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Is My Withholding Correct for 1998?



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Introduction

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

Why check your withholding? You should try not to have too little or too much tax withheld. If too little tax is withheld, you will owe tax at the end of the year and may have to pay interest and a penalty. If too much tax is withheld, you will lose the use of that money until you get your refund.

Tax law changes. Changes in the law may affect your tax. If these changes increase your tax for 1998 and you do not increase your withholding, you may have to pay tax when you file your return. If these changes, such as the new child tax credit and higher education tax credits, decrease your tax for 1998 and you do not decrease your withholding, you will get your money back later (in the form of a larger refund) than you would if you reduced your withholding. To see if you will be able to claim these new credits and how to adjust your withholding for them, see *Tax Credits*, later.

For information about changes in the law for 1997 and 1998, get Publication 553, *Highlights of 1997 Tax Changes*.

Check Your Withholding

Even if you gave your employer a 1998 **Form W-4**, *Employee's Withholding Allowance Certificate*, you may need to check to see if you will have enough, but not too much, tax withheld for 1998. This publication will help you to do this.

There is a good chance you are having **too little** tax withheld if:

- 1) You have more than one job at a time,
- 2) Your spouse also works, or
- 3) You have income not subject to withholding.

There is a good chance you are having **too much** tax withheld if:

- 1) You got a big refund for 1997 and your income, adjustments, deductions, and credits will remain about the same this year,
- 2) You got a refund last year, your income, adjustments, and deductions will remain about the same as last year, but you qualify for one or more tax credits this year (such as the child tax credit or the higher education credits), or
- 3) Your income will remain about the same as last year, but your adjustments, deductions, or credits will increase significantly.

If any of these are true, you should check your withholding.

When to check your withholding. The earlier in the year you check your withholding, the more likely you are to get the correct amount of tax withheld.

When you receive a pay slip (statement) for a full pay period in 1998, showing tax withheld based on 1998 tax rates, you can use the worksheets and tax credit computation in this publication to see if you are having the right amount of tax withheld.



As soon as you prepare your 1997 tax return, you will have a better guide to whether your withholding is too little, too much, or about right.

You should check your withholding again during the year if the tax law changes for 1998 or if there are changes in your financial or personal situation. Items that may change include:

- Your nonwage income, such as interest, dividends, capital gains, etc.,
- Your wage income, particularly if you or your spouse starts or stops working or starts or stops a second job,
- Your itemized deductions, such as those related to the purchase of a new home or large uninsured medical expenses, and
- Personal factors, such as marriage, divorce, birth or adoption of a child, or loss of an exemption.

How to check your withholding. Fill out Worksheet 1 to estimate your total 1998 taxes. Then fill out Worksheet 2 to compare your estimated total 1998 taxes with your expected 1998 withholding. If line 1 of Worksheet 2 is more than line 4, you are having too little tax withheld. If line 1 of Worksheet 2 is less than line 4, you may be having too much tax withheld.

If you are eligible for one of the new credits (see *Tax Credits* later), you may be having too much tax withheld. To adjust your withholding for these and other credits, complete Worksheet 3, and use the information on it to prepare a 1998 Form W-4 to give to your employer.

Too little tax withheld? If too little tax will be withheld, you should give your employer a 1998 Form W-4 showing either a reduced number of withholding allowances or an additional amount to be withheld from your pay. Get a blank Form W-4 from your employer, and see *Correct Your Withholding*, later.

If your employer cannot withhold enough additional tax from your pay, you may need to make estimated tax payments. This might occur if your pay is low and you have substantial nonwage income, such as interest, dividends, capital gains, or earnings from self-employment. For more information, get Publication 505, *Tax Withholding and Estimated Tax*. See *How To Get More Information* later to find out how to get Publication 505.

Too much tax withheld? You may receive a large refund when you file your return if too much tax is withheld. If you prefer to have the money to spend or save during the year rather than receiving a large re-

fund, you may be able to decrease your withholding by giving your employer a 1998 Form W-4. You may be having too much tax withheld if you qualify for one or more of the new tax credits. See *Tax Credits*, later.

To adjust your withholding for these and other credits, complete Worksheet 3, and use the information on it to prepare a 1998 Form W-4 to give to your employer. See the Form W-4 instructions and the remainder of this publication to find out if you can decrease your withholding by claiming allowances that you are entitled to but have not already claimed.

Correct Your Withholding

If the amount on line 5 of Worksheet 2 is more than you want to have to pay or would cause a penalty when you file your tax return for 1998, you should complete a new Form W-4 for 1998. Get a blank Form W-4 from your employer. Enter on line 6 of the new form the amount from line 6 of Worksheet 2. If you have this additional amount withheld from your pay each payday, you will avoid owing a large tax balance at the end of the year. If you do this, enter on line 5 of the new form the **same number** of withholding allowances your employer now uses for your withholding.

If the amount on line 5 of Worksheet 2 is a negative number (less than zero) and more than you want to have to wait to get in your refund for 1998, you should complete a new Form W-4 for 1998. Get a blank Form W-4 from your employer. Using the Form W-4 instructions and this publication, figure the number of withholding allowances you are entitled to claim and enter that number on line 5 of Form W-4. If you have less withheld from your pay each payday, you will avoid having to wait until you get your refund to have use of your money.

