If you do not expect to itemize, enter -0- and skip to line 7	4			
5	Annualization amounts	5	4	2.4	1.5
6	Multiply line 4 by line 5. (Caution: See instructions and Worksheet 2-9.) . .	6			
7	Standard deduction from 2008 tables	7			
8	Enter the larger of line 6 or line 7	8			
9	Subtract line 8 from line 3	9			
10	Multiply \$3,500 by your total expected exemptions. (Caution: See instructions and Worksheet 2-10.)	10			
11	Subtract line 10 from line 9	11			
12	Tax on the amount on line 11 from the 2008 Tax Rate Schedules. (Caution: See instructions and Worksheets 2-11 and 2-12.)	12			
13	Self-employment tax from line 37 of Section B	13			
14	Other taxes for each payment period	14			
15	Total tax. Add lines 12, 13, and 14	15			
16	Credits for each period. (Caution: See instructions.) Do not include any income tax withholding on this line	16			
17	Subtract line 16 from line 15. (If less than zero, enter -0-.)	17			
18	Applicable percentage	18	22.5%	45%	67.5%
19	Multiply line 17 by line 18	19			
20	Add amounts on line 25 of all preceding columns	20			
21	Annualized income installment. Subtract line 20 from line 19. (If less than zero, enter -0-.)	21			
22	Enter 25% (.25) of line 14c of the Form 1040-ES Estimated Tax Worksheet in each column	22			
23	Subtract line 25 of preceding column from line 24 of preceding column . . .	23			
24	Add lines 22 and 23	24			
25	Enter the smaller of line 21 or line 24. (Caution: See instructions.)	25			
26	Total required payments for the period. Add lines 20 and 25	26			
27	Estimated tax payments made (line 28 of preceding columns) and tax withholding through the due date for the period	27			
28	Estimated tax payment required by the next due date. Subtract line 27 from line 26 and enter the result (but not less than zero) here and on your payment voucher	28			

(Continued on next page)

Worksheet 2-8. **2008 Annualized Estimated Worksheet** (Continued)

Section B (For Figuring Your Annualized Estimated Self-Employment Tax)—Complete each column after end of period shown.		(a) 1/1/08 to 3/31/08	(b) 1/1/08 to 5/31/08	(c) 1/1/08 to 8/31/08	(d) 1/1/08 to 12/31/08
29	Net earnings from self-employment for the period	29			
30	Prorated social security tax limit	30	\$25,500	\$42,500	\$68,000
31	Enter actual wages for the period subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax	31			
32	Subtract line 31 from line 30. If zero or less, enter -0-	32			
33	Annualization amounts	33	0.496	0.2976	0.186
34	Multiply line 33 by the smaller of line 29 or line 32	34			
35	Annualization amounts	35	0.116	0.0696	0.0435
36	Multiply line 29 by line 35	36			
37	Add lines 34 and 36. Enter the result here and on line 13 of Section A	37			
38	Annualization amounts	38	8	4.8	3
39	Deduction for one-half of self-employment tax. Divide line 37 by line 38. Enter the result here. Use this result to figure your AGI on line 1	39			

Worksheet 2-9. **2008 Annualized Estimated Tax Worksheet—Line 6**
Phaseout of Itemized Deductions

1. Enter line 4 of Section A	1. _____
2. Enter the amount included in line 1 for medical and dental expenses, investment interest, casualty or theft losses, and gambling losses (after applying the same limits used in line 1)	2. _____
3. Subtract line 2 from line 1	3. _____
4. Enter line 5 of Section A	4. _____
5. Multiply line 1 by line 4 Note. If line 3 is zero or less, your deduction is not limited. Stop here and enter line 5 above on line 6 of Section A.	5. _____
6. Multiply line 3 by line 4	6. _____
7. Multiply line 6 by 80% (.80)	7. _____
8. Enter line 3 of Section A	8. _____
9. Enter \$159,950 (\$79,975 if married filing separately)	9. _____
10. Subtract line 9 from line 8	10. _____
Note. If line 10 is zero or less, your deduction is not limited. Stop here and enter line 5 of this worksheet on line 6 of Section A.	
11. Multiply line 10 by 3% (.03)	11. _____
12. Enter the smaller of line 7 or line 11	12. _____
13. Divide line 12 by 1.5	13. _____
14. Subtract line 13 from line 12	14. _____
15. Total itemized deductions. Subtract line 14 from line 5. Enter the result here and in the appropriate column of Section A, line 6	15. _____

Worksheet 2-10. **2008 Annualized Estimated Tax Worksheet—Line 10**
Reduction of Exemption Amount

1. Multiply \$3,500 by the number of exemptions you plan to claim	1.	
2. Enter line 3 of Section A	2.	
3. Enter the amount shown below for your filing status		
Single—\$159,950 Married filing jointly or qualifying widow(er)—\$239,950 Married filing separately—\$119,975 Head of household—\$199,950		
	3.	
4. Subtract line 3 from line 2	4.	
5. Is line 4 more than \$122,500 (more than \$61,250 if married filing separately)?		
☐ Yes. Multiply \$2,333 by the number of exemptions you plan to claim and enter the result here and on line 10 of Section A. Do not complete the rest of this worksheet.		
☐ No. Divide line 4 by \$2,500 (\$1,250 if married filing separately). If the result is not a whole number, increase it to the next higher whole number (for example, increase 0.0004 to 1)		
	5.	
6. Multiply line 5 by 2% (.02). Enter the result as a decimal	6.	
7. Multiply line 1 by line 6	7.	
8. Divide line 7 by 3.0	8.	
9. Deduction for exemptions. Subtract line 8 from line 1. Enter the result here and in the appropriate column of Section A, line 10		
	9.	

2008 Tax Rate Schedules

Caution. Do not use these Tax Rate Schedules to figure your 2007 taxes. Use them only to figure your 2008 estimated taxes.

Schedule X—Use if your 2008 filing status is **Single**

If line 5 is:		The tax is:	of the amount over—
Over—	But not over—		
\$0	\$8,025	10%	\$0
8,025	32,550	\$802.50 + 15%	8,025
32,550	78,850	4,481.25 + 25%	32,550
78,850	164,550	16,056.25 + 28%	78,850
164,550	357,700	40,052.25 + 33%	164,550
357,700	-----	103,791.75 + 35%	357,700

Schedule Z—Use if your 2008 filing status is **Head of household**

If line 5 is:		The tax is:	of the amount over—
Over—	But not over—		
\$0	\$11,450	10%	\$0
11,450	43,650	\$1,145.00 + 15%	11,450
43,650	112,650	5,975.00 + 25%	43,650
112,650	182,400	23,225.00 + 28%	112,650
182,400	357,700	42,755.00 + 33%	182,400
357,700	-----	100,604.00 + 35%	357,700

Schedule Y-1—Use if your 2008 filing status is **Married filing jointly or Qualifying widow(er)**

If line 5 is:		The tax is:	of the amount over—
Over—	But not over—		
\$0	\$16,050	10%	\$0
16,050	65,100	\$1,605.00 + 15%	16,050
65,100	131,450	8,962.50 + 25%	65,100
131,450	200,300	25,550.00 + 28%	131,450
200,300	357,700	44,828.00 + 33%	200,300
357,700	-----	96,770.00 + 35%	357,700

Schedule Y-2—Use if your 2008 filing status is **Married filing separately**

If line 5 is:		The tax is:	of the amount over—
Over—	But not over—		
\$0	\$8,025	10%	\$0
8,025	32,550	\$802.50 + 15%	8,025
32,550	65,725	4,481.25 + 25%	32,550
65,725	100,150	12,775.00 + 28%	65,725
100,150	178,850	22,414.00 + 33%	100,150
178,850	-----	48,385.00 + 35%	178,850

Worksheet 2-11. **2008 Annualized Estimated Tax Worksheet—Line 12**
Qualified Dividends and Capital Gain Tax Worksheet

Note. To figure the annualized entries for lines 2, 3, 5, and 6 below, multiply the expected amount for the period by the annualization amount on line 2 of Worksheet 2-8 for the same period.

1. Enter line 11 of your 2008 Annualized Estimated Tax Worksheet (or if using Worksheet 2-12, enter the amount from line 3 of Worksheet 2-12)	1. _____
2. Enter your annualized qualified dividends expected for 2008 ¹	2. _____
3. Enter the annualized net capital gain expected for 2008 ¹	3. _____
4. Add lines 2 and 3	4. _____
5. Enter your annualized 28% rate gain or loss expected for 2008 ²	5. _____
6. Enter the annualized unrecaptured section 1250 gain expected for 2008	6. _____
7. Add lines 5 and 6	7. _____
8. Enter the smaller of line 3 or line 7	8. _____
9. Subtract line 8 from line 4	9. _____
10. Subtract line 9 from line 1. If zero or less, enter -0-	10. _____
11. Enter the smaller of line 1 or \$65,100 (\$32,550 if single or married filing separately, or \$43,650 if head of household)	11. _____
12. Enter the smaller of line 10 or line 11	12. _____
13. Subtract line 4 from line 1. If zero or less, enter -0-	13. _____
14. Enter the larger of line 12 or line 13	14. _____
Note. If line 11 and line 12 are the same, skip line 15 and go to line 16.	
15. Subtract line 12 from line 11	15. _____
Note. If lines 1 and 11 are the same, skip lines 16–28 and go to line 29.	
16. Enter the smaller of line 1 or line 9	16. _____
17. Enter the amount from line 15. If line 15 is blank, enter -0-	17. _____
18. Subtract line 17 from line 16. If zero or less, enter -0-	18. _____
19. Multiply line 18 by 15% (.15)	19. _____
Note. If line 6 is zero or blank, skip lines 20–25 and go to line 26.	
20. Enter the smaller of line 3 or line 6	20. _____
21. Add lines 4 and 14	21. _____
22. Enter the amount from line 1 above	22. _____
23. Subtract line 22 from line 21. If zero or less, enter -0-	23. _____
24. Subtract line 23 from line 20. If zero or less, enter -0-	24. _____
25. Multiply line 24 by 25% (.25)	25. _____
Note. If line 5 is zero or blank, skip lines 26–28 and go to line 29.	
26. Add lines 14, 15, 18, and 24	26. _____
27. Subtract line 26 from line 1	27. _____
28. Multiply line 27 by 28% (.28)	28. _____
29. Figure the tax on the amount on line 14 from the 2008 Tax Rate Schedules	29. _____
30. Add lines 19, 25, 28, and 29	30. _____
31. Figure the tax on the amount on line 1 from the 2008 Tax Rate Schedules	31. _____
32. Tax on all taxable income (including capital gains and qualified dividends). Enter the smaller of line 30 or line 31 here and in the appropriate column of the 2008 Annualized Estimated Tax Worksheet, line 12 (or if using Worksheet 2-12, enter on line 4 of Worksheet 2-12)	32. _____

¹ If you expect to deduct investment interest expense, do not include on this line any qualified dividends or net capital gain that you will elect to treat as investment income.

² This includes a section 1202 exclusion from eligible gain on qualified small business stock and gain or loss from the sale or exchange of collectibles. See the instructions for Schedule D (Form 1040) for more information.

Worksheet 2-12. **2008 Annualized Estimated Tax Worksheet—Line 12**
Foreign Earned Income Tax Worksheet

Before you begin: If line 11 of Worksheet 2-8 (2008 Annualized Estimated Tax Worksheet) is zero for the period, do not complete this worksheet.

- | | |
|---|----------|
| 1. Enter the amount from line 11 of your 2008 Annualized Estimated Tax Worksheet for the period | 1. _____ |
| 2. Enter the annualized amount* of foreign earned income and housing amount you (and your spouse if filing jointly) expect to exclude for the period on Form 2555 or Form 2555-EZ | 2. _____ |
| 3. Add lines 1 and 2 | 3. _____ |
| 4. Tax on the amount on line 3. Use the 2008 Tax Rate Schedules or Worksheet 2-11,** as appropriate . . | 4. _____ |
| 5. Tax on the amount on line 2. Use the 2008 Tax Rate Schedules | 5. _____ |
| 6. Subtract line 5 from line 4. Enter the result here and on line 12 of your 2008 Annualized Estimated Tax Worksheet (Worksheet 2-8). If zero or less, enter -0- | 6. _____ |

* To figure the annualized amount for line 2, multiply the expected exclusion for the period by the annualization amount on line 2 of Worksheet 2-8 for the same period.

**If using Worksheet 2-11 (Qualified Dividends and Capital Gain Tax Worksheet), enter the amount from line 3 above on line 1 of Worksheet 2-11. Complete Worksheet 2-11 through line 9. Next, determine if you have a capital gain excess.

Figuring capital gain excess. To find out if you have a capital gain excess for the appropriate period, subtract line 11 of Worksheet 2-8 from line 9 of Worksheet 2-11. If the result is more than zero, that amount is your capital gain excess.

No capital gain excess. If you do not have a capital gain excess, complete the rest of Worksheet 2-11 according to its instructions. Then complete lines 5 and 6 above.

Capital gain excess. If you have a capital gain excess, complete a second Worksheet 2-11 as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above.

Make these modifications only for purposes of filling out Worksheet 2-12 above.

- Reduce the amount you otherwise would enter on line 3 of Worksheet 2-11 (but not below zero) by your capital gain excess.
- Reduce the amount you otherwise would enter on line 2 of Worksheet 2-11 (but not below zero) by any of your capital gain excess not used in (a) above.
- Reduce the amount you otherwise would enter on line 5 of Worksheet 2-11 (but not below zero) by your capital gain excess.
- Reduce the amount you otherwise would enter on line 6 of Worksheet 2-11 (but not below zero) by your capital gain excess.

