Department of the Treasury
Internal Revenue Service

Publication 505
(Rev. December 2004)
Cat. No. 15008E

Tax Withholding and Estimated Tax

Get forms and other information faster and easier by:

Internet • www.irs.gov

FAX • 703–368–9694 (from your fax machine)

Contents

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. Tax may also be with-held 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. The IRS usually can figure this penalty for you. This underpayment penalty, and the exceptions to it, are discussed in chapter 4.

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

You can write to us at the following address:

Internal Revenue Service
Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
1111 Constitution Ave. NW, IR-6406
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can email us at **taxforms@irs.gov*. (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

Tax questions. If you have a tax question, visit *www.irs.gov* or call 1-800-829-1040. We cannot answer tax questions at either of the addresses listed above.

Ordering forms and publications. Visit *www.irs.gov/formspubs* to download forms and publications, call 1-800-829-3676, or write to one of the three addresses shown under *How To Get Tax Help* in the back of this publication.

What's New for 2004

You should consider the items in this section when figuring any underpayment penalty for 2004. Figuring the penalty is discussed in chapter 4.

Penalty rate. The penalty for underpayment of 2004 estimated tax is figured at an annual rate of 5% for the number of days the underpayment remained unpaid from April 15, 2004, through June 30, 2004; 4% from July 1, 2004, through September 30, 2004; and 5% from October 1, 2004, through April 15, 2005.

What's New for 2005

This section summarizes important changes that take effect in 2005 and that could effect your estimated tax payments for 2005. More information on these and other changes can be found in Publication 553.

Definition of dependent. A dependent is either a qualifying child or a qualifying relative.

Qualifying child. In general, a qualifying child must meet all of the following conditions.

- The child must be your child (including an adopted child, stepchild, or eligible foster child), brother, sister, stepbrother, stepsister, or a descendant of any of them.
- The child must have lived with you for more than half of 2005. But an exception applies, in certain cases, for children of divorced or separated parents.
- At the end of 2005, the child must be under age 19, or under age 24 and a full-time student, or any age and permanently and totally disabled.
- The child must not have provided over half of his or her own support in 2005.

Qualifying relative. In general, a qualifying relative must meet all of the following conditions.

- The person must be either your relative or any other person (other than your spouse) who lived in your home all year as a member of your household. If the person is not your relative, your relationship must not violate local law.
- The person cannot be the qualifying child of another person in 2005 (see above).
- The person must have gross income of less than $3,200. If the person is permanently and totally disabled, certain income from a sheltered workshop may be excluded for this purpose.
- You must have provided over half of the person's support in 2005. But exceptions apply, in certain cases, for children of divorced or separated parents and for a person supported by two or more taxpayers.

The following rules also apply in determining if a person is your dependent.

1. If you are a dependent of another person in 2005, you cannot claim any dependents on your return.
2. If the dependent is married, he or she cannot file a joint return unless the return is filed only as a claim for refund and no tax liability would exist for either spouse if they had filed separate returns.
3. A dependent generally must be a U.S. citizen, U.S. national, or a resident of the United States, Canada, or Mexico.
4. New tie-breaker rules apply if a child meets the conditions to be a qualifying child of two or more people and more than one person claims the child as a qualifying child.

Certain tax benefits, such as qualifying widow(er) filing status and medical and dental expenses, can still be claimed based on a person who is not your dependent if the only reason that person is not your dependent is because he or she is a qualifying relative who has gross income of $3,200 or more or because of items (1) or (2) above.

Head of household. In general, you can use head of household filing status only if, as of December 31, 2005, you were unmarried or legally separated (according to your state law) under a decree of divorce or separate maintenance and you paid over half the cost of keeping up a home:

1. That was the main home for all of 2005 of your parent whom you can claim as a dependent. Your parent did not have to live with you.
2. In which you lived for more than half of the year with either of the following:
   a. Your qualifying child (defined above, but without regard to the exception for children of divorced or separated parents). This does not include a qualifying child who is married at the end of 2005 and is not your dependent because he or she either (i) filed a joint return, or (ii) is not a U.S. citizen, U.S. national, or a resident of the United States, Canada, or Mexico.
   b. Any other person whom you can claim as a dependent.

You cannot use head of household filing status for a person who is your dependent only because:

- He or she lived with you for all of 2005, or
- You are entitled to claim him or her as a dependent under a multiple support agreement.

The rules under prior law allowing certain married persons living apart from their spouses for the last 6 months of the year to use head of household filing status also apply for 2005.

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

- A child lived with you and you earned less than $35,263 ($37,263 if married filing jointly), or
- A child did not live with you and you earned less than $11,750 ($13,750 if married filing jointly).

Donations of motor vehicles, boats, and airplanes. In general, if you donate a motor vehicle, boat, or airplane that is valued at more than $500 and the charitable organization sells the item donated, your deduction on Schedule A will be limited to the gross proceeds from the sale.

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 or Roth IRA contribution limits. The contribution limit to a traditional or Roth IRA for 2005 is increased to $4,000 ($4,500 if you are 50 or older).

Traditional IRA income limits. If you have a traditional IRA and are covered by a retirement plan at work, the amount of income you can have and not be affected by the deduction phaseout increases. The amounts vary depending on filing status.

Salary reduction contributions under a SIMPLE. For 2005, salary reduction contributions that your employer can make on your behalf under a SIMPLE plan are increased to $10,000 (up from $9,000 in 2004).

For more information about salary reduction contributions, see *How Much Can Be Contributed on Your Behalf?* in Publication 590, chapter 3.

Additional salary reduction contributions to SIMPLE IRAs. For 2005, additional salary reduction contributions can be made to your SIMPLE IRA if you meet certain requirements. For more information, see *How Much Can Be Contributed on Your Behalf?* in Publication 590, chapter 3.

Standard mileage rates. For tax years beginning in 2005, the standard mileage rate for the cost of operating your car increases to:

- 40.5 cents a mile for all business miles driven,
- 15 cents a mile for the use of your car for medical reasons, and
- 15 cents a mile for the use of your car for determining moving expenses.

Credit for child and dependent care expenses. Generally, a qualifying person for purposes of the credit for child and dependent care expenses is your qualifying child (defined above) who is under age 13, or your dependent or spouse who is physically or mentally incapable of caring for himself or herself and who lived with you for more than half of 2005. However, for a qualifying child or dependent, the special rule for children of divorced or separated parents does not apply, and the child is treated as a qualifying person only for the custodial parent. You no longer need to pay over half the cost of keeping up a home for the qualifying person.

Deduction for domestic production activities. You may be able to deduct up to 3% of your qualified production activities income from the following activities.

1. Construction performed in the United States;
2. Engineering or architectural services performed in the United States for construction projects in the United States; or
3. Any lease, rental, license, sale, exchange, or other disposition of:
   a. Tangible personal property, computer software, and sound recordings that you manufactured, produced, grew, or extracted in whole or in significant part within the United States,
   b. Any qualified film you produced, or
   c. Electricity, natural gas, or potable water you produced in the United States.

The deduction does not apply to income derived from: the sale of food and beverages you prepare at a retail establishment; property you leased, licensed, or rented for use by any related person; or the transmission or distribution of electricity, natural gas, or potable water.

This deduction is allowed for alternative minimum tax purposes, but is not allowed in determining net earnings from self-employment.

Sales tax deduction. You can elect to deduct state and local general sales taxes instead of state and local income taxes as an itemized deduction on Form 1040, Schedule A. See the instructions for Schedule A (Form 1040) for more information.

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 2005

Introduction

This chapter discusses income tax withholding on these types of income:

- Salaries and wages,
- Tips,
- Taxable fringe benefits,
- Sick pay,
- Pensions and annuities,
- Gambling winnings,
- Unemployment compensation, and
- Federal payments, such as social security.

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 a 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,* later, for definitions of an accountable plan and a nonaccountable plan.

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,* later.

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. Income tax is generally 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 later.

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 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, 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 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 that they will be less than you expected.

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 later.

Changing your withholding for 2006. If events in 2005 will decrease the number of your withholding allowances for 2006, you must give your employer a new Form W-4 by December 1, 2005. If an event occurs in December 2005, 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 2005 based on child care expenses, moving expenses, or large medical expenses, but you will not have these expenses in 2006.
- You have been claiming an allowance for your spouse, but he or she died in 2005.

Note. Because you can still file a joint return for 2005, your spouse's death will not affect the number of your withholding allowances until 2006. You will also have to change from married to single status for 2006, 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* under *Getting the Right Amount of Tax Withheld,* later. 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 withholding 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 later in this chapter.

Marital Status (Line 3 of Form W-4)

There is a lower withholding rate for people who can check the "Married" box on line 3 of Form W-4. Everyone else must have tax withheld at the higher single rate. (Also, see *Getting the Right Amount of Tax Withheld,* later.)

Single. You must check the "Single" box if either 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 either you or your spouse is neither a citizen nor a resident of the United States. However, if one of you is a citizen or a resident, you can choose to have the other treated as a resident. You can then file a joint return and claim married status on your Form W-4. See *Nonresident Spouse Treated as a Resident* in chapter 1 of Publication 519, U.S. Tax Guide for Aliens, for more information.

Married. You can check the "Married" box if either 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 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 a home for your dependent child. 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, 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). You may find that more tax is withheld if you fill out the Two-Earner/Two-Job Worksheet, explained later.

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,* later), complete the Personal Allowances Worksheet on page 1 of the form. You should 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 two-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.

Two jobs. If you have income from two jobs 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, 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 2005 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. 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 for all of the following that apply.

- Exemptions.
- Only one job.
- Head of household 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 or eliminated under the phaseout rule.

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.

Phaseout. For 2005, your deduction for personal exemptions is phased out if your adjusted gross income (AGI) falls within the following brackets.

Table 1.1

Single	$145,950 – $268,450
Married filing jointly or qualifying widow(er)	$218,950 – $341,450
Married filing separately	$109,475 – $170,725
Head of household	$182,450 – $304,950

If you expect your AGI to be more than the highest amount in the above bracket for your filing status, enter "0" on lines A, C, and D. If your AGI will fall within the bracket, use the following worksheet to figure the total allowances for those lines.

Worksheet 1.1

1. Enter your expected AGI . . . . ______
2. Enter:
   $145,950 if single
   $218,950 if married filing jointly or qualifying widow(er)
   $109,475 if married filing separately
   $182,450 if head of household . . . ______
3. Subtract line 2 from line 1 . . . . ______
4. Divide line 3 by $125,000 ($62,500 if married filing separately). Enter the result as a decimal . . . . ______
5. Enter the total number of allowances on lines A, C, and D of the Personal Allowances Worksheet without regard to the phaseout rule . . . . ______
6. Multiply line 4 by line 5. If the result is not a whole number, increase it to the next higher whole number . . . . ______
7. Subtract line 6 from line 5. The total of the numbers you enter on lines A, C, and D of the Personal Allowances Worksheet cannot be more than this amount . . . . ______

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

- 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 $1,000 or less.

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

Head of household (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 year of your parent whom you can claim as a dependent or that 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 553.

If you expect to file as head of household on your 2005 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 2005 return. Generally, qualifying expenses are those you pay for the care of your qualifying child who is 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 553.

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 later under *Tax credits.*

Child tax credit (worksheet line G). If your total income will be less than $54,000 ($79,000 if married), enter "2" on line G for each eligible child.

If your total income will be between $54,000 and $84,000 ($79,000 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:

- For whom you claim an exemption,
- Who will be under age 17 at the end of 2005,
- Who is your son, daughter, stepchild, grandchild, adopted child, or foster child, and
- Who is a U.S. citizen or resident alien.

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 later under *Tax credits.*

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 this worksheet only if you plan to itemize your deductions, claim certain credits, or claim adjustments to your income and you want to reduce your withholding.

Fill out this worksheet to adjust the number of your withholding allowances for deductions, adjustments to income, and certain tax credits. 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 2004 return (or your 2003 return if you have not yet filed your 2004 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 2004 or 2005.

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

Example 1.1. On June 30, 2004, you bought your first home. On your 2004 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 2005 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). You can take the following deductions into account when figuring additional withholding allowances for 2005. You normally claim these deductions on Schedule A of Form 1040.

1. Medical and dental expenses that are more than 7.5% of your 2005 adjusted gross income (defined later).
2. State and local income or sales 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 adjusted gross income.
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 adjusted gross income, including:
   a. Unreimbursed employee business expenses, such as educational 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. Fees paid to an IRA custodian.

Adjusted gross income for purposes of the worksheet is your estimated total income for 2005 minus any estimated adjustments to income (discussed later) that you include on line 4 of the worksheet.

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

For 2005, your total itemized deductions may be reduced if your adjusted gross income (AGI) is more than $145,950 ($72,975 if married filing separately). If you expect your AGI to be more than that amount, use the following worksheet to figure the amount to enter on line 1 of the Deductions and Adjustments Worksheet.

Worksheet 1.2

1. Enter the estimated total of your itemized deductions	______
2. Enter the amount included in line 1 for medical and dental expenses, investment interest, casualty or theft losses, and gambling losses	______
3. Subtract line 2 from line 1 . . . . ***Note.*** *If line 3 is zero, stop here and enter line 1 of this worksheet on line 1 of the* Deductions and Adjustments Worksheet.	______
4. Multiply line 3 by .80	______
5. Enter your expected AGI	______
6. Enter $145,950 ($72,975 if married filing separately)	______
7. Subtract line 6 from line 5	______
8. Multiply line 7 by .03	______
9. Enter the smaller of line 4 or line 8	______
10. Subtract line 9 from line 1. Enter the result here and on line 1 of the *Deductions and Adjustments Worksheet*	______

Adjustments to income (worksheet line 4). You can take the following adjustments to income into account when figuring additional withholding allowances for 2005. These adjustments appear on page 1 of your Form 1040 or 1040A.

- Contributions to a traditional IRA.
- Contributions to a retirement plan for self-employed individuals (Keogh plan or self-employed SEP or SIMPLE plan).
- Contributions to a health savings account or medical savings account.
- Tuition and fees deduction.
- Student loan interest deduction.
- Deduction for one-half of self-employment tax.
- Deduction for self-employed health insurance.
- Deduction for educator expenses.
- Penalty on early withdrawal of savings.
- Alimony payments.
- Certain moving expenses.
- 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.
- Performing-arts-related expenses.
- Reserve-related travel costs.
- Jury duty pay given to your employer.
- Deduction for clean-fuel vehicles.

Enter your estimated total adjustments to income on line 4 of the worksheet.

Tax credits (worksheet line 5). Although you can take most tax credits into account when figuring withholding allowances, the Form W-4 worksheets use only the child and dependent care credit (line F of the Personal Allowances Worksheet) 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 of the Personal Allowances Worksheet. 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.

- Credit for the elderly or the disabled. See Publication 524, Credit for the Elderly or the Disabled.
- Mortgage interest credit. See *Mortgage Interest Credit* in Publication 530, Tax Information for First-Time Homeowners.
- 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.
- Qualified electric vehicle credit. See the instructions for Form 8834, Qualified Electric Vehicle Credit.
- Credit for prior year minimum tax if you paid alternative minimum tax in an earlier year. See the instructions for Form 8801, Credit for Prior Year Minimum Tax — Individuals, Estates, and Trusts.
- Earned income credit, unless you requested advance payment of the credit. See Publication 596, Earned Income Credit.
- Adoption credit. See Publication 968, Tax Benefits for Adoption.
- General business credit. See Form 3800, General Business Credit.
- Retirement savings contributions credit. See Publication 590, Individual Retirement Arrangements.
- Hope credit. See Publication 970, Tax Benefits for Education.
- Lifetime learning credit. See Publication 970, Tax Benefits for Education.

To figure the amount to add on line 5 for tax credits, multiply your estimated total credits by the appropriate number from the following tables.

Table 1.2

Credit Table A
Married Filing Jointly or Qualifying Widow(er)

If combined income from all sources is:	Multiply credits by:
$0 to 34,000	10.0
34,001 to 79,000	6.7
79,001 to 145,000	4.0
145,001 to 210,000	3.6
210,001 to 350,000	3.0
over 350,000	2.8

Credit Table B
Single

If combined income from all sources is:	Multiply credits by:
$0 to 15,000	10.0
15,001 to 38,000	6.7
38,001 to 81,000	4.0
81,001 to 165,000	3.6
165,001 to 340,000	3.0
over 340,000	2.8

Credit Table C
Head of Household

If combined income from all sources is:	Multiply credits by:
$0 to 24,000	10.0
24,001 to 53,000	6.7
53,001 to 120,000	4.0
120,001 to 185,000	3.6
185,001 to 345,000	3.0
over 345,000	2.8

Credit Table D
Married Filing Separately

If combined income from all sources is:	Multiply credits by:
$0 to 15,000	10.0
15,001 to 38,000	6.7
38,001 to 70,000	4.0
70,001 to 100,000	3.6
100,001 to 175,000	3.0
over 175,000	2.8

Example 1.2. You are married and expect to file a joint return for 2005. 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.

In Credit Table A, the number for your combined estimated wages ($34,001 to $79,000) is 6.7. Multiply your total estimated tax credits of $2,660 by 6.7. Add the result, $17,822, to the amount you would otherwise 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, you do not use 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,* later.

Net deductions and adjustments (worksheet line 7). If line 7 is less than $3,200 enter "0" on line 8. If line 7 is $3,200 or more, divide it by $3,200, drop any fraction, and enter the result on line 8.

Two-Earner/Two-Job Worksheet

You should complete this worksheet 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 $35,000 ($25,000 if married).

CAUTION *If you use this worksheet and your earnings are more than $125,000 ($175,000 if you are married), see Publication 919 to check that you are having enough tax withheld.*

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 on the Form W-4, 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, you should 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.

Example 1.3

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 on the next page.

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 $79,000 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 $10,000 on line 2. They subtract $10,000 from $11,300 and enter the result, $1,300, on line 3.

The Greens expect to have an adjustment to income of $3,000 for their deductible IRA contributions. They do not expect to have any other adjustments to income. They enter $3,000 on line 4.

The Greens add line 3 and line 4 and enter the total, $4,300, 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, $3,700, on line 7. They divide line 7 by $3,200, 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-Earner/Two-Job 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 on the Form W-4 to find the number to enter on line 2 of the worksheet. Because they will file a joint return, their expected wages from the highest paying job are more than $40,000, 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 $125,000 if you are single or $175,000 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 weekends, vacations, and sick days) beginning the first day you are on the job for pay and ending 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.

Form W-4 (2005)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Because your tax situation may change, you may want to refigure your withholding each year.

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 2005 expires February 16, 2006. See Pub. 505, Tax Withholding and Estimated Tax.

Note. You cannot claim exemption from withholding if (a) your income exceeds $800 and includes more than $250 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/two-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 line **E** below.

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.

Two earners/two 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.

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 2005. See Pub. 919, especially if your earnings exceed $125,000 (Single) or $175,000 (Married).

Recent name change? If your name on line 1 differs from that shown on your social security card, call 1-800-772-1213 to initiate a name change and obtain a social security card showing your correct name.