Give the completed form to your employer right away so that the correct amount will be withheld as soon as possible.

Example. Using Worksheets 1 and 2, Steve figures that his 1998 tax liability will be \$5,000 and that his withholding for the year will be \$4,700. Steve's tax will be underwithheld by \$300 (\$5,000 - \$4,700). He will have to pay this amount when he files his 1998 tax return or he can increase his withholding. Steve gets a new 1998 Form W-4 from his employer, who tells him that there are 50 paydays remaining in 1998. Steve completes the form as before, and enters the same number of withholding allowances as before, then enters \$6 ($\$300 \div 50$) on line 6 of the form. This is the additional amount to be withheld from his pay each payday. He gives the completed form to his employer right away.

More than one job. If you have more than one job (or you are married filing jointly and your spouse also works), you can increase your withholding for one or more of the jobs.

You can apply the amount on line 5 of Worksheet 2 to only one job or divide it between the jobs any way you wish. Then divide the amount you apply to a job by the number of paydays remaining in 1998 for that job. This will give you the additional amount to enter

on line 6 of the 1998 Form W-4 you will file for that job.

Tax Credits

Although you can take most tax credits into account when figuring withholding allowances, the Personal Allowances Worksheet on page 1 of Form W-4 only provides rough adjustments for the child and dependent care credit (line F) and the child tax credit (line G). But you can take these credits into account more accurately and take other credits into account by using Worksheet 3 on page 7.



If you take the child and dependent care credit into account on Worksheet 3 on page 7, enter -0- on line F of the Personal Allowances Worksheet (on page 1 of Form W-4). If you take the child tax credit into account on Worksheet 3 on page 7, enter -0- on line G of the Personal Allowances Worksheet (on page 1 of Form W-4).

Child Tax Credit

Beginning in 1998, you may be entitled to a child tax credit for each of your qualifying children. A qualifying child is your son or daughter, stepson or stepdaughter, grandchild, or eligible foster child who is:

- 1) Under age 17,
- 2) A citizen or national of the United States, and
- 3) Someone you can claim as a dependent.

Limit on the credit. The credit is gradually reduced (phased out) if your modified adjusted gross income (modified AGI) is above a certain amount. The amount at which this phaseout begins depends on your filing status. Your credit is generally limited to your tax liability.

What is your modified AGI? For most taxpayers, modified AGI is generally the same as your AGI. For 1997, AGI is shown on line 16 of Form 1040A and on line 33 of Form 1040.

You must make adjustments to your AGI only if you have income earned abroad or from certain U.S. territories or possessions. If this applies to you, add to your AGI any amount you excluded that was earned abroad or was from Puerto Rico, Guam, American Samoa, or the Northern Mariana Islands.

Figuring the credit. You can use the Worksheet 3 to figure your child tax credit for 1998 and to adjust your withholding.

Higher Education Tax Credits

Beginning in 1998, you may be able to claim one or both of the new tax credits for higher education costs. These are:

- The Hope credit, and

- The lifetime learning credit.

The amount of each credit is determined by the amount you pay for qualified tuition and related expenses for eligible students and the amount of your modified adjusted gross income (AGI).



*If your filing status is **Married filing separate return**, you cannot claim the higher education credits.*

Rules that apply to both credits are explained next. This is followed by rules that apply to each credit, choosing which credit to claim, and the phaseout based on your income. Additional information and examples can be found in new Publication 970, *Tax Benefits for Higher Education*.

Rules That Apply to Both Credits

The following rules apply to both credits.

What expenses qualify. The term qualified tuition and related expenses includes tuition and fees required for enrollment or attendance at an eligible educational institution. It **does not include** books, room and board, student activities, athletics (unless the course is part of the student's degree program), insurance, equipment, transportation, or other similar personal, living, or family expenses.

Who is an eligible student. You, your spouse, or an eligible dependent can be an eligible student. The student must be enrolled at an eligible educational institution for at least one academic period (semester, trimester, quarter) during the year.

An **eligible dependent** is a person for whom you claim a dependency exemption. It generally includes your unmarried child who is under age 19 or who is a full-time student under age 24 if you supply more than half the child's support for the year. (See Publication 501, *Exemptions, Standard Deduction, and Filing Information*, for details on dependency exemptions.) An **eligible educational institution** generally includes any accredited public, nonprofit, or proprietary postsecondary institution.

No double benefit allowed. If you claim a deduction for higher education expenses on your tax return, you cannot use those same expenses to figure a higher education credit. Similarly, if you pay higher education costs with a **tax-free** scholarship, Pell grant, or employer-provided educational assistance, you cannot use those amounts to figure a credit. You can, however, claim a credit for expenses paid with the student's earnings, loans, gifts, inheritances, and personal savings.



If a student receives a tax-free distribution from an education IRA in a particular tax year, none of that student's expenses can be used as the basis of a higher education credit for that tax year. However, the student can waive the tax-free treatment.