2008 Standard Deduction Tables



If you are married filing a separate return and your spouse itemizes deductions, or if you are a dual-status alien, you cannot take the standard deduction even if you were born before January 2, 1944, or you are blind.

Table 2-3. **Standard Deduction Chart for Most People***

IF your filing status is...	THEN your standard deduction is...
Single or Married filing separately	\$ 5,450
Married filing jointly or Qualifying widow(er) with dependent child	10,900
Head of household	8,000

* Do not use this chart if you were born before January 2, 1944, or you are blind, or if someone else can claim an exemption for you (or your spouse if married filing jointly). Use Table 2-4 or 2-5 instead.

Table 2-4. **Standard Deduction Chart for People Born Before January 2, 1944, or Who are Blind***

Check the correct number of boxes below. Then go to the chart.		
You	Born before January 2, 1944	Blind
	☐	☐
Your spouse, if claiming spouse's exemption	Born before January 2, 1944	Blind
	☐	☐
Total number of boxes you checked ☐		
IF your filing status is...	AND the number in the box above is...	THEN your standard deduction is...
Single	1 2	\$ 6,800 8,150
Married filing jointly or Qualifying widow(er) with dependent child	1 2 3 4	11,950 13,000 14,050 15,100
Married filing separately	1 2 3 4	6,500 7,550 8,600 9,650
Head of household	1 2	9,350 10,700

* If someone can claim an exemption for you (or your spouse if married filing jointly), use Table 2-5, instead.

Table 2-5. **Standard Deduction Worksheet for Dependents**

Use this worksheet only if someone else can claim an exemption for you (or your spouse if married filing jointly).

If you were born before January 2, 1944, or you are blind, check the correct number of boxes below. Then go to the worksheet.	
You	Born before January 2, 1944 Blind
	☐ ☐
Your spouse, if claiming spouse's exemption	Born before January 2, 1944 Blind
	☐ ☐
Total number of boxes you checked ☐	
1. Enter your earned income (defined below). If none, enter -0-.	1. _____
2. Additional amount	2. <u>\$300</u>
3. Add lines 1 and 2.	3. _____
4. Minimum standard deduction.	4. <u>\$900</u>
5. Enter the larger of line 3 or line 4.	5. _____
6. Enter the amount shown below for your filing status. • Single or Married filing separately—\$5,450 • Married filing jointly—\$10,900 • Head of household—\$8,000	6. _____
7. Standard deduction. a. Enter the smaller of line 5 or line 6. If born after January 1, 1944, and not blind, stop here. This is your standard deduction. Otherwise, go on to line 7b. b. If born before January 2, 1944, or blind, multiply \$1,350 (\$1,050 if married) by the number in the box above. c. Add lines 7a and 7b. This is your standard deduction for 2008.	7a. _____ 7b. _____ 7c. _____
<i>Earned income includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income.</i>	

3.

Credit for Withholding and Estimated Tax for 2007

What's New for 2007

Excess social security or railroad retirement tax withholding. You can claim a credit for excess social security or tier 1 railroad retirement tax withholding for 2007 only if your total wages from two or more employers were more than \$97,500.

Introduction

When you file your 2007 income tax return, take credit for all the income tax and excess social security or railroad retirement tax withheld from your salary, wages, pensions, etc. Also, take credit for the estimated tax you paid for 2007. These credits are subtracted from your tax. Because these credits are refundable, you should file a return and claim these credits, even if you do not owe tax.

If the total of your withholding and your estimated tax payments for any payment period is less than the amount you needed to pay by the due date for that period, you may be charged a penalty, even if the total of these credits is more than your tax for the year.

Topics

This chapter discusses:

- How to take credit for withholding,
- How to take credit for estimated taxes you paid, and
- How to take credit for excess social security or railroad retirement tax withholding.

Withholding

If you had income tax withheld during 2007, you should be sent a statement by January 31, 2008, showing your income and the tax withheld. Depending on the source of your income, you will receive:

- Form W-2, Wage and Tax Statement,
- Form W-2G, Certain Gambling Winnings, or
- A form in the 1099 series.

Forms W-2 and W-2G. Always file Form W-2 with your income tax return. File Form W-2G with your return only if it shows any federal income tax withheld from your winnings.

You should get at least two copies of each form you receive. Attach one copy to the front of your federal income tax return. Keep one copy for your records. Also, you should receive copies to file with your state and local returns.

Form W-2

Your employer is required to provide or send Form W-2 to you no later than January 31, 2008. You should receive a separate Form W-2 from each employer you worked for.

If you stopped working before the end of 2007, your employer could have given you your Form W-2 at any time after you stopped working. However, your employer must provide or send it to you by January 31, 2008.

If you ask for the form, your employer must send it to you within 30 days after receiving your written request or within 30 days after your final wage payment, whichever is later.

If Form W-2 is mailed, you should allow adequate time to receive it before contacting your employer. If you still do not get the form by February 15, the IRS can help you by requesting the form from your employer. The phone number is listed in the Form 1040, Form 1040A, and Form 1040EZ instructions. You will be asked for the following information.

- Your employer's name, address, and telephone number, and, if known, your employer's identification number.
- Your address, social security number, and daytime telephone number.
- The dates of employment.
- An estimate of your total wages and federal income tax withheld.

Form W-2 shows your total pay and other compensation and the income tax, social security tax, and Medicare tax that was withheld during the year. Include the federal income tax withheld (as shown on Form W-2) on:

- Line 64, if you file Form 1040,
- Line 38, if you file Form 1040A, or
- Line 7, if you file Form 1040EZ.

In addition, Form W-2 is used to report any taxable sick pay you received and any income tax withheld from your sick pay.

Form W-2G

If you had gambling winnings in 2007, the payer may have withheld income tax. If tax was withheld, the payer will give you a Form W-2G showing the amount you won and the amount of tax withheld.

Report the amounts you won on line 21 of Form 1040. Take credit for the tax withheld on line 64 of Form 1040. If you had gambling winnings, you must use Form 1040; you cannot use Form 1040A or Form 1040EZ.

Gambling losses can be deducted on Schedule A (Form 1040) as a miscellaneous itemized

deduction on line 28. However, you cannot deduct more than the gambling winnings you report on line 21.

The 1099 Series

Most forms in the 1099 series are not filed with your return. You should be sent these forms by January 31, 2008. Unless instructed to file any of these forms with your return, keep them for your records.

There are several different forms in this series, including:

- Form 1099-B, Proceeds From Broker and Barter Exchange Transactions,
- Form 1099-C, Cancellation of Debt,
- Form 1099-DIV, Dividends and Distributions,
- Form 1099-G, Certain Government Payments,
- Form 1099-INT, Interest Income,
- Form 1099-MISC, Miscellaneous Income,
- Form 1099-OID, Original Issue Discount,
- Form 1099-Q, Payments From Qualified Education Programs,
- Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.,
- Form SSA-1099, Social Security Benefit Statement, and
- Form RRB-1099, Payments by the Railroad Retirement Board.

If you received the types of income reported on some forms in the 1099 series, you may not be able to use Form 1040A or Form 1040EZ. See the instructions to these forms for details.

Form 1099-R. Attach Form 1099-R to your return if federal income tax withholding is shown in box 4. Include the amount withheld in the total on line 64 of Form 1040, or on line 38 of Form 1040A. You cannot use Form 1040EZ if you received payments reported on Form 1099-R.

Backup withholding. If you were subject to backup withholding on income you received during 2007, include the amount withheld, as shown in box 4 of your Form 1099, in the total on line 64 of Form 1040, line 38 of Form 1040A, or line 7 of Form 1040EZ.

Form Not Correct

If you receive a form with incorrect information, you should ask the payer for a corrected form. Call the telephone number or write to the address given for the payer on the form. The corrected Form W-2G or Form 1099 you receive will have an "X" in the "CORRECTED" box at the top of the form. A special form, Form W-2c, Corrected Wage and Tax Statement, is used to correct a Form W-2.

Form Received After Filing

If you file your return and you later receive a form for income that you did not include on your return, you should report the income and take

credit for any income tax withheld by filing Form 1040X, Amended U.S. Individual Income Tax Return.

Separate Returns

If you are married but file a separate return, you can take credit only for the tax withheld from your own income. Do not include any amount withheld from your spouse's income. However, different rules may apply if you live in a community property state.

Community property states. The following are community property states.

- Arizona.
- California.
- Idaho.
- Louisiana.
- Nevada.
- New Mexico.
- Texas.
- Washington.
- Wisconsin.

Generally, if you live in a community property state and file a separate return, you and your spouse each must report half of all community income in addition to your own separate income. If you are required to report half of all community income, you are entitled to take credit for half of all taxes withheld on the community income. If you were divorced during the year, each of you generally must report half the community income and can take credit for half the withholding on that community income for the period before the divorce.

For more information on these rules, and some exceptions, see Publication 555, Community Property.

Fiscal Years (FY)

If you file your tax return on the basis of a fiscal year (a 12-month period ending on the last day of any month except December), you must follow special rules, described below, to determine your credit for federal income tax withholding.

Normal withholding. You can claim credit on your tax return only for the tax withheld during the calendar year ending within your fiscal year. You cannot claim credit for any of the tax withheld during the calendar year beginning in your fiscal year. You will be able to claim credit for that withholding on your return for your next fiscal year.

The Form W-2 or 1099-R you receive for the calendar year that ends during your fiscal year will show the tax withheld and the income you received during that calendar year.

Although you take credit for all the withheld tax shown on the form, report only the part of the income shown on the form that you received during your fiscal year. Add to that the income you received during the rest of your fiscal year.

Example. Miles Hanson files his return for a fiscal year ending June 30, 2007. In January 2007, he received a Form W-2 that showed that his wages for 2006 were \$31,200 and that his income tax withheld was \$3,484. His records show that he had received \$15,000 of the wages by June 30, 2006, and \$16,200 from July 1 through December 31, 2006. See Table 3-1 below.

On his return for the fiscal year ending June 30, 2007, Miles will report the \$16,200 he was paid in July through December of 2006, plus the \$18,000 he was paid during the rest of the fiscal year, January 1, 2007, to June 30, 2007. However, he takes credit for all \$3,484 that was withheld during 2006.

On his return for the fiscal year ending June 30, 2006, he reported the \$15,000 he was paid in January through June 2006, but took no credit for the tax withheld during that time. On his return for the fiscal year ending June 30, 2008, he can take credit for any tax withheld during 2007 but not for any tax withheld during 2008.

Backup withholding. If income tax has been withheld under the backup withholding rule, take credit for it on your tax return for the fiscal year in which you received the income.

Example. Emily Smith's records show that she received income in November 2007 and February 2008 from which there was backup withholding (\$100 and \$50, respectively). Emily

takes credit for the entire \$150 of backup withholding on her tax return for the fiscal year ending September 30, 2008.

Estimated Tax

Take credit for all your estimated tax payments for 2007 on line 65 of Form 1040 or line 39 of Form 1040A. Include any overpayment from 2006 that you had credited to your 2007 estimated tax. You must use Form 1040 or Form 1040A if you paid estimated tax. You cannot use Form 1040EZ.

If you were a beneficiary of an estate or trust, you should receive a Schedule K-1 (Form 1041), Beneficiary's Share of Income, Deductions, Credits, etc., from the fiduciary. If you have estimated taxes credited to you from the estate or trust (from Schedule K-1 (Form 1041), box 13, code A), you must use Schedule E (Form 1040). On the dotted line next to the entry space for line 37 of Schedule E (Form 1040), enter "ES payment claimed" and the amount. However, do not include this amount in the total on line 37. Instead, enter the amount on Form 1040, line 65. The payment is treated as being made by you on January 15, 2008.

Name changed. If you changed your name, and you made estimated tax payments using your former name, attach a statement to the front of your tax return indicating:

- When you made the payments,
- The amount of each payment,
- The IRS address to which you sent the payments,
- Your name when you made the payments, and
- The social security number under which you made the payments.

The statement should cover payments you made jointly with your spouse as well as any you made separately.

Be sure to report the change to your local Social Security Administration office before filing your 2008 tax return. This prevents delays in processing your return and issuing refunds. It also safeguards your future social security benefits. For more details, call the Social Security Administration at 1-800-772-1213.

Separate Returns

If you and your spouse made separate estimated tax payments for 2007 and you file separate returns, you can take credit only for your own payments.

If you made joint estimated tax payments, you must decide how to divide the payments between your returns. One of you can claim all of the estimated tax paid and the other none, or you can divide it in any other way you agree on. If you cannot agree, you must divide the payments in proportion to each spouse's individual tax as shown on your separate returns for 2007.

Example. James and Evelyn Brown made joint estimated tax payments for 2007 totaling \$3,000. They file separate 2007 Forms 1040.

Table 3-1. Example for Fiscal Year Ending June 30, 2007—Miles Hanson

Date	Form W-2		Miles' records		Tax return for FY ending 6/30/2006 ¹		Tax return for FY ending 6/30/2007	
	Wages	Withholding	Wages	Withholding	Wages	Withholding	Wages	Withholding
CY 2006²	\$31,200	\$3,484						
1/1 – 6/30/2006			\$15,000	\$1,675	\$15,000			
7/1 – 12/31/2006			16,200	1,809			\$16,200	\$3,484
CY 2007	\$37,500	\$4,187 ³						
1/1 – 6/30/2007			\$18,000	\$2,010			\$18,000	
7/1 – 12/31/2007			19,500 ⁴	2,177				

¹Miles' tax return for FY ending 6/30/2006 also included his wages for 7/1 – 12/31/2005 and the withholding shown on his 2005 Form W-2.

²Calendar year (January 1 – December 31).

