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 withheld from certain other income — including pensions, bonuses, commissions, and gambling winnings. In each case, the

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Tax
Withholding and Estimated Tax

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Important Changes for 2002

You should consider the items in this section when figuring any underpayment penalty for 2002. Figuring the penalty is discussed in chapter 4.

Penalty rate. The penalty for underpayment of 2002 estimated tax is figured at an annual rate of 6% for the number of days the underpayment remained unpaid from April 16, 2002, through December 31, 2002, and 5% if you would include your daytime phone number, including the area code, in your correspondence. The Internal Revenue Service (IRS) in your name. For installment payments for tax years beginning in 2002, the estimated tax safe harbor for higher income individuals (other than farmers and fishermen) has been modified. If your adjusted gross income was more than $150,000 ($75,000 if married filing a separate return), you must have deposited the smaller of 90% of your expected tax for 2002 or 112% of the tax shown on your 2001 return to avoid an estimated tax penalty.

Important Changes for 2003

This section summarizes important changes that take effect in 2003 and that could affect your tax and alternative minimum tax as well.

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Child and dependent care credit. Significant changes to the child and dependent care credit take effect in 2003.

• The credit amount can be as much as 35% (previously 30%) of your qualifying expenses.
• The maximum adjusted gross income amount that qualifies for the credit is $125,000 (previously $100,000).
• The limit on the amount of qualifying expenses increases to $2,000 for one qualifying individual and $1,000 for two or more qualifying individuals.
• The amount of income that is treated as farm income of benefits under an adoption assistance agreement that can be contributed to a qualified plan increases to $12,000 ($14,000 if you are age 50 or over). However, for SIMPLE plans, the amount increases to $8,000 ($9,000 if you are age 50 or over).

Simplified rules for required minimum distributions. There are new rules for determin-ing the amount of a required minimum distribu-tion for a year beginning after 2002. The new rules, including new life expectancy tables, are in Publication 590.

Self-employed health insurance deduction. You can deduct 100% of your self-employed health insurance premiums as an adjustment to income.

Important Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Chil-dren. 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 2003

Introduction
This chapter discusses 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.

Useful Items
You may want to see:
Publication
q 919 How Do I Adjust My Tax Withholding?

Form (and Instructions)
q W–4 Employee’s Withholding Allowance Certificate
q W–4P Withholding Certificate for Pension or Annuity Payments
q W–4S Request for Federal Income Tax Withholding From Sick Pay
q 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 more information about reimbursements and allowances paid under an accountable plan.

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 make estimated tax payments, as discussed in chapter 2.

Farmworkers. Income tax is generally withheld from your cash wages for work on a farm unless your employer both:
1) Pays you cash wages of less than $150 during the year, and
2) Has expenditures for agricultural labor totaling less than $2,500 during the year.

If you receive either noncash wages or cash wages not subject to withholding, you can ask your employer to withhold income tax. If your employer does not agree to withhold tax, or if not enough is withheld, you may have to make estimated tax payments, as discussed in chapter 2.

Determining Amount of Tax Withheld
The amount of income tax your employer withholds from your regular pay depends on two things.
1) The amount you earn.
2) 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.
1) Whether to withhold at the single rate or at the lower married rate.
2) How many withholding allowances you claim (each allowance reduces the amount withheld).
3) Whether you want an additional amount withheld.

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 later under Exemption From Withholding.

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, 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:
1) Your divorce, if you have been claiming married status.
2) 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.
1) 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.
2) 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.
3) You have been claiming an allowance for your child, but you now find that he or she will earn more than $3,000 during the year. In addition, he or she will be:
   a) 24 or older by the end of the year, or
   b) 19 or older by the end of the year and will not qualify as a student.
4) 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 2004. If events in 2003 will decrease the number of your withholding allowances for 2004, you must give your employer a new Form W–4 by December 1, 2003. If an event occurs in December 2003, 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 2003 based on child care expenses, moving expenses, or large medical expenses, but you will not have these expenses in 2004.
• You have been claiming an allowance for your spouse, but he or she died in 2003.

Note. Because you can still file a joint return for 2003, your spouse’s death will not affect the number of your withholding allowances until 2004. You will also have to change from married to single status for 2004, unless you can file as a...
Completing Form W-4 and Worksheets

The discussion that follows explains in detail how to fill out Form W-4. It has more detailed information about some topics than the Form W-4 instructions.