Hope Credit

For expenses paid **after** December 31, 1997, for academic periods beginning after that date, you may be able to claim a Hope credit of up to \$1,500 for the qualified tuition and related expenses paid for **each** eligible student (defined earlier). This credit may be claimed for only **two** taxable years for each eligible student.

Additional qualifications for Hope credit. To claim the Hope credit, the eligible student must also meet the following requirements:

- 1) Be enrolled in one of the first two years of postsecondary education (generally, the freshman or sophomore years of college),
- 2) Be enrolled in a program that leads to a degree, certificate, or other recognized educational credential,
- 3) Be taking at least one-half of the normal full-time work load for his or her course of study for at least one academic period beginning during the calendar year, and
- 4) Be free of any felony conviction for possessing or distributing a controlled substance.

How to figure the Hope credit. You can use Worksheet 3 to figure the amount of your 1998 Hope credit and to adjust your withholding.

Lifetime Learning Credit

For expenses paid **after** June 30, 1998, for academic periods beginning after that date, you may be able to claim a lifetime learning credit of up to \$1,000 for the total qualified tuition and related expenses paid during the tax year for **all** eligible students (defined earlier) who are enrolled in eligible institutions. Unlike the Hope credit:

- 1) The lifetime learning credit is not based on the student's workload. It is allowed for one or more courses,
- 2) The lifetime learning credit is not limited to students in the first two years of postsecondary education, and graduate-level courses are eligible,
- 3) There is no limit on the number of years for which the lifetime learning credit can be claimed for each eligible student, and
- 4) The amount you can claim as a lifetime learning credit does not vary (increase) based on the number of eligible students for whom you pay qualified expenses.

How to figure the lifetime learning credit. You can use Worksheet 3 to figure the amount of your lifetime learning credit for 1998 and to adjust your withholding.

Choosing Which Credit To Claim

For each eligible student, you can elect for any tax year only **one** of the credits **or** a tax-free withdrawal from an education IRA.

If you pay qualified expenses for more than one eligible student in the same year, you can choose to take credits on a per-student, per-year basis. That means that you can claim the Hope credit for one child and the lifetime learning credit for another child in the same tax year. And you can claim the Hope credit for two years for a child's postsecondary education and claim the lifetime learning credit for that same child in later tax years.

Income Phaseout

Your education credits are gradually reduced (phased out) if your modified adjusted gross income (modified AGI) is between \$40,000 and \$50,000 (\$80,000 and \$100,000 in the case of a joint return). Your credit is generally limited to your tax liability.



You cannot claim any higher education credits if your modified adjusted gross income is over \$50,000 (\$100,000 in the case of a joint return).

What is your modified AGI? For most taxpayers, modified AGI is generally the same as their AGI as figured on their federal income tax returns. For 1997, AGI is shown on line 16 of Form 1040A and on line 33 of Form 1040.

However, you must make adjustments to your AGI if you have income earned abroad or from certain U.S. territories or possessions. If this applies to you, add to your AGI any amount you excluded that was earned abroad or was from Puerto Rico, Guam, American Samoa, or the Northern Mariana Islands.

Figuring the phaseout. The phaseout is figured on Worksheet 3.

Other Credits

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

- 1) Credit for the elderly or the disabled (see Publication 524, *Credit for the Elderly or the Disabled*),
- 2) Mortgage interest credit (see *Mortgage Interest Credit* in Publication 530, *Tax Information for First-Time Homeowners*),
- 3) 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*),
- 4) Qualified electric vehicle credit (see Form 8834 instructions),
- 5) Credit for prior year minimum tax if you paid alternative minimum tax in an earlier year (see Form 8801 instructions),
- 6) Earned income credit, unless you requested advance payment of the credit (see Publication 596, *Earned Income Credit*),
- 7) Adoption credit (see Publication 968, *Tax Benefits for Adoption*), and

8) General business credit.

How To Get More Information



You can get help from the IRS in several ways.

Free publications and forms. To order free publications and forms, call 1-800-TAX-FORM (1-800-829-3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services*. It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1-800-829-1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1-800-829-4059 to ask tax questions or to order forms and publications. See your income tax package for the hours of operation.

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

If combined estimated wages are:	Multiply credits by:
\$0 to 58,000	6.7
58,001 to 118,000	3.6
118,001 to 171,000	3.2
171,001 to 294,000	2.8
over 294,000	2.5

Credit Table B
Single

If estimated wages are:	Multiply credits by:
\$0 to 32,000	6.7
32,001 to 68,000	3.6
68,001 to 135,000	3.2
135,001 to 285,000	2.8
over 285,000	2.5

Evaluating the quality of our telephone services.

To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our "800 number" telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

How to Convert Your Credits into Additional Withholding Allowances

To figure the additional amount to add on line 5 of the Deductions and Adjustments Worksheet (on page 2 of Form W-4), for your tax credits, complete Worksheet 3. Then complete the Deductions and Adjustments Worksheet and Form W-4.