Personal Allowances Worksheet (Keep for your records.) Example 1.3

A	Enter "1" for **yourself** if no one else can claim you as a dependent	A	1
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 $1,000 or less.	B	
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	1
D	Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return	D	2
E	Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above)	E	
F	Enter "1" if you have at least $1,500 of **child or dependent care expenses** for which you plan to claim a credit (**Note.** Do **not** include child support payments. See **Pub. 503,** Child and Dependent Care Expenses, for details.)	F	1
G	**Child Tax Credit** (including additional child tax credit): • If your total income will be less than $54,000 ($79,000 if married), enter "2" for each eligible child. • If your total income will be between $54,000 and $84,000 ($79,000 and $119,000 if married), enter "1" for each eligible child plus "1" **additional** if you have four or more eligible children.	G	4
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	9

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 $35,000 ($25,000 if married) see the **Two-Earner/Two-Job 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. 1545-0010
2005

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 new 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 2005, 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 **Date ▶** January 4, 2005

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** (2005)

Deductions and Adjustments Worksheet

Note. Use this worksheet *only* if you plan to itemize deductions, claim certain credits, or claim adjustments to income on your 2005 tax return.

1	Enter an estimate of your 2005 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 2005, you may have to reduce your itemized deductions if your income is over $145,950 ($72,975 if married filing separately). See *Worksheet 3* in Pub. 919 for details.) . . .	1	$ 11,300
2	Enter: { $10,000 if married filing jointly or qualifying widow(er); $ 7,300 if head of household; $ 5,000 if single or married filing separately }	2	$ 10,000
3	**Subtract** line 2 from line 1. If line 2 is greater than line 1, enter "-0-"	3	$ 1,300
4	Enter an estimate of your 2005 adjustments to income, including alimony, deductible IRA contributions, and student loan interest	4	$ 3,000
5	**Add** lines 3 and 4 and enter the total. (Include any amount for credits from *Worksheet 7* in Pub. 919) .	5	$ 4,300
6	Enter an estimate of your 2005 nonwage income (such as dividends or interest)	6	$ 600
7	**Subtract** line 6 from line 5. Enter the result, but not less than "-0-"	7	$ 3,700
8	**Divide** the amount on line 7 by $3,200 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-Earner/Two-Job 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-Earner/Two-Job Worksheet (See *Two earners/two jobs* on page 1.)

Note. Use this worksheet *only* 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	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 *less than* 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 2005. For example, divide by 26 if you are paid every two weeks and you complete this form in December 2004. 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: Two-Earner/Two-Job Worksheet

Married Filing Jointly						All Others	
If wages from **HIGHEST** paying job are—	AND, wages from **LOWEST** paying job are—	Enter on line 2 above	If wages from **HIGHEST** paying job are—	AND, wages from **LOWEST** paying job are—	Enter on line 2 above	If wages from **LOWEST** paying job are—	Enter on line 2 above
$0 - $40,000	$0 - $4,000	0	$40,001 and over	30,001 - 36,000	6	$0 - $6,000	0
	4,001 - 8,000	1		36,001 - 45,000	7	6,001 - 12,000	1
	8,001 - 18,000	2		45,001 - 50,000	8	12,001 - 18,000	2
	18,001 and over	3		50,001 - 60,000	9	18,001 - 24,000	3
$40,001 and over	$0 - $4,000	0		60,001 - 65,000	10	24,001 - 31,000	4
	4,001 - 8,000	1		65,001 - 75,000	11	31,001 - 45,000	5
	8,001 - 18,000	2		75,001 - 90,000	12	45,001 - 60,000	6
	18,001 - 22,000	3		90,001 - 100,000	13	60,001 - 75,000	7
	22,001 - 25,000	4		100,001 - 115,000	14	75,001 - 80,000	8
	25,001 - 30,000	5		115,001 and over	15	80,001 - 100,000	9
						100,001 and over	10

Table 2: Two-Earner/Two-Job Worksheet

Married Filing Jointly		All Others	
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 - $60,000	$480	$0 - $30,000	$480
60,001 - 110,000	800	30,001 - 70,000	800
110,001 - 160,000	900	70,001 - 140,000	900
160,001 - 280,000	1,060	140,001 - 320,000	1,060
280,001 and over	1,120	320,001 and over	1,120

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 time needed to complete this form will vary depending on individual circumstances. The estimated average time is: Recordkeeping, 45 min.; Learning about the law or the form, 12 min.; Preparing the form, 58 min. If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to: Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6406, Washington, DC 20224. **Do not** send Form W-4 to this address. Instead, give it to your employer.

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, biweekly, 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. Your employer will use the information you give on the form to figure your withholding beginning with your first payday.

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 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.

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 incorrectly withheld. If you are not repaid, your Form W-2 will reflect the full amount actually withheld.

Sending your Form W-4 to the IRS. Your employer will usually keep your Form W-4 and use it to figure your withholding. Under normal circumstances, it will not be sent to the IRS. However, your employer must send a copy of your Form W-4 to the IRS for verification in both of the following situations.

- You claim more than 10 withholding allowances.
- You claim exemption from withholding and your wages are expected to usually be more than $200 a week. See *Exemption From Withholding,* later.

The IRS may ask you for information showing how you figured either the number of allowances you claimed or your eligibility for exemption from withholding. If you choose, you can give this information to your employer to send to the IRS along with your Form W-4.

If the IRS determines that you cannot take all the allowances claimed on your Form W-4, or that you are not exempt as claimed, it will inform both you and your employer and will specify the maximum number of allowances you can claim. The IRS also may ask you to fill out a new Form W-4. However, your employer cannot figure your withholding on the basis of more allowances than the maximum number determined by the IRS.

If you believe you are exempt or can claim more withholding allowances than determined by the IRS, you can complete a new Form W-4, stating on the form, or in a written statement, any circumstances that have changed or any other reasons for your claim. You can send it directly to the IRS or give it to your employer to send to the IRS. 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 to withhold on the basis of the new Form W-4.

There is a penalty for supplying false information on Form W-4. See *Penalties,* later.

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 2005 only if both the following situations apply.

- For 2004 you had a right to a refund of all federal income tax withheld because you had no tax liability.
- For 2005 you expect a refund of all federal income tax withheld because you expect to have no tax liability.

Use Figure A, later in this chapter, to help you decide whether you can claim exemption from withholding. Do not use Figure A if you:

- Are 65 or older.
- Are blind.
- Will itemize deductions on your 2005 return.
- Will claim an exemption for a dependent on your 2005 return.
- Will claim any tax credits on your 2005 return.

These situations are discussed later.

Student. 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 1.4. 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 2004 return. Using Figure A, you find that you can claim exemption from withholding.

Example 1.5. The facts are the same as in *Example 1.4,* except that you also have a savings account and expect to have $320 interest income during the year. Using Figure A, you find that you cannot claim exemption from withholding because your unearned income will be more than $250 and your total income will be more than $800.

CAUTION

You may have to file a tax return, even if you are exempt from withholding. See Publication 501, Exemptions, Standard Deduction, and Filing Information, to see whether you must file a return.

Age 65 or older or blind. If you are 65 or older or blind, use one of the following worksheets to help you decide whether you can claim exemption from withholding. Do not use either worksheet if you will itemize deductions, claim exemptions for dependents, or claim tax credits on your 2005 return — instead, see *Itemizing deductions or claiming exemptions or credits,* following the worksheets.

Worksheet 1.3

Use this worksheet only if, for **2004** 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 2005 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:

Your filing status is:	and the number on line 3 above is:	and your 2005 total income will be no more than:
Single	1	$ 9,450
	2	10,700
Head of household	1	$11,750
	2	13,000
Married filing separately for both 2004 and 2005	1	$ 9,200
	2	10,200
	3	11,200
	4	12,200
Other married status	1	$17,400*
	2	18,400*
	3	19,400*
	4	20,400*
Qualifying widow(er)	1	$14,200
	2	15,200

**Include both spouses' income whether you will file separately or jointly.*

You **cannot** claim exemption from withholding if your total income will be **more than** the amount shown for your filing status.

Worksheet 1.4

Use this worksheet only if, for **2005,** you are a dependent and if, for **2004,** 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 $250 . . . . ______
2. Minimum amount $800
3. Compare lines 1 and 2. Enter the **larger** amount . . . . ______
4. Limit 5,000
5. Compare lines 3 and 4. Enter the **smaller** amount . . . . ______
6. Enter the appropriate amount from the following table . . . . ______

<u>Filing Status</u>	<u>Amount</u>
Single	
Either 65 or older or blind	$1,250
Both 65 or older and blind	2,500
Married filing separately	
Either 65 or older or blind	1,000
Both 65 or older and blind	2,000

7. Add lines 5 and 6. Enter the result . . . ______
8. Enter your total expected income . . . ______

You **can** claim exemption from withholding if line 7 is equal to or more than line 8. If line 8 is more than line 7, you **cannot** claim exemption from withholding.

Itemizing deductions or claiming exemptions or credits. If you had no tax liability for 2004, and you will either:

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

use the 2005 Estimated Tax Worksheet in Form 1040-ES (also see chapter 2), to figure your 2005 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. Enter "Exempt" on line 7.

Your employer must send the IRS a copy of your Form W-4 if you claim exemption from withholding and your pay is expected to usually be more than $200 a week. If it turns out that you do not qualify for exemption, the IRS will send both you and your employer a written notice.

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 2005, but you expect to owe income tax for 2006, you must file a new Form W-4 by December 1, 2005.

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. 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 the facts and circumstances of your situation, 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.

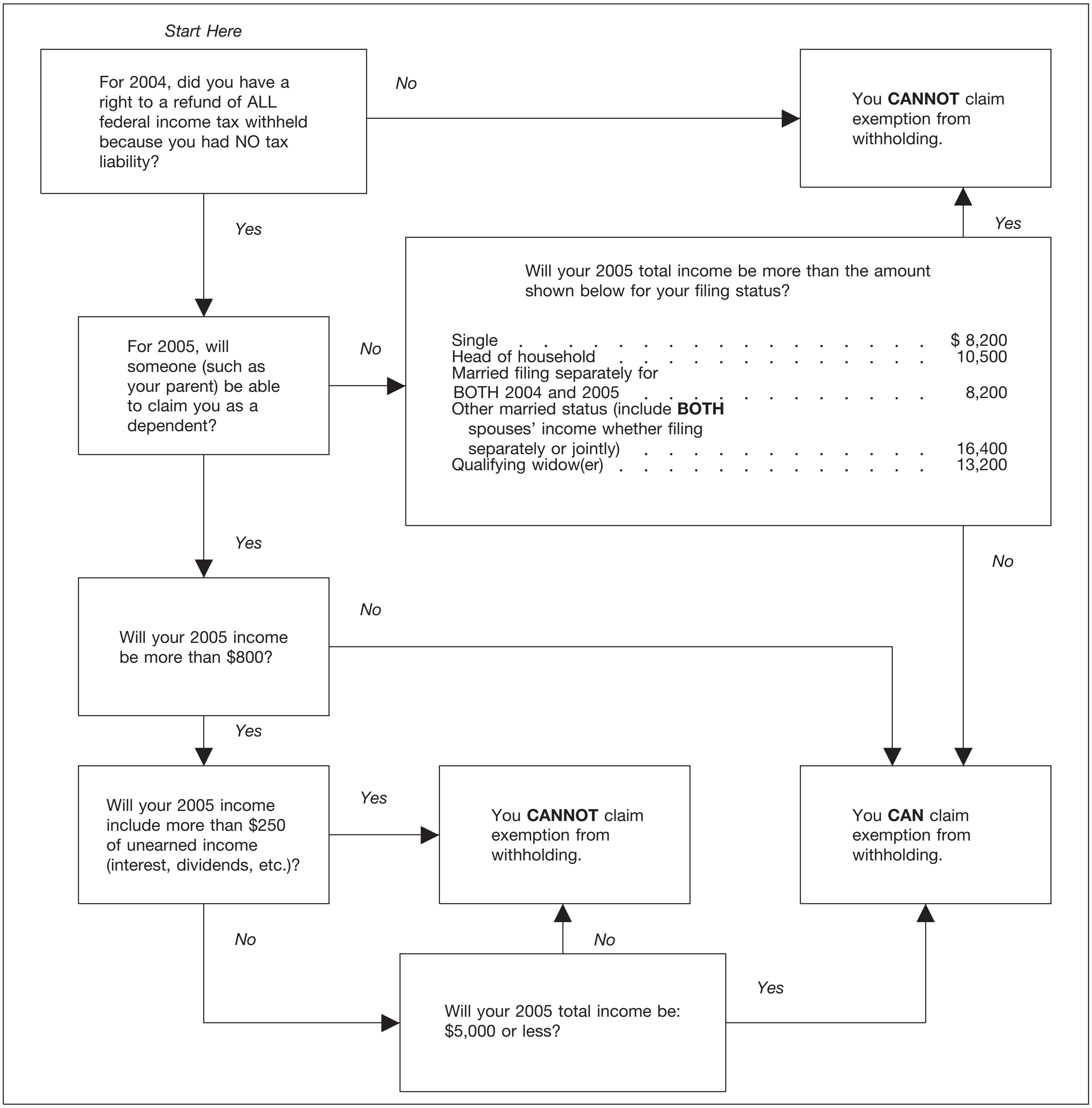
- You make statements or claim withholding allowances on your Form W-4 that reduce the amount of tax withheld.
- You have no reasonable basis for those statements or allowances at the time you prepare your Form W-4.

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 one 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, 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.

Figure A. **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 tax credits. Instead, see the discussions in this chapter under *Exemption From Withholding.*



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 will first withhold as much social security tax, Medicare tax, or railroad retirement tax as possible, up to the proper amount, and then withhold 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, 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.

Your employer can choose not to withhold income tax on the value of your personal use of an employer-provided car, truck, or other highway motor vehicle. 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 1.6. Your employer considers the value of benefits paid from November 1, 2003, through October 31, 2004, as paid to you in 2004. To determine the total value of benefits paid to you in 2005, your employer will add the value of any benefits paid in November and December of 2004 to the value of any benefits paid in January through October of 2005.

Exceptions. Your employer cannot choose when to withhold tax on certain benefits. These benefits are transfers 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 tax paid to the IRS for you.

How your employer reports your benefits. Your employer must report on Form W-2, Wage and Tax Statement, 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.

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,* later.

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 estimated tax or have enough income tax withheld, 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 one year (periodic payments), within one 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 later 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,* earlier, 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 a nonqualified deferred compensation plan. This is an employer plan that pays part of your compensation at a later time, but is not a tax-qualified plan. 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.

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 $1,480 a month (or $17,760 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,* later.
- 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 by the time 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 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 can also use Form W-4P to choose not to have tax withheld or to revoke a choice not to have tax withheld.

CAUTION *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 minimum required 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 rate on any part of an ERD that is not rolled over directly to another qualified plan. You cannot elect not to have withholding on these distributions. No withholding is required on any part paid directly to another plan.

Choosing Not To Have Income Tax Withheld

You can choose not to have income tax withheld from your pension or annuity. This rule does not apply to eligible rollover distributions. 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, you may have to pay a penalty. See chapter 4 for information about this penalty.

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, print "Revoked" by the checkbox on line 1 of the form.

If you use Form W-4P to revoke the choice for periodic payments and you do not complete line 2 of the form, the payer will withhold as if you were married and claiming three allowances.

Gambling Winnings

Income tax is withheld at a flat 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, 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.

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,* later. 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 through withholding or estimated tax, you may be subject to 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 63.

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 later).
- 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 rate. This rule applies to keno winnings of more than $1,500, bingo and slot machine winnings of more than $1,200, and certain other gambling winnings of more than $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, you may have to pay a penalty. See chapter 4.

Form 1099-G. If income tax is withheld from your 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 tax withheld.

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, you will have to 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, 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 may also apply to gambling winnings. See *Backup withholding on gambling winnings* under *Gambling Winnings,* earlier.

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 show 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 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 120-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. Form W-7, Application for IRS Individual Taxpayer Identification Number, is used 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 a return if you did not previously file one 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 2005

What's New for 2005

This section summarizes important changes that take effect in 2005 and that could affect your estimated tax payments for 2005. More information on these and other changes can be found in Publication 553.

Definition of dependent. A dependent is either a qualifying child or a qualifying relative.

Qualifying child. In general, a qualifying child must meet all of the following conditions.

- The child must be your child (including an adopted child, stepchild, or eligible foster child), brother, sister, stepbrother, stepsister, or a descendant of any of them.
- The child must have lived with you for more than half of 2005. But an exception applies, in certain cases, for children of divorced or separated parents.
- At the end of 2005, the child must be under age 19, or under age 24 and a full-time student, or any age and permanently and totally disabled.
- The child must not have provided over half of his or her own support in 2005.

Qualifying relative. In general, a qualifying relative must meet all of the following conditions.

- The person must be either your relative or any other person (other than your spouse) who lived in your home all year as a member of your household. If the person is not your relative, your relationship must not violate local law.
- The person cannot be the qualifying child of another person in 2005 (see above).
- The person must have gross income of less than $3,200. If the person is permanently and totally disabled, certain income from a sheltered workshop may be excluded for this purpose.
- You must have provided over half of the person's support in 2005. But exceptions apply, in certain cases, for children of divorced or separated parents and for a person supported by two or more taxpayers.

The following rules also apply in determining if a person is your dependent.

1. If you are a dependent of another person in 2005, you cannot claim any dependents on your return.
2. If the dependent is married, he or she cannot file a joint return unless the return is filed only as a claim for refund and no tax liability would exist for either spouse if they had filed separate returns.
3. A dependent generally must be a U.S. citizen, U.S. national, or a resident of the United States, Canada, or Mexico.
4. New tie-breaker rules apply if a child meets the conditions to be a qualifying child of two or more people and more than one person claims the child as a qualifying child.

Certain tax benefits, such as qualifying widow(er) filing status and medical and dental expenses, can still be claimed based on a person who is not your dependent if the only reason that person is not your dependent is because he or she is a qualifying relative who has gross income of $3,200 or more or because of items (1) or (2) above.

Head of household. In general, you can use head of household filing status only if, as of December 31, 2005, you were unmarried or legally separated (according to your state law) under a decree of divorce or separate maintenance and you paid over half the cost of keeping up a home:

1. That was the main home for all of 2005 of your parent whom you can claim as a dependent. Your parent did not have to live with you.
2. In which you lived for more than half of the year with either of the following:
   a. Your qualifying child (defined above, but without regard to the exception for children of divorced or separated parents). This does not include a qualifying child who is married at the end of 2005 and is not your dependent because he or she either (i) filed a joint return, or (ii) is not a U.S. citizen, U.S. national, or a resident of the United States, Canada, or Mexico.
   b. Any other person whom you can claim as a dependent.

You cannot use head of household filing status for a person who is your dependent only because:

- He or she lived with you for all of 2005, or
- You are entitled to claim him or her as a dependent under a multiple support agreement.

The rules under prior law allowing certain married persons living apart from their spouses for the last 6 months of the year to use head of household filing status also apply for 2005.

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

- A child lived with you and you earned less than $35,263 ($37,263 if married filing jointly), or
- A child did not live with you and you earned less than $11,750 ($13,750 if married filing jointly).

Donations of motor vehicles, boats, and airplanes. In general, if you donate a motor vehicle, boat, or airplane that is valued at more than $500 and the charitable organization sells the item donated, your deduction on Schedule A will be limited to the gross proceeds from the sale.

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 or Roth IRA contribution limits. The contribution limit to a traditional or Roth IRA for 2005 is increased to $4,000 ($4,500 if you are 50 or older).