³Withholding shown on 2007 Form W-2 (\$4,187) will be included in Miles' tax return for FY ending 6/30/2008, the fiscal year in which calendar year 2007 ends.

⁴Wages for 7/1 – 12/31/2007 (\$19,500) will be included in Miles' tax return for FY ending 6/30/2008, the fiscal year in which the wages were received.

James' tax is \$4,000 and Evelyn's is \$1,000. If they do not agree on how to divide the \$3,000, they must divide it proportionately between their returns. Because James' tax (\$4,000) is 80% of the total tax (\$5,000), his share of the estimated tax is \$2,400 (80% of \$3,000). The balance, \$600 (20% of \$3,000), is Evelyn's share.

Divorced Taxpayers

If you made joint estimated tax payments for 2007, and you were divorced during the year, either you or your former spouse can claim all of the joint payments, or you each can claim part of them. If you cannot agree on how to divide the payments, you must divide them in proportion to each spouse's individual tax as shown on your separate returns for 2007. See *Example* above under *Separate Returns*.

If you claim any of the joint payments on your tax return, enter your former spouse's social security number (SSN) in the space provided at the top of page 1 of Form 1040 or Form 1040A. If you divorced and remarried in 2007, enter your present spouse's SSN in that space. Enter your former spouse's SSN, followed by "DIV," under *Payments* to the left of Form 1040, line 65, or in the blank space to the left of Form 1040A, line 39.

Excess Social Security or Railroad Retirement Tax Withholding

Most employers must withhold social security tax from your wages. In some cases, however, the federal government and state and local governments do not have to withhold social security tax from their employees' wages. If you work for a railroad employer, that employer must withhold tier 1 railroad retirement (RRTA) tax and tier 2 RRTA tax.

Two or more employers. If you worked for two or more employers in 2007, too much social security tax or tier 1 RRTA tax may have been withheld from your pay. You may be able to claim the excess as a credit against your income tax when you file your return. Table 3-2 shows the maximum amount that should have been withheld for any of these taxes for 2007. Figure the excess withholding on the appropriate worksheet on page 47.

Table 3-2. **Maximum Social Security and RRTA Withholding for 2007**

Type of tax	Maximum wages subject to tax	Tax rate	Maximum tax to be withheld
Social security	\$97,500	6.2%	\$6,045.00
Tier 1 RRTA	\$97,500	6.2%	\$6,045.00
Tier 2 RRTA	\$72,600	3.9%	\$2,831.40

Joint returns. If you are filing a joint return, you cannot add any social security or tier 1 RRTA tax withheld from your spouse's income to the amount withheld from your income. You must figure the excess separately for both you and your spouse to determine if either of you has excess withholding.

Note. All wages are subject to Medicare tax withholding.

Employer's error. If any one employer withheld too much social security or tier 1 RRTA tax, you cannot claim the excess as a credit against your income tax. The employer should adjust the tax for you. If the employer does not adjust the overcollection, you can file a claim for refund using Form 843, Claim for Refund and Request for Abatement.

Worksheet for Nonrailroad Employees

If you did not work for a railroad during 2007, figure the excess social security withholding on Worksheet 3-1 (see blank worksheet on the next page).

Note. If you worked for both a railroad employer and a nonrailroad employer, use Worksheet 3-2 on the next page to figure excess social security and tier 1 RRTA tax.

Worksheet 3-1. Excess Social Security—Nonrailroad Employees—Illustrated (Tom Martin)

1. Add all social security tax withheld (but not more than \$6,045 for each employer). This tax should be shown in box 4 of your Forms W-2. Enter the total here	1.	<u>\$6,212.40</u>
2. Enter any uncollected social security tax on tips or group-term life insurance included in the total on Form 1040, line 63	2.	<u>-0-</u>
3. Add lines 1 and 2. If \$6,045 or less, stop here. You cannot claim the credit	3.	<u>6,212.40</u>
4. Social security limit	4.	<u>6,045</u>
5. Excess. Subtract line 4 from line 3	5.	<u>\$167.40</u>

Where to claim credit for excess social security withholding. If you file Form 1040, enter the excess on line 67.

If you file Form 1040A, include the excess in the total on line 42. Write "Excess SST" and show the amount of the credit in the space to the left of the line.

You cannot claim excess social security tax withholding on Form 1040EZ.

Example. In 2007, Tom Martin earned \$58,000 working for Company A and \$42,200 working for Company B. Company A withheld \$3,596 for social security tax. Company B withheld \$2,616.40 for social security tax. Because he worked for two employers and earned more than \$97,500, he had too much social security tax withheld. Tom figures his credit of \$167.40, as shown on the illustrated Worksheet 3-1 below.

Worksheets for Railroad Employees

If you worked for a railroad during 2007, figure your excess withholding on Worksheets 3-2 and 3-3 on the next page.

Where to claim credit for excess tier 1 RRTA withholding. If you file Form 1040, enter the excess on line 67.

If you file Form 1040A, include the excess in the total on line 42. Write "Excess SST" and show the amount of the credit in the space to the left of the line.

You cannot claim excess tier 1 RRTA withholding on Form 1040EZ.

How to claim refund of excess tier 2 RRTA. To claim a refund of tier 2 tax, use Form 843. Be sure to attach a copy of all of your W-2 forms.

Worksheet 3-1. **Excess Social Security—Nonrailroad Employees**

1. Add all social security tax withheld (but not more than \$6,045 for each employer). This tax should be shown in box 4 of your Forms W-2. Enter the total here	1.	_____
2. Enter any uncollected social security tax on tips or group-term life insurance included in the total on Form 1040, line 63	2.	_____
3. Add lines 1 and 2. If \$6,045 or less, stop here. You cannot claim the credit	3.	_____
4. Social security limit	4.	\$6,045
5. Excess. Subtract line 4 from line 3	5.	_____

Worksheet 3-2. **Excess Social Security and Tier 1 RRTA—Railroad Employees**

1. Add all social security and tier 1 RRTA tax withheld (but not more than \$6,045 for each employer). Social security tax should be shown in box 4 and tier 1 RRTA should be shown in box 14 of your Forms W-2. Enter the total here	1.	_____
2. Enter any uncollected social security and tier 1 RRTA tax on tips or group-term life insurance included in the total on Form 1040, line 63	2.	_____
3. Add lines 1 and 2. If \$6,045 or less, stop here. You cannot claim the credit	3.	_____
4. Social security and tier 1 RRTA tax limit	4.	\$6,045
5. Excess. Subtract line 4 from line 3	5.	_____

Worksheet 3-3. **Excess Tier 2 RRTA—Railroad Employees**

1. Add all tier 2 RRTA tax withheld (but not more than \$2,831.40 for each employer). Box 14 of your Forms W-2 should show tier 2 RRTA tax. Enter the total here	1.	_____
2. Enter any uncollected tier 2 RRTA tax on tips or group-term life insurance included in the total on Form 1040, line 63	2.	_____
3. Add lines 1 and 2. If \$2,831.40 or less, stop here. You cannot claim the credit.	3.	_____
4. Tier 2 RRTA tax limit	4.	\$2,831.40
5. Excess. Subtract line 4 from line 3.	5.	_____

4.

Underpayment Penalty for 2007

What's New for 2007

You should consider the items in this section when figuring any underpayment penalty for 2007.

Penalty rate. The penalty for underpayment of 2007 estimated tax is figured at an annual rate of 8% for the number of days the underpayment remained unpaid from April 15, 2007, through December 31, 2007, and 7% from January 1, 2008, through April 15, 2008.

Husband-wife business. Beginning in 2007, if you and your spouse materially participate as the only members of a jointly owned and operated business, and you file a joint return for the tax year, you can make an election to be taxed as a qualified joint venture instead of a partnership. For details, see the instructions for Schedule C (Form 1040) or Schedule F (Form 1040).

Discharge of debt. In some cases, you will not have taxable income on the forgiveness of your mortgage. See Publication 553 for more details.

Alternative minimum tax (AMT) exemption amount increased. The AMT exemption amount will increase to \$44,350 (\$66,250 if married filing jointly or a qualifying widow(er); \$33,125 if married filing separately).

Foreign earned income exclusion. If you claim the foreign earned income exclusion, the way you figure your tax may change. See Publication 4655, Supplemental Instructions for 2007 Form 1040 and Form 1040NR, for more details.

Introduction

If you did not pay enough tax, either through withholding or by making estimated tax payments, you will have underpaid your estimated tax and may have to pay a penalty.

You may understand this chapter better if you can refer to copies of your latest federal income tax returns.

No penalty. Generally, you will not have to pay a penalty for 2007 if any of the following situations apply.

- The total of your withholding and estimated tax payments was at least as much as your 2006 tax (or 110% of your 2006 tax if your AGI was more than \$150,000, \$75,000 if your 2007 filing status is married filing separately), and you paid all required estimated tax payments on time.

- The tax balance due on your return is no more than 10% of your total 2007 tax, and you paid all required estimated tax payments on time.
- Your total 2007 tax (defined on page 49) minus your withholding is less than \$1,000.
- You did not have a tax liability for 2006.
- You did not have any withholding taxes and your current year tax less any household employment taxes is less than \$1,000.

Special rules apply if you are a farmer or fisherman.

IRS can figure the penalty for you. If you think you owe the penalty, but you do not want to figure it yourself when you file your tax return, you may not have to. Generally, the IRS will figure the penalty for you and send you a bill.

You only need to figure your penalty in the following three situations.

- You are requesting a waiver of part, but not all, of the penalty.
- You are using the annualized income installment method to figure the penalty.
- You are treating the federal income tax withheld from your income as paid on the dates actually withheld.

However, if these situations do not apply to you, and you think you can lower or eliminate your penalty, complete Form 2210 or Form 2210-F and attach it to your return. See *Form 2210* on page 49.

Topics

This chapter discusses:

- The general rule for the underpayment penalty,
- Special rules for certain individuals,
- Exceptions to the underpayment penalty,
- How to figure your underpayment and the amount of your penalty on Form 2210, and
- How to ask IRS to waive the penalty.

Useful Items

You may want to see:

Form (and Instructions)

- ☐ **2210** Underpayment of Estimated Tax by Individuals, Estates, and Trusts
- ☐ **2210-F** Underpayment of Estimated Tax by Farmers and Fishermen

See chapter 5 for information about getting these forms.

General Rule

In general, you may owe a penalty for 2007 if the total of your withholding and estimated tax payments did not equal at least the smaller of:

1. 90% of your 2007 tax, or

2. 100% of your 2006 tax. (Your 2006 tax return must cover a 12-month period.)

Your 2007 tax, for this purpose, is defined under *Total tax for 2007* on page 49.

Special rules for certain individuals. There are special rules for farmers and fishermen, and for certain higher income taxpayers.

Farmers and fishermen. If at least two-thirds of your gross income for 2006 or 2007 is from farming or fishing, substitute 66⅔% for 90% in (1) above.

See *Farmers and Fishermen* beginning on page 54.

Higher income taxpayers. If less than two-thirds of your gross income for 2006 and 2007 is from farming or fishing and your AGI for 2006 was more than \$150,000 (\$75,000 if your 2007 filing status is married filing a separate return), substitute 110% for 100% in (2) above.

For 2006, AGI is the amount shown on Form 1040, line 37; Form 1040A, line 21; and Form 1040EZ, line 4.

Penalty figured for each period. Because the penalty is figured separately for each payment period, you may owe a penalty for a payment period even if you later paid enough to make up the underpayment. If you did not pay enough tax by the due date of any of the payment periods, you may owe a penalty even if you are due a refund when you file your income tax return.

Example. You did not make estimated tax payments for 2007 because you thought you had enough tax withheld from your wages. Early in January 2008, you made an estimate of your total 2007 tax. Then you realized that your withholding was \$2,000 less than the amount needed to avoid a penalty for underpayment of estimated tax.

On January 10, you made an estimated tax payment of \$3,000, which is the difference between your withholding and your estimate of your total tax. Your final return shows your total tax to be \$50 less than your estimate, so you are due a refund.

You do not owe a penalty for your payment due January 15, 2008. However, you may owe a penalty through January 10, 2008, the day you made the \$3,000 payment, for your underpayments for the earlier payment periods.

Minimum required each period. You will owe a penalty for any 2007 payment period for which your estimated tax payment plus your withholding for the period and overpayments for previous periods was less than the smaller of:

1. 22.5% of your 2007 tax, or
2. 25% of your 2006 tax. (Your 2006 tax return must cover a 12-month period.)

Note. If you are subject to the rule for higher income taxpayers, discussed earlier, substitute 27.5% for 25% in (2) above.

When penalty is charged. If you miss a payment or you paid less than the minimum required in a period, you may be charged an underpayment penalty from the date the amount was due to the date the payment is made.

Trust payments of estimated tax. If you have estimated taxes credited to you from an estate or trust (Schedule K-1 (Form 1041), box 13, code A), treat the payment as made by you on January 15, 2008.

Amended returns. If you file an amended return by the due date of your original return, use the tax shown on your amended return to figure your required estimated tax payments. If you file an amended return after the due date of the original return, use the tax shown on the original return.

However, if you and your spouse file a joint return after the due date to replace separate returns you originally filed by the due date, use the tax shown on the joint return to figure your required estimated tax payments. This rule applies only if both original separate returns were filed on time.

2006 separate returns and 2007 joint return. If you file a joint return with your spouse for 2007, but you filed separate returns for 2006, your 2006 tax is the total of the tax shown on your separate returns. You filed a separate return if you filed as single, head of household, or married filing separately.

2006 joint return and 2007 separate returns. If you file a separate return for 2007, but you filed a joint return with your spouse for 2006, your 2006 tax is your share of the tax on the joint return. You are filing a separate return if you file as single, head of household, or married filing separately.