If you will be claiming one or more tax credits, use the appropriate credit table below to find your entry for line 27 of Worksheet 3.

Credit Table C
Head of Household

If estimated wages are:	Multiply credits by:
\$0 to 46,000	6.7
46,001 to 99,000	3.6
99,001 to 154,000	3.2
154,001 to 290,000	2.8
over 290,000	2.5

Credit Table D
Married Filing Separately

If estimated wages are:	Multiply credits by:
\$0 to 27,000	6.7
27,001 to 57,000	3.6
57,001 to 84,000	3.2
84,001 to 145,000	2.8
over 145,000	2.5



Worksheet 1. 1998 Tax Worksheet (Note: Enter combined amounts if married filing joint return.)

1. Enter amount of Adjusted Gross Income (AGI) you expect in 1998. (AGI means wages, interest, dividends, alimony received, and all other income minus adjustments to income, such as alimony paid, interest on education loans, and deductible contributions to an IRA.)	1	
2. ● If you plan to itemize deductions, enter the estimated total of your deductions allowable after applying any limits, such as the 7.5% limit on medical expenses. (Caution: If the amount on line 1 is more than \$124,500 (\$62,250 if married filing separately), use Worksheet 4 to figure the amount to enter here.) ● If you do not plan to itemize deductions, enter the amount of your standard deduction from the <i>1998 Standard Deduction Tables</i> , later	2	
3. Subtract line 2 from line 1. Enter the difference here. (If zero or less, enter zero.)	3	
4. Exemptions. Multiply \$2,700 by the number of exemptions you plan to claim. If you can be claimed as a dependent on another person's return, you cannot claim an exemption for yourself.* (Caution: If the amount on line 1 is more than the amount shown below for your 1998 filing status, use Worksheet 5 to figure the amount to enter here.) ● Single, \$124,500 ● Married filing jointly or Qualifying widow(er), \$186,800 ● Head of household, \$155,650 ● Married filing separately, \$93,400 * <i>This applies even if the other person will not claim your exemption or the exemption will be reduced or eliminated under the exemption phaseout rule.</i>	4	
5. Subtract line 4 from line 3. (If zero or less, enter zero.)	5	
6. Tax. Figure your tax on the amount on line 5 by using the 1998 Tax Rate Schedules later in this publication. DO NOT use the Tax Table or Tax Rate Schedules in the 1997 tax return instructions. (Caution: If the amount on line 1 includes a net capital gain, you have to use Worksheet 6 to figure the amount to enter here.)	6	
7. Enter additional taxes (those figured on Forms 8814 and 4972)	7	
8. Add lines 6 and 7	8	
9. Credits (includes child tax credit, higher education credits (Hope and lifetime learning), credit for child and dependent care expenses, credit for the elderly or disabled, credit for foreign taxes, etc.) See <i>Tax Credits</i> (This is the amount from line 26 of Worksheet 3)	9	
10. Subtract line 9 from line 8. (If zero or less, enter zero.)	10	
11. Self-employment tax. Estimate of 1998 self-employment income \$ _____ Multiply self-employment income by .153 (15.3%). (Caution: If the estimated total of wages and self-employment income is more than \$68,400, use Worksheet 7 to figure the amount to enter here.)	11	
12. Other taxes (includes tax on early distributions from an IRA, alternative minimum tax, etc.)	12	
13. Total taxes. Add lines 10 through 12. Enter the total here and on line 1 of Worksheet 2 below	13	



Worksheet 2. 1998 Withholding Worksheet (Note: Enter combined amounts if married filing joint return.)

1. Enter your total taxes from line 13 of Worksheet 1	1	
2. Total federal income tax withheld to date in 1998 (include all jobs)	2	
3. Tax withholding expected for the rest of 1998: For each job, multiply the amount of federal income tax now being withheld each payday by the number of paydays remaining in 1998 and enter the combined amount for all jobs .	3	
4. Total expected tax withholding for all paydays in 1998. Add lines 2 and 3	4	
5. Subtract line 4 from line 1. If the result is positive, too little tax is being withheld. Go to line 6. If the result is negative, too much tax may be being withheld. Stop here and see <i>Too much tax withheld?</i> .	5	
6. Divide line 5 by the number of paydays remaining in 1998 and enter the result. This is the additional amount you should have withheld from your pay each payday.	6	