Traditional IRA income limits. If you have a traditional IRA and are covered by a retirement plan at work, the amount of income you can have and not be affected by the deduction phaseout increases. The amounts vary depending on filing status.

Salary reduction contributions under a SIMPLE. For 2005, salary reduction contributions that your employer can make on your behalf under a SIMPLE plan are increased to $10,000 (up from $9,000 in 2004). For more information about salary reduction contributions, see *How Much Can Be Contributed on Your Behalf?* in Publication 590, chapter 3.

Additional salary reduction contributions to SIMPLE IRAs. For 2005, additional salary reduction contributions can be made to your SIMPLE IRA if you meet certain requirements. For more information, see *How Much Can Be Contributed on Your Behalf?* in Publication 590, chapter 3.

Standard mileage rates. For tax years beginning in 2005, the standard mileage rate for the cost of operating your car increases to:

- 40.5 cents a mile for all business miles driven,
- 15 cents a mile for the use of your car for medical reasons, and
- 15 cents a mile for the use of your car for determining moving expenses.

Credit for child and dependent care expenses. Generally, a qualifying person for purposes of the credit for child and dependent care expenses is your qualifying child (defined above) who is under age 13, or your dependent or spouse who is physically or mentally incapable of caring for himself or herself and who lived with you for more than half of 2005. However, for a qualifying child or dependent, the special rule for children of divorced or separated parents does not apply, and the child is treated as a qualifying person only for the custodial parent. You no longer need to pay over half the cost of keeping up a home for the qualifying person.

Deduction for domestic production activities. You may be able to deduct up to 3% of your qualified production activities income from the following activities.

1. Construction performed in the United States;

2. Engineering or architectural services performed in the United States for construction projects in the United States; or
3. Any lease, rental, license, sale, exchange, or other disposition of:
   a. Tangible personal property, computer software, and sound recordings that you manufactured, produced, grew, or extracted in whole or in significant part within the United States,
   b. Any qualified film you produced, or
   c. Electricity, natural gas, or potable water you produced in the United States.

The deduction does not apply to income derived from: the sale of food and beverages you prepare at a retail establishment; property you leased, licensed, or rented for use by any related person; or the transmission or distribution of electricity, natural gas, or potable water.

This deduction is allowed for alternative minimum tax purposes, but is not allowed in determining net earnings from self-employment.

Sales tax deduction. You can elect to deduct state and local general sales taxes instead of state and local income taxes as an itemized deduction on Form 1040, Schedule A. See the instructions for Schedule A (Form 1040) for more information.

Reminders

Estimated tax safe harbor for higher income individuals. If your adjusted gross income for 2004 was more than $150,000 ($75,000 if married filing a separate return), your withholding and estimated tax payments must be at least the smaller of 90% of your tax liability for 2005 or 110% of the tax shown on your 2004 return (provided your 2004 return covered all 12 months) to avoid an estimated tax penalty.

Who must pay estimated tax. You must pay estimated tax unless the total tax shown on your return minus the amount you paid through withholding (including excess social security and railroad retirement tax withholding) will be less than $1,000.

Payment of estimated tax by electronic funds withdrawal. You may be able to pay your estimated tax by authorizing an automatic withdrawal from your checking or savings account. For more information, see *Payment by Electronic Funds Withdrawal* under *How To Pay Estimated Tax,* later.

Employment taxes on household employees. You must include any expected employment (social security, Medicare, and federal unemployment) taxes for household employees when figuring your estimated tax.

Qualified dividends. The maximum tax rate for qualified dividends is 15% (generally, 5% for people whose other income is taxed at the 10% or 15% rate). Use Worksheet 2.5 to figure your estimated tax for 2005 if you expect to receive qualified dividends during the year.

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 through withholding or estimated tax payments, you may be charged a penalty. If you do not pay enough by the due date of each payment period (see *When To Pay Estimated Tax,* later), 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.

TIP *It would be helpful for you to keep a copy of your 2004 tax return and an estimate of your 2005 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 2004 Tax Changes

Form (and Instructions)

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

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

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 2005 if you meet all three of the following conditions.

- You had no tax liability for 2004.
- You were a U.S. citizen or resident for the whole year.
- Your 2004 tax year covered a 12-month period.

You had no tax liability for 2004 if your total tax (defined later under *Required Annual Payment)* was zero or you did not have to file an income tax return.

Who Must Pay Estimated Tax

If you had a tax liability for 2004, you may have to pay estimated tax for 2005.

General Rule

You must pay estimated tax for 2005 if both of the following apply.

1. You expect to owe at least $1,000 in tax for 2005, after subtracting your withholding and credits, and
2. You expect your withholding and credits to be less than the smaller of:
   a. 90% of the tax to be shown on your 2005 tax return, or
   b. 100% of the tax shown on your 2004 tax return. Your 2004 tax return must cover all 12 months.

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

Example 2.1. To figure whether she should pay estimated tax for 2005, Jane, who files as head of household, uses the following information.

Expected AGI for 2005	$61,125
AGI for 2004	$58,950
Tax shown on 2004 return	$10,500
Tax expected to be shown on 2005 return	$11,500
Tax expected to be withheld in 2005	$10,400

Jane uses Figure B (on the next page). Jane's answer to the chart's first question is YES, she expects to owe at least $1,000 for 2005 after subtracting her withholding from her expected tax ($11,500 – $10,400 = $1,100). Her answer to the chart's second question is also YES, she expects her income tax withholding ($10,400) to be at least 90% of the tax to be shown on her 2005 return ($11,500 × 90% = $10,350). Jane does not need to pay estimated tax.

Example 2.2. The facts are the same as in *Example 2.1,* except that Jane expects only $8,500 tax to be withheld in 2005. Because that is less than $10,350, 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 2004 return ($10,500). Jane must pay estimated tax for 2005.

Example 2.3. The facts are the same as in *Example 2.2,* except that the tax shown on Jane's 2004 return was $8,000. Because she expects to have more than $8,000 withheld in

2005, her answer to the chart's third question is YES. Jane does not need to pay estimated tax for 2005.

Married Taxpayers

To figure whether you must pay estimated tax, apply the rules discussed here to your separate estimated income. If you can make joint estimated tax payments, you can apply these rules on a joint basis.

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

You and your spouse cannot make joint estimated tax payments if:

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

Whether you and your spouse make joint estimated tax payments or separate payments will not affect your choice of filing a joint tax return or separate returns for 2005.

2004 separate returns and 2005 joint return. If you plan to file a joint return with your spouse for 2005, but you filed separate returns for 2004, your 2004 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.

2004 joint return and 2005 separate returns. If you plan to file a separate return for 2005, but you filed a joint return for 2004, your 2004 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 2004 using the same filing status as for 2005. Then multiply the tax on the joint return by the following fraction:

$$\frac{\text{The tax you would have paid had you filed a separate return}}{\text{The total tax you and your spouse would have paid had you filed separate returns}}$$

Example 2.4. Joe and Heather filed a joint return for 2004 showing taxable income of $48,500 and a tax of $6,564. Of the $48,500 taxable income, $40,100 was Joe's and the rest was Heather's. For 2005, they plan to file married filing separately. Joe figures his share of the tax on the 2004 joint return as follows:

Tax on $40,100 based on a separate return	$6,769
Tax on $8,400 based on a separate return	906
Total	$7,675
Joe's percentage of total ($6,769 ÷ $7,675)	88%
Joe's share of tax on joint return ($6,564 × 88%)	$5,776

Special Rules for Farmers and Fishermen and Higher Income Taxpayers

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 2004 or 2005 is from farming or fishing, substitute 66⅔% for 90% in 2a) under *General Rule,* earlier.

For definitions of gross income from farming and gross income from fishing, see *Farmers and Fishermen* later under *When To Pay Estimated Tax.*

Higher Income Taxpayers

If your adjusted gross income (AGI) for 2004 was more than $150,000 ($75,000 if your filing status for 2005 is married filing a separate return), substitute 110% for 100% in 2b) under *General Rule,* earlier. This rule does not apply to farmers and fishermen.

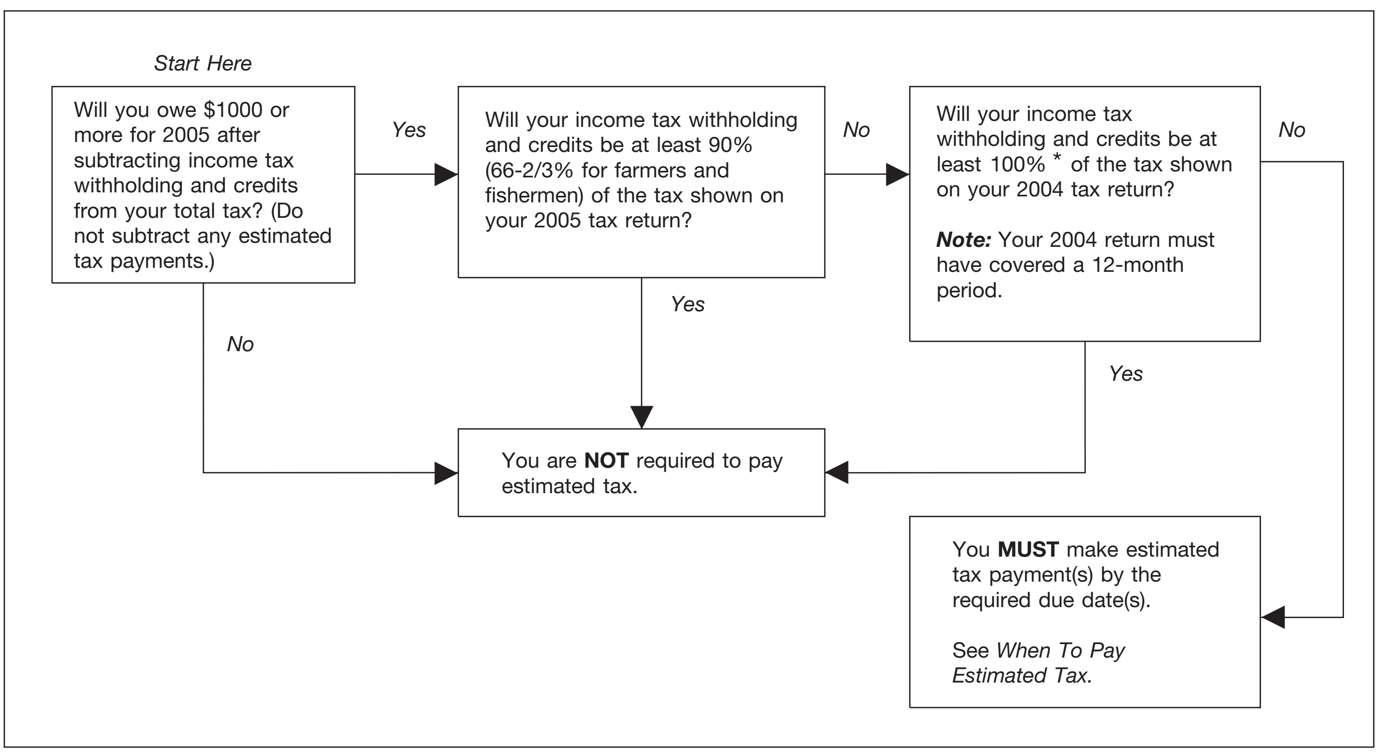
For 2004, AGI is the amount shown on Form 1040, line 36; Form 1040A, line 21; and Form 1040EZ, line 4.

Aliens

Resident and nonresident aliens may also 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 if you either have a green card or meet the substantial presence test. For more information about the substantial presence test, see Publication 519.

Figure B. **Do You Have To Pay Estimated Tax?**



* 110% if less than two-thirds of your gross income for 2004 and 2005 is from farming or fishing and your 2004 adjusted gross income was more than $150,000 ($75,000 if your filing status from 2005 is married filing a separate return).

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 adjusted gross income, taxable income, taxes, deductions, and credits for the year.

When figuring your 2005 estimated tax, it may be helpful to use your income, deductions, and credits for 2004 as a starting point. Use your 2004 federal tax return as a guide. You can use Form 1040-ES to figure your estimated tax.

You must make adjustments both for changes in your own situation and for recent changes in the tax law. For 2005, there are several changes in the law. Some of these changes are discussed under *What's New for 2005* at the beginning of this chapter. For information about these and other changes in the law, get Publication 553, Highlights of 2004 Tax Changes, or visit the IRS web site at *www.irs.gov.*

Form 1040-ES includes a worksheet to help you figure your estimated tax. Keep the worksheet for your records. A similar worksheet appears later in this chapter.

Expected Adjusted Gross Income

Your expected adjusted gross income for 2005 (line 1 of the 2005 Estimated Tax Worksheet) is your expected total income minus your expected adjustments to income.

The 2005 Estimated Tax Worksheet is part of Form 1040-ES.

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 2005 that, if you had received it in 2004, would have been included on your 2004 tax return in the total on line 22 of Form 1040, line 15 of Form 1040A, or line 4 of Form 1040EZ. When figuring your net earnings from self-employment, include only 92.35% of your total net profit from self-employment. Your net profit from self-employment is found on line 31 of Schedule C or line 3 of Schedule C-EZ.

Social security and railroad retirement benefits. If you expect to receive social security or tier 1 railroad retirement benefits during the year, use Worksheet 2.1 to figure the amount of expected taxable benefits you should include on line 1 of the 2005 Estimated Tax Worksheet.

Worksheet 2.1

1.	Enter your expected social security and railroad retirement benefits . . .	______
2.	Enter one-half of line 1	______
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 . . .	______
4.	Enter your expected nontaxable interest income	______
5.	Add lines 2, 3, and 4	______
6.	Enter your expected adjustments to income except any student loan interest deduction and any tuition and fees deduction	______
7.	Subtract line 6 from line 5	______
8.	Enter $25,000 ($32,000 if you expect to file married filing a joint return; $0 if you expect to file married filing a separate return and expect to live with your spouse at any time during the year)	______
9.	Subtract line 8 from line 7. If zero or less, stop here. Do not include any social security or railroad retirement benefits on line 1 of your *2005 Estimated Tax Worksheet*	______
10.	Enter $9,000 ($12,000 if you expect to file married filing a joint return; $0 if you expect to file married filing a separate return and expect to live with your spouse at any time during the year)	______
11.	Subtract line 10 from line 9. If zero or less, enter –0–	______
12.	Enter the smaller of line 9 or line 10	______
13.	Enter one-half of line 12	______
14.	Enter the smaller of line 2 or line 13	______
15.	Multiply line 11 by 85% (.85). If line 11 is zero, enter –0–.	______
16.	Add lines 14 and 15	______
17.	Multiply line 1 by 85% (.85)	______
18.	Enter the smaller of line 16 or line 17. This is the amount of your expected taxable social security and railroad retirement benefits. Include this amount in the total on line 1 of your *2005 Estimated Tax Worksheet* . . .	______

Adjustments to income. Be sure to subtract from your expected total income all of the adjustments you expect to take on your 2005 tax return. If you are using your 2004 return as a guide and filed Form 1040, your adjustments for 2004 were on lines 23–34. If you filed Form 1040A, your 2004 adjustments were on lines 16–19.

Self-employed. If you expect to have income from self-employment, use Worksheet 2.2 to figure your expected self-employment tax and your deduction for one-half of your self-employment tax. Include the amount on line 10 in your expected adjustments to income. If you file a joint return and both you and your spouse have net earnings from self-employment, you must each complete a separate worksheet.

Worksheet 2.2

1.	Enter your expected income and profits subject to self-employment tax	______
2.	Multiply line 1 by .9235	______
3.	Multiply line 2 by .029	______
4.	Social security tax maximum income	$90,000
5.	Enter your expected wages (if subject to social security tax)	______
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.*	______
7.	Enter the smaller of line 2 or line 6	______
8.	Multiply line 7 by .124	______
9.	Add line 3 and line 8. Enter the result here and on line 11 of your *2005 Estimated Tax Worksheet*	______
10.	Multiply line 9 by .50. This is your expected deduction for one-half of your self-employment tax.	______

Expected Taxable Income

Reduce your expected adjusted gross income for 2005 (line 1 of the 2005 Estimated Tax Worksheet), by either your expected itemized deductions or your standard deduction and by your exemptions (lines 2 through 5 of the 2005 Estimated Tax Worksheet).

Itemized deductions. If you expect to claim itemized deductions on your 2005 tax return, subtract them from your expected adjusted gross income.

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

Reduction of itemized deductions. For 2005, your total itemized deductions may be reduced if your adjusted gross income (AGI) is more than $145,950 ($72,975 if married filing separately). If you expect your AGI to be more than that amount, use the following worksheet to figure the amount to enter on line 2 of the 2005 Estimated Tax Worksheet.

Worksheet 2.3

1. Enter the estimated total of your itemized deductions . . . . ______
2. Enter the amount included in line 1 for medical and dental expenses, investment interest, casualty or theft losses, and gambling losses . . . . . ______
3. Subtract line 2 from line 1 . . . . ______
   Note. *If line 3 is zero, stop here and enter line 1 of this worksheet on line 2 of the* 2005 Estimated Tax Worksheet*.*
4. Multiply line 3 by .80 . . . . ______
5. Enter line 1 of the *2005 Estimated Tax Worksheet* . . . . ______
6. Enter $145,950 ($72,975 if married filing separately) . . . . ______
7. Subtract line 6 from line 5 . . . . ______
8. Multiply line 7 by .03 . . . . ______
9. Enter the smaller of line 4 or line 8 ______
10. Subtract line 9 from line 1. Enter the result here and on line 2 of the *2005 Estimated Tax Worksheet* . . . . ______

Standard deduction. If you expect to claim the standard deduction on your 2005 tax return, subtract it from your expected adjusted gross income. Use the 2005 Standard Deduction Tables at the end of this chapter 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 nonresident alien, or
- Make a return for a period of less than 12 months because you change your accounting period.

Exemptions. After you have subtracted either your expected itemized deductions or your standard deduction from your expected adjusted gross income, reduce the amount remaining by $3,200 for each exemption you expect to take on your 2005 tax return (lines 4 and 5 of the 2005 Estimated Tax Worksheet). 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.

Phaseout. For 2005, your deduction for personal exemptions is phased out if your adjusted gross income (AGI) falls within the following brackets.

Table 2.1

Single	$145,950 – $268,450
Married filing jointly or qualifying widow(er) . . .	$218,950 – $341,450
Married filing separately . .	$109,475 – $170,725
Head of household	$182,450 – $304,950

If the amount on line 1 of your 2005 Estimated Tax Worksheet is more than the highest amount in the bracket for your filing status, enter "-0-" on line 4 of your 2005 Estimated Tax Worksheet. If your AGI will fall within the bracket, use the following worksheet to figure the amount to enter on line 4 of your 2005 Estimated Tax Worksheet.

Worksheet 2.4

1. Multiply $3,200 by the number of exemptions you plan to claim . . . . . ______
2. Enter the amount from line 1 of your *2005 Estimated Tax Worksheet* . . . . ______
3. Enter:
   $145,950 if single
   $218,950 if married filing jointly or qualifying widow(er)
   $109,475 if married filing separately
   $182,450 if head of household . . . ______
4. Subtract line 3 from line 2 . . . . ______
5. 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 whole number . . . . ______
6. Multiply line 5 by .02. Enter the result as a decimal, but not more than 1 . . ______
7. Multiply line 1 by the decimal on line 6 ______
8. Subtract line 7 from line 1. Enter the result here and on line 4 of your *2005 Estimated Tax Worksheet* . . . . ______

Expected Taxes and Credits

After you have figured your expected taxable income, follow the steps below to figure your expected taxes, credits, and total tax for 2005. Most people will have entries for only a few of these steps. However, you should check every step to be sure that you do not overlook anything. The 2005 Estimated Tax Worksheet is part of the instructions for Form 1040-ES. References in the worksheet to instructions are to those instructions.