To figure your share of the taxes on a joint return, first figure the tax both you and your spouse would have paid had you filed separate returns for 2006 using the same filing status as for 2007. Then multiply the tax on the joint return by the following fraction.

The tax you would have paid
had you filed a separate return

The total tax you and your
spouse would have paid had
you filed separate returns

Example. Lisa and Paul filed a joint return for 2006 showing taxable income of \$49,000 and a tax of \$6,599. Of the \$49,000 taxable income, \$41,000 was Lisa's and the rest was Paul's. For 2007, they file married filing separately. Lisa figures her share of the tax on the 2006 joint return as follows.

2006 tax on \$41,000 based on a separate return	\$ 6,814
2006 tax on \$8,000 based on a separate return	826
Total	\$ 7,640
Lisa's percentage of total tax (\$6,814 ÷ \$7,640)	89.19%
Lisa's part of tax on joint return (\$6,599 × 89.19%)	\$ 5,886

Form 2210. In most cases, you do not need to file Form 2210. The IRS will figure the penalty for you and send you a bill. If you want us to figure the penalty for you, leave the penalty line on your return blank. Do not file Form 2210.

To determine if you should file Form 2210, see Part II of Form 2210. If you decide to figure your penalty, complete Part I, Part II, and either Part III or Part IV of Form 2210. If you use Form 2210, you cannot file Form 1040EZ.

On Form 1040, enter the amount of your penalty on line 77. If you owe tax on line 76, add the penalty to your tax due and show your total payment on line 76. If you are due a refund, subtract the penalty from the overpayment and enter the result on line 73.

On Form 1040A, enter the amount of your penalty on line 47. If you owe tax on line 46, add the penalty to your tax due and show your total payment on line 46. If you are due a refund, subtract the penalty from the overpayment and enter the result on line 43.

Lowering or eliminating the penalty. You may be able to lower or eliminate your penalty if you file Form 2210. You must file Form 2210 with your return if any of the following applies.

- You request a waiver. See *Waiver of Penalty* on page 55.
- You use the annualized income installment method. See the explanation of this method under *Annualized Income Installment Method (Schedule AI)* beginning on page 51.
- You use your actual withholding for each payment period for estimated tax purposes. See *Actual withholding method* on page 51.
- You base any of your required installments on the tax shown on your 2006 return and you filed or are filing a joint return for either 2006 or 2007, but not for both years.

Exceptions

Generally, you do not have to pay an underpayment penalty if either:

- Your total tax is less than \$1,000, or
- You had no tax liability last year.

Less Than \$1,000 Due

You do not owe a penalty if the total tax shown on your return minus the amount you paid through withholding (including excess social security and tier 1 railroad retirement (RRTA) tax withholding) is less than \$1,000.

Total tax for 2007. For 2007, your total tax on Form 1040 is the amount on line 57 increased by certain other taxes and reduced by certain refundable credits.

Add the total of the following taxes to the amount on Form 1040, line 57.

- Self-employment tax (line 58).
- Tax from recapture of investment credit, low-income housing credit, qualified electric vehicle credit, Indian employment credit, new markets credit, alternative motor vehicle credit, alternative fuel vehicle refueling property credit, or credit for employer-provided childcare facilities (included on line 63).
- Tax on early distributions from (a) an IRA or other qualified retirement plan, (b) an

annuity, or (c) a modified endowment contract entered into after June 20, 1988 (included on line 60).

- Tax on distributions from a Coverdell education savings account or a qualified tuition program not used for qualified education expenses (included on line 60).
- Tax on Archer MSA or health savings account distributions not used for qualified medical expenses (included on line 63).
- Section 72(m)(5) excess benefits tax (included on line 63).
- Advance earned income credit payments (line 61).
- Tax on accumulation distribution of trusts (included on line 63).
- Interest due under sections 453(l)(3) and 453A(c) on certain installment sales of property (included on line 63).
- An increase or decrease in tax as a shareholder in a qualified electing fund (included on line 63).
- Tax on electing small business trusts included on Form 1041, Schedule G, line 7 (included on line 63).
- Tax on income not effectively connected with a U.S. trade or business from Form 1040NR, lines 53 and 56 (included on line 63).
- Household employment taxes, including any advance EIC payments made to your employees (line 62). See the Instructions for Form 2210, *Line 2*, for an exception to including this amount.
- Additional tax on income you received from a nonqualified deferred compensation plan that fails to meet certain requirements (included on line 63).
- Additional tax on recapture of a charitable contribution deduction relating to the contribution of a fractional interest in tangible personal property (included on line 63).
- Additional tax from Form 8889, Health Savings Accounts (HSAs), Part III (included on line 63).

From the total of Form 1040, line 57 and the other taxes listed above, subtract the following refundable credits.

- Earned income credit (line 66a).
- Additional child tax credit (line 68).
- Credit for federal tax paid on fuels (included on line 70).
- Health coverage tax credit (included on line 70).
- Refundable credit for prior year minimum tax (line 71).

Your total tax on Form 1040A is the amount on line 37 minus the amount on lines 40a and 41. Your total tax on Form 1040EZ is the amount on line 10 minus the amount on line 8a.

Paid through withholding. For 2007, the amount you paid through withholding on Form 1040 is the amount on line 64 plus any excess

social security or tier 1 RRTA tax withholding on line 67. On Form 1040A, the amount you paid through withholding is the amount on line 38 plus any excess social security or tier 1 RRTA tax withholding included on line 42. On Form 1040EZ, it is the amount on line 7.

No Tax Liability Last Year

You do not owe a penalty if you had no tax liability last year and you were a U.S. citizen or resident for the whole year. For this rule to apply, your tax year must have included all 12 months of the year.

You had no tax liability for 2006 if your total tax was zero or you were not required to file an income tax return.

Example. Ray, who is single and 22 years old, was unemployed for most of 2006. He earned \$2,700 in wages before he was laid off, and he received \$2,500 in unemployment compensation afterwards. He had no other income. Even though he had gross income of \$5,200, he did not have to pay income tax because his gross income was less than the filing requirement for a single person under age 65 (\$8,450 for 2006). He filed a return only to have his withheld income tax refunded to him.

In 2007, Ray began regular work as an independent contractor. Ray made no estimated tax payments in 2007. Even though he did owe tax at the end of the year, Ray does not owe the underpayment penalty for 2007 because he had no tax liability in 2006.

Total tax for 2006. For 2006, your total tax on Form 1040 is the amount on line 57 increased by certain other taxes and reduced by certain refundable credits.

Add the total of the following taxes to the amount on Form 1040, line 57.

- Self-employment tax (line 58).
- Tax from recapture of investment credit, low-income housing credit, qualified electric vehicle credit, Indian employment credit, new markets credit, alternative motor vehicle credit, alternative fuel vehicle refueling property credit, or credit for employer-provided childcare facilities (included on line 63).
- Tax on early distributions from (a) an IRA or other qualified retirement plan, (b) an annuity, or (c) a modified endowment contract entered into after June 20, 1988 (included on line 60).
- Tax on distributions from a Coverdell education savings account or a qualified tuition program not used for qualified education expenses (included on line 60).
- Tax on Archer MSA or health savings account distributions not used for qualified medical expenses (included on line 63).
- Section 72(m)(5) excess benefits tax (included on line 63).
- Advance earned income credit payments (line 61).
- Tax on accumulation distribution of trusts (included on line 63).

- Interest due under sections 453(l)(3) and 453A(c) on certain installment sales of property (included on line 63).
- An increase or decrease in tax as a shareholder in a qualified electing fund (included on line 63).
- Tax on electing small business trusts included on Form 1041, Schedule G, line 7 (included on line 63).
- Tax on income not effectively connected with a U.S. trade or business from Form 1040NR, lines 53 and 56 (included on line 63).
- Household employment taxes, including any advance EIC payments made to your employees (line 62). See the Instructions for Form 2210, *Line 2*, for an exception to including this amount.
- Additional tax on income you received from a nonqualified deferred compensation plan that fails to meet certain requirements (included on line 63).

From the total of Form 1040, line 57 and the other taxes listed above, subtract the following refundable credits.

- Earned income credit (line 66a).
- Additional child tax credit (line 68).
- Credit for federal tax paid on fuels (included on line 70).
- Health coverage tax credit (included on line 70).

Your total tax on Form 1040A is the amount on line 37 minus the amount on lines 40a and 41. Your total tax on Form 1040EZ is the amount on line 11 minus the amount on line 8a.

Figuring Your Required Annual Payment (Part I)

Figure your required annual payment in Part I of Form 2210, following the line-by-line instructions. If you rounded the entries on your tax return to whole dollars, you can round on Form 2210.

Example. The tax on Ivy Fields' 2006 return was \$10,000. Her AGI was not more than \$150,000. The tax on her 2007 return (Form 1040, line 44) is \$11,000. She does not claim any credits or pay any other taxes.

For 2007, Ivy had \$1,600 income tax withheld and paid \$6,800 estimated tax. Her total payments were \$8,400. 90% of her 2007 tax is \$9,900. Because she paid less than her 2006 tax (\$10,000) and less than 90% of her 2007 tax, and does not meet an exception, Ivy knows that she owes a penalty for underpayment of estimated tax. The IRS will figure the penalty for Ivy, but she decides to figure it herself on Form 2210 and pay it with her \$2,600 tax balance when she files her tax return.

Ivy's required annual payment is \$9,900 (\$11,000 × 90%) because that is smaller than her 2006 tax.

Figure 4-A on page 56 shows page 1 of Ivy's filled-in Form 2210. Her required annual payment of \$9,900 is shown on line 9.

Different 2006 filing status. If you file a separate return for 2007, but you filed a joint return with your spouse for 2006, see *2006 joint return and 2007 separate returns* on page 49 to figure the amount to enter as your 2006 tax on line 8 of Form 2210.

Short Method for Figuring the Penalty (Part III)

You may be able to use the short method in Part III of Form 2210 to figure your penalty for underpayment of estimated tax. If you qualify to use this method, it will result in the same penalty amount as the regular method. However, either the annualized income installment method or the actual withholding method, explained later, may result in a smaller penalty.

You can use the short method only if you meet one of the following requirements.

- You made no estimated tax payments for 2007 (it does not matter whether you had income tax withholding).
- You paid the same amount of estimated tax on each of the four payment due dates.

If you do not meet either requirement, figure your penalty using the regular method in Form 2210, Part IV.

Note. If any payment was made before the due date, you can use the short method, but the penalty may be less if you use the regular method. If the payment was only a few days early, the difference is likely to be small.

You cannot use the short method if any of the following applies.

- You made any estimated tax payments late.
- You checked box C or D in Part II of Form 2210.
- You are filing Form 1040NR or 1040NR-EZ and you did not receive wages as an employee subject to U.S. income tax withholding.



CAUTION If you use the short method, you cannot use the annualized income installment method to figure your underpayment for each payment period. Also, you cannot use your actual withholding during each period to figure your payments for each period. These methods, which may give you a smaller penalty amount, are explained starting on page 51 under Figuring Your Underpayment (Part IV, Section A).

Completing Part III. Complete Part III of Form 2210 following the line-by-line instructions.

First, figure your total underpayment for the year (line 14) by subtracting the total of your withholding and estimated tax payments (line 13) from your required annual payment (line 10). Then figure the penalty you would owe if the underpayment remained unpaid up to April 15, 2008. This amount (line 15) is the maximum estimated tax penalty on your underpayment.

Next, figure any part of the maximum penalty you do not owe (line 16) because your underpayment was paid before the due date of your return. For example, if you filed your 2007 return and paid the tax balance on April 3, 2008, you do not owe the penalty for the 12-day period from April 4 through April 15. Therefore, you would figure the amount to enter on line 16 using 12 days.

Finally, subtract from the maximum penalty amount (line 15) any part you do not owe (line 16). The result (line 17) is the penalty you owe. Enter that amount on line 77 of Form 1040 or line 47 of Form 1040A. Attach Form 2210 to your return only if you checked one of the boxes in Part II.

Example. Assume the same facts for Ivy Fields as in the previous example on page 50. Ivy paid her estimated tax payments in four installments of \$1,700 (\$6,800 ÷ 4) each on the dates they were due.

Ivy qualifies to use the short method to figure her estimated tax penalty. Using the annualized income installment method or actual withholding will not give her a smaller penalty amount because her income and withholding were distributed evenly throughout the year. Therefore, she figures her penalty in Part III of Form 2210 (see Figure 4-A (*Continued*) on page 57) and leaves Part IV (not shown) blank.

Ivy figures her \$1,500 total underpayment for the year (line 14) by subtracting the total of her withholding and estimated tax payments (\$8,400) from her \$9,900 required annual payment (line 10). The maximum penalty on her underpayment (line 15) is \$76 (\$1,500 × .05057).

Ivy plans to file her return and pay her \$2,600 tax balance on March 14, 2008, 32 days before April 15. Therefore, she does not owe part of the maximum penalty amount. The part she does not owe (line 16) is figured as follows.

$$\$1,500 \times 32 \times .00019 = \$9$$

Ivy subtracts the \$9 from the \$76 maximum penalty and enters the result, \$67, on Form 2210, line 17, and on Form 1040, line 77. She adds \$67 to her \$2,600 tax balance and enters the result, \$2,667 on line 76 of her Form 1040. Ivy files her return on March 14 and attaches a check for \$2,667. Because Ivy did not check any of the boxes in Part II, she does not attach Form 2210 to her tax return.

Regular Method for Figuring the Penalty (Part IV)

You may use the regular method in Part IV of Form 2210 to figure your penalty for underpayment of estimated tax if you paid one or more

estimated tax payments earlier than the due date.