Worksheet 3. Worksheet for Tax Credits

Child Tax Credit			
1. Enter the number of children eligible for the Child Tax Credit	1		
2. Multiply the number on line 1 by \$400			2
3. Enter your modified adjusted gross income (see page 3)	3		
4. Enter: – \$ 75,000 if you file as “single” or “head of household” – \$110,000 if you are “married filing jointly” or – \$ 55,000 if you are “married filing separately”	4		
5. Subtract line 4 from line 3. If less than zero, enter zero	5		
6. Divide line 5 by \$1,000. Increase any fraction to the next larger whole number	6		
7. Multiply line 6 by \$50			7
8. Subtract line 7 from line 2. If less than zero, enter zero			8
Higher Education Credits: Hope Credit			
9. Enter the eligible amount paid in 1998	9		
10. Enter the lesser of line 9 or \$2,000	10		
Note: <i>If the amount on line 10 is \$2,000, skip lines 11 through 13, and enter \$1,500 on line 14.</i>			
11. Enter the lesser of \$1,000 or the amount on line 10	11		
12. Subtract line 11 from line 10	12		
13. Multiply the amount on line 12 by 50%	13		
14. Add lines 11 and 13	14		
Higher Education Credits: Lifetime Learning Credit			
15. Enter the eligible amount paid in 1998 but after June, 1998.	15		
16. Enter the lesser of line 15 or \$5,000.	16		
17. Multiply the amount on line 16 by 20%	17		
18. Add lines 14 and 17	18		
Note: • <i>If the amount of your modified adjusted gross income is under \$40,000 (\$80,000 if married filing jointly), skip lines 19 through 23, and enter the amount from line 18 on line 24.</i>			
• <i>If the amount of your modified adjusted gross income is over \$50,000 (\$100,000 if married filing jointly), skip lines 19 through 23, and enter 0 (zero) on line 24.</i>			
19. Enter your modified AGI.	19		
20. Enter \$40,000 (\$80,000 if married filing jointly)	20		
21. Subtract line 20 from line 19	21		
22. Divide line 21 by \$10,000 (\$20,000 if married filing jointly). Carry to four decimal places	22		
23. Multiply line 22 by line 18	23		
24. Subtract line 23 from line 18			24
Other Credits			
25. Enter the estimated amount of your other tax credits, including the child and dependent care credit, the earned income tax credit, the credit for the elderly and disabled, the adoption credit, and the foreign tax credit			25
TOTALS			
26. Total estimated tax credits. Add lines 8, 24 and 25			26
27. Enter the appropriate number from one of the credit tables on page 5: – Use the table which matches your filing status – Find the line in the table that matches your total income – Then, enter here the amount shown next to your income			27
28. Multiply line 26 by line 27. Enter the result here and include it in the total on Form W-4, page 2, Deductions and Adjustments Worksheet, Line 5			28

1998 Tax Rate Schedules

Caution: Do not use these Tax Rate Schedules to figure your 1997 taxes. Use only to figure your 1998 estimated taxes.

Single—Schedule X

If line 5 is:		The tax is:	of the amount over—
Over—	But not over—		
\$0	\$25,350	..... 15%	\$0
25,350	61,400	\$3,802.50 + 28%	25,350
61,400	128,100	13,896.50 + 31%	61,400
128,100	278,450	34,573.50 + 36%	128,100
278,450	.....	88,699.50 + 39.6%	278,450

Head of household—Schedule Z

If line 5 is:		The tax is:	of the amount over—
Over—	But not over—		
\$0	\$33,950	..... 15%	\$0
33,950	87,700	\$5,092.50 + 28%	33,950
87,700	142,000	20,142.50 + 31%	87,700
142,000	278,450	36,975.50 + 36%	142,000
278,450	.....	86,097.50 + 39.6%	278,450

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

If line 5 is:		The tax is:	of the amount over—
Over—	But not over—		
\$0	\$42,350	..... 15%	\$0
42,350	102,300	\$6,352.50 + 28%	42,350
102,300	155,950	23,138.50 + 31%	102,300
155,950	278,450	39,770.00 + 36%	155,950
278,450	.....	83,870.00 + 39.6%	278,450

Married filing separately—Schedule Y-2

If line 5 is:		The tax is:	of the amount over—
Over—	But not over—		
\$0	\$21,175	..... 15%	\$0
21,175	51,150	\$3,176.25 + 28%	21,175
51,150	77,975	11,569.25 + 31%	51,150
77,975	139,225	19,885.00 + 36%	77,975
139,225	.....	41,935.00 + 39.6%	139,225

Worksheet 4 — Itemized Deductions Limit

Use this worksheet to figure the amount to enter on line 2 of Worksheet 1 — 1998 Tax Worksheet.

- Enter the estimated total of your itemized deductions allowable after applying any limits _____
- Enter the amount included in line 1 for medical and dental expenses, investment interest, casualty and theft losses, and gambling losses _____
- Subtract line 2 from line 1 _____

Note. If the amount on line 3 is zero, stop here and enter on line 2 of Worksheet 1 the larger of the amount from line 1 of this worksheet or your standard deduction.

- Multiply the amount on line 3 by .80 _____
- Enter the amount from line 1 of Worksheet 1 _____
- Enter \$124,500 (\$62,250 if married filing separately) _____
- Subtract line 6 from line 5 _____

Note. If the amount on line 7 is zero or less, stop here and enter on line 2 of Worksheet 1 the larger of the amount from line 1 of this worksheet or your standard deduction.

- Multiply the amount on line 7 by .03 _____
- Enter the smaller of line 4 or line 8 _____
- Subtract line 9 from line 1. Enter the result here and on line 2 of Worksheet 1 _____

Worksheet 5 — Exemptions Phaseout

Use this worksheet to figure the amount to enter on line 4 of Worksheet 1 — 1998 Tax Worksheet.