Step 1. Figure your expected income tax (line 6 of the 2005 Estimated Tax Worksheet). Use the 2005 Tax Rate Schedules at the end of this chapter or in the instructions to Form 1040-ES to figure your expected income tax. You must use a special method to figure tax on the income of a child under age 14 who has more than $1,600 of investment income. See *Tax on Investment Income of Child Under 14* in Publication 929, Tax Rules for Children and Dependents.

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.

Qualified dividends. The maximum tax rate for qualified dividends is 15% (generally, 5% for people whose other income is taxed at the 10% or 15% rate).

If you expect to have a net capital gain or qualified dividends, use Worksheet 2.5 to figure your tax.

Worksheet 2.5

1. Enter the amount from line 5 of your *2005 Estimated Tax Worksheet* . . . . ______
2. Enter your expected qualified dividends for 2005* . . . . ______
3. Enter the net capital gain expected for 2005* . . . . ______
4. Add lines 2 and 3 . . . . ______
5. Enter your 28% rate gain or loss expected for 2005. . . . . ______
6. Enter the unrecaptured section 1250 gain expected for 2005 . . . . ______
7. Add lines 5 and 6 . . . . ______
8. Enter the **smaller** of line 3 or line 7 . . ______
9. Subtract line 8 from line 4 . . . . ______
10. Subtract line 9 from line 1. If zero or less, enter zero (0) . . . . ______
11. Enter the **smaller** of line 1 or $59,400 ($29,700 if single or married filing separately or $39,800 if head of household). . . . . ______
12. Enter the **smaller** of line 10 or line 11 ______
13. Subtract line 4 from line 1. If zero or less, enter zero (0). . . . . ______
14. Enter the **larger** of line 12 or line 13. **Note.** *If line 11 and line 12 are the same, skip lines 15 and 16 and go on to line 17*. . . . . ______
15. Subtract line 12 from line 11. . . . . . ______
16. Multiply line 15 by 5% (.05). **Note.** *If lines 1 and 11 are the same, skip lines 17–23 and go to line 24* . . ______
17. Enter the **smaller** of line 1 or line 9. ______
18. Subtract line 15 from line 17. If zero or less, enter zero (0) . . . . ______
19. Multiply line 18 by 15% (.15). **Note.** *If line 6 is zero or blank, skip lines 20–24 and go to line 25* . . . . . ______
20. Enter the **smaller** of line 3 or line 6. ______
21. Add lines 4 and 14 . . . . ______
22. Subtract line 1 from line 21. If zero or less, enter zero (0) . . . . ______
23. Subtract line 22 from line 20. If zero or less, enter zero (0) . . . . ______
24. Multiply line 23 by 25% (.25). **Note.** *If line 5 is zero or blank, skip lines 25–27 and go to line 28* . . . . . ______
25. Add lines 14, 15, 18, and 23 . . . . . . ______
26. Subtract line 25 from line 1. . . . . . . ______
27. Multiply line 26 by 28% (.28). . . . . . ______
28. Tax on line 14 from the *2005 Tax Rate Schedule* . . . . ______
29. Add lines 16, 19, 24, 27, and 28 . . . . ______
30. Tax on line 1 from the *2005 Tax Rate Schedule* . . . . ______
31. **Tax.** Enter the **smaller** of line 29 or line 30 here and on line 6 of the *2005 Estimated Tax Worksheet* . . . . ______

*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.

A collectibles gain or loss is any gain or loss from the sale or exchange of a work of art, rug, antique, metal, gem, stamp, coin, or alcoholic beverage or other collectible that is a capital asset and that was held more than one year.

Step 2. Add your expected taxes (line 8 of the 2005 Estimated Tax Worksheet). Include on line 8 the sum of:

1. Your tax on line 6 of the worksheet,
2. Your expected alternative minimum tax from Form 6251 on line 7 of the worksheet,
3. Your expected additional taxes from Form 8814, Parents' Election To Report Child's Interest and Dividends, and Form 4972,

2005 Estimated Tax Worksheet

Keep for Your Records

1	Adjusted gross income you expect in 2005 (see instructions below)	1	
2	• If you plan to itemize deductions, enter the estimated total of your itemized deductions. **Caution:** *If line 1 above is over $145,950 ($72,975 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 2.	2	
3	Subtract line 2 from line 1	3	
4	Exemptions. Multiply $3,200 by the number of personal exemptions. If you can be claimed as a dependent on another person's 2005 return, you cannot claim any dependents and your personal exemption is not allowed. **Caution:** *See Pub. 505 to figure the amount to enter if line 1 above is over: $218,950 if married filing jointly or qualifying widow(er); $182,450 if head of household; $145,950 if single; or $109,475 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 **2005 Tax Rate Schedules** on page 5. **Caution:** *If you have qualified dividends or a net capital gain, see Pub. 505 to figure the tax*	6	
7	Alternative minimum tax from Form 6251	7	
8	Add lines 6 and 7. Also include any tax from Forms 4972 and 8814 and any recapture of education credits (see instructions below)	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 2005 net earnings from self-employment $ ________ ; if **$90,000 or less,** multiply the amount by 15.3%; if **more than $90,000,** multiply the amount by 2.9%, add $11,160 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 **Form 4136** and **Form 8885**	13b	
c	**Total 2005 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 2004 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 2005, more than $75,000) — 14b		
c	**Required annual payment to avoid a penalty.** Enter the **smaller** of line 14a or 14b ▶ **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.*	14c	
15	Income tax withheld and estimated to be withheld during 2005 (including income tax withholding on pensions, annuities, certain deferred income, etc.)	15	
16	Subtract line 15 from line 14c. (**Note:** *If zero or less or line 13c minus line 15 is less than $1,000, stop here. You are not required to make estimated tax payments.*)	16	
17	If the first payment you are required to make is due April 15, 2005, enter ¼ of line 16 (minus any 2004 overpayment that you are applying to this installment) here. (**Note:** *Household employers, see instructions below.*)	17	

Tax on Lump-Sum Distributions (line 43 box a and box b of the 2004 Form 1040), and

4. Any recapture of education credits.

Step 3. Subtract your expected credits (line 9 of the 2005 Estimated Tax Worksheet). If you are using your 2004 return as a guide and filed Form 1040, your total credits for 2004 were shown on line 55. If you filed Form 1040A, your total credits for 2004 were on line 35.

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

Step 4. Add your expected self-employment tax (line 11 of the 2005 Estimated Tax Worksheet). You should have already figured your self-employment tax (see *Expected Adjusted Gross Income* earlier in this chapter).

Step 5. Add your expected other taxes (line 12 of the 2005 Estimated Tax Worksheet).

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 62.

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, social security and Medicare tax on unreported tip income, or uncollected employee social security and Medicare or RRTA tax on tips or group-term life insurance.

If you filed a 2004 Form 1040A, your only "other taxes" were any advance earned income credit payments on line 37.

Step 6. Subtract your expected earned income credit, additional child tax credit, Form 4136 fuel tax credit, and Form 8885 health coverage tax credit (line 13b of the 2005 Estimated Tax Worksheet). These are shown on the 2004 Form 1040, lines 65a, 67, and 69.

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 2004 Form 1040A, line 41a. The additional child tax credit is shown on the 2004 Form 1040A, line 42.

The result of steps 1 through 6 is your total estimated tax for 2005 (line 13c of the 2005 Estimated Tax Worksheet).

Required Annual Payment

You figure the total amount you must pay for 2005 through withholding and estimated tax payments on lines 14a through 14c of the 2005 Estimated Tax Worksheet.

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

1. 90% of your total expected tax for 2005, or
2. 100% of the total tax shown on your 2004 return. Your 2004 tax return must cover all 12 months.

Exceptions. There are exceptions to the general rule for certain higher income taxpayers and for farmers and fishermen.

Higher income taxpayers. If your adjusted gross income (AGI) for 2004 was more than $150,000 ($75,000 if your filing status for 2005 is married filing a separate return), substitute 110% for 100% in (2) above. This rule does not apply to farmers and fishermen.

For 2004, AGI is the amount shown on Form 1040, line 36; Form 1040A, line 22; and Form 1040EZ, line 4.

Farmers and fishermen. If at least two-thirds of your gross income for 2004 or 2005 is from farming or fishing, your required annual payment is the smaller of:

1. 66⅔% (.6667) of your total tax for 2005, or
2. 100% of the total tax shown on your 2004 return. (Your 2004 tax return must cover all 12 months.)

For definitions of "gross income from farming" and "gross income from fishing," see *Farmers and Fishermen* later under *When To Pay Estimated Tax*.

Total tax for 2004. Your 2004 total tax on Form 1040 is the amount on line 62 reduced by the total of the amounts on lines 58, 65a, and 67, any credit from Form 4136 or Form 8885 included on line 69, any recapture of a federal mortgage subsidy, any 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 included on line 62, and any tax on excess contributions to IRAs, Archer MSAs, Coverdell education savings accounts, and health savings accounts and on excess accumulations in qualified retirement plans from Form 5329 included on line 59.

On Form 1040A, it is the amount on line 38 reduced by the amounts on lines 41a and 42. On Form 1040EZ, it is the amount on line 10 reduced by the amount on line 8a.

Example 2.5. Jeremy Martin's total tax on his 2004 return was $45,000, and his expected tax for 2005 is $70,000. His 2004 AGI was $180,000. Because Jeremy had more than $150,000 of AGI in 2004, he figures his required annual payment as follows. He determines that 90% of his expected tax for 2005 is $63,000 (.90 × $70,000). Next, he determines that 110% of the tax shown on his 2004 return is $49,500. Finally, he determines that his required annual payment is $49,500, the smaller of the two.

Total Estimated Tax Payments

Figure the total estimated tax you must pay for 2005 on lines 15 and 16 of the 2005 Estimated Tax Worksheet. 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* and *How To Figure Each Payment,* later.)

If your total expected tax on line 13c, minus your expected withholding on line 15, is less than $1,000, you do not have to pay estimated tax.

Withholding. Your expected withholding for 2005 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 2005 only if your wages from two or more employers are more than $90,000.

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 following chart gives the payment periods and due dates for estimated tax payments.

Table 2.3

For the period:	Due date:
Jan. 1* through March 31	April 15
April 1 through May 31	June 15
June 1 through August 31	September 15
Sept. 1 through Dec. 31	Jan. 15 next year**

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

**See *January payment,* later.

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 Sunday, January 15, 2006, will be on time if you make it by Tuesday, January 17, 2006.

January payment. If you file your 2005 Form 1040 or Form 1040A by January 31, 2006, and pay the rest of the tax you owe, you do not need to make the payment due on January 15, 2006.

A payment for the fourth payment period that is made by January 17, 2006, is considered made on January 15, 2006.

Example 2.6. Janet Adams does not pay any estimated tax for 2005. She files her 2005 income tax return and pays the balance due as shown on her return on January 24, 2006.

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 24, 2006.

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 can 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. The following chart shows the dates for making installment payments.

Table 2.4

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 September 15 January 15 next year*
After March 31 and before June 1	June 15	September 15 January 15 next year*
After May 31 and before Sept. 1	September 15	January 15 next year*
After August 31	January 15 next year*	(None)

*See *January payment* and *Saturday, Sunday, holiday rule* under *When To Pay Estimated Tax,* earlier.

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,* later.

Farmers and Fishermen

If at least two-thirds of your gross income for 2004 or 2005 is from farming or fishing, you have only one payment due date for your 2005 estimated tax, January 15, 2006. The due dates for the first three payment periods, discussed earlier under *When To Pay Estimated Tax,* do not apply to you.

A payment made by January 17, 2006, is considered made on January 15, 2006.

If you file your 2005 Form 1040 by March 1, 2006, and pay all the tax you owe, you do not need to pay estimated tax.

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.

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. 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 2004 was from farming or fishing, use as your gross income the total of the income (not loss) amounts.

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 2004, 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 a partnership's or S corporation's gross income from farming,
- Your share of distributable net income from farming of an estate or trust,
- 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.

- Income for services as an officer or crew member of a vessel while the vessel is engaged in fishing.
- Your share of a partnership's or S corporation's gross income from fishing.
- 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.

How To Figure Each Payment

After you have figured your 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, 2005, you can figure your required payment for each period by dividing your annual estimated tax due (line 16 of the 2005 Estimated Tax Worksheet) by 4. 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 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,* later.

Amended estimated tax. If you refigure your estimated tax during the year, or if your first estimated tax payment is due after April 15, 2005, figure your required payment for each remaining payment period using the following worksheet.

Worksheet 2.6

1. Amended total estimated tax due	______
2. Multiply line 1 by: .50 if next payment is due June 15, 2005; .75 if next payment is due September 15, 2005; 1.00 if next payment is due January 15, 2006	______
3. Estimated tax payments for all previous periods	______
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	______
If the payment on line 4 is due January 15, 2006, **stop here.** Otherwise, go on to line 5.	
5. Add lines 3 and 4	______
6. Subtract line 5 from line 1 and enter the result (but not less than zero)	______
7. **Each following required payment:** If the payment on line 4 is due June 15, 2005, enter one-half of the amount on line 6 here and on the payment vouchers for your payments due September 15, 2005, and January 15, 2006. If the amount on line 4 is due September 15, 2005, enter the full amount on line 6 here and on the payment voucher for your payment due January 15, 2006	______

Example 2.7. Early in 2005, Mira figures 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, figured as follows.

Filled-in Worksheet 2.6 for Mira (Example 2.7)

1. Amended total estimated tax due	$4,100
2. Multiply line 1 by: .50 if next payment is due June 15, 2005; .75 if next payment is due September 15, 2005; 1.00 if next payment is due January 15, 2006	3,075
3. Estimated tax payments for all previous periods	900
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	$2,175
If the payment on line 4 is due January 15, 2006, **stop here.** Otherwise, go on to line 5.	
5. Add lines 3 and 4	3,075
6. Subtract line 5 from line 1 and enter the result (but not less than zero)	1,025
7. **Each following required payment:** If the payment on line 4 is due June 15, 2005, enter one-half of the amount on line 6 here and on the payment vouchers for your payments due September 15, 2005, and January 15, 2006. If the amount on line 4 is due September 15, 2005, enter the full amount on line 6 here and on the payment voucher for your payment due January 15, 2006	$1,025

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.

To see whether you can pay less for any period, complete the blank 2005 Annualized Estimated Tax Worksheet (Worksheet 2.10) later in this chapter. (Note. You must first complete the 2005 Estimated Tax Worksheet through line 16.) The worksheet 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. Use the result you figure on line 28 to make your estimated tax payments and complete your payment vouchers.

See *Example 2.10* for an illustration of the worksheet.

Note. If you use the annualized income installment method to figure your estimated tax payments, you must file Form 2210 with your 2005 tax return. See *Annualized Income Installment Method* in chapter 4 for more information.

Instructions for Worksheet 2.10

The top of the worksheet 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 worksheet column for the period from the beginning of the tax year through the end of that payment period to figure the payment due for that period.

Line 1. Enter your adjusted gross income 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 Adjusted Gross Income* under *How To Figure Estimated Tax,* earlier.)

Self-employment income. If you had self-employment income, first complete Section B. Use the amounts on line 39 when figuring the amount of adjusted gross income to enter on line 1.

Line 4. Be sure to consider all deduction limits figured on Schedule A.

Line 6. Multiply line 4 by line 5 and enter the result on line 6, unless line 3 is more than $145,950 ($72,975 if married filing separately). In that case, use the following worksheet to figure the amount to enter on line 6. Complete this worksheet for each period.

Worksheet 2.7

1. Enter line 4 of Section A	______
2. Enter the amount included in line 1 for medical and dental expenses, investment interest, casualty or theft losses, and gambling losses	______
3. Subtract line 2 from line 1	______
4. Enter line 5 of Section A	______
5. Multiply line 1 by line 4	______
Note. *If line 3 is zero, stop here and enter line 5 on line 6 of Section A.*	
6. Multiply line 3 by line 4	______
7. Multiply line 6 by .80	______
8. Enter line 3 of Section A	______
9. Enter $145,950 ($72,975 if married filing separately)	______
10. Subtract line 9 from line 8	______
11. Multiply line 10 by .03	______
12. Enter the smaller of line 7 or line 11	______
13. Subtract line 12 from line 5. Enter the result here and on line 6 of Section A	______

Line 7. See the 2005 Standard Deduction Tables at the end of this chapter. Find your standard deduction in the appropriate table.

Line 10. Multiply $3,200 by your total expected exemptions, unless line 3 is more than the amount shown for your filing status in the following table.

Table 2.5

Single	$145,950
Married filing jointly or qualifying widow(er)	$218,950
Married filing separately	$109,475
Head of household	$182,450

In that case, use the following worksheet to figure the amount to enter on line 10.

Worksheet 2.8

1. Multiply $3,200 by your total expected exemptions	______
2. Enter line 3 of Section A	______
3. Enter the amount shown for your filing status from Table 2.5	______
4. Subtract line 3 from line 2	______
5. 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 whole number	______
6. Multiply line 5 by .02. Enter the result as a decimal, but not more than 1	______
7. Multiply line 1 by line 6	______
8. Subtract line 7 from line 1. Enter the result here and on line 10 of Section A	______

Line 12. Use the 2005 Tax Rate Schedules at the end of this chapter or in the instructions to Form 1040-ES to figure your annualized income tax. For the special method that must be used to figure tax on the income of a child under 14 who has more than $1,600 investment income, see *Tax on Investment Income of Child Under 14* in Publication 929, Tax Rules for Children and Dependents.

Capital gains tax computation. 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.

Use the following worksheet to figure the amount to enter on line 12 if the amount on line 1 includes capital gain.