You must use the regular method in Part IV of Form 2210 to figure your penalty for underpayment of estimated tax if any of the following apply to you.

- You paid one or more estimated tax payments on a date after the due date.
- You paid at least one, but less than four, installments of estimated tax.
- You paid estimated tax payments in unequal amounts.
- You use the annualized income installment method to figure your underpayment for each payment period.
- You use your actual withholding during each payment period to figure your payments.

If you use the regular method, figure your underpayment for each payment period in Section A, then figure your penalty for each payment period in Section B.

Figuring Your Underpayment (Part IV, Section A)

Figure your underpayment of estimated tax for each payment period in Section A following the line-by-line instructions. Complete lines 20 through 26 of the first column before going to line 20 of the next column.

Required installments—line 18. Your required payment for each payment period (line 18) is usually one-fourth of your required annual payment (Part I, line 9). However, if you are using the annualized income installment method (described beginning on this page), first complete Schedule AI (Form 2210), and then enter the amounts from line 25 of that schedule on line 18 of Form 2210.

Payments. On line 19, enter in each column the total of:

- Your estimated tax paid after the due date for the previous column and by the due date shown at the top of the column, and
- One-fourth of your withholding.

For special rules for figuring your payments, see the Instructions for Form 2210.

If you file Form 1040, your withholding is the amount on line 64, plus any excess social security or tier 1 RRTA tax withholding on line 67. If you file Form 1040A, your withholding is the amount on line 38 plus any excess social security or tier 1 RRTA tax withholding included in line 42.

Actual withholding method. Instead of using one-fourth of your withholding for each quarter, you can choose to use the amounts actually withheld by each due date. You can make this choice separately for the tax withheld from your wages and for all other withholding. This includes any excess social security and tier 1 RRTA tax withheld.

Using your actual withholding may result in a smaller penalty if most of your withholding occurred early in the year.

If you use your actual withholding, you must check box D in Form 2210, Part II. Then complete Form 2210 and file it with your return.

Regular Installment Method

If you received your income evenly throughout the year, use the regular installment method to figure your estimated tax underpayment for the year.

Example. Ben Brown's 2007 total tax (Form 1040, line 63) is \$7,031, the total of his \$4,685 income tax and \$2,346 self-employment tax. His 2006 AGI was less than \$150,000. He does not owe any other taxes or claim any credits other than for withholding. His 2006 tax was \$6,116. See Figure 4-B on page 58 to see Ben's completed Form 2210, Part I.

Ben's employer withheld \$3,228 income tax during 2007. Ben paid no estimated tax for either the first or second period, but he paid \$1,000 each on August 31, 2007, and January 11, 2008, for the third and fourth periods. Because the total of his withholding and estimated tax payments, \$5,228 (\$3,228 + \$1,000 + \$1,000), was less than both 90% of his 2007 tax (90% × \$7,031 = \$6,328), and 100% of his 2006 tax (\$6,116), Ben knows he owes a penalty for underpayment of estimated tax. He decides to figure the penalty on Form 2210 and pay it with his \$1,803 tax balance (\$7,031 – \$5,228) when he files his tax return on April 15, 2008.

Ben's required annual payment (Part I, line 9) is \$6,116. Because his income and withholding were distributed evenly throughout the year, Ben enters one-fourth of his required annual payment, \$1,529, in each column of line 18 (see Figure 4-B (*Continued*) on page 59). On line 19, he enters one-fourth of his withholding, \$807, in the first two columns and \$1,807 (\$807 plus \$1,000 estimated tax payment) in the last two columns.

Ben has an underpayment (line 25) for each payment period even though his withholding and estimated tax payments for the third and fourth periods were more than his required installments (line 18). This is because the estimated tax payments made in the third and fourth periods are first applied to underpayments for the earlier periods.

Annualized Income Installment Method (Schedule AI)

If you did not receive your income evenly throughout the year (for example, your income from a repair shop you operated was much larger in the summer than it was during the rest of the year), you may be able to lower or eliminate your penalty by figuring your underpayment using the annualized income installment method. Under this method, your required installment (line 18) for one or more payment periods may be less than one-fourth of your required annual payment.

To figure your underpayment using this method, complete Schedule AI of Form 2210 (see Figure 4-C on page 60 for an example). The schedule annualizes your tax at the end of each payment period based on your income, deductions, and other items relating to events

that occurred since the beginning of the tax year through the end of the period.

If you use the annualized income installment method, you must check box C in Part II of Form 2210. You also must attach Form 2210 and Schedule AI to your return.



If you use Schedule AI for any payment due date, you must use it for all payment due dates.

Completing Schedule AI. Follow the Form 2210 instructions to complete Schedule AI. For each period shown on Schedule AI, figure your income and deductions based on your method of accounting. If you use the cash method of accounting (used by most people), include all income actually or constructively received during the period and all deductions actually paid during the period.

Note. Each period includes amounts from the previous period(s).

- Period (a) includes items for January 1 through March 31.
- Period (b) includes items for January 1 through May 31.
- Period (c) includes items for January 1 through August 31.
- Period (d) includes items for the entire year.

Example. Laura Maple files as head of household with two exemptions. Her 2007 total tax (Form 1040, line 63) is \$3,980, the total of her \$1,634 income tax and \$2,346 self-employment tax. Laura also has an earned income credit (EIC) of \$450, and her current year tax is \$3,530 (\$3,980 less the \$450 EIC). She does not owe any other taxes. Her 2006 AGI was less than \$150,000. Her 2006 tax was \$4,032. Her required annual payment on Form 2210, Part I, line 9, is \$3,177 (the smaller of her \$4,032 tax for 2006 or 90% of her \$3,530 current year tax after credits for 2007).

Laura's employer withheld \$1,500 income tax during 2007. Laura paid no estimated tax for either the first or second period, but she paid \$100 on August 15, 2007, and \$500 on December 3, 2007, for the third and fourth periods.

Laura did not receive her income evenly throughout the year. Therefore, she decides to figure her required installment for each period (Part IV, line 18) using the annualized income installment method. To use this method, Laura completes Schedule AI before starting Part IV. Figure 4-C, beginning on page 60, shows Laura's filled-in Schedule AI and Part IV, Section A.

Laura's wages during 2007 were \$15,000 (\$1,250 a month). Her net earnings from a business she started during the year were \$16,600, received as follows.

April through May	\$3,600
June through August	5,000
September through December	8,000

Self-employment tax and deduction. Before Laura can figure her AGI for each period (Schedule AI, line 1), she must figure her deduction for self-employment tax for each period. To do this, she first completes Schedule AI, Part II, (see Figure 4-C on page 60).

Laura had no self-employment income for the first period, so she leaves the lines in that column blank. Her self-employment income was \$3,600 for the second period, \$8,600 (\$3,600 + \$5,000) for the third period, and \$16,600 (\$8,600 + \$8,000) for the fourth period. She multiplies each amount by 92.35% (.9235) to find the amounts to enter on line 26. She then fills out the rest of Part II. See Figure 4-C on page 60.

Laura figures the deduction for one-half of the self-employment tax by dividing the amounts on line 34 by the annualization amounts for each period. The annualization amounts are:

- 8 for the first period,
- 4.8 for the second period,
- 3 for the third period, and
- 2 for the fourth period.

Line 1—AGI. Laura figures the amounts to enter on Schedule AI, line 1, as follows.

Column (a)—1/1/07 to 3/31/07:
\$1,250 per month × 3 months \$ 3,750

Column (b)—1/1/07 to 5/31/07:
\$1,250 per month × 5 months \$6,250
Plus: Self-employment income through 5/31/07 3,600
Less: Self-employment tax deduction (\$1,221 ÷ 4.8) (254)
\$9,596

Column (c)—1/1/07 to 8/31/07:
\$1,250 per month × 8 months \$10,000
Plus: Self-employment income through 8/31/07 8,600
Less: Self-employment tax deduction (\$1,822 ÷ 3) (607)
\$17,993

Column (d)—1/1/07 to 12/31/07:
\$1,250 per month × 12 months \$15,000
Plus: Self-employment income through 12/31/07 16,600
Less: Self-employment tax deduction (\$2,346 ÷ 2) (1,173)
\$30,427

Line 4—Itemized deductions. Laura had \$9,000 in itemized deductions for 2007—\$200 per month withheld for state and local taxes, and \$550 per month for mortgage interest—for a total of \$750 each month. She divided them by period in the following manner.

- 1st period: \$2,250 (\$750 × 3 months).
- 2nd period: \$3,750 (\$750 × 5 months).
- 3rd period: \$6,000 (\$750 × 8 months).
- 4th period: \$9,000 (\$750 × 12 months).

She enters each amount on line 4 in the proper column for that period.

Now that Laura has figured her entries for lines 1 and 4, she can complete the rest of Schedule AI to determine the amounts to put on Form 2210, Part IV, line 18. Laura figures her EIC on Schedule AI, line 16, for each period using her annualized earned income for that period. Figure 4-C on page 60 shows her completed Parts I and II.

Underpayment. Laura then figures her underpayment in Part IV, Section A (see Figure 4-C (Continued) on page 61). She finds that she

overpaid her estimated tax for the first two payment periods, but underpaid her estimated tax for the last two payment periods.

Figuring Your Penalty (Part IV, Section B)

Figure the amount of your penalty in Section B following the instructions. The penalty is imposed on each underpayment shown on Section A, line 25, for the number of days that it remained unpaid. (You may find it helpful to show the date of payment beside each amount on line 25.)

For 2007, there are two rate periods to figure the penalty. Use *Rate Period 1* (lines 27 and 28) to apply the 8% rate in effect between April 16, 2007, and December 31, 2007. Use *Rate Period 2* (lines 29 and 30) to apply the 7% rate in effect between January 1, 2008, and April 15, 2008.

Aid for counting days. Table 4-1 (see page 53) provides a simple method for counting the number of days between payment dates or between a due date and a payment date.

1. Find the number for the date the payment was due by going across to the column of the month the payment was due and moving down the column to the due date.
2. In the same manner, find the number for the date the payment was made.
3. Subtract the due date "number" from the payment date "number."

For example, if a payment was due on June 15 (61), but was not paid until November 4 (203), the payment was 142 (203 – 61) days late.

Payments. Before completing Section B, make a list of the payments you made after the due date (or the last day payments could be made on time) for the earliest payment period an underpayment occurred. For example, if you had an underpayment for the first payment period, list your payments after April 15, 2007. You can use the tables in the Form 2210 instructions to make your list. Follow those instructions for listing income tax withheld and payments made with your return. Use the list to determine when each underpayment was paid.

Underpayment paid in two or more parts. If an underpayment was paid in two or more parts on different dates, you must figure the penalty separately for each part. You may find it helpful to show the underpayment on Section A, line 25, broken down into the amounts paid on different dates. See lines 29 and 30 of Figure 4-B (Continued) on page 59 for an example of this.

Figuring the penalty. For each underpayment on line 25, columns (a)–(d), figure the penalty by:

1. Determining the date(s) an underpayment was paid,
2. Determining the number of days between the due date and the payment date(s), and
3. Multiplying the amount of underpayment by the number of days unpaid and the appropriate penalty rate.

If an underpayment remained unpaid for more than one rate period, the penalty on that

Table 4-1. **Calendar To Determine the Number of Days a Payment Is Late**

Instructions. Use this table with Form 2210 if you are completing Part IV, Section B. First, find the number for the payment due date by going across to the column of the month the payment was due and moving down the column to the due date. Then, in the same manner, find the number for the date the payment was made. Finally, subtract the due date number from the payment date number. The result is the number of days the payment is late.

Example. The payment due date is June 15 (61). The payment was made on November 4 (203). The payment is 142 days late (203 – 61).

Day of Month	Tax Year 2007												
	2007 April	2007 May	2007 June	2007 July	2007 Aug.	2007 Sept.	2007 Oct.	2007 Nov.	2007 Dec.	2008 Jan.	2008 Feb.	2008 Mar.	2008 Apr.
1		16	47	77	108	139	169	200	230	261	292	321	352
2		17	48	78	109	140	170	201	231	262	293	322	353
3		18	49	79	110	141	171	202	232	263	294	323	354
4		19	50	80	111	142	172	203	233	264	295	324	355
5		20	51	81	112	143	173	204	234	265	296	325	356
6		21	52	82	113	144	174	205	235	266	297	326	357
7		22	53	83	114	145	175	206	236	267	298	327	358
8		23	54	84	115	146	176	207	237	268	299	328	359
9		24	55	85	116	147	177	208	238	269	300	329	360
10		25	56	86	117	148	178	209	239	270	301	330	361
11		26	57	87	118	149	179	210	240	271	302	331	362
12		27	58	88	119	150	180	211	241	272	303	332	363
13		28	59	89	120	151	181	212	242	273	304	333	364
14		29	60	90	121	152	182	213	243	274	305	334	365
15	0	30	61	91	122	153	183	214	244	275	306	335	366
16	1	31	62	92	123	154	184	215	245	276	307	336	
17	2	32	63	93	124	155	185	216	246	277	308	337	
18	3	33	64	94	125	156	186	217	247	278	309	338	
19	4	34	65	95	126	157	187	218	248	279	310	339	
20	5	35	66	96	127	158	188	219	249	280	311	340	
21	6	36	67	97	128	159	189	220	250	281	312	341	
22	7	37	68	98	129	160	190	221	251	282	313	342	
23	8	38	69	99	130	161	191	222	252	283	314	343	
24	9	39	70	100	131	162	192	223	253	284	315	344	
25	10	40	71	101	132	163	193	224	254	285	316	345	
26	11	41	72	102	133	164	194	225	255	286	317	346	
27	12	42	73	103	134	165	195	226	256	287	318	347	
28	13	43	74	104	135	166	196	227	257	288	319	348	
29	14	44	75	105	136	167	197	228	258	289	320	349	
30	15	45	76	106	137	168	198	229	259	290		350	
31		46		107	138		199		260	291		351	

underpayment will be figured using more than one rate.