- Multiply \$2,700 by the number of exemptions you plan to claim. _____
- Enter the amount from line 1 of Worksheet 1 _____
- Enter:
 - \$124,500 if single
 - \$186,800 if married filing jointly or qualifying widow(er)
 - \$93,400 if married filing separately
 - \$155,650 if head of household _____
- Subtract line 3 from line 2. If zero or less, do not use this worksheet. See the instructions on line 4 of Worksheet 1 _____

Note: If line 4 is more than \$122,500 (more than \$61,250 if married filing separately), **stop**; you **cannot** take a deduction for exemptions. Enter -0- on line 4 of Worksheet 1.

- Divide the amount on 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 _____
- Multiply the number on line 5 by .02. Enter the result as a decimal, but not more than 1. _____
- Multiply the amount on line 1 by the decimal on line 6 _____
- Subtract line 7 from line 1. Enter the result here and on line 4 of Worksheet 1 _____



Worksheet 6 — For Figuring Tax If You Have Capital Gain

Use this worksheet to figure the amount to enter on line 6 of Worksheet 1 — 1998 Tax Worksheet only if the amount on line 1 of that worksheet includes capital gain.

1. Enter your expected net long-term capital gain or (loss) for 1998 _____
2. Enter your expected net short-term capital gain or loss for 1998. _____
3. Combine lines 1 and 2. If a loss, or if line 1 is a loss, none of your gains are subject to the maximum capital gains rates. Figure your tax using the instructions on line 6 of your 1998 Tax Worksheet, and do not use the rest of this worksheet. If a gain, continue using this worksheet _____
4. Enter the amount from line 5 of Worksheet 1 _____
5. Enter the smaller of line 1 or line 3 _____
6. Enter the amount of net capital gain from the disposition of property held for investment that you elect to include in investment income for purposes of figuring the limit on investment interest. Do not include more than the total net gain from the disposition of property held for investment _____
7. Subtract line 6 from line 5. If zero or less, enter -0-. _____
8. Enter the net of all gains and losses from sales, exchanges, or conversions (including installment payments received) for assets held more than 1 year but not more than 18 months; plus any net collectibles gain or loss (see page D-4 of the 1997 Schedule D (Form 1040) instructions for the definition of a collectibles gain); plus an amount, if any, equal to the gain excluded under section 1202(a) from sales of certain small business stock after August 11, 1998. (To see what small business stock qualifies, see *Sales of Small Business Stock* in Publication 550.) _____
9. Combine lines 2 and 8. If zero or less, enter -0-. _____
10. Enter the smaller of line 8 or line 9, but not less than zero _____
11. Enter your unrecaptured section 1250 gain, if any (see page D-4 of the 1997 Schedule D (Form 1040) instructions for guidance on how to figure this amount). _____
12. Add lines 10 and 11 _____
13. Subtract line 12 from line 7. If zero or less, enter -0-. _____
14. Subtract line 13 from line 4. If zero or less, enter -0-. _____
15. Enter the smaller of line 4 or \$42,350 (\$25,350 if single; \$21,175 if married filing separately; \$33,950 if head of household). _____
16. Enter the smaller of line 14 or line 15 _____

17. Subtract line 7 from line 4. If zero or less, enter -0-. _____
18. Enter the larger of line 16 or line 17. _____
19. Figure the tax on the amount on line 18. Use the 1998 Tax Rate Schedules _____
20. Enter the amount from line 15 _____
21. Enter the amount from line 14 _____
22. Subtract line 21 from line 20. If zero or less, enter -0-. _____
23. Multiply line 22 by 10% (.10) _____
24. Enter the smaller of line 4 or line 13 _____
25. Enter the amount from line 22 _____
26. Subtract line 25 from line 24. If zero or less, enter -0-. _____
27. Multiply line 26 by 20% (.20) _____
28. Enter the smaller of line 7 or line 11 _____
29. Add lines 7 and 18 _____
30. Enter the amount from line 4 _____
31. Subtract line 30 from line 29. If zero or less, enter -0-. _____
32. Subtract line 31 from line 28. If zero or less, enter -0-. _____
33. Multiply line 32 by 25% (.25) _____
34. Enter the amount from line 4 _____
35. Add lines 18, 22, 26, and 32 _____
36. Subtract line 35 from line 34 _____
37. Multiply line 36 by 28% (.28) _____
38. Add lines 19, 23, 27, 33, and 37. _____
39. Figure the tax on the amount on line 4. Use the 1998 Tax Rate Schedule _____
40. **Tax.** Enter the smaller of line 38 or line 39 here and on line 6 of the 1998 Tax Worksheet _____



Worksheet 7 — Self-Employment Tax

Use this worksheet to figure the amount to enter on line 11 of Worksheet 1 — 1998 Tax Worksheet. If you are married filing a joint return and you are both self-employed, complete the self-employment tax calculation separately for each spouse, and combine the amounts on line 11 of Worksheet 1.