In reading this discussion, you may find it helpful to refer to the filled-in Form W-4 in Example 1.3, later in this chapter.

Marital Status (Line 3 of Form W-4)

There is a lower withholding rate for people who can claim married status 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.)

You must claim single status if either of the following applies.

1) You are single. If you are divorced, or separated from your spouse under a court decree of separate maintenance, you are considered single.

2) You are married, but either you or your spouse is not a citizen or 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.

Whether you have enough tax withheld at the married rate. You must ask in writing that your employer withhold at a higher single rate (even if you qualify for the married rate). Also, you can 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.

• 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 worksheets for you and your spouse. To avoid this, you can claim married status on line 3 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 separately 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 2003 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 you are 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, Japan, 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 2003, your deduction for personal exemptions is phased out if your adjusted gross income (AGI) falls within the following brackets.

<table>
<thead>
<tr>
<th>Bracket</th>
<th>Maximum AGI</th>
</tr>
</thead>
<tbody>
<tr>
<td>$139,500 – $262,000</td>
<td></td>
</tr>
<tr>
<td>$209,250 – $331,750</td>
<td></td>
</tr>
<tr>
<td>$265,300 – $265,750</td>
<td></td>
</tr>
</tbody>
</table>

If your AGI is more than the maximum 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 for the following worksheet, to figure the total allowances for those lines.

Worksheet 1.1

1. Enter your expected AGI
2. Enter $139,500 if single $209,250 if married filing jointly or qualifying widow(er) $104,625 if married filing separately $71,400 if head of household
3. Subtract line 2 from line 1
4. Divide the amount on line 3 by $125,000 ($62,500 if married filing separately). Enter the result as a decimal
5. Enter the 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. This is the maximum number you should enter on lines A, C, and D of the Personal Allowances Worksheet

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

• 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 for yourself and your dependent or other qualifying individual. For more information, see Head of Household under Filing Status in Publication 501.

If you expect to file as head of household on your 2003 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 2003 return. Generally, qualifying expenses are those you pay for the care of your dependent 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 503, Child and Dependent Care Expenses.

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 between $15,000 and $42,000 ($20,000 and $65,000 if married), enter “1” on line G for each eligible child. Enter 1 additional if you have three to five eligible children or 2 additional if you have six or more eligible children. Enter 1 if your total income is between $42,000 and $80,000 ($65,000 and $115,000 if married), enter “1” on line G if you have one or two eligible children, enter “2” if you have three eligible children, enter “3” if you have four eligible children, or enter “4” if you have five 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 2003.
• 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

Fill out this worksheet to adjust the number of your withholding allowances for deductions, adjustments to income, and 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 2002 return (or your 2001 return if you have not filed your 2002 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 2002 or 2003.

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

Example 1.1. On June 30, 2002, you bought your first home. On your 2002 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 other factors, your mortgage interest deduction would be $3,500 and your real estate tax deduction would be $1,000 for 2003. You can add $4,500 to your adjusted gross income for 2003. But if you did not file your 2002 return, you can include the $3,500 of interest deduced in your 2003 return.
your real estate tax assessment, you can reason-ably expect to claim deductions of $13,200 for those items on your 2003 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 2003. You normally claim these deductions on Schedule A of Form 1040.

1) Medical and dental expenses that are more than 7.5% of your 2003 adjusted gross income (defined later).
2) State and local income taxes and property taxes.
3) Deductible home mortgage interest.
4) Investment interest up to net investment income.
5) Charitable contributions.
6) Casualty and theft losses that are more than 10% of your 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 2003 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.

Reduction of itemized deductions. For 2003, your total itemized deductions may be reduced if your adjusted gross income (AGI) is more than $139,500 ($69,750 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 for medical and dental expenses, investment interest, casualty or theft losses, and gambling losses.
2. Subtract line 1 from line 2.

Note. If the amount on line 3 is zero, stop here and enter the amount from line 1 of this worksheet on line 1 of the Deductions and Adjustments Worksheet.
3. Multiply the amount on line 3 by .80.
4. Enter your expected AGI.
5. Subtract line 4 from line 5.
6. Multiply the amount on line 7 by .03.
7. Enter the smaller of line 8 or line 9.
8. 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 2003. 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 medical savings account.
- Educator expenses.
- Tuition and fees deduction.
- Student loan interest deduction.
- Deduction for one-half of self-employment tax.
- Deduction for self-employed health insurance.
- 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 18(b)(2).
- Net operating loss carryovers.