Use lines 27 and 29 to figure the number of days the underpayment remained unpaid. (Also see Table 4-1.) Use lines 28 and 30 to figure the actual penalty amount by applying the rate against the underpayment for the number of days it remained unpaid.

If an underpayment remained unpaid for the entire period, use Table 4-2 to determine the number of days to enter for each period.

Table 4-2. Chart of Total Days

	Column (a)	Column (b)	Column (c)	Column (d)
line 27	260	199	107	NA
line 29	106	106	106	91

To figure the total penalty, add the amounts on lines 28 and 30 in all columns. Enter the total on line 31.

Example 1. In the previous example for Ben Brown (see *Regular Installment Method* on page 51), he determined that he had an underpayment for all four payment periods. See Ben's completed Section A in Figure 4-B (*Continued*) on page 59.

Ben's 2007 tax is \$7,031. His minimum required payment for each period is \$1,529 (\$6,116 ÷ 4). His \$3,228 withholding is considered paid in four equal installments of \$807, one on each payment due date. Therefore, he must make estimated tax payments of \$722 (\$1,529 – \$807) each period. However, Ben made only two estimated tax payments—\$1,000 on August 31, 2007, and \$1,000 on January 11, 2008. He plans to file his return and pay his balance due on April 15, 2008. He is considered to have made the following payments for tax year 2007.

April 15, 2007 ¹	\$ 807
June 15, 2007 ¹	807
August 31, 2007 ²	1,000
September 15, 2007 ¹	807
January 11, 2008 ²	1,000
January 15, 2008 ¹	807

¹ One-fourth of withholding
² Estimated tax payment

Penalty for first payment period (April 15, 2007)—column (a). Ben's \$722 underpayment for the first payment period was paid by applying \$722 of his \$807 payment on June 15, 2007. The \$722 remained unpaid 61 days (April 16 through June 15, 2007). Ben enters "61" on line 27 and figures this part of the penalty on line 28 ($\$722 \times (61 \div 365) \times .08 = \9.65). See his completed Section B in Figure 4-B (*Continued*) on page 59.

Penalty for second payment period (June 15, 2007)—column (b). Ben figures his second period underpayment as follows.

1. Of the \$807 he paid for the second period, \$722 is applied to the underpayment remaining from the first period.
2. That leaves \$85 (\$807 – \$722) to apply to his second period required installment of \$1,529.
3. The result, \$1,444 (\$1,529 – \$85), is Ben's underpayment for the second period.

The \$1,444 underpayment is paid in two parts by applying the \$1,000 paid on August 31 and \$444 of his \$807 September 15 payment. To help him figure his penalty, Ben shows each part of the underpayment paid on different dates on line 25.

\$1,000 of the underpayment remained unpaid for 77 days (June 16 through August 31) and \$444 remained unpaid for 92 days (June 16 through September 15). Ben enters "77" and "92" on line 27, column (b). He shows the result of both penalty computations on line 28 (see Figure 4-B (*Continued*) on page 59).

Penalty for third payment period (September 15, 2007)—column (c). Ben figures his third period underpayment as follows.

1. Of the \$1,807 he paid for the third period, \$1,444 is applied to the underpayment remaining from the second period.
2. That leaves \$363 (\$1,807 – \$1,444) to apply to his third period required installment of \$1,529.
3. The result, \$1,166 (\$1,529 – \$363), is Ben's underpayment for the third period.

The \$1,166 underpayment is paid in two parts by applying his \$1,000 payment on January 11, 2008, and \$166 of his \$807 payment on January 15. On line 25, Ben shows each part of the underpayment paid on different dates.

For **Rate Period 1**, the entire underpayment (\$1,166) remained unpaid 107 days (September 16 through December 31). Ben enters "107" on line 27. He shows the result of the penalty computation on line 28 (see Figure 4-B (*Continued*) on page 59).

For **Rate Period 2**, \$1,000 of the underpayment remained unpaid for 11 days (January 1 through January 11) and \$166 remained unpaid for 15 days (January 11 through January 15). Ben enters "11" and "15" on line 29. He shows the result of both penalty computations on line 30 (see Figure 4-B (*Continued*) on page 59).

Penalty for fourth payment period (January 15, 2008)—column (d). Ben figures his fourth period underpayment as follows.

1. Of the \$1,807 he paid for the fourth period, \$1,166 is applied to the underpayment remaining from the third period.
2. That leaves \$641 (\$1,807 – \$1,166) to apply to his fourth period required installment of \$1,529.
3. The result, \$888 (\$1,529 – \$641) is Ben's underpayment for the fourth period.

The \$888 underpayment was paid April 15, 2008, with his tax return. The \$888 remained unpaid 91 days (January 16 through April 15, 2008). Ben enters that number on line 29 and shows the result of the penalty computation on line 30 (see Figure 4-B (*Continued*) on page 59).

Total penalty. Ben's total penalty for 2007 on line 31 is \$80.87, the total of all amounts on lines 28 and 30 in all columns. Ben enters that amount on line 77 of his Form 1040. He also adds \$81 to his \$1,803 tax balance and enters the \$1,884 total on line 76. He files his return on April 15 and includes a check for \$1,884. He keeps his completed Form 2210 for his records.

Example 2. In the previous example for Laura Maple (under *Completing Schedule AI* on page 52), her first underpayment was for the third payment period. See Laura's completed Section A in Figure 4-C (*Continued*) on page 61.

This example illustrates completion of Part IV, Section B, of Laura's Form 2210 under the annualized income installment method.

Laura made the following payments for tax year 2007.

April 15, 2007 ¹	\$ 375
June 15, 2007 ¹	375
August 15, 2007 ²	100
September 15, 2007 ¹	375
December 3, 2007 ²	500
January 15, 2008 ¹	375

¹ One-fourth of withholding
² Estimated tax payment

Penalty for third payment period—column (c). Laura's underpayment of \$84 is paid by applying \$84 of the \$500 paid on December 3, 2007. The underpayment remained unpaid 79 days (September 16 through December 3). Laura enters "79" on line 27 and shows the result of her penalty computation on line 28. See Figure 4-C (*Continued*) on page 61.

Penalty for fourth payment period—column (d). Laura's \$1,076 underpayment for the fourth payment period was paid on April 15, 2008, with her tax return. The entire amount remained unpaid 91 days (January 16 through April 15, 2008). Laura enters that number on line 29. She shows the result of the penalty computation on line 30 (see Figure 4-C (*Continued*) on page 61).

Total penalty. Laura's total penalty for 2007 on line 31 is \$20.18, the total of all amounts on lines 28 and 30 in all columns. Laura enters that amount on line 77 of her Form 1040. She also adds \$20 to her \$1,430 tax balance and enters the \$1,450 total on line 76. She files her return on April 15 and includes a check for \$1,450. Because she used the annualized income installment method, she must attach Form 2210, including Schedule AI, to her return and check box C in Part II.

Farmers and Fishermen

If you are a farmer or fisherman, the following special rules for underpayment of estimated tax apply to you.

1. The penalty for underpaying your 2007 estimated tax will not apply if you file your return and pay all the tax due by March 3, 2008. If you are a fiscal year taxpayer, the penalty will not apply if you file your return and pay the tax due by the first day of the third month after the end of your tax year.
2. Any penalty you owe for underpaying your 2007 estimated tax will be figured from one payment due date, January 15, 2008.

3. The underpayment penalty for 2007 is figured on the difference between the amount of 2007 withholding plus estimated tax paid by the due date and the smaller of:
 - a. 66⅔% (rather than 90%) of your 2007 tax, or
 - b. 100% of the tax shown on your 2006 return.

Even if these special rules apply to you, you will not owe the penalty if you meet either of the two conditions discussed on page 49 under *Exceptions*.

See *Who Must Pay Estimated Tax* in chapter 2 for the definition of a farmer or fisherman who is eligible for these special rules.

Form 2210-F. Use Form 2210-F to figure any underpayment penalty. Do not attach it to your return unless you check box 1a or box 1b. However, if neither box applies to you and you owe a penalty, you do not need to complete Form 2210-F. The IRS can figure your penalty and send you a bill.

Waiver of Penalty

The IRS can waive the penalty for underpayment if either of the following applies.

1. You did not make a payment because of a casualty, disaster, or other unusual circumstance and it would be inequitable to impose the penalty.
2. You retired (after reaching age 62) or became disabled in 2006 or 2007 and both the following requirements are met.
 - a. You had a reasonable cause for not making the payment.

- b. Your underpayment was not due to willful neglect.

How to request a waiver. To request a waiver, complete Form 2210 as follows.

1. Check box A or B in Part II.
2. If you checked box A, complete only page 1 of Form 2210.
3. If you checked box B:
 - a. Complete line 1 through line 16 (or lines 1 through 9 and 18 through 30 if you use the regular method) without regard to the waiver.
 - b. Write the amount you want waived in parentheses on the dotted line next to line 17 (line 31 for the regular method).
 - c. Subtract this amount from the total penalty you figured without regard to the waiver. Enter the result on line 17 (line 31 for the regular method).
4. Attach Form 2210 and a statement to your return explaining the reasons you were unable to meet the estimated tax requirements and the time period for which you are requesting a waiver.
5. If you are requesting a penalty waiver due to retirement or disability, attach documentation that shows your retirement date (and your age on that date) or the date you became disabled.
6. If you are requesting a penalty waiver due to a casualty, disaster, or other unusual circumstance, attach documentation such as police and insurance company reports.

The IRS will review the information you provide and will decide whether or not to grant your request for a waiver.

Farmers and fishermen. To request a waiver, you must complete Form 2210-F as follows.

1. Check box 1a in Part I.
2. Complete line 2 through line 20 without regard to the waiver.
3. Write the amount you want waived in parentheses on the dotted line next to line 21.
4. Subtract this amount from the total penalty you figured without regard to the waiver. Enter the result on line 21.
5. Attach Form 2210-F and a statement to your return explaining the reasons you were unable to meet the estimated tax requirements.
6. If you are requesting a penalty waiver due to retirement or disability, attach documentation that shows your retirement date (and your age on that date) or the date you became disabled.
7. If you are requesting a penalty waiver due to a casualty, disaster, or other unusual circumstance, attach documentation such as police and insurance company reports.

The IRS will review the information you provide and will decide whether or not to grant your request for a waiver.

Figure 4-A. Form 2210—Illustrated (Ivy Fields)

Form **2210**Department of the Treasury
Internal Revenue Service**Underpayment of
Estimated Tax by Individuals, Estates, and Trusts**

▶ See separate instructions.

▶ Attach to Form 1040, 1040A, 1040NR, 1040NR-EZ, or 1041.

OMB No. 1545-0140

2007Attachment
Sequence No. **06**

Name(s) shown on tax return

Ivy Fields

Identifying number

222-00-2222

Do You Have To File Form 2210?

Complete lines 1 through 7 below. Is line 7 less than \$1,000?	Yes	Do not file Form 2210. You do not owe a penalty.
No		
Complete lines 8 and 9 below. Is line 6 equal to or more than line 9?	Yes	You do not owe a penalty. Do not file Form 2210 (but if box E below applies, you must file page 1 of Form 2210).
No		
You may owe a penalty. Does any box in Part II below apply?	Yes	You must file Form 2210. Does box B , C , or D apply?
No		
	No	You are not required to figure your penalty because the IRS will figure it and send you a bill for any unpaid amount. If you want to figure it, you may use Part III or Part IV as a worksheet and enter your penalty amount on your tax return, but do not file Form 2210 .
	Yes	You must figure your penalty.
		You are not required to figure your penalty because the IRS will figure it and send you a bill for any unpaid amount. If you want to figure it, you may use Part III or Part IV as a worksheet and enter your penalty amount on your tax return, but file only page 1 of Form 2210 .

Part I Required Annual Payment

1	Enter your 2007 tax after credits from Form 1040, line 57 (or comparable line of your return)	1	11,000	
2	Other taxes, including self-employment tax (see page 2 of the instructions)	2		
3	Refundable credits. Enter the total of your earned income credit, additional child tax credit, credit for federal tax paid on fuels, health coverage tax credit, and refundable credit for prior year minimum tax	3	(	)
4	Current year tax. Combine lines 1, 2, and 3. If less than \$1,000, you do not owe a penalty; do not file Form 2210	4	11,000	
5	Multiply line 4 by 90% (.90)	5	9,900	
6	Withholding taxes. Do not include estimated tax payments. (see page 2 of the instructions)	6	1,600	
7	Subtract line 6 from line 4. If less than \$1,000, you do not owe a penalty; do not file Form 2210	7	9,400	
8	Maximum required annual payment based on prior year's tax (see page 2 of the instructions)	8	10,000	
9	Required annual payment. Enter the smaller of line 5 or line 8	9	9,900	

Next: Is line 9 more than line 6?

☐ **No.** You **do not** owe a penalty. **Do not file Form 2210** unless box **E** below applies.☒ **Yes.** You may owe a penalty, but **do not file Form 2210** unless one or more boxes in Part II below applies.• If box **B**, **C**, or **D** applies, you must figure your penalty and file Form 2210.• If only box **A** or **E** (or both) applies, file only page 1 of Form 2210. You are **not** required to figure your penalty; the IRS will figure it and send you a bill for any unpaid amount. If you want to figure your penalty, you may use Part III or IV as a worksheet and enter your penalty on your tax return, but **file only page 1 of Form 2210**.**Part II Reasons for Filing.** Check applicable boxes. If none apply, **do not file Form 2210**.