1. Enter estimated self-employment income for 1998 _____
 2. Multiply the amount on line 1 by .9235. _____
- Note.** If the total of line 2 and your estimated wages is \$68,400 or less, do not use this worksheet. See the instructions on line 11 of Worksheet 1.
3. Multiply the amount on line 2 by .029 _____
 4. Social security tax maximum income \$68,400
 5. Enter estimated wages for 1998 _____
 6. Subtract line 5 from line 4 _____
- Note.** If line 6 is zero or less, stop here and enter the amount from line 3 on line 11 of Worksheet 1.
7. Enter the smaller of line 2 or line 6 _____
 8. Multiply the amount on line 7 by .124 _____
 9. Add line 3 and line 8. Enter the result here and on line 11 of Worksheet 1 _____

1998 Standard Deduction Tables

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 1. Standard Deduction Chart for Most People*

If Your Filing Status is:	Your Standard Deduction is:
Single	\$4,250
Married filing joint return or Qualifying widow(er) with dependent child	7,100
Married filing separately	3,550
Head of household	6,250

*DO NOT use this chart if you were 65 or older or blind, OR if someone can claim you (or your spouse if married filing jointly) as a dependent.

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 <input type="checkbox"/> Blind <input type="checkbox"/> Your spouse, if claiming spouse's exemption 65 or older <input type="checkbox"/> Blind <input type="checkbox"/> Total number of boxes you checked <input type="checkbox"/>		
If Your Filing Status is:	And the Number in the Box Above is:	Your Standard Deduction is:
Single	1	\$5,300
	2	6,350
Married filing jointly or Qualifying widow(er) with dependent child	1	7,950
	2	8,800
	3	9,650
	4	10,500
Married filing separately	1	4,400
	2	5,250
	3	6,100
	4	6,950
Head of household	1	7,300
	2	8,350

*If someone can claim you (or your spouse if married filing jointly) as a dependent, use the worksheet in Table 3, instead.

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 <input type="checkbox"/> Blind <input type="checkbox"/> Your spouse, if claiming spouse's exemption 65 or older <input type="checkbox"/> Blind <input type="checkbox"/> Total number of boxes you checked <input type="checkbox"/>	
1. Enter your earned income (defined below) plus \$250.	1. _____
2. Minimum amount.	2. \$700
3. Compare the amounts on lines 1 and 2. Enter the larger of the two amounts here.	3. _____
4. Enter on line 4 the amount shown below for your filing status. ● Single, enter \$4,250 ● Married filing separate return, enter \$3,550 ● Married filing jointly or Qualifying widow(er) with dependent child, enter \$7,100 ● Head of household, enter \$6,250	4. _____
5. Standard deduction. a. Compare the amounts on lines 3 and 4. Enter the smaller of the two amounts here. If under 65 and not blind, stop here. This is your standard deduction. Otherwise, go on to line 5b. b. If 65 or older or blind, multiply \$1,050 (\$850 if married or qualifying widow(er) with dependent child) by the number in the box above. Enter the result. c. Add lines 5a and 5b. This is your standard deduction for 1998.	5a. _____ 5b. _____ 5c. _____
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 Table 3 ONLY if someone can claim you (or your spouse if married filing jointly) as a dependent.

Form W-4 (1998)

Purpose. Complete Form W-4 so 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 1998 expires February 16, 1999.

Note: You cannot claim exemption from withholding if (1) your income exceeds \$700 and includes unearned income (e.g., interest and dividends) and (2) another person can claim you as a dependent on their tax return.

Basic instructions. If you are not exempt, complete the Personal Allowances Worksheet. The worksheets on page 2 adjust your

withholding allowances based on itemized deductions, adjustments to income, or two-earner/two-job situations. Complete all worksheets that apply. They will help you figure the number of withholding allowances you are entitled to claim. However, you may claim fewer allowances.

New—Child tax and higher education credits. For details on adjusting withholding for these and other credits, see **Pub. 919**, Is My Withholding Correct for 1998?

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.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, you should consider making estimated tax payments using Form 1040-ES. 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 W-4. Your withholding will usually be most accurate when all allowances are claimed on the W-4 filed for the highest paying job and zero allowances are claimed for the others.

Check your withholding. After your W-4 takes effect, use Pub. 919 to see how the dollar amount you are having withheld compares to your estimated total annual tax. Get Pub. 919 especially if you used the Two-Earner/Two-Job Worksheet and your earnings exceed \$150,000 (Single) or \$200,000 (Married). To order Pub. 919, call 1-800-829-3676. Check your telephone directory for the IRS assistance number for further help.

Sign this form. Form W-4 is not valid unless you sign it.