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 550, 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 969, Earned Income Credit.
- Adoption credit. See Publication 968, Tax Benefits for Adoption.
- General business credit. See Form 3800, General Business Credit.
- Retirement savings contribution credit.
- 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 table.

Table 1.2
Credit Table A
Married Filing Jointly or Qualifying Widow(er)

<table>
<thead>
<tr>
<th>If combined estimated wages</th>
<th>Multiply credits by</th>
</tr>
</thead>
<tbody>
<tr>
<td>$8 to 29,000</td>
<td>10.0</td>
</tr>
<tr>
<td>29,001 to 65,000</td>
<td>6.7</td>
</tr>
<tr>
<td>65,001 to 132,000</td>
<td>3.7</td>
</tr>
<tr>
<td>132,001 to 192,000</td>
<td>3.3</td>
</tr>
<tr>
<td>192,001 to 329,000</td>
<td>2.9</td>
</tr>
<tr>
<td>over 329,000</td>
<td>2.6</td>
</tr>
</tbody>
</table>
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.

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 (or skip to line 8 if you expect to owe amounts other than income tax).

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. He expects his pay to be $48,500. They file a joint return and have $9,842 of mortgage interest and a $960 credit of $960 and a mortgage interest credit of $960 and a mortgage interest credit of $960 and a mortgage interest credit of $960.

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, $6,350, 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, $5,750, on line 7. They divide line 7 by $3,000, and drop the fraction to determine one additional allowance. They enter “1” on line 8.

The Greens enter “7” (the number from line H of the Personal Allowances Worksheet) on line 9 and add it to line 8. They enter “8” on line 10.

Two-Earner/Two-Job Worksheet. The Greens use this worksheet because they both work and together earn over $35,000. They enter “8” (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 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 “6” on line 3 of the worksheet and on Form W-4, line 5.

John and Joyce Green can take a total of 6 withholding allowances between them. They decide that John will take all 6 allowances on his Form W-4. Joyce, therefore, cannot claim any allowances on her. 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.

1) You accurately complete all the Form W-4 worksheets that apply to you.
2) 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.
Form W-4 (2003)

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 2003 expires February 16, 2004. See Pub. 505, Tax Withholding and Estimated Tax.

Note: You cannot claim exemption from withholding if (a) your income exceeds $750 and includes more than $250 of unearned income (e.g., 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 2003. 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 for a new social security card.

Personal Allowances Worksheet (Keep for your records.)

Example 1.

| A | Enter “1” for yourself if no one else can claim you as a dependent. | 1 |
| B | Enter “1” if: | |
| | - You are married, have only one job, and your spouse does not work; or | B |
| | - You wages from a second job or your spouse’s wages (or the total of both) are $1,000 or less. | |
| 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.) | |
| D | Enter number of dependents (other than your spouse or yourself) you will claim on your tax return. | |
| E | Enter “1” if you will file as head of household on your tax return (see conditions under Head of household above). | |
| F | Enter “1” if you have at least $1,500 of child or dependent care expenses for which you plan to claim a credit. | |
| G | See Pub. 503, Child and Dependent Care Expenses, for details. | |

For accuracy, complete all worksheets that apply.

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.

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

Employee’s Withholding Allowance Certificate

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

1 Type or print your first name and middle initial. | John M. Green |
2 Your social security number | 444-44-4444 |
3 - Single | Married |
- Home address (number and street or rural route) | 28 Fairway |
- City or town, state, and ZIP code | 000000 |
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2). | 5 |
6 Additional amount, if any, you want withheld from each paycheck. | 6 |
7 I claim exemption from withholding for 2003, and I certify that I meet both of the following conditions for exemption: | 7 |
- 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. | |

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

Employee’s signature | John M. Green |
Date | January 4, 2003 |
9 Office code (optional) | |
10 Employer identification number | |

Cat. No. 10220Q
### 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 2003 tax return.

1. Enter an estimate of your 2003 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 2003, you may have to reduce your itemized deductions if your income is over $139,500 ($69,750 if married filing separately). See Worksheet 3 in Pub. 919 for details.)