- A** ☐ You request a **waiver** (see page 1 of the instructions) of your entire penalty. You must check this box and file page 1 of Form 2210, but you are not required to figure your penalty.
- B** ☐ You request a **waiver** (see page 1 of the instructions) of part of your penalty. You must figure your penalty and waiver amount and file Form 2210.
- C** ☐ Your income varied during the year and your penalty is reduced or eliminated when figured using the **annualized income installment method**. You must figure the penalty using Schedule AI and file Form 2210.
- D** ☐ Your penalty is lower when figured by treating the federal income tax withheld from your income as paid on the dates it was actually withheld, instead of in equal amounts on the payment due dates. You must figure your penalty and file Form 2210.
- E** ☐ You filed or are filing a joint return for either 2006 or 2007, but not for both years, and line 8 above is smaller than line 5 above. You must file page 1 of Form 2210, but you are **not** required to figure your penalty (unless box **B**, **C**, or **D** applies).

For Paperwork Reduction Act Notice, see page 6 of separate instructions.

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Form **2210** (2007)

Figure 4-A. Form 2210—Illustrated (Ivy Fields) (Continued)

Form 2210 (2007)

Page **2**

Part III Short Method

You may use the short method if:

- You made no estimated tax payments (or your only payments were withheld federal income tax), **or**
- You paid the same amount of estimated tax on each of the four payment due dates.



You do not need to file Form 2210 unless you checked a box in Part II on page 1.

You must use the regular method (Part IV) instead of the short method if:

- You made any estimated tax payments late,
- You checked box **C** or **D** in Part II, **or**
- You are filing Form 1040NR or 1040NR-EZ and you did not receive wages as an employee subject to U.S. income tax withholding.

Note: *If any payment was made earlier than the due date, you may use the short method, but using it may cause you to pay a larger penalty than the regular method. If the payment was only a few days early, the difference is likely to be small.*

10	Enter the amount from Form 2210, line 9	10	9,900
11	Enter the amount, if any, from Form 2210, line 6	11	1,600
12	Enter the total amount, if any, of estimated tax payments you made	12	6,800
13	Add lines 11 and 12	13	8,400
14	Total underpayment for year. Subtract line 13 from line 10. If zero or less, stop here; you do not owe the penalty. Do not file Form 2210 unless you checked box E on page 1	14	1,500
15	Multiply line 14 by .05057	15	76
16	• If the amount on line 14 was paid on or after 4/15/08, enter -0-. • If the amount on line 14 was paid before 4/15/08, make the following computation to find the amount to enter on line 16. Amount on line 14 × Number of days paid before 4/15/08 × .00019 	16	9
17	Penalty. Subtract line 16 from line 15. Enter the result here and on Form 1040, line 77; Form 1040A, line 47; Form 1040NR, line 75; Form 1040NR-EZ, line 26; or Form 1041, line 26 . . . ▶	17	67

Form **2210** (2007)

Figure 4-B. Regular Installment Method—Illustrated (Ben Brown)

Form 2210 Department of the Treasury Internal Revenue Service	Underpayment of Estimated Tax by Individuals, Estates, and Trusts ▶ See separate instructions. ▶ Attach to Form 1040, 1040A, 1040NR, 1040NR-EZ, or 1041.	OMB No. 1545-0140 2007 Attachment Sequence No. 06
Name(s) shown on tax return Ben Brown		Identifying number 333 - 00 - 3333

Do You Have To File Form 2210?

Complete lines 1 through 7 below. Is line 7 less than \$1,000?

Yes → **Do not file Form 2210.** You do not owe a penalty.

No ↓

Complete lines 8 and 9 below. Is line 6 equal to or more than line 9?

Yes → You do not owe a penalty. **Do not file Form 2210** (but if box **E** below applies, you must file page 1 of Form 2210).

No ↓

You may owe a penalty. Does any box in Part II below apply?

Yes → You **must** file Form 2210. Does box **B**, **C**, or **D** apply?

No ↓

No → You must figure your penalty.
 Yes → You are **not** required to figure your penalty because the IRS will figure it and send you a bill for any unpaid amount. If you want to figure it, you may use Part III or Part IV as a worksheet and enter your penalty amount on your tax return, but **file only page 1 of Form 2210**.

Do not file Form 2210. You are not required to figure your penalty because the IRS will figure it and send you a bill for any unpaid amount. If you want to figure it, you may use Part III or Part IV as a worksheet and enter your penalty amount on your tax return, but **do not file Form 2210**.

Part I Required Annual Payment

1 Enter your 2007 tax after credits from Form 1040, line 57 (or comparable line of your return).	1	4,685	
2 Other taxes, including self-employment tax (see page 2 of the instructions)	2	2,346	
3 Refundable credits. Enter the total of your earned income credit, additional child tax credit, credit for federal tax paid on fuels, health coverage tax credit, and refundable credit for prior year minimum tax	3		
4 Current year tax. Combine lines 1, 2, and 3. If less than \$1,000, you do not owe a penalty; do not file Form 2210	4	7,031	
5 Multiply line 4 by 90% (.90)	5	6,328	
6 Withholding taxes. Do not include estimated tax payments. (see page 2 of the instructions)	6	3,228	
7 Subtract line 6 from line 4. If less than \$1,000, you do not owe a penalty; do not file Form 2210	7	3,803	
8 Maximum required annual payment based on prior year's tax (see page 2 of the instructions)	8	6,116	
9 Required annual payment. Enter the smaller of line 5 or line 8	9	6,116	

Next: Is line 9 more than line 6?

- ☐ **No.** You **do not** owe a penalty. **Do not file Form 2210** unless box **E** below applies.
- ☒ **Yes.** You may owe a penalty, but **do not file Form 2210** unless one or more boxes in Part II below applies.
- If box **B**, **C**, or **D** applies, you must figure your penalty and file Form 2210.
 - If only box **A** or **E** (or both) applies, file only page 1 of Form 2210. You are **not** required to figure your penalty; the IRS will figure it and send you a bill for any unpaid amount. If you want to figure your penalty, you may use Part III or IV as a worksheet and enter your penalty on your tax return, but **file only page 1 of Form 2210**.

Part II Reasons for Filing. Check applicable boxes. If none apply, **do not file Form 2210**.

- A** ☐ You request a **waiver** (see page 1 of the instructions) of your entire penalty. You must check this box and file page 1 of Form 2210, but you are not required to figure your penalty.
- B** ☐ You request a **waiver** (see page 1 of the instructions) of part of your penalty. You must figure your penalty and waiver amount and file Form 2210.
- C** ☐ Your income varied during the year and your penalty is reduced or eliminated when figured using the **annualized income installment method**. You must figure the penalty using Schedule AI and file Form 2210.
- D** ☐ Your penalty is lower when figured by treating the federal income tax withheld from your income as paid on the dates it was actually withheld, instead of in equal amounts on the payment due dates. You must figure your penalty and file Form 2210.
- E** ☐ You filed or are filing a joint return for either 2006 or 2007, but not for both years, and line 8 above is smaller than line 5 above. You must file page 1 of Form 2210, but you are **not** required to figure your penalty (unless box **B**, **C**, or **D** applies).

For Paperwork Reduction Act Notice, see page 6 of separate instructions.

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Form **2210** (2007)

Figure 4-B. Regular Installment Method—Illustrated (Ben Brown) (Continued)

Form 2210 (2007)

Page **3**

Part IV Regular Method (See page 2 of the instructions if you are filing Form 1040NR or 1040NR-EZ.)

Section A—Figure Your Underpayment		Payment Due Dates				
		(a) 4/15/07	(b) 6/15/07	(c) 9/15/07	(d) 1/15/08	
18	Required installments. If box C in Part II applies, enter the amounts from Schedule AI, line 25. Otherwise, enter 25% (.25) of line 9, Form 2210, in each column	18	1,529	1,529	1,529	1,529
19	Estimated tax paid and tax withheld (see page 2 of the instructions). For column (a) only, also enter the amount from line 19 on line 23. If line 19 is equal to or more than line 18 for all payment periods, stop here; you do not owe a penalty. Do not file Form 2210 unless you checked a box in Part II Complete lines 20 through 26 of one column before going to line 20 of the next column.	19	807	807	807 +1,000 1,807	807 +1,000 1,807
20	Enter the amount, if any, from line 26 in the previous column	20				
21	Add lines 19 and 20	21		807	1,807	1,807
22	Add the amounts on lines 24 and 25 in the previous column	22		722	1,444	1,166
23	Subtract line 22 from line 21. If zero or less, enter -0-. For column (a) only, enter the amount from line 19	23	807	85	363	641
24	If line 23 is zero, subtract line 21 from line 22. Otherwise, enter -0-	24		0	0	
25	Underpayment. If line 18 is equal to or more than line 23, subtract line 23 from line 18. Then go to line 20 of the next column. Otherwise, go to line 26 ▶	25	722	8/31 9/15 1,000 444 1,444	1/11 1/15 1,000 166 1,166	888
26	Overpayment. If line 23 is more than line 18, subtract line 18 from line 23. Then go to line 20 of the next column	26				

Section B—Figure the Penalty (Complete lines 27 through 30 of one column before going to the next column.)

Rate Period 1		April 16, 2007—December 31, 2007			
		4/15/07	6/15/07	9/15/07	
27	Number of days from the date shown above line 27 to the date the amount on line 25 was paid or 12/31/07, whichever is earlier	Days: 61	Days: (8/31) 77 (9/15) 92	Days: 107	
28	Underpayment on line 25 (see page 3 of the instructions) × $\frac{\text{Number of days on line 27}}{365} \times .08$ ▶	\$ 9.65	\$ 16.88 8.95	\$ 27.35	
Rate Period 2		January 1, 2008—April 15, 2008			
		12/31/07	12/31/07	12/31/07	1/15/08
29	Number of days from the date shown above line 29 to the date the amount on line 25 was paid or 4/15/08, whichever is earlier	Days:	Days:	Days: 11 15	Days: 91
30	Underpayment on line 25 (see page 4 of the instructions) × $\frac{\text{Number of days on line 29}}{366} \times .07$ ▶	\$	\$	\$ 2.10 .48	\$ 15.46
31	Penalty. Add all amounts on lines 28 and 30 in all columns. Enter the total here and on Form 1040, line 77; Form 1040A, line 47; Form 1040NR, line 75; Form 1040NR-EZ, line 26; or Form 1041, line 26; but do not file Form 2210 unless you checked a box in Part II ▶				31 \$ 80.87

Form **2210** (2007)

Figure 4-C. Annualized Income Installment Method—Illustrated (Laura Maple)

Form 2210 (2007)

Page 4

Schedule AI—Annualized Income Installment Method (See pages 4, 5, and 6 of the instructions.)

Estates and trusts, **do not** use the period ending dates shown to the right. Instead, use the following: 2/28/07, 4/30/07, 7/31/07, and 11/30/07.

Part I Annualized Income Installments

	(a) 1/1/07–3/31/07	(b) 1/1/07–5/31/07	(c) 1/1/07–8/31/07	(d) 1/1/07–12/31/07
1 Enter your adjusted gross income for each period (see instructions). (Estates and trusts, enter your taxable income without your exemption for each period.)	1 3,750	9,596	17,993	30,427
2 Annualization amounts. (Estates and trusts, see instructions.)	2 4	2.4	1.5	1
3 Annualized income. Multiply line 1 by line 2	3 15,000	23,030	26,990	30,427
4 Enter your itemized deductions for the period shown in each column. If you do not itemize, enter -0- and skip to line 7. (Estates and trusts, enter -0-, skip to line 9, and enter the amount from line 3 on line 9.)	4 2,250	3,750	6,000	9,000
5 Annualization amounts	5 4	2.4	1.5	1
6 Multiply line 4 by line 5 (see instructions if line 3 is more than \$78,200)	6 9,000	9,000	9,000	9,000
7 In each column, enter the full amount of your standard deduction from Form 1040, line 40, or Form 1040A, line 24 (Form 1040NR or 1040NR-EZ filers, enter -0-. Exception: Indian students and business apprentices, enter standard deduction from Form 1040NR, line 37, or Form 1040NR-EZ, line 11.)	7 7,850	7,850	7,850	7,850
8 Enter the larger of line 6 or line 7	8 9,000	9,000	9,000	9,000
9 Subtract line 8 from line 3	9 6,000	14,030	17,990	21,427
10 In each column, multiply \$3,400 by the total number of exemptions claimed (see instructions if line 3 is more than \$117,300). (Estates and trusts and Form 1040NR or 1040NR-EZ filers, enter the exemption amount shown on your tax return.)	10 6,800	6,800	6,800	6,800
11 Subtract line 10 from line 9	11 0	7,230	11,190	14,627
12 Figure your tax on the amount on line 11 (see instructions)	12	723	1,118	1,634
13 Self-employment tax from line 34 below (complete Part II)	13	1,221	1,822	2,346
14 Enter other taxes for each payment period (see instructions)	14			
15 Total tax. Add lines 12, 13, and 14	15	1,944	2,940	3,980
16 For each period, enter the same type of credits as allowed on Form 2210, lines 1 and 3 (see instructions)	16 2,853	1,633	1,001	450
17 Subtract line 16 from line 15. If zero or less, enter -0-	17 0	311	1,939	3,530
18 Applicable percentage	18 22.5%	45%	67.5%	90%
19 Multiply line 17 by line 18	19 0	140	1,309	3,117
Complete lines 20–25 of one column before going to line 20 of the next column.				
20 Enter the total of the amounts in all previous columns of line 25	20	0	140	1,309
21 Subtract line 20 from line 19. If zero or less, enter -0-	21 0	140	1,169	1,868
22 Enter 25% (.25) of line 9 on page 1 of Form 2210 in each column	22 794	794	794	794
23 Subtract line 25 of the previous column from line 24 of that column	23	794	1,448	1,073
24 Add lines 22 and 23	24 794	1,588	2,242	1,867
25 Enter the smaller of line 21 or line 24 here and on Form 2210, line 18 ▶	25 0	140	1,169	1,867

Part II Annualized Self-Employment Tax (Form 1040 filers only)

26 Net earnings from self-employment for the period (see instructions)	26	3,325	7,942	15,330
27 Prorated social security tax limit	27 \$24,375	\$40,625	\$65,000	\$97,500
28 Enter actual wages for the period subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax	28	6,250	10,000	15,000
29 Subtract line 28 from line 27. If zero or less, enter -0-	29	34,375	55,000	82,500
30 Annualization amounts	30 0.496	0.2976	0.186	0.124
31 Multiply line 30 by the smaller of line 26 or line 29	31	990	1,477	1,901
32 Annualization amounts	32 0.116	0.0696	0.0435	0.029
33 Multiply line 26 by line 32	33	231	345	445
34 Add lines 31 and 33. Enter here and on line 13 above ▶	34	1,221	1,822	2,346

Form 2210 (2007)

Figure 4-C. Annualized Income Method—Illustrated (Laura Maple) (Continued)

Form 2210 (2007)

Page **3**

Part IV Regular Method (See page 2 of the instructions if you are filing Form 1040NR or 1040NR-EZ.)