Personal Allowances Worksheet

A Enter "1" for yourself if no one else can claim you as a dependent **A** _____

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. (This may help you avoid having too little tax withheld.) **C** _____

D Enter number of dependents (other than your spouse or yourself) you will claim on your tax return **D** _____

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 **F** _____

G New—Child Tax Credit: • If your total income will be between \$16,500 and \$47,000 (\$21,000 and \$60,000 if married), enter "1" for each eligible child. • If your total income will be between \$47,000 and \$80,000 (\$60,000 and \$115,000 if married), enter "1" if you have two or three eligible children, or enter "2" if you have four or more **G** _____

H Add lines A through G and enter total here. **Note:** This amount may be different from the number of exemptions you claim on your return. ► **H** _____

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 are single, have more than one job, and your combined earnings from all jobs exceed \$32,000 OR if you are married and have a working spouse or more than one job, and the combined earnings from all jobs exceed \$55,000, 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 the certificate to your employer. Keep the top part for your records. -----

Form W-4 Department of the Treasury Internal Revenue Service	<h2>Employee's Withholding Allowance Certificate</h2> <p>► For Privacy Act and Paperwork Reduction Act Notice, see page 2.</p>	OMB No. 1545-0010 <h1 style="font-size: 2em;">1998</h1>
1 Type or print your first name and middle initial _____ Last name _____		2 Your social security number _____
Home address (number and street or rural route) _____		3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> 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 _____		4 If your last name differs from that on your social security card, check here and call 1-800-772-1213 for a new card <input type="checkbox"/>
5 Total number of allowances you are claiming (from line H above or from the worksheets on page 2 if they apply).		5 _____
6 Additional amount, if any, you want withheld from each paycheck		6 \$ _____
7 I claim exemption from withholding for 1998, 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, enter "EXEMPT" here ►		7 _____

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.

Employee's signature ► _____	Date ► _____, 19____	
8 Employer's name and address (Employer: Complete 8 and 10 only if sending to the IRS) _____	9 Office code (optional) _____	10 Employer identification number _____

Deductions and Adjustments Worksheet

Note: Use this worksheet only if you plan to itemize deductions or claim adjustments to income on your 1998 tax return.

- 1 Enter an estimate of your 1998 itemized deductions. These include qualifying home mortgage interest, charitable contributions, state and local taxes (but not sales taxes), medical expenses in excess of 7.5% of your income, and miscellaneous deductions. (For 1998, you may have to reduce your itemized deductions if your income is over \$124,500 (\$62,250 if married filing separately). Get Pub. 919 for details.) 1 \$ _____
- 2 Enter:

}	\$7,100 if married filing jointly or qualifying widow(er)	}	2	\$ _____
	\$6,250 if head of household				
	\$4,250 if single				
	\$3,550 if married filing separately				
- 3 Subtract line 2 from line 1. If line 2 is greater than line 1, enter -0- 3 \$ _____
- 4 Enter an estimate of your 1998 adjustments to income, including alimony, deductible IRA contributions, and education loan interest 4 \$ _____
- 5 Add lines 3 and 4 and enter the total 5 \$ _____
- 6 Enter an estimate of your 1998 nonwage income (such as dividends or interest) 6 \$ _____
- 7 Subtract line 6 from line 5. Enter the result, but not less than -0- 7 \$ _____
- 8 Divide the amount on line 7 by \$2,500 and enter the result here. Drop any fraction 8 _____
- 9 Enter the number from Personal Allowances Worksheet, line H, on page 1 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, on page 1 10 _____

Two-Earner/Two-Job Worksheet

Note: Use this worksheet only if the instructions for line H on page 1 direct you here.

- 1 Enter the number from line H on page 1 (or from line 10 above if you used the Deductions and Adjustments Worksheet) 1 _____
- 2 Find the number in **Table 1** below that applies to the **LOWEST** paying job and enter it here 2 _____
- 3 If line 1 is **GREATER 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, on page 1. **DO NOT** use the rest of this worksheet 3 _____

Note: If line 1 is **LESS THAN** line 2, enter -0- on Form W-4, line 5, on page 1. Complete lines 4-9 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 amount needed 8 \$ _____
- 9 Divide line 8 by the number of pay periods remaining in 1998. (For example, divide by 26 if you are paid every other week and you complete this form in December 1997.) 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 LOWEST paying job are—	Enter on line 2 above	If wages from LOWEST paying job are—	Enter on line 2 above	If wages from LOWEST paying job are—	Enter on line 2 above	If wages from LOWEST paying job are—	Enter on line 2 above
0 - \$4,000	0	38,001 - 43,000	8	0 - \$5,000	0	70,001 - 85,000	8
4,001 - 7,000	1	43,001 - 54,000	9	5,001 - 11,000	1	85,001 - 100,000	9
7,001 - 12,000	2	54,001 - 62,000	10	11,001 - 16,000	2	100,001 and over	10
12,001 - 18,000	3	62,001 - 70,000	11	16,001 - 21,000	3		
18,001 - 24,000	4	70,001 - 85,000	12	21,001 - 25,000	4		
24,001 - 28,000	5	85,001 - 100,000	13	25,001 - 42,000	5		
28,001 - 33,000	6	100,001 - 110,000	14	42,001 - 55,000	6		
33,001 - 38,000	7	110,001 and over	15	55,001 - 70,000	7		

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 - \$50,000	\$400	0 - \$30,000	\$400
50,001 - 100,000	760	30,001 - 60,000	760
100,001 - 130,000	840	60,001 - 120,000	840
130,001 - 240,000	970	120,001 - 250,000	970
240,001 and over	1,070	250,001 and over	1,070

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