Worksheet 2.9

1. Enter line 11 of your *2005 Annualized Estimated Tax Worksheet* . . . . ______
2. Enter your expected qualified dividends for 2005* . . . . ______
3. Enter the net capital gain expected for 2005* . . . . ______
4. Add lines 2 and 3 . . . . ______
5. Enter your 28% rate gain or loss expected for 2005. . . . . ______
6. Enter the unrecaptured section 1250 gain expected for 2005 . . . . ______
7. Add lines 5 and 6 . . . . ______
8. Enter the **smaller** of line 3 or line 7 . . ______
9. Subtract line 8 from line 4 . . . . ______
10. Subtract line 9 from line 1. If zero or less, enter zero (0) . . . . ______
11. Enter the **smaller** of line 1 or $59,400 ($29,700 if single or married filing separately or $39,800 if head of household). . . . . ______
12. Enter the **smaller** of line 10 or line 11 ______
13. Subtract line 4 from line 1. If zero or less, enter zero (0). . . . . ______
14. Enter the **larger** of line 12 or line 13. **Note.** *If line 11 and line 12 are the same, skip lines 15 and 16 and go on to line 17*. . . . . ______
15. Subtract line 12 from line 11. . . . . . . ______
16. Multiply line 15 by 5% (.05). **Note.** *If lines 1 and 11 are the same, skip lines 17–23 and go to line 24* . . ______
17. Enter the **smaller** of line 1 or line 9. ______
18. Subtract line 15 from line 17. If zero or less, enter zero (0) . . . . ______
19. Multiply line 18 by 15% (.15). **Note.** *If line 6 is zero or blank, skip lines 20–24 and go to line 25* . . . . . ______
20. Enter the **smaller** of line 3 or line 6. ______
21. Add lines 4 and 14 . . . . ______
22. Subtract line 1 from line 21. If zero or less, enter zero (0) . . . . ______
23. Subtract line 22 from line 20. If zero or less, enter zero (0) . . . . ______
24. Multiply line 23 by 25% (.25). **Note.** *If line 5 is zero or blank, skip lines 25–27 and go to line 28* . . . . . ______
25. Add lines 14, 15, 18, and 23 . . . . . . ______
26. Subtract line 25 from line 1. . . . . . . ______
27. Multiply line 26 by 28% (.28). . . . . . ______
28. Tax on line 14 from the *2005 Tax Rate Schedule* . . . . ______
29. Add lines 16, 19, 24, 27, and 28 . . . . ______
30. Tax on line 1 from the *2005 Tax Rate Schedule* . . . . ______
31. **Tax.** Enter the **smaller** of line 29 or line 30 here and on line 12 of the *2005 Annualized Estimated Tax Worksheet* . . . . ______

*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.

A collectibles gain or loss is any gain or loss from the sale or exchange of a work of art, rug, antique, metal, gem, stamp, coin, or alcoholic beverage or other collectible that is a capital asset and that was held more than one year.

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

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

If you filed a 2004 Form 1040, these include:

- Taxes on qualified plans, including IRAs, and other tax favored accounts,
- Advance earned income credit,
- Household employment taxes that are reported on your income tax return, and
- Amounts written in on line 62 of Form 1040.

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, social security and Medicare tax on unreported tip income, and any uncollected social security, Medicare, or railroad retirement tax.

If you filed a 2004 Form 1040A, "other tax" is any advance earned income credit payments on line 37 of that form.

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 2004 return as a guide and filed Form 1040, your 2004 credits included the credits on lines 65a, 67, and 69 boxes b and c, and the credits that are included in the total on line 55. If you filed Form 1040A, your 2004 credits included the credits on lines 41a and 42.

Line 25. If line 24 is smaller than line 21 and you are not certain of the estimate of your 2005 tax, you can avoid a penalty by entering the amount from line 21 on line 25.

Line 27. Include all estimated tax payments credited to 2005 and federal income tax withholding through the payment due date for the period. Also include excess social security and excess railroad retirement for the period.

Your withholding is considered paid in four equal installments, one 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 2005 by:

1. 25% (.25) for the first period,
2. 50% (.50) for the second period,
3. 75% (.75) for the third period, or
4. 100% (1.00) for the fourth period.

You may choose to include your actual withholding through the due date for each period on line 27. 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* under *How To Figure Estimated Tax,* earlier.

Worksheet 2.10. **2005 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 each column—2/29, 4/30, 7/31, 11/30.			**1/1/05 to 3/31/05**	**1/1/05 to 5/31/05**	**1/1/05 to 8/31/05**	**1/1/05 to 12/31/05**
1	Adjusted gross income 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 zero 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 2.7.)	**6**				
7	Standard deduction from 2005 tables.	**7**				
8	Enter the larger of line 6 or line 7.	**8**				
9	Substract line 8 from line 3.	**9**				
10	Multiply $3,200 by your total expected exemptions. (***Caution:*** See instructions and Worksheet 2.8.)	**10**				
11	Subtract line 10 from line 9.	**11**				
12	Tax on the amount on line 11 from the 2005 Tax Rate Schedules. (***Caution:*** See instructions and Worksheet 2.9.)	**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.	**16**				
17	Subtract line 16 from line 15. (If less than zero, enter zero.)	**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 zero.)	**21**				
22	Divide line 14c of the Form 1040-ES Estimated Tax Worksheet by 4.	**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 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.					
		1/1/05 to 3/31/05	**1/1/05 to 5/31/05**	**1/1/05 to 8/31/05**	**1/1/05 to 12/31/05**
29 Net earnings from self-employment for the period	**29**				
30 Prorated social security tax limit	**30**	$22,500	$37,500	$60,000	$90,000
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 31from 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 adjusted gross income on line 1	**39**				

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 the first column.
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 the second column,
   b. 45% for the third column, and
   c. 30% for the fourth column. 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, instead of the above percentages.
4. On line 22, enter one-half of the amount from line 16c of the Form 1040-ES(NR) 2005 Estimated Tax Worksheet in the second column, and one-fourth in the third and fourth columns.
5. On lines 20 and 23, skip column (b).
6. On line 27, if you do not use the actual withholding method, include one-third of your total expected withholding in the second column and two-thirds in the third and fourth columns.

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.

- By crediting an overpayment on your 2004 return to your 2005 estimated tax.
- By sending in your payment with a payment voucher from Form 1040-ES.
- By paying electronically using the Electronic Federal Tax Payment System (EFTPS).
- By electronic funds withdrawal if you are filing Form 1040 or Form 1040A electronically.
- By credit card using a pay-by-phone system or the Internet.

In addition, if you are a beneficiary of an estate or trust, and the trustee elects to credit 2005 trust payments of estimated tax to you, you can treat the amount credited as paid by you on January 15, 2006.

Crediting an Overpayment

When you file your Form 1040 or Form 1040A for 2004 and you have an overpayment of tax, you can apply part or all of it to your estimated tax for 2005. On line 73 of Form 1040, or line 46 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.

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 2.8. When Kathleen finished filling out her 2004 tax return, she saw that she had overpaid her taxes by $750. Kathleen knew she would owe additional tax in 2005. She credited $600 of the overpayment to her 2005 estimated tax and had the remaining $150 refunded to her.

In September, she amended her 2004 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 2004 overpayment from $750 to $500. Because the $750 had already been applied to her 2005 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 2005 estimated tax to pay this bill.

Using the Payment Vouchers

Each payment of estimated tax 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 2005 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 previously made one or more payments electronically, you will receive Form 1040-ES (E), which does not include payment vouchers. Instead please continue to make your payments electronically. This helps ensure that your account is properly and timely credited.

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. After you make your first payment, a Form 1040-ES package with the preprinted vouchers will be mailed to you. 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.

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

If you file a joint return and you are making joint estimated tax payments, please 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. You must send a clear and concise written statement to the IRS Center where you filed your last return and provide all of the following:

- 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, and
- Your social security number (and spouse's social security number).

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

You can continue to use your old preprinted payment vouchers until the IRS sends you new ones. However, do not correct the address on the old voucher.

Electronic Federal Tax Payment System (EFTPS)

EFTPS is a free tax payment system that all individuals and businesses can use. You can make payments online or by phone.

Here are just a few of the benefits of this easy-to-use system.

- Convenient and flexible. It is available 24 hours a day, 7 days a week, and you can use it to schedule payments in advance. For example, you can schedule estimated tax payments weekly, monthly, or quarterly.
- Fast and accurate. You can make a tax payment in minutes. Because there are verification steps along the way, you can check and review your information before sending it.
- Safe and secure. It offers the highest available levels of security. Every transaction receives an immediate confirmation.

For more information or details on enrolling, visit *www.EFTPS.gov* or call EFTPS Customer Service at 1-800-555-4477. Call 1-800-945-8900 if you are a TTY/TDD user. Call 1-800-945-8600 for Spanish.

Payment by Electronic Funds Withdrawal

You can make a 2005 estimated tax payment when you electronically file your 2004 Form 1040 or Form 1040A by authorizing an electronic funds withdrawal from your checking or savings account. Whether or not you have a balance due on your electronically filed tax return, you can schedule one estimated tax payment with an effective date of April 15, 2005, June 15, 2005, or September 15, 2005. Do not send in a Form 1040-ES payment voucher when you schedule an estimated tax payment by electronic funds withdrawal.

Payment by Credit Card

You can use your American Express®, Discover®, MasterCard®, or Visa® credit card to make estimated tax payments. Call or access by Internet one of the service providers listed below and follow the instructions of the provider. Each provider will charge a convenience fee based on the amount you are paying. You can find out what the fee will be by calling the provider's toll-free automated customer service number or visiting the provider's web site shown below.

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

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

See the Form 1040-ES instructions for more information.

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 2.9: Regular Installment Method

Early in 2005, Anne and Larry Jones figure their estimated tax payments for the year. They expect to receive the following income during 2005:

Larry's salary	$34,200
Unemployment compensation	600
Anne's net profit from self-employment	38,500
Net rental income	2,671
Interest income	2,300
Dividends	3,745
Total	$82,016

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

Adjustment to income for IRA contributions	$ 1,000
Itemized deductions	10,200
Deduction for exemptions ($3,200 × 2)	6,400
2004 total tax	15,220
Withholding	5,792

The Joneses plan to file a joint return. They use the 2005 Estimated Tax Worksheet included in Form 1040-ES to figure their estimated tax payments. Their filled-in worksheet follows this discussion.

Expected adjusted gross income. 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 adjusted gross income, they figure Anne's expected self-employment tax, as follows:

Filled-In Worksheet 2.2 for Anne Jones (Example 2.9)

1. Enter your expected income and profits subject to self-employment tax	$38,500
2. Multiply line 1 by .9235	$35,555
3. Multiply line 2 by .029	$1,031
4. Social security tax maximum income	$90,000
5. Enter your expected wages (if subject to social security tax)	–0–
6. Subtract line 5 from line 4	$90,000
***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	$35,555
8. Multiply line 7 by .124	$4,409
9. Add line 3 and line 8. Enter the result here and on line 11 of your *2005 Estimated Tax Worksheet*	$5,440
10. Multiply line 9 by .50. This is your deduction for one-half of your self-employment tax	$2,720

The Joneses enter $35,555 on the dotted line and $5,440 in the blank on line 11 of the worksheet. They subtract one-half of that amount, $2,720, and their $1,000 adjustment for IRA contributions from their $82,016 total income to find their expected adjusted gross income, $78,296. They enter that amount on line 1 of the worksheet.

Expected taxable income. The Joneses find their standard deduction, $10,000, in the 2005 Standard Deduction Tables. This is smaller than their expected itemized deductions, so they enter $10,200 on line 2 of the worksheet. They subtract the amount on line 2 from the amount on line 1 and enter the result, $68,096, on line 3. They enter their deduction for exemptions, $6,400, on line 4. After subtracting this amount, their expected taxable income on line 5 is $61,696.

Expected taxes and credits. The Joneses use the 2005 Tax Rate Schedule Y-1 at the end of this chapter to figure their expected income tax, and enter $8,754 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 $14,194.

Estimated tax. The Joneses multiply their total expected tax by 90% and enter $12,775 on line 14a of the worksheet. They enter their 2004 tax on line 14b. Their required annual payment on line 14c is the smaller amount, $12,775.

They enter Larry's expected withholding, $5,792, on line 15 and subtract it from their required annual payment. Their estimated tax on line 16 is $6,983.

Required estimated tax payment. The Joneses' first estimated tax payment is due April 15, 2005. They enter one-fourth of their estimated tax, $1,746, on line 17 of the worksheet and on their Form 1040-ES payment voucher due April 15. 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 $1,746 estimated tax by June 15, September 15, 2005, and January 17, 2006.

Example 2.10: Annualized Income Installment Method

The facts are the same as in *Example 2.9,* 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 2005 Estimated Tax Worksheet, the Joneses decide to use the annualized income installment method to see if they can pay less than $1,746 estimated tax for one or more payment periods. They complete the 2005 Annualized Estimated Tax Worksheet (Worksheet 2.10) in this chapter. Their filled-in worksheet follows their filled-in 2005 Estimated Tax Worksheet at the end of this example.

First Period

On April 1, 2005, 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	$8,550
Unemployment compensation	600
Anne's net profit from self-employment	3,000
Net rental income	–0–
Interest income	500
Dividends	462
Total	$13,112

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

Adjustment to income for IRA contributions	$ 150
Itemized deductions	1,200
Withholding	1,350

Annualized adjusted gross income. Before the Joneses figure their adjusted gross income 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, multiplied by .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 $22,500 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. They figure the amount to be $212 ($1,695 ÷ 8). They subtract that amount and their $150 IRA contributions from their $13,112 total income and enter their adjusted gross income for the period, $12,750, on line 1 of Section A. They multiply that amount by 4 and enter their annualized adjusted gross income, $51,000, on line 3.

Annualized taxable income. The Joneses figure their annualized itemized deductions ($1,200 × 4) on lines 4 through 6 of Section A. Because the result is smaller than their standard deduction, they enter their $10,000 standard deduction on line 8. After subtracting that amount and their $6,400 deduction for exemptions, the Joneses' annualized taxable income on line 11 is $34,600.

Annualized taxes and credits. The Joneses use the 2005 Tax Rate Schedule Y-1 at the end of this chapter to figure their annualized income tax, $4,460, on line 12 of Section A.

The Joneses 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 $6,155 ($4,460 + $1,695) on lines 15 and 17. This is their annualized total tax.

Required estimated tax payment. The Joneses' annualized income installment on line 21 of Section A is $1,385 ($6,155 × 22.5%). On lines 22 and 24 they enter $3,194, one-fourth of their $12,775 required annual payment under the regular installment method of figuring estimated tax payments (from line 14c of the 2005 Estimated Tax Worksheet). Because $1,385 is smaller, they enter that amount on lines 25 and 26.

Larry's total expected withholding for the year is $5,792. The Joneses can treat one-fourth of that amount, $1,448, as paid on April 15, or they can choose to use Larry's actual withholding for the period, $1,350. The Joneses enter $1,448 on line 27.

On line 28, the Joneses' required estimated tax payment for the period under the annualized income installment method is $0 ($1,385 - $1,448 is less than zero). They do not have a Form 1040-ES payment voucher due April 15, 2005.

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 Jan. 1- May 31	Third Jan. 1- Aug. 31	Fourth Jan. 1- Dec. 31
Larry's salary	$17,100	$25,650	$34,200
Unemployment compensation	600	600	600
Anne's net profit from self-employment	6,000	15,850	38,500
Net rental income	668	2,671	2,671
Interest income	850	1,450	2,300
Dividends	674	1,708	3,745
Total	$25,892	$47,929	$82,016

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

	Second Jan. 1- May 31	Third Jan. 1- Aug. 31	Fourth Jan. 1- Dec. 31
Adjustment to income for IRA contributions	$ 250	$ 400	$1,000
Itemized deductions	2,700	6,400	10,200

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 2005.

2005 Estimated Tax Worksheet

Keep for Your Records

1	Adjusted gross income you expect in 2005 (see instructions below)	1	78,296
2	• If you plan to itemize deductions, enter the estimated total of your itemized deductions. **Caution:** *If line 1 above is over $145,950 ($72,975 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 2.	2	10,200
3	Subtract line 2 from line 1	3	68,096
4	Exemptions. Multiply $3,200 by the number of personal exemptions. If you can be claimed as a dependent on another person's 2005 return, you cannot claim any dependents and your personal exemption is not allowed. **Caution:** *See Pub. 505 to figure the amount to enter if line 1 above is over: $218,950 if married filing jointly or qualifying widow(er); $182,450 if head of household; $145,950 if single; or $109,475 if married filing separately*	4	6,400
5	Subtract line 4 from line 3	5	61,696
6	**Tax.** Figure your tax on the amount on line 5 by using the **2005 Tax Rate Schedules** on page 5. **Caution:** *If you have qualified dividends or a net capital gain, see Pub. 505 to figure the tax*	6	8,754
7	Alternative minimum tax from Form 6251	7	
8	Add lines 6 and 7. Also include any tax from Forms 4972 and 8814 and any recapture of education credits (see instructions below)	8	8,754
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	8,754
11	Self-employment tax (see instructions below). Estimate of 2005 net earnings from self-employment $ 35,555 ; if **$90,000 or less,** multiply the amount by 15.3%; if **more than $90,000,** multiply the amount by 2.9%, add $11,160 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	5,440
12	Other taxes (see instructions below)	12	
13a	Add lines 10 through 12	13a	14,194
b	Earned income credit, additional child tax credit, and credits from **Form 4136** and **Form 8885**	13b	
c	**Total 2005 estimated tax.** Subtract line 13b from line 13a. If zero or less, enter -0- ▶	13c	14,194
14a	Multiply line 13c by 90% (66⅔% for farmers and fishermen) — **14a** 12,775		
b	Enter the tax shown on your 2004 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 2005, more than $75,000) — **14b** 15,220		
c	**Required annual payment to avoid a penalty.** Enter the **smaller** of line 14a or 14b ▶ **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.*	14c	12,775
15	Income tax withheld and estimated to be withheld during 2005 (including income tax withholding on pensions, annuities, certain deferred income, etc.)	15	5,792
16	Subtract line 15 from line 14c. (**Note:** *If zero or less or line 13c minus line 15 is less than $1,000, stop here. You are not required to make estimated tax payments.*)	16	6,983
17	If the first payment you are required to make is due April 15, 2005, enter ¼ of line 16 (minus any 2004 overpayment that you are applying to this installment) here. (**Note:** *Household employers, see instructions below.*)	17	1,746

Filled-In 2005 Annualized Estimated Tax Worksheet for Example 2.10

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 each column—2/29, 4/30, 7/31, 11/30.			**1/1/05 to 3/31/05**	**1/1/05 to 5/31/05**	**1/1/05 to 8/31/05**	**1/1/05 to 12/31/05**
1	Adjusted gross income for each period. (***Caution:*** See instructions.) Self-employed: Complete Section B first.	**1**	12,750	25,218	46,409	78,296
2	Annualization amounts.	**2**	4	2.4	1.5	1
3	Annualized income. Multiply line 1 by line 2.	**3**	51,000	60,523	69,614	78,296
4	Itemized deductions for period. If you do not expect to itemize, skip to line 7 and enter zero.	**4**	1,200	2,700	6,400	10,200
5	Annualization amounts.	**5**	4	2.4	1.5	1
6	Multiply line 4 by line 5. (***Caution:*** See instructions and Worksheet 2.7.)	**6**	4,800	6,480	9,600	10,200
7	Standard deduction from 2005 tables.	**7**	10,000	10,000	10,000	10,000
8	Enter the larger of line 6 or line 7.	**8**	10,000	10,000	10,000	10,200
9	Subtract line 8 from line 3.	**9**	41,000	50,523	59,614	68,096
10	Multiply $3,200 by your total expected exemptions. (***Caution:*** See instructions and Worksheet 2.8.)	**10**	6,400	6,400	6,400	6,400
11	Subtract line 10 from line 9.	**11**	34,600	44,123	53,214	61,696
12	Tax on the amount on line 11 from the 2005 Tax Rate Schedules. (***Caution:*** See instructions and Worksheet 2.9.)	**12**	4,460	5,888	7,252	8,754
13	Self-employment tax from line 37 of Section B.	**13**	1,695	2,035	3,359	5,440
14	Other taxes for each payment period.	**14**				
15	Add lines 12, 13, and 14.	**15**	6,155	7,923	10,611	14,194
16	Credits for each period.	**16**				
17	Total tax. Subtract line 16 from line 15. (If less than zero, enter zero.)	**17**	6,155	7,923	10,611	14,194
18	Applicable percentage.	**18**	22.5%	45%	67.5%	90%
19	Multiply line 17 by line 18.	**19**	1,385	3,565	7,162	12,775
20	Add amounts on line 25 of all preceding columns.	**20**		1,385	3,565	7,162
21	Annualized income installment. Subtract line 20 from line 19. (If less than zero, enter zero.)	**21**	1,385	2,180	3,597	5,613
22	Divide line 14c of the Form 1040-ES Estimated Tax Worksheet by 4.	**22**	3,194	3,194	3,194	3,194
23	Subtract line 25 of preceding column from line 24 of preceding column.	**23**		1,809	2,823	2,420
24	Add lines 22 and 23.	**24**	3,194	5,003	6,017	5,614
25	Enter the smaller of line 21 or line 24. (***Caution:*** See instructions.)	**25**	1,385	2,180	3,597	5,613
26	Total required payments for the period. Add lines 20 and 25.	**26**	1,385	3,565	7,162	12,775
27	Estimated tax payments made and tax withholding through the due date for the period.	**27**	1,448	2,896	5,013	8,610
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**	-0-	669	2,149	4,165

Filled-In 2005 Annualized Estimated Tax Worksheet for Example 2.10 (continued)

Section B (For Figuring Your Annualized Estimated Self-Employment Tax)—Complete each column after end of period shown.						
			1/1/05 to 3/31/05	1/1/05 to 5/31/05	1/1/05 to 8/31/05	1/1/05 to 12/31/05
29	Net earnings from self-employment for the period	29	2,771	5,541	14,637	35,555
30	Prorated social security tax limit	30	$22,500	$37,500	$60,000	$90,000
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	22,500	37,500	60,000	90,000
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	2,722	4,409
35	Annualization amounts	35	0.116	0.0696	0.0435	0.029
36	Multiply line 29 by line 35	36	321	386	637	1,031
37	Add lines 34 and 36. Enter the result here and on line 13 of Section A	37	1,695	2,035	3,359	5,440
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 adjusted gross income on line 1.	39	212	424	1,120	2,720

2005 Tax Rate Schedules

Caution. Do not use these Tax Rate Schedules to figure your 2004 taxes. Use only to figure your 2005 estimated taxes.