Section A—Figure Your Underpayment		Payment Due Dates				
		(a) 4/15/07	(b) 6/15/07	(c) 9/15/07	(d) 1/15/08	
18	Required installments. If box C in Part II applies, enter the amounts from Schedule AI, line 25. Otherwise, enter 25% (.25) of line 9, Form 2210, in each column	18	0	140	1,169	1,867
19	Estimated tax paid and tax withheld (see page 2 of the instructions). For column (a) only, also enter the amount from line 19 on line 23. If line 19 is equal to or more than line 18 for all payment periods, stop here; you do not owe a penalty. Do not file Form 2210 unless you checked a box in Part II Complete lines 20 through 26 of one column before going to line 20 of the next column.	19	375	375	375 100 475	375 500 875
20	Enter the amount, if any, from line 26 in the previous column	20		375	610	0
21	Add lines 19 and 20	21		750	1,085	875
22	Add the amounts on lines 24 and 25 in the previous column	22		0	0	84
23	Subtract line 22 from line 21. If zero or less, enter -0-. For column (a) only, enter the amount from line 19	23	375	750	1,085	791
24	If line 23 is zero, subtract line 21 from line 22. Otherwise, enter -0-	24		0	0	
25	Underpayment. If line 18 is equal to or more than line 23, subtract line 23 from line 18. Then go to line 20 of the next column. Otherwise, go to line 26 ▶	25			12/3 84	1,076
26	Overpayment. If line 23 is more than line 18, subtract line 18 from line 23. Then go to line 20 of the next column	26	375	610		

Section B—Figure the Penalty (Complete lines 27 through 30 of one column before going to the next column.)

		4/15/07	6/15/07	9/15/07	
Rate Period 1	April 16, 2007—December 31, 2007				
	27 Number of days from the date shown above line 27 to the date the amount on line 25 was paid or 12/31/07, whichever is earlier	Days:	Days:	Days:	
	28 Underpayment on line 25 (see page 3 of the instructions) × $\frac{\text{Number of days on line 27}}{365} \times .08$ ▶			79	
		\$	\$	\$ 1.45	
Rate Period 2	January 1, 2008—April 15, 2008				
	29 Number of days from the date shown above line 29 to the date the amount on line 25 was paid or 4/15/08, whichever is earlier	Days:	Days:	Days:	Days:
	30 Underpayment on line 25 (see page 4 of the instructions) × $\frac{\text{Number of days on line 29}}{366} \times .07$ ▶				91
		\$	\$	\$	\$ 18.73
31	Penalty. Add all amounts on lines 28 and 30 in all columns. Enter the total here and on Form 1040, line 77; Form 1040A, line 47; Form 1040NR, line 75; Form 1040NR-EZ, line 26; or Form 1041, line 26; but do not file Form 2210 unless you checked a box in Part II ▶				31 \$ 20.18

Form **2210** (2007)

Worksheet 4-1. **2007 Form 2210, Schedule AI—Line 12**
Qualified Dividends and Capital Gain Tax Worksheet

Note. To figure the annualized entries for lines 2, 3, and 5 below, multiply the expected amount for the period by the annualization amount for the same period.

1. Enter line 11 of your Schedule AI—Annualized Income Installment Method Worksheet	1. _____	
2. Enter your annualized qualified dividends for the period	2. _____	
3. Are you filing Schedule D?		
☐ Yes. Enter the smaller of your annualized amount from line 15 or line 16 of Schedule D. If either line 15 or line 16 is a loss, enter -0-.	} 3. _____	
☐ No. Enter your annualized capital gain or (loss) from Form 1040, line 13		
4. Add lines 2 and 3	4. _____	
5. If you are claiming investment interest expense on Form 4952, enter your annualized amount from line 4g of that form. Otherwise, enter -0-	5. _____	
6. Subtract line 5 from line 4. If zero or less, enter -0-	6. _____	
7. Subtract line 6 from line 1. If zero or less, enter -0-	7. _____	
8. Enter the smaller of:		
• The amount on line 1, or • \$31,850 if single or married filing separately, \$63,700 if married filing jointly or qualifying widow(er), \$42,650 if head of household	8. _____	
9. Is the amount on line 7 equal to or more than the amount on line 8?		
☐ Yes. Skip lines 9 through 11; go to line 12 and check the "No" box.	9. _____	
☐ No. Enter the amount from line 7		
10. Subtract line 9 from line 8.	10. _____	
11. Multiply line 10 by 5% (.05)		11. _____
12. Are the amounts on lines 6 and 10 the same?		
☐ Yes. Skip lines 12 through 15; go to line 16.	12. _____	
☐ No. Enter the smaller of line 1 or line 6		
13. Enter the amount from line 10 (if line 10 is blank, enter -0-)	13. _____	
14. Subtract line 13 from line 12	14. _____	
15. Multiply line 14 by 15% (.15)		15. _____
16. Figure the tax on the amount on line 7. Use the Tax Table or Tax Computation Worksheet in the Form 1040 instructions, whichever applies		16. _____
17. Add lines 11, 15, and 16		17. _____
18. Figure the tax on the amount on line 1. Use the Tax Table or Tax Computation Worksheet in the Form 1040 instructions, whichever applies		18. _____
19. Tax on all taxable income. Enter the smaller of line 17 or line 18. Enter this amount on line 12 of Schedule AI		19. _____

Worksheet 4-2. **2007 Form 2210, Schedule AI—Line 12
Foreign Earned Income Tax Worksheet**

Before you begin: If Schedule AI, line 11, is zero for the period, do not complete this worksheet.

1. Enter the amount from line 11 of Schedule AI for the period **1.** _____
2. Enter the annualized amount of foreign earned income and housing amount excluded (from Form 2555, line 45, or Form 2555-EZ, line 18) in figuring the amount entered for the period on line 1 of Schedule AI **2.** _____
3. Add lines 1 and 2 **3.** _____
4. **Tax on the amount on line 3.** Use the Tax Table, Tax Computation Worksheet, Form 8615,* Qualified Dividends and Capital Gain Tax Worksheet,** or Schedule D Tax Worksheet,** whichever applies. See the instructions for Form 1040, line 44, to find out which tax computation method to use. (**Note.** You do not have to use the same method for each period on Schedule AI.) **4.** _____
5. **Tax on the amount on line 2.** Use the Tax Table or Tax Computation Worksheet, whichever applies, from the 2007 Form 1040 instructions **5.** _____
6. Subtract line 5 from line 4. Enter the result here and on line 12 of Schedule AI. If zero or less, enter -0- **6.** _____

**If you use Form 8615 to figure the tax on line 4 above, enter the amount from line 3 above on line 4 of Form 8615. If the child's parent files Form 2555 or 2555-EZ, enter the amounts from lines 3 and 4 of the parent's Foreign Earned Income Tax Worksheet on lines 6 and 10, respectively, of Form 8615. Complete the rest of Form 8615 according to its instructions. Then complete lines 5 and 6 above.*

*** Enter the amount from line 3 above on line 1 of the Qualified Dividends and Capital Gain Tax Worksheet (or Worksheet 4-1 in this chapter) or the Schedule D Tax Worksheet, whichever worksheet you use to figure the tax on line 4 above. Complete that worksheet through line 6 (line 10 if you use the Schedule D Tax Worksheet). Next, determine if you have a capital gain excess.*

Figuring capital gain excess. To find out if you have a capital gain excess for the appropriate period, subtract line 11 of Schedule AI from line 6 of Worksheet 4-1 or your Qualified Dividends and Capital Gain Tax Worksheet (line 10 of your Schedule D Tax Worksheet). If the result is more than zero, that amount is your capital gain excess.

No capital gain excess. If you do not have a capital gain excess, complete the rest of Worksheet 4-1, Qualified Dividends and Capital Gain Tax Worksheet, or the Schedule D Tax Worksheet according to the worksheet's instructions. Then complete lines 5 and 6 above.

Capital gain excess. If you have a capital gain excess, complete a second Worksheet 4-1, Qualified Dividends and Capital Gain Tax Worksheet, or Schedule D Tax Worksheet (whichever applies) as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above.

Make these modifications only for purposes of filling out Worksheet 4-2 above.

- a. Reduce the amount you otherwise would enter on line 3 of your Worksheet 4-1, line 3 of your Qualified Dividends and Capital Gain Tax Worksheet, or line 7 of your Schedule D Tax Worksheet (but not below zero) by your capital gain excess.
- b. Reduce the amount you otherwise would enter on line 2 of your Worksheet 4-1, Qualified Dividends and Capital Gain Tax Worksheet, or Schedule D Tax Worksheet (but not below zero) by any of your capital gain excess not used in (a) above.
- c. Reduce the amount on your Schedule D (Form 1040), line 18, (but not below zero) by your capital gain excess.
- d. Include your capital gain excess as a loss on line 16 of your Unrecaptured Section 1250 Gain Worksheet on page D-9 of the 2007 Instructions for Schedule D (Form 1040).

5.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.

You can contact the TAS by calling the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059 to see if you are eligible for assistance. You can also call or write to your local taxpayer advocate, whose phone number and address are listed in your local telephone directory and in Publication 1546, Taxpayer Advocate Service—Your Voice at the IRS. You can file Form 911, Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order), or ask an IRS employee to complete it on your behalf. For more information, go to www.irs.gov/advocate.

Taxpayer Advocacy Panel (TAP). The TAP listens to taxpayers, identifies taxpayer issues, and makes suggestions for improving IRS services and customer satisfaction. If you have suggestions for improvements, contact the TAP, toll free at 1-888-912-1227 or go to www.improveirs.org.

Low Income Taxpayer Clinics (LITCs). LITCs are independent organizations that provide low income taxpayers with representation in federal tax controversies with the IRS for free or for a nominal charge. The clinics also provide tax education and outreach for taxpayers with limited English proficiency or who speak English as a second language. Publication 4134, Low Income Taxpayer Clinic List, provides information on clinics in your area. It is available at www.irs.gov or at your local IRS office.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains a list of free tax publications and describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.



Internet. You can access the IRS website at www.irs.gov 24 hours a day, 7 days a week to:

- **E-file** your return. Find out about commercial tax preparation and e-file services available free to eligible taxpayers.
- Check the status of your 2007 refund. Click on *Where's My Refund*. Wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2007 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed using our Alternative Minimum Tax (AMT) Assistant.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



Phone. Many services are available by phone.

- **Ordering forms, instructions, and publications.** Call 1-800-829-3676 to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- **Asking tax questions.** Call the IRS with your tax questions at 1-800-829-1040.
- **Solving problems.** You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- **TTY/TDD equipment.** If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- **TeleTax topics.** Call 1-800-829-4477 to listen to pre-recorded messages covering various tax topics.
- **Refund information.** To check the status of your 2007 refund, call 1-800-829-4477

and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2007 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to listen in on or record random telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



Walk-in. Many products and services are available on a walk-in basis.

- **Products.** You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- **Services.** You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.



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CD/DVD for tax products. You can order Publication 1796, IRS Tax Products CD/DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Bonus: Historical Tax Products DVD - Ships with the final release.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- The CD which is released twice during the year.

- The first release will ship the beginning of January 2008.
- The final release will ship the beginning of March 2008.

Purchase the CD/DVD from National Technical Information Service (NTIS) at www.irs.gov/cdorders for \$35 (no handling fee) or call 1-877-CDFORMS (1-877-233-6767) toll free to buy the CD/DVD for \$35 (plus a \$5 handling fee). Price is subject to change.



 **CD for small businesses.** Publication 3207, The Small Business Resource Guide CD for 2007, is a must for every small business owner or any taxpayer about to start a business. This year's CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.

- Tax law changes for 2007.
- Tax Map: an electronic research tool and finding aid.
- Web links to various government agencies, business associations, and IRS organizations.
- “Rate the Product” survey—your opportunity to suggest changes for future editions.
- A site map of the CD to help you navigate the pages of the CD with ease.
- An interactive “Teens in Biz” module that gives practical tips for teens about starting their own business, creating a business plan, and filing taxes.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting www.irs.gov/smallbiz.

Index



To help us develop a more useful index, please let us know if you have ideas for index entries. See “Comments and Suggestions” in the “Introduction” for the ways you can reach us.

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