

## Estimated Tax

**Concern:** VITA/TCE Volunteers need to determine what is in scope and out of scope for the topic of Estimated Tax.

Estimated tax is the amount a taxpayer expects to owe for the tax year after deducting any refundable tax credits or federal withholding. Taxpayers with significant income that is not subject to withholding (such as interest, dividends, capital gains, or self-employment income) will often need to make estimated tax payments. The decision tree in Publication 17, *Your Federal Income Tax for Individuals*, Tax Withholding and Estimated Taxes can help determine if a taxpayer should make estimated tax payments. Determining if a taxpayer must pay **estimated taxes and how to make estimated payments are considered IN SCOPE for the VITA/TCE program.**

General rule. In most cases taxpayers must make estimated tax payments if they expect to owe at least \$1,000 in tax (after subtracting withholding and refundable credits) **and** their withholding and refundable credits are less than the smaller of:

- 90% of the tax shown on the current tax return or
- 100% of the tax shown on the prior year's tax return (but see Special rules for farmers, fishermen, and higher income taxpayers in Form 1040-ES). The prior year return must cover all 12 months.

If estimated payments are not made as required on this income, a penalty may be assessed. The estimated tax penalty is calculated on Form 2210, *Underpayment of Estimated Tax by Individuals, Estates, and Trusts*, and is then reported on the applicable line on Form 1040. **Completion of Form 2210 is OUT OF SCOPE for the VITA/TCE program.**

**Procedure:** Report any estimated tax payments the taxpayer indicates were paid on the tax return. Because Form 2210 is complicated, leave the estimated tax penalty line blank on Form 1040. The IRS will calculate the penalty if it is due. For 2010, Form 2210 will be defaulted in the software and \$0 will be reflected on line 9. This will prevent the volunteer preparer from calculating the estimated tax penalty. Let the taxpayer know that a penalty may be owed, and if so, the IRS will send a notice.

This procedure is in line with the guidance in Form 1040 Instructions which states: *Because Form 2210 is complicated, you can leave line 77 blank and the IRS will figure the penalty and send you a bill.*

For more information, refer to:

- Form 1040-ES, *Estimated Tax for Individuals*
- Publication 4012, *VITA/TCE Volunteer Resource Guide*
- Publication 17, *Your Federal Income Tax*, or
- The VITA hotline at 1-800-829-8482

If you have any questions, please discuss them with your site coordinator, contact your local IRS SPEC relationship manager, or e-mail [partner@irs.gov](mailto:partner@irs.gov).

Thank you for volunteering to serve your community and for your dedication to providing top QUALITY service!