Single—Schedule X

If line 5 is: Over—	But not over—	The tax is:	of the amount over—
$0	$7,300	.... 10%	$0
7,300	29,700	$730.00 + 15%	7,300
29,700	71,950	4,090.00 + 25%	29,700
71,950	150,150	14,652.50 + 28%	71,950
150,150	326,450	36,548.50 + 33%	150,150
326,450	....	94,727.50 + 35%	326,450

Married filing jointly or Qualifying widow(er)—Schedule Y-1

If line 5 is: Over—	But not over—	The tax is:	of the amount over—
$0	$14,600	.... 10%	$0
14,600	59,400	$1,460.00 + 15%	14,600
59,400	119,950	8,180.00 + 25%	59,400
119,950	182,800	23,317.50 + 28%	119,950
182,800	326,450	40,915.50 + 33%	182,800
326,450	....	88,320.00 + 35%	326,450

Married filing separately—Schedule Y-2

If line 5 is: Over—	But not over—	The tax is:	of the amount over—
$0	$7,300	.... 10%	$0
7,300	29,700	$730.00 + 15%	7,300
29,700	59,975	4,090.00 + 25%	29,700
59,975	91,400	11,658.75 + 28%	59,975
91,400	163,225	20,457.75 + 33%	91,400
163,225	....	44,160.00 + 35%	163,225

Head of household—Schedule Z

If line 5 is: Over—	But not over—	The tax is:	of the amount over—
$0	$10,450	.... 10%	$0
10,450	39,800	$1,045.00 + 15%	10,450
39,800	102,800	5,447.50 + 25%	39,800
102,800	166,450	21,197.50 + 28%	102,800
166,450	326,450	39,019.50 + 33%	166,450
326,450	....	91,819.50 + 35%	326,450

2005 Standard Deduction Tables

Table 1. **Standard Deduction Chart for Most People***

If your filing status is:	Your standard deduction is:
Single	$5,000
Married filing joint return or Qualifying widow(er) with dependent child	10,000
Married filing separate return	5,000
Head of household	7,300

*DO NOT use this chart if you were 65 or older or blind, OR if someone else can claim an exemption for you (or your spouse if married filing jointly). Use Table 2 or 3 instead.

Table 2. **Standard Deduction Chart for People Age 65 or Older or Blind***

Check the correct number of boxes below. Then go to the chart.

You 65 or older ☐ Blind ☐

Your spouse, if claiming spouse's exemption 65 or older ☐ Blind ☐

Total number of boxes you checked ☐

If your filing status is:	And the number in the box above is:	Your standard deduction is:
Single	1	$6,250
	2	7,500
Married filing joint return or Qualifying widow(er) with dependent child	1	11,000
	2	12,000
	3	13,000
	4	14,000
Married filing separate return	1	6,000
	2	7,000
	3	8,000
	4	9,000
Head of household	1	8,550
	2	9,800

*If someone can claim an exemption for you (or your spouse if married filing jointly), use Table 3, instead.

CAUTION: 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 65 or older or blind.

Table 3. **Standard Deduction Worksheet for Dependents***

If you were 65 or older or blind, check the correct number of boxes below. Then go to the worksheet.

You 65 or older ☐ Blind ☐

Your spouse, if claiming spouse's exemption 65 or older ☐ Blind ☐

Total number of boxes you checked ☐

1.	Enter your **earned income** (defined below). If none, enter –0–.	**1.** ______
2.	Additional amount.	**2.** $250
3.	Add lines 1 and 2.	**3.** ______
4.	Minimum amount.	**4.** $800
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—$5,000 • Married filing jointly or Qualifying widow(er) with dependent child—$10,000 • Head of household—$7,300	**6.** ______
7.	**Standard deduction.**	
a.	Enter the **smaller** of line 5 or line 6. If under 65 and not blind, stop here. This is your standard deduction. Otherwise, go on to line 7b.	**7a.** ______
b.	If 65 or older or blind, multiply $1,250 ($1,000 if married or qualifying widow(er) with dependent child) by the number in the box above.	**7b.** ______
c.	Add lines 7a and 7b. This is your standard deduction for 2005.	**7c.** ______

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.*

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

3.

Credit for Withholding and Estimated Tax for 2004

What's New

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 2004 only if your total wages from two or more employers were more than $87,900.

Introduction

When you file your 2004 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 2004. These credits are subtracted from your tax. 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 2004, you should receive a statement by January 31, 2005, 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. You file Form W-2 with your income tax return. File Form W-2G with your return 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. You should also receive copies to file with your state and local returns.

Form W-2

Your employer should give you a Form W-2 for 2004 by January 31, 2005. You should receive a separate Form W-2 from each employer you worked for.

If you stopped working before the end of the year, your employer could have given you your Form W-2 at any time after you stopped working. However, your employer must give it to you by January 31, 2005.

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 you have not received your Form W-2 by January 31, 2005, you should ask your employer for it. If you do not receive it by February 15, call the IRS. The 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 63, if you file Form 1040,
- Line 39, if you file Form 1040A, or
- Line 7, if you file Form 1040EZ.

Form W-2 is also 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 2004, 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 63 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. 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 receive these forms by January 31, 2005. Keep these forms for your records. There are several different forms in this series, including:

- Form 1099-B, Proceeds From Broker and Barter Exchange Transactions,
- Form 1099-DIV, Dividends and Distributions,
- 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 63 of Form 1040, or on line 39 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 2004, include the amount withheld, as shown on your Form 1099, in the total on line 63 of Form 1040, or line 39 of Form 1040A.

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 be marked "Corrected." 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.

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, and
- Wisconsin.

If you live in a community property state and file a separate return, you and your spouse must each report half of all community income in addition to your own separate income. Each of you takes 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

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 in 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 3.1. Miles Hanson files his return for a fiscal year ending June 30, 2004. In January 2004, he received a Form W-2 that showed that his wages for 2003 were $15,600 and that his income tax withheld was $1,409.40. His records show that he had received $7,500 of the wages by June 30, 2003, and $8,100 from July 1 through December 31, 2003.

On his return for the fiscal year ending June 30, 2004, Miles will report the $8,100 he was paid in July through December of 2003, plus whatever he was paid during the rest of the fiscal year, January 1, 2004, to June 30, 2004. However, he takes credit for all $1,409.40 that was withheld during 2003. On his return for the fiscal year ending June 30, 2005, he can take credit for any tax withheld during 2004 but not for any tax withheld during 2005.

On his return for the fiscal year ending June 30, 2006, Miles takes credit for any income tax withheld in 2005.

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 payment.

Example 3.2. Emily Smith's records show that she received income in February 2005 from which $50 was withheld under the backup withholding rule. On her tax return for the fiscal year ending June 30, 2005, Emily takes credit for withheld income tax of $50.

Estimated Tax

Take credit for all your estimated tax payments for 2004 on line 64 of Form 1040 or line 40 of Form 1040A. Include any overpayment from 2003 that you had credited to your 2004 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, include on Form 1040, line 64, any trust payments of estimated tax credited to you (from line 14a of Schedule K-1 (Form 1041), Beneficiary's Share of Income, Deductions, Credits, Etc.). On the dotted line next to line 37 of Schedule E (Form 1040) write "ES payment claimed" and the amount. Do not include this amount in the total on line 37. The payment is treated as being made by you on January 15, 2005.

Name changed. If you changed your name, and you made estimated tax payments using your old 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
- Your social security number.

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

Separate Returns

If you and your spouse made separate estimated tax payments for 2004 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 2004.

Example 3.3. James and Evelyn Brown made joint estimated tax payments for 2004 totaling $3,000. They file separate Forms 1040. 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 2004, 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 2004. See *Example 3.3,* earlier.

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 on the front of Form 1040 or Form 1040A. If you divorced and remarried in 2004, enter your present spouse's SSN in that space and write your former spouse's SSN, followed by "DIV," to the left of line 64, Form 1040, or line 40, Form 1040A.

Excess Social Security or Railroad Retirement Tax Withholding

Most employers must withhold social security tax from your wages. The federal government and state and local governments in some cases 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 2004, too much social security tax or 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 3.1 shows the maximum amount that should have been withheld for any of these taxes for 2004. Figure the excess withholding on the appropriate worksheet following Table 3.1. Use Worksheet 3.1 to figure excess social security tax; use Worksheet 3.2 to figure excess tier 1 RRTA tax; use Worksheet 3.3 to figure excess tier 2 RRTA tax.

Note. If you worked for both a railroad employer and a nonrailroad employer, use Worksheet 3.2 to figure excess social security and tier 1 RRTA tax.

Joint returns. If you are filing a joint return, you cannot add any social security or 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.

Table 3.1

Type of Tax	Maximum wages subject to tax	Tax rate	Maximum tax to be withheld
Social security	$87,900	6.2%	$5,449.80
Tier 1 railroad retirement (RRTA)	$87,900	6.2%	$5,449.80
Tier 2 RRTA	$65,100	4.9%	$3,189.90

Note. All wages are subject to Medicare tax withholding.

Employer's error. If any one employer withheld too much social security or 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.

Worksheet for Nonrailroad Employees

Unless you worked for a railroad during 2004, figure the excess on the following worksheet.

Worksheet 3.1

1. Add all social security tax withheld (but not more than $5,449.80 for each employer). This tax should be shown in box 4 of your Forms W–2. Enter the total here	
2. Enter any uncollected social security tax on tips or group-term life insurance included in the total on Form 1040, line 62	
3. Add lines 1 and 2. If $5,449.80 or less, stop here. You cannot claim the credit.	
4. Social security limit	5,449.80
5. Excess. Subtract line 4 from line 3.	

Where to claim credit for excess social security withholding. If you file Form 1040, enter the excess on line 66. You cannot claim excess social security tax withholding on Form 1040A or Form 1040EZ.

Example 3.4. In 2004, Tom Martin earned $52,000 working for Company A and $40,200 working for Company B. Company A withheld $3,224 for social security tax. Company B withheld $2,492.40 for social security tax. Because he worked for two employers and earned more than $87,900, he had too much social security tax withheld. Tom figures his credit of $266.60 as follows:

Filled-In Worksheet 3.1 for Tom Martin (Example 3.4)

1. Add all social security tax withheld (but not more than $5,449.80 for each employer). This tax should be shown in box 4 of your Forms W–2. Enter the total here.	$5,716.40
2. Enter any uncollected social security tax on tips or group-term life insurance included in the total on Form 1040, line 62	0
3. Add lines 1 and 2. If $5,449.80 or less, stop here. You cannot claim the credit.	5,716.40
4. Social security tax limit	5,449.80
5. Excess. Subtract line 4 from line 3.	$266.60

Worksheets for Railroad Employees

If you worked for a railroad during 2004, figure your excess withholding on the following worksheets.

Worksheet 3.2

1. Add all social security and tier 1 RRTA tax withheld (but not more than $5,449.80 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	
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 62	
3. Add lines 1 and 2. If $5,449.80 or less, stop here. You cannot claim the credit.	
4. Social security and tier 1 RRTA tax limit	5,449.80
5. Excess. Subtract line 4 from line 3.	

Where to claim credit for excess tier 1 RRTA withholding. If you file Form 1040, enter the excess on line 66. You cannot claim excess tier 1 RRTA withholding on Form 1040A or Form 1040EZ.

Worksheet 3.3

1. Add all tier 2 RRTA tax withheld (but not more than $3,189.90 for each employer). Box 14 of your Forms W–2 should show tier 2 RRTA tax. Enter the total here	
2. Enter any uncollected tier 2 RRTA tax on tips or group-term life insurance included in the total on Form 1040, line 62	
3. Add lines 1 and 2. If $3,189.90 or less, stop here. You cannot claim the credit.	
4. Tier 2 RRTA tax limit	3,189.90
5. Excess. Subtract line 4 from line 3.	

How to claim refund of excess tier 2 RRTA . To claim a refund of tier 2 tax, use Form 843, Claim for Refund and Request for Abatement. Be sure to attach a copy of all of your W-2 forms.

4.

Underpayment Penalty for 2004

What's New

Penalty rate. The penalty for underpayment of 2004 estimated tax is figured at an annual rate of 5% for the number of days the underpayment remained unpaid from April 15, 2004, through June 30, 2004; 4% from July 1, 2004, through September 30, 2004; and 5% from October 1, 2004, through April 15, 2005.

Reminders

Household employment taxes. When figuring the penalty for failure to pay estimated income tax, you generally must include with your estimated taxes any household employment taxes that you may have to pay.

Failure to pay estimated tax. You will not be liable for the penalty for failure to pay estimated income tax if the total tax shown on your return minus the amount you paid through withholding (including excess social security and railroad retirement tax withholding) is less than $1,000.

IRS will figure your penalty. You generally do not need to figure your underpayment penalty. In most cases, the IRS will figure it for you. 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 wages as paid on the dates actually withheld.

Introduction

If you did not pay enough tax either through withholding or by making estimated tax payments, you will have an underpayment of estimated tax and you may have to pay a penalty.

Having completed copies of your latest federal income tax returns may help you through this chapter.

No penalty. Generally, you will not have to pay a penalty for 2004 if any of the following situations applies.

- The total of your withholding and estimated tax payments was at least as much as your 2003 tax (or 110% of your 2003 tax if your adjusted gross income was more than $150,000, $75,000 if your 2004 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 2004 tax, and you paid all required estimated tax payments on time.
- Your total 2004 tax (defined later) minus your withholding is less than $1,000.
- You did not have a tax liability for 2003.
- 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. However, you must complete Form 2210 or Form 2210-F and attach it to your return if you think you are able to lower or eliminate your penalty. See *Form 2210,* later.

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 2004 if the total of your withholding and estimated tax payments did not equal at least the smaller of:

1. 90% of your 2004 tax, or
2. 100% of your 2003 tax. (Your 2003 tax return must cover a 12-month period.)

Your 2004 tax, for this purpose, is your *Total tax for 2004,* defined under *Exceptions,* later.

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 2003 or 2004 is from farming or fishing, substitute $66\frac{2}{3}$% for 90% in (1) above.

See *Farmers and Fishermen,* later.

Higher income taxpayers. If less than two-thirds of your gross income for 2003 and 2004 is from farming or fishing and your adjusted gross income (AGI) for 2003 was more than $150,000 ($75,000 if your filing status is married filing a separate return in 2004), substitute 110% for 100% in (2) above.

For 2003, AGI is the amount shown on Form 1040, line 34; 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 4.1. You did not make estimated tax payments for 2004 because you thought you had enough tax withheld from your wages. Early in January 2005, you made an estimate of your total 2004 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, 2005. However, you may owe a penalty through January 10, 2005, (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 2004 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 2004 tax, or
2. 25% of your 2003 tax. (Your 2003 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 were a beneficiary of an estate or trust that credited its estimated tax payments to you, treat the amount credited (line 14a of Schedule K-1 (Form 1041), Beneficiary's Share of Income, Deductions, Credits, Etc.) as an estimated tax payment made by you on January 15, 2005.

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.

2003 separate returns and 2004 joint return. If you file a joint return with your spouse for 2004, but you filed separate returns for 2003, your 2003 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.

2003 joint return and 2004 separate returns. If you file a separate return for 2004, but you filed a joint return with your spouse for 2003, your 2003 tax is your share of the tax on the joint return. You filed a separate return if you filed 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 2003 using the same filing status as for 2004. Then multiply the tax on the joint return by the following fraction:

$$\frac{\text{The tax you would have paid had you filed a separate return}}{\text{The total tax you and your spouse would have paid had you filed separate returns}}$$

Example 4.2. Lisa and Paul filed a joint return for 2003 showing taxable income of $49,000 and a tax of $6,654. Of the $49,000 taxable income, $41,000 was Lisa's and the rest was Paul's. For 2004, they file married filing separately. Lisa figures her share of the tax on the 2003 joint return as follows:

2003 Tax on $41,000 based on a separate return	$7,066
2003 Tax on $8,000 based on a separate return	854
Total	$ 7,920
Lisa's percentage of total ($7,066 ÷ $ 7,920)	89.22%
Lisa's part of tax on joint return ($6,654 × 89.22%)	$ 5,937

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.

If you want to figure your penalty, complete Part I, Part II, and either Part III or Part IV of Form 2210. See *Reasons for filing* to determine whether you should file Form 2210. If you use Form 2210, you cannot file Form 1040EZ.

On Form 1040, enter the amount of your penalty on line 75. If you owe tax on line 74, add the penalty to your tax due and show your total payment on line 74. If you are due a refund, subtract the penalty from the overpayment you show on line 71.

On Form 1040A, enter the amount of your penalty on line 48. If you owe tax on line 47, add the penalty to your tax due and show your total payment on line 47. If you are due a refund, subtract the penalty from the overpayment you show on line 44.

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,* later.
- You use the annualized income installment method. See the explanation of this method under *Figuring Your Underpayment,* later.
- You use your actual withholding for each payment period for estimated tax purposes. See *Actual withholding method* under *Figuring Your Underpayment,* later.
- You base any of your required installments on the tax shown on your 2003 return and you filed or are filing a joint return for either 2003 or 2004 but not for both years.

Exceptions

Generally, you do not have to pay an underpayment penalty if either of the following conditions apply:

- 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 railroad retirement tax withholding) is less than $1,000.