2. Enter:
   - $7,950 if married filing jointly or qualifying widow(er)
   - $4,750 if single
   - $3,975 if married filing separately

3. Subtract line 2 from line 1. If line 2 is greater than line 1, enter "-0-".

4. Enter an estimate of your 2003 adjustments to income, including alimony, deductible IRA contributions, and student loan interest.

5. Add lines 3 and 4 and enter the total. Include any amount for credits from Worksheet 7 in Pub. 919.

6. Enter an estimate of your 2003 nonwage income (such as dividends or interest).

7. Subtract line 5 from line 4. Enter the result, but not less than "-0-".

8. Divide the amount on line 7 by $3,000 and enter the result here. Drop any fraction.

9. Enter the number from the Personal Allowances Worksheet, line H, page 1.

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.

---

**Two-Earner/Two-Job Worksheet**

**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 if line 10 above if you used the Deductions and Adjustments Worksheet).

2. Find the number in Table 1 below that applies to the lowest paying job and enter it here.

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.

**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.

5. Enter the number from line 1 of this worksheet.

6. Subtract line 5 from line 4.

7. Find the amount in Table 2 below that applies to the highest paying job and enter it here.

8. Multiply line 7 by line 6 and enter the result here. This is the additional annual withholding needed.

9. Divide line 8 by the number of pay periods remaining in 2003. For example, divide by 26 if you are paid every two weeks and you complete this form in December 2002. Enter the result here and on Form W-4, line 6, page 1. This is the additional amount to be withheld from each paycheck.

---

**Table 1: Two-Earner/Two-Job Worksheet**

<table>
<thead>
<tr>
<th>Married Filing Jointly</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>If wages from LOWEST paying job are—</td>
<td></td>
</tr>
<tr>
<td>$0 - $4,000</td>
<td>Enter on line 2 above</td>
</tr>
<tr>
<td>0</td>
<td>44,001 - 50,000</td>
</tr>
<tr>
<td>4,001 - 9,000</td>
<td>1</td>
</tr>
<tr>
<td>9,001 - 15,000</td>
<td>2</td>
</tr>
<tr>
<td>15,001 - 20,000</td>
<td>3</td>
</tr>
<tr>
<td>20,001 - 25,000</td>
<td>4</td>
</tr>
<tr>
<td>25,001 - 33,000</td>
<td>5</td>
</tr>
<tr>
<td>33,001 - 48,000</td>
<td>6</td>
</tr>
<tr>
<td>38,001 - 44,000</td>
<td>7</td>
</tr>
</tbody>
</table>

**Table 2: Two-Earner/Two-Job Worksheet**

<table>
<thead>
<tr>
<th>Married Filing Jointly</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>If wages from HIGHEST paying job are—</td>
<td></td>
</tr>
<tr>
<td>$0 - $50,000</td>
<td>Enter on line 7 above</td>
</tr>
<tr>
<td>$50,001 - 100,000</td>
<td>0</td>
</tr>
<tr>
<td>100,001 - 150,000</td>
<td>0</td>
</tr>
<tr>
<td>150,001 - 275,000</td>
<td>1</td>
</tr>
</tbody>
</table>

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(b)(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 Federal and state agencies to enforce Federal nontax criminal laws and 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, 46 min.; Learning about the law or the form, 13 min.; Preparing the form, 59 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 the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0007. Do not send the tax form to this address. Instead, give it to your employer.
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 make estimated tax payments. 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.

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–4 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.

1. You claim more than 10 withholding allowances.  
2. You claim exemption from withholding and your wages are expected to usually be more than $200 a week.

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. 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.

**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.

**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 2003 only if both the following situations apply.

1. For 2002 you had a right to a refund of all federal income tax withheld because you had no tax liability.  
2. For 2003 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 2003 return.  
- Will claim an exemption for a dependent on your 2003 return.  
- Will claim any tax credits on your 2003 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 2002 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 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 $750.

You may have to file a tax return, even if you are exempt from withholding.

**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.

- Use either worksheet if you will itemize deductions or claim exemptions for dependents or claim tax credits on your 2003 return — instead, see itemizing deductions or claiming exemptions or credits, following the worksheets.

**Worksheet 