Total tax for 2004. For 2004, your total tax on Form 1040 is the amount on line 62 reduced by the total of the following amounts.

- Any recapture of a federal mortgage subsidy from Form 8828 included on line 62.
- Any social security or Medicare tax on tips not reported to your employer on line 58.
- Any tax on excess contributions to IRAs, Archer MSAs, Coverdell education savings accounts, and health savings accounts, and any tax on excess accumulations in qualified retirement plans from Form 5329 included on line 59.
- Any uncollected social security, Medicare, or railroad retirement tax included on line 62.
- Any tax on golden parachute payments included on line 62.
- Any excise tax on insider stock compensation from an expatriated corporation included on line 62.
- Any earned income credit on line 65a.
- Any additional child tax credit on line 67.
- Any credit for federal tax on fuels from Form 4136 included on line 69.
- Any health coverage tax credit from Form 8885 included on line 69.

Your total tax on Form 1040A is the amount on line 38 minus the amount on lines 41a and 42. Your total tax on Form 1040EZ is the amount on line 10 minus the amount on line 8a.

Paid through withholding. For 2004, the amount you paid through withholding on Form 1040 is the amount on line 63 plus any excess social security or railroad retirement tax withholding on line 66. On Form 1040A, the amount you paid through withholding is the amount on line 39. 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 2003 if your total tax was zero or you did not need to file an income tax return.

Example 4.3. Ray, who is single and 22 years old, was unemployed for most of 2003. 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 ($7,800 for 2003). He filed a return only to have his withheld income tax refunded to him.

In 2004, Ray began regular work as an independent contractor. Ray made no estimated tax payments in 2004. Even though he did owe tax at the end of the year, Ray does not owe the underpayment penalty for 2004 because he had no tax liability in 2003.

Total tax for 2003. For 2003, your total tax on Form 1040 is the amount on line 60 reduced by the total of the following amounts.

- Any recapture of a federal mortgage subsidy from Form 8828 included on line 60.
- Any social security or Medicare tax on tips not reported to your employer on line 56.
- Any tax on excess contributions to IRAs, Archer MSAs, and Coverdell education savings accounts, and any tax on excess accumulations in qualified retirement plans from Form 5329 included on line 57.
- Any uncollected social security, Medicare, or railroad retirement tax included on line 60.
- Any tax on golden parachute payments included on line 60.
- Any earned income credit on line 63.

- Any additional child tax credit on line 65.
- Any credit for federal tax on fuels from Form 4136 included on line 67.
- Any health coverage tax credit from Form 8885 included on line 67.

Your total tax on Form 1040A is the amount on line 38 minus the amount on lines 41 and 42. Your total tax on Form 1040EZ is the amount on line 10 minus the amount on line 8.

Figuring Your Required Annual Payment

Figure your required annual payment in Part I of Form 2210, following the line-by-line instructions. If you rounded the entries on your return to whole dollars, you can round on Form 2210.

Example 4.4. The tax on Ivy Fields' 2003 return was $10,000. Her AGI was not more than $150,000. The tax on her 2004 return (Form 1040, line 43) is $11,000. She does not claim any credits or pay any other taxes.

For 2004, Ivy had $1,600 income tax withheld and paid $6,800 estimated tax. Her total payments were $8,400. 90% of her 2004 tax is $9,900. Because she paid less than her 2003 tax and less than 90% of her 2004 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 2003 tax.

Page 1 of Ivy's filled-in Form 2210 is shown at the end of this chapter. Her required annual payment of $9,900 is shown on line 9.

Different 2003 filing status. If you file a separate return for 2004, but you filed a joint return with your spouse for 2003, see *2003 joint return and 2004 separate returns,* earlier, to figure the amount to enter as your 2003 tax on line 8 of Form 2210.

Short Method for Figuring the Penalty

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 lower penalty.

You can use the short method only if you meet one of the following requirements.

- You made no estimated tax payments for 2004 (it does not matter whether you had income tax withholding), or
- You paid estimated tax in four equal amounts on the due dates.

If you do not meet either requirement, figure your penalty using the regular method in Part IV, Form 2210.

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 later under* Figuring Your Underpayment.

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 (Part I, line 9). Then figure the penalty you would owe if the underpayment remained unpaid up to April 15, 2005. 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 2004 return and paid the tax balance on April 3, 2005, 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 75 of Form 1040 or line 48 of Form 1040A. Attach Form 2210 to your return only if you checked one of the boxes in Part II.

Example 4.5. The facts are the same as in *Example 4.4.* 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 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 (Part I, line 9). The maximum penalty on her underpayment (line 15) is $48 ($1,500 × .03184).

Ivy plans to file her return and pay her $2,600 tax balance on March 16, 2005, 30 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 × 30 × .00014 = $6

Ivy subtracts the $6 from the $48 maximum penalty and enters the result, $42, on line 17 and on line 75 of her Form 1040. She adds $42 to her $2,600 tax balance and enters the result, $2,642 on line 74 of her Form 1040. Ivy files her return on March 16 and attaches a check for $2,642. Because Ivy did not check any of the boxes in Part II, she does not attach Form 2210 to her tax return.

Ivy's filled-in Form 2210, Part III is shown at the end of this chapter.

Regular Method for Figuring the Penalty

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 other than 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 (Section A of Part IV)

Figure your underpayment of estimated tax for each payment period in Section A following the line-by-line instructions. Complete each line for a payment period column before completing the next column.

Required installment. 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 later), 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, 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 63, plus any excess social security or railroad retirement tax withholding on line 66. If you file Form 1040A, your withholding is the amount on line 39.

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.

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, Part II of Form 2210 and complete Form 2210 and file it with your return.

Regular Installment Method

Example 4.6. Ben Brown's 2004 total tax (Form 1040, line 62) is $7,031, the total of his $4,685 income tax and $2,346 self-employment tax. His 2003 AGI was less than $150,000. He does not owe any other taxes or claim any credits other than for withholding. His 2003 tax was $6,116.

Ben's employer withheld $3,228 income tax during 2004. Ben paid no estimated tax for either the first or second period, but he paid $1,000 each on September 2, 2004, and January 12, 2005, 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 90% of his 2004 tax ($6,328), and was also less than his 2003 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, 2005.

Ben's required annual payment (Part I, line 9) is $6,116. Because his income and withhold-

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, or Schedule AI, 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).

	Tax Year 2004												
Day of Month	**2004 April**	**2004 May**	**2004 June**	**2004 July**	**2004 Aug.**	**2004 Sept.**	**2004 Oct.**	**2004 Nov.**	**2004 Dec.**	**2005 Jan.**	**2005 Feb.**	**2005 Mar.**	**2005 Apr.**
1		16	47	77	108	139	169	200	230	261	292	320	351
2		17	48	78	109	140	170	201	231	262	293	321	352
3		18	49	79	110	141	171	202	232	263	294	322	353
4		19	50	80	111	142	172	203	233	264	295	323	354
5		20	51	81	112	143	173	204	234	265	296	324	355
6		21	52	82	113	144	174	205	235	266	297	325	356
7		22	53	83	114	145	175	206	236	267	298	326	357
8		23	54	84	115	146	176	207	237	268	299	327	358
9		24	55	85	116	147	177	208	238	269	300	328	359
10		25	56	86	117	148	178	209	239	270	301	329	360
11		26	57	87	118	149	179	210	240	271	302	330	361
12		27	58	88	119	150	180	211	241	272	303	331	362
13		28	59	89	120	151	181	212	242	273	304	332	363
14		29	60	90	121	152	182	213	243	274	305	333	364
15	0	30	61	91	122	153	183	214	244	275	306	334	365
16	1	31	62	92	123	154	184	215	245	276	307	335	
17	2	32	63	93	124	155	185	216	246	277	308	336	
18	3	33	64	94	125	156	186	217	247	278	309	337	
19	4	34	65	95	126	157	187	218	248	279	310	338	
20	5	35	66	96	127	158	188	219	249	280	311	339	
21	6	36	67	97	128	159	189	220	250	281	312	340	
22	7	37	68	98	129	160	190	221	251	282	313	341	
23	8	38	69	99	130	161	191	222	252	283	314	342	
24	9	39	70	100	131	162	192	223	253	284	315	343	
25	10	40	71	101	132	163	193	224	254	285	316	344	
26	11	41	72	102	133	164	194	225	255	286	317	345	
27	12	42	73	103	134	165	195	226	256	287	318	346	
28	13	43	74	104	135	166	196	227	257	288	319	347	
29	14	44	75	105	136	167	197	228	258	289		348	
30	15	45	76	106	137	168	198	229	259	290		349	
31		46		107	138		199		260	291		350	

ing were distributed evenly throughout the year, Ben enters one-fourth of his required annual payment, $1,529, in each column of line 18. 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. Page 1 and Section A of Part IV of Ben's Form 2210 are shown at the end of this chapter.

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. 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 on Form 2210. You also must attach Form 2210 and Schedule AI to your return.

CAUTION: *If you use Schedule AI for any payment due date, you must use it for all payment due dates.*

Completing Schedule AI of Form 2210. Follow your 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 through March.
- Period (b) includes items for January through May.
- Period (c) includes items for January through August.
- Period (d) includes items for the entire year.

Example 4.7. Betty Beige is in the same situation as Ben Brown in *Example 4.6,* except that her income tax is $3,741. Her required annual payment on Form 2210, Part I, line 9 is $5,478 (the lower of her $6,116 tax for 2003 or 90% of her $6,087 total tax for 2004). Betty did not receive her income evenly throughout the year. Therefore, she decides to figure her required installment for each period (line 18 of Form 2210) using the annualized income installment method.

Betty's filled-in Schedule AI and Section A of Part IV of Form 2210 using this method are shown at the end of this chapter.

Betty's wages during 2004 were $21,000 ($1,750 a month). Her net earnings from a business she started during the year were $16,600, received as follows:

April through May	$4,600
June through August	4,000
September through December	8,000

Before Betty can figure her adjusted gross income for each period (line 1 of Schedule AI), she must figure her deduction for self-employment tax for each period. She completes Part II of Schedule AI first. She figures the deduction for 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.

Betty had $6,000 in itemized deductions for 2004. She divided them by period in the following manner.

- 1st period ($1,500). $250 a month withheld in state and local taxes, and $250 a month in mortgage interest X 3 months.
- 2nd period ($2,500). $250 a month withheld in state and local taxes and $250 a month in mortgage interest X 5 months.
- 3rd period ($4,000). $250 a month withheld in state and local taxes and $250 a month in mortgage interest X 8 months.
- 4th period ($6,000). $250 a month withheld in state and local taxes and $250 a month in mortgage interest X 12 months.

She enters each amount on line 4 in the proper column for that period.

Betty had no self-employment income for the first period, so she leaves the lines in that column blank. Her self-employment income was $4,600 for the second period, $8,600 ($4,600 + $4,000) 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.

Betty figures the amounts to enter on line 1 of Schedule AI as follows:

1st Column — 1/1/04 to 3/31/04:

$1,750 per month × 3 months	$5,250

2nd Column — 1/1/04 to 5/31/04:

$1,750 per month × 5 months	$8,750
Plus: Self-employment income through 5/31/04	4,600
Less: Self-employment tax deduction ($1,560 ÷ 4.8)	(325)
	$13,025

3rd Column — 1/1/04 to 8/31/04:

$1,750 per month × 8 months	$14,000
Plus: Self-employment income through 8/31/04	8,600
Less: Self-employment tax deduction ($1,822 ÷ 3)	(607)
	$21,993

4th Column — 1/1/04 to 12/31/04:

$1,750 per month × 12 months	$21,000
Plus: Self-employment income through 12/31/04	16,600
Less: Self-employment tax deduction ($2,346 ÷ 2)	(1,173)
	$36,427

Betty completes the rest of Schedule AI to determine the amounts to put on Form 2210, line 18.

Betty then figures her underpayment in Part IV, Section A. She finds that she overpaid her estimated tax for the first and third payment periods, but she underpaid her estimated tax for the other two periods. *Example 4.9* illustrates how Betty completes Part IV, Section B, of her Form 2210.

Figuring Your Penalty (Section B of Part IV)

Figure the amount of your penalty in Section B, Part IV of Form 2210, following the instructions. The penalty is imposed on each underpayment shown on line 25, Section A, 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.)

There are four rate periods to figure the penalty. Use *Rate Period 1* (lines 27 and 28) to apply the 5% rate in effect between April 16, 2004, and June 30, 2004. Use *Rate Period 2* (lines 29 and 30) to apply the 4% rate in effect between July 1, 2004, and September 30, 2004. Use *Rate Period 3* (lines 31 and 32) to apply the 5% rate in effect between October 1, 2004, and December 31, 2004. Use *Rate Period 4* (lines 33 and 34) to apply the 5% rate in effect between January 1, 2005, and April 15, 2005.

Aid for counting days. Table 4–1 provides a simple method to count 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, 2004. 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 line 25, Section A, broken down into the parts paid on different dates.)

Figuring the penalty. Form 2210 for 2004 has 4 rate periods. Figure the underpayment penalty by applying the appropriate rate against each underpayment shown on line 25. If an underpayment remained unpaid for more than one rate period, the penalty on that underpayment will be figured using more than one rate.

Use lines 27, 29, 31, and 33 to figure the number of days the underpayment remained unpaid. (Also see Table 4–1.) Use lines 28, 30, 32, and 34 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	76	15	NA	NA
line 29	92	92	15	NA
line 31	92	92	92	NA
line 33	105	105	105	90

Example 4.8. In *Example 4.6,* Ben Brown determined that he had an underpayment for all four payment periods.

Section B of Part IV of Form 2210 is shown at the end of this chapter.

Ben's 2004 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 each period. Ben made estimated tax payments of $1,000 on September 2, 2004, and $1,000 on January 12, 2005. He plans to file his return and pay his $1,803 tax balance ($7,031 tax – $5,228 withholding and estimated tax payments) on April 15, 2005. Therefore, he is considered to have made the following payments for tax year 2004.

April 15, 2004	$ 807
June 15, 2004	807
September 2, 2004	1,000
September 15, 2004	807
January 12, 2005	1,000
January 15, 2005	807
April 15, 2005	1,803

Penalty for first period (April 15, 2004) – column (a). Ben's $722 underpayment for the first payment period was paid by applying $722 of his $807 payment on June 15, 2004. The $722 remained unpaid 61 days (April 16 through June 15, 2004). Ben enters "61" on line 27 and figures this part of the penalty on line 28.

Penalty for second period (June 15, 2004) – 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 September 2 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.

For ***Rate Period 1,*** the entire underpayment remained unpaid 15 days (June 16 through June 30). Ben enters "15" on line 27 and figures this part of his penalty on line 28.

For ***Rate Period 2,*** $1,000 of the underpayment remained unpaid for 64 days (July 1 through September 2) and $444 remained unpaid for 77 days (July 1 through September 15). Ben enters "64" and "77" on line 29. He figures this part of the penalty on line 30 by adding the result of the two penalty computations.

Penalty for third period (September 15, 2004) – 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 12, 2005, 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 2,*** the entire underpayment remained unpaid 15 days (September 16 through September 30). Ben enters "15" on line 29 and figures this part of his penalty on line 30.

For ***Rate Period 3,*** the entire underpayment remained unpaid 92 days (October 1 through December 31). Ben enters "92" on line 31 and figures this part of his penalty on line 32.

For ***Rate Period 4,*** $1,000 of the underpayment remained unpaid for 12 days (January 1 through January 12) and $166 remained unpaid for 15 days (January 1 through January 15). Ben enters "12" and "15" on line 33 and figures his penalty for each part of the underpayment on line 34. He includes all penalty amounts on line 34.

Penalty for fourth period (January 15, 2005) – 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, 2005, with his tax return. The $888 remained unpaid 90 days (January 16 through April 15, 2005). Ben enters that number on line 33 and figures his penalty on line 34.

Total penalty. Ben's total penalty for 2004 on line 35 is $49.20, the total of all amounts on lines 28, 30, 32, and 34 in all columns. Ben enters that amount on line 75 of his Form 1040. He also adds $49 to his $1,803 tax balance and enters the $1,852 total on line 74. He files his return on April 15 and includes a check for $1,852. He keeps his completed Form 2210 for his records.

Example 4.9. In *Example 4.7,* Betty Beige's first underpayment was for the second payment period.

This example illustrates completion of Part IV, Section B, of Betty's Form 2210 under the annualized income installment method. Section B of Part IV of Form 2210 is shown at the end of this chapter.

Betty made the same payments listed in the table in *Example 4.8* except that her final payment on April 15, 2005, was $859.

Penalty for second period – column (b). Betty's $424 underpayment for the second payment period was paid by applying $424 of her $1,000 September 2, 2004, payment. To help her figure her penalty, Betty shows the date the underpayment was paid on line 25.

For ***Rate Period 1,*** the entire underpayment remained unpaid for 15 days (June 16 through June 30). Betty enters "15" on line 27 and figures this part of her penalty on line 28.

For ***Rate Period 2,*** the entire underpayment remained unpaid for 64 days (July 1 through September 2). Betty enters "64" on line 29 and figures this part of her penalty on line 30.

Penalty for fourth period – column (d). Betty's $250 underpayment for the fourth payment period was paid on April 15, 2005, with her tax return. The entire amount remained unpaid 90 days (January 16 through April 15, 2005). Betty enters that number on line 33 and figures this part of her penalty on line 34.

Total penalty. Betty's total penalty for 2004 on line 35 is $6.92, the total of all amounts on lines 28, 30, 32, and 34 in all columns. Betty enters that amount on line 75 of her Form 1040. She also adds $7 to her $859 tax balance and enters the $866 total on line 74. She files her return on April 15 and includes a check for $866. Because she used the annualized income installment method, she must attach Form 2210, including Schedule AI, to her return and check box C of Form 2210.

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 2004 estimated tax will not apply if you file your return and pay all the tax due by March 1, 2005. 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 2004 estimated tax will be figured from one payment due date, January 15, 2005.
3. The underpayment penalty for 2004 is figured on the difference between the amount of 2004 withholding plus estimated tax paid by the due date and the smaller of:
   a. 100% of the tax shown on your 2003 return, or
   b. $66^2/_3$% (rather than 90%) of your 2004 tax.

Even if these special rules apply to you, you will not owe the penalty if you meet either of the two conditions discussed earlier under *Exceptions.*

See chapter 2 to see whether you are 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. Also, 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 2003 or 2004 and both the following requirements are met.
   a. You had a reasonable cause for not making the payment, and
   b. Your underpayment was not due to willful neglect.

How to request a waiver. To request a waiver, you must complete Form 2210 as follows.

1. Check box A or B in Part II.
2. Complete line 1 through line 16 (or through line 34 if you use the regular method) without regard to the waiver.
3. Write the amount you want waived in parentheses on the dotted line next to line 17 (line 35 for the regular method).
4. Subtract this amount from the total penalty you figured without regard to the waiver. Enter the result on line 17 (line 35 for the regular method).
5. 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.
6. If you are requesting a penalty waiver due to a casualty, disaster, or other circumstance, include supporting documentation, such as police and insurance company reports.
7. 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.

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 19 without regard to the waiver.
3. Write the amount you want waived in parentheses on the dotted line next to line 20.
4. Subtract this amount from the total penalty you figured without regard to the waiver. Enter the result on line 20.
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 a casualty, disaster, or other circumstance, include supporting documentation, such as police and insurance company reports.
7. 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.

The IRS will review the information you provide and will decide whether or not to grant your request for a waiver.

Example 4.4

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 **2004** Attachment Sequence No. **06**

Name(s) shown on tax return	Identifying number
Ivy Fields	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 below).

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? — **Yes** → You must figure your penalty. — **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 (see page 2 of the instructions), but **file only page 1 of Form 2210.**

No ↓

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 (see page 2 of the instructions), but **do not file Form 2210.**

Part I **Required Annual Payment** (see page 2 of the instructions)

1	Enter your 2004 tax after credits from Form 1040, line 56 (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, and health coverage tax credit for eligible individuals	3	( )
4	Current year tax. Combine lines 1, 2, and 3	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 (see page 2 of the instructions), 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 wages 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 2003 or 2004, 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. Cat. No. 11744P Form **2210** (2004)

Part III **Short Method**

Example 4.5

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 estimated tax in **equal** amounts on your due dates.

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 line 9, Form 2210			10	9,900
11	Enter the amount, if any, from line 6, Form 2210	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 .03184			15	48
16	• If the amount on line 14 was paid **on or after** 4/15/05, enter -0-. • If the amount on line 14 was paid **before** 4/15/05, make the following computation to find the amount to enter on line 16. Amount on line 14 × Number of days paid before 4/15/05 × .00014			16	6
17	**Penalty.** Subtract line 16 from line 15. Enter the result here and on Form 1040, line 75; Form 1040A, line 48; Form 1040NR, line 73; Form 1040NR-EZ, line 26; or Form 1041, line 26, **but do not file Form 2210 unless you checked a box in Part II on page 1** ▶			17	42

Form **2210** (2004)

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

2004

Attachment Sequence No. **06**

Name(s) shown on tax return	Identifying number
Example 4.6 Ben Brown	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 below).

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?

- **Yes** → You must figure your penalty.
- **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 (see page 2 of the instructions), but **file only page 1 of Form 2210.**

No ↓

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 (see page 2 of the instructions), but **do not file Form 2210.**

Part I Required Annual Payment (see page 2 of the instructions)

1	Enter your 2004 tax after credits from Form 1040, line 56 (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, and health coverage tax credit for eligible individuals	**3**	( )
4	Current year tax. Combine lines 1, 2, and 3	**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 (see page 2 of the instructions), 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 wages 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 2003 or 2004, 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. Cat. No. 11744P Form **2210** (2004)

Part IV **Regular Method** (See page 2 of the instructions if you are filing Form 1040NR or 1040NR-EZ.)

Example 4.6

Section A—Figure Your Underpayment

		Payment Due Dates (a) 4/15/04	(b) 6/15/04	(c) 9/15/04	(d) 1/15/05
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** . . .	19	807	807	807 +1,000 1,807	807 +1,000 1,807
Complete lines 20 through 26 of one column before going to the next column. **20** Enter the amount, if any, from line 26 in 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 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	6/15 722	9/2 1,000 9/15 444 1,444	1/12 1,000 1/15 166 1,166	4/15 888
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				

Schedule AI—Annualized Income Installment Method (See pages 5 and 6 of the instructions.) Example 4.7

Estates and trusts, **do not** use the period ending dates shown to the right. Instead, use the following: 2/29/04, 4/30/04, 7/31/04, and 11/30/04.

Part I Annualized Income Installments

			(a) 1/1/04–3/31/04	(b) 1/1/04–5/31/04	(c) 1/1/04–8/31/04	(d) 1/1/04–12/31/04
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	5,250	13,025	21,993	36,427
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	21,000	31,260	32,990	36,427
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	1,500	2,500	4,000	6,000
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 $71,350)	6	6,000	6,000	6,000	6,000
7	In each column, enter the full amount of your standard deduction from Form 1040, line 39, 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 36, or Form 1040NR-EZ, line 11.)	7	4,850	4,850	4,850	4,850
8	Enter the **larger** of line 6 or line 7	8	6,000	6,000	6,000	6,000
9	Subtract line 8 from line 3	9	15,000	25,260	26,990	30,427
10	In each column, multiply $3,100 by the total number of exemptions claimed (see instructions if line 3 is more than $107,025). (Estates and trusts and Form 1040NR or 1040NR-EZ filers, enter the exemption amount shown on your tax return.)	10	3,100	3,100	3,100	3,100
11	Subtract line 10 from line 9	11	11,900	22,160	23,890	27,327
12	Figure your tax on the amount on line 11 (see instructions)	12	1,431	2,969	3,224	3,741
13	Self-employment tax from line 34 below (complete Part II)	13		1,560	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	1,431	4,529	5,046	6,087
16	For each period, enter the same type of credits as allowed on Form 2210, lines 1 and 3 (see instructions)	16				
17	Subtract line 16 from line 15. If zero or less, enter -0-	17	1,431	4,529	5,046	6,087
18	Applicable percentage	18	22.5%	45%	67.5%	90%
19	Multiply line 17 by line 18	19	322	2,038	3,406	5,478
	Complete lines 20–25 of one column before going to the next column.					
20	Add the amounts in all previous columns of line 25	20		322	2,038	3,406
21	Subtract line 20 from line 19. If zero or less, enter -0-	21	322	1,716	1,368	2,072
22	Enter 25% (.25) of line 9 on page 1 of Form 2210 in each column	22	1,370	1,370	1,370	1,370
23	Subtract line 25 of the previous column from line 24 of that column	23		1,048	702	704
24	Add lines 22 and 23	24	1,370	2,418	2,072	2,074
25	Enter the **smaller** of line 21 or line 24 here and on Form 2210, line 18 ▶	25	322	1,716	1,368	2,072

Part II Annualized Self-Employment Tax (Form 1040 filers only)

			(a)	(b)	(c)	(d)
26	Net earnings from self-employment for the period (see instructions)	26		4,248	7,942	15,330
27	Prorated social security tax limit	27	$21,750	$36,625	$58,600	$87,000
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		8,750	14,000	21,000
29	Subtract line 28 from line 27. If zero or less, enter -0-	29		27,875	44,600	66,900
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		1,264	1,477	1,901
32	Annualization amounts	32	0.116	0.0696	0.0435	0.029
33	Multiply line 26 by line 32	33		296	345	445
34	Add lines 31 and 33. Enter here and on line 13 above ▶	34		1,560	1,822	2,346

Form **2210** (2004)

Part IV **Regular Method** (See page 2 of the instructions if you are filing Form 1040NR or 1040NR-EZ.)

Example 4.7

~~Section A—F~~igure Your Underpayment

		Payment Due Dates			
		(a) 4/15/04	**(b)** 6/15/04	**(c)** 9/15/04	**(d)** 1/15/05
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**	322	1,716	1,368	2,072
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**	**19**	807	807	807 +1,000 1,807	807 +1,000 1,807
Complete lines 20 through 26 of one column before going to the next column. **20** Enter the amount, if any, from line 26 in previous column	**20**		485		15
21 Add lines 19 and 20	**21**		1,292	1,807	1,822
22 Add the amounts on lines 24 and 25 in previous column	**22**		0	424	0
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	1,292	1,383	1,822
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**		424		250
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**	485		15	

Example 4.8

Section B—Figure the Penalty (Complete lines 27 through 34 of one column before going to the next column.)

Rate Period 1	**April 16, 2004—June 30, 2004**		4/15/04	6/15/04		
	27 Number of days **from** the date shown above line 27 **to** the date the amount on line 25 was paid **or** 6/30/04, whichever is earlier	27	Days: 61	Days: 15		
	28 Underpayment on line 25 (see page 4 of the instructions) × Number of days on line 27 / 366 × .05 ▶	28	$ 6.02	$ 2.96		
Rate Period 2	**July 1, 2004—September 30, 2004**		6/30/04	6/30/04	9/15/04	
	29 Number of days **from** the date shown above line 29 **to** the date the amount on line 25 was paid **or** 9/30/04, whichever is earlier	29	Days:	Days: 64 / 77	Days: 15	
	30 Underpayment on line 25 (see page 4 of the instructions) × Number of days on line 29 / 366 × .04 ▶	30	$	$ 6.99 / 3.74	$ 1.91	
Rate Period 3	**October 1, 2004—December 31, 2004**		9/30/04	9/30/04	9/30/04	
	31 Number of days **from** the date shown above line 31 **to** the date the amount on line 25 was paid **or** 12/31/04, whichever is earlier . . .	31	Days:	Days:	Days: 92	
	32 Underpayment on line 25 (see page 4 of the instructions) × Number of days on line 31 / 366 × .05 ▶	32	$	$	$ 14.65	
Rate Period 4	**January 1, 2005—April 15, 2005**		12/31/04	12/31/04	12/31/04	1/15/05
	33 Number of days **from** the date shown above line 33 **to** the date the amount on line 25 was paid **or** 4/15/05, whichever is earlier	33	Days:	Days:	Days: 12 / 15	Days: 90
	34 Underpayment on line 25 (see page 5 of the instructions) × Number of days on line 33 / 365 × .05 ▶	34	$	$	$ 1.64 / .34	$ 10.95
35	**Penalty.** Add all amounts on lines 28, 30, 32, and 34 in all columns. Enter the total here and on Form 1040, line 75; Form 1040A, line 48; Form 1040NR, line 73; Form 1040NR-EZ, line 26; or Form 1041, line 26, **but do not file Form 2210 unless you checked a box in Part II** . . . . ▶	35				$ 49.20

Form **2210** (2004)

Section B—Figure the Penalty (Complete lines 27 through 34 of one column before going to the next column.)

Rate Period 1	Example 4.9 **April 16, 2004—June 30, 2004**		4/15/04	6/15/04		
	27 Number of days **from** the date shown above line 27 **to** the date the amount on line 25 was paid **or** 6/30/04, whichever is earlier	27	Days:	Days: 15		
	28 Underpayment on line 25 (see page 4 of the instructions) × Number of days on line 27 / 366 × .05 ▶	28	$	$ .87		
Rate Period 2	**July 1, 2004—September 30, 2004**		6/30/04	6/30/04	9/15/04	
	29 Number of days **from** the date shown above line 29 **to** the date the amount on line 25 was paid **or** 9/30/04, whichever is earlier	29	Days:	Days: 64	Days:	
	30 Underpayment on line 25 (see page 4 of the instructions) × Number of days on line 29 / 366 × .04 ▶	30	$	$ 2.97	$	
Rate Period 3	**October 1, 2004—December 31, 2004**		9/30/04	9/30/04	9/30/04	
	31 Number of days **from** the date shown above line 31 **to** the date the amount on line 25 was paid **or** 12/31/04, whichever is earlier . . .	31	Days:	Days:	Days:	
	32 Underpayment on line 25 (see page 4 of the instructions) × Number of days on line 31 / 366 × .05 ▶	32	$	$	$	
Rate Period 4	**January 1, 2005—April 15, 2005**		12/31/04	12/31/04	12/31/04	1/15/05
	33 Number of days **from** the date shown above line 33 **to** the date the amount on line 25 was paid **or** 4/15/05, whichever is earlier	33	Days:	Days:	Days:	Days: 90
	34 Underpayment on line 25 (see page 5 of the instructions) × Number of days on line 33 / 365 × .05 ▶	34	$	$	$	$ 3.08
35	**Penalty.** Add all amounts on lines 28, 30, 32, and 34 in all columns. Enter the total here and on Form 1040, line 75; Form 1040A, line 48; Form 1040NR, line 73; Form 1040NR-EZ, line 26; or Form 1041, line 26, **but do not file Form 2210 unless you checked a box in Part II** . . . . ▶	35				$ 6.92

Form **2210** (2004)

5.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more 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. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at 1-877-777-4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1-800-829-4059 if you are a TTY/TDD user.
- Visit *www.irs.gov/advocate*.

For more information, see Publication 1546, The Taxpayer Advocate Service of the IRS— How To Get Help With Unresolved Tax Problems.

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 an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

Internet. You can access the IRS website 24 hours a day, 7 days a week, at *www.irs.gov* 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 2004 refund. Click on *Where's My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2004 tax return available because you will need to know 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 our Form W-4 calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Fax. You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call 703-368-9694 from the telephone connected to your fax machine. When you call, you will hear instructions on how to use the service. The items you request will be faxed to you.

For help with transmission problems, call 703-487-4608.

Long-distance charges may apply.

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 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2004 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 2004 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that 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 sometimes listen in on or record 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-ROM 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 to ask tax questions or get help with a tax problem. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. You can set up an appointment by calling your local Center and, at the prompt, leaving a message requesting Everyday Tax Solutions help. 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*.

Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 business days after your request is received. Use the address that applies to your part of the country.

- **Western part of U.S.:**
  Western Area Distribution Center
  Rancho Cordova, CA 95743-0001
- **Central part of U.S.:**
  Central Area Distribution Center
  P.O. Box 8903
  Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:**
  Eastern Area Distribution Center
  P.O. Box 85074
  Richmond, VA 23261-5074

CD-ROM for tax products. You can order Publication 1796, IRS Federal Tax Products CD-ROM, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms and instructions.
- Frequently requested tax forms that may be filled in electronically, printed out for submission, or saved for recordkeeping.

- Internal Revenue Bulletins.

Buy the CD-ROM from National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for $22 (no handling fee) or call 1-877-233-6767 toll free to buy the CD-ROM for $22 (plus a $5 handling fee). The first release is available in early January and the final release is available in late February.

CD-ROM for small businesses. Publication 3207, The Small Business Resource Guide, CD-ROM 2004, is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions, and publications needed to successfully manage a business. In addition, the CD provides other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available 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.

■

Tax Publications for Individual Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

1 Your Rights as a Taxpayer
17 Your Federal Income Tax (For Individuals)
334 Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
509 Tax Calendars for 2005
553 Highlights of 2004 Tax Changes
910 IRS Guide to Free Tax Services

Specialized Publications

3 Armed Forces' Tax Guide
54 Tax Guide for U.S. Citizens and Residents Aliens Abroad
225 Farmer's Tax Guide
378 Fuel Tax Credits and Refunds
463 Travel, Entertainment, Gift, and Car Expenses
501 Exemptions, Standard Deduction, and Filing Information
502 Medical and Dental Expenses (Including the Health Coverage Tax Credit)
503 Child and Dependent Care Expenses
504 Divorced or Separated Individuals
505 Tax Withholding and Estimated Tax
514 Foreign Tax Credit for Individuals
516 U.S. Government Civilian Employees Stationed Abroad
517 Social Security and Other Information for Members of the Clergy and Religious Workers
519 U.S. Tax Guide for Aliens
521 Moving Expenses
523 Selling Your Home
524 Credit for the Elderly or the Disabled
525 Taxable and Nontaxable Income
526 Charitable Contributions
527 Residential Rental Property
529 Miscellaneous Deductions
530 Tax Information for First-Time Homeowners
531 Reporting Tip Income
533 Self-Employment Tax
536 Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
537 Installment Sales
541 Partnerships
544 Sales and Other Dispositions of Assets
547 Casualties, Disasters, and Thefts
550 Investment Income and Expenses
551 Basis of Assets
552 Recordkeeping for Individuals
554 Older Americans' Tax Guide
555 Community Property
556 Examination of Returns, Appeal Rights, and Claims for Refund
559 Survivors, Executors, and Administrators
561 Determining the Value of Donated Property
564 Mutual Fund Distributions
570 Tax Guide for Individuals With Income From U.S. Possessions
571 Tax-Sheltered Annuity Plans (403(b) Plans)
575 Pension and Annuity Income
584 Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
587 Business Use of Your Home (Including Use by Daycare Providers)
590 Individual Retirement Arrangements (IRAs)
593 Tax Highlights for U.S. Citizens and Residents Going Abroad
594 What You Should Know About the IRS Collection Process
595 Tax Highlights for Commercial Fishermen
596 Earned Income Credit (EIC)
721 Tax Guide to U.S. Civil Service Retirement Benefits
901 U.S. Tax Treaties
907 Tax Highlights for Persons with Disabilities
908 Bankruptcy Tax Guide
911 Direct Sellers
915 Social Security and Equivalent Railroad Retirement Benefits
919 How Do I Adjust My Tax Withholding?
925 Passive Activity and At-Risk Rules
926 Household Employer's Tax Guide
929 Tax Rules for Children and Dependents
936 Home Mortgage Interest Deduction
946 How To Depreciate Property
947 Practice Before the IRS and Power of Attorney
950 Introduction to Estate and Gift Taxes
967 The IRS Will Figure Your Tax
968 Tax Benefits for Adoption
969 Health Savings Accounts and Other Tax-Favored Health Plans
970 Tax Benefits for Education
971 Innocent Spouse Relief
972 Child Tax Credit
1542 Per Diem Rates
1544 Reporting Cash Payments of Over $10,000 (Received in a Trade or Business)
1546 The Taxpayer Advocate Service—How to Get Help With Unresolved Problems

Spanish Language Publications

1SP Derechos del Contribuyente
579SP Cómo Preparar la Declaración de Impuesto Federal
594SP Comprendiendo el Proceso de Cobro
596SP Crédito por Ingreso del Trabajo
850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
1544SP Informe de Pagos en Efectivo en Exceso de $10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog number when ordering.

Form Number and Title		Catalog Number
1040	U.S. Individual Income Tax Return	11320
Sch A&B	Itemized Deductions & Interest and Ordinary Dividends	11330
Sch C	Profit or Loss From Business	11334
Sch C-EZ	Net Profit From Business	14374
Sch D	Capital Gains and Losses	11338
Sch D-1	Continuation Sheet for Schedule D	10424
Sch E	Supplemental Income and Loss	11344
Sch EIC	Earned Income Credit	13339
Sch F	Profit or Loss From Farming	11346
Sch H	Household Employment Taxes	12187
Sch J	Farm Income Averaging	25513
Sch R	Credit for the Elderly or the Disabled	11359
Sch SE	Self-Employment Tax	11358
1040A	U.S. Individual Income Tax Return	11327
Sch 1	Interest and Ordinary Dividends for Form 1040A Filers	12075
Sch 2	Child and Dependent Care Expenses for Form 1040A Filers	10749
Sch 3	Credit for the Elderly or the Disabled for Form 1040A Filers	12064
1040EZ	Income Tax Return for Single and Joint Filers With No Dependents	11329
1040-ES	Estimated Tax for Individuals	11340
1040X	Amended U.S. Individual Income Tax Return	11360

Form Number and Title		Catalog Number
2106	Employee Business Expenses	11700
2106-EZ	Unreimbursed Employee Business Expenses	20604
2210	Underpayment of Estimated Tax by Individuals, Estates, and Trusts	11744
2441	Child and Dependent Care Expenses	11862
2848	Power of Attorney and Declaration of Representative	11980
3903	Moving Expenses	12490
4562	Depreciation and Amortization	12906
4868	Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141
4952	Investment Interest Expense Deduction	13177
5329	Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts	13329
6251	Alternative Minimum Tax—Individuals	13600
8283	Noncash Charitable Contributions	62299
8582	Passive Activity Loss Limitations	63704
8606	Nondeductible IRAs	63966
8812	Additional Child Tax Credit	10644
8822	Change of Address	12081
8829	Expenses for Business Use of Your Home	13232
8863	Education Credits	25379
9465	Installment Agreement Request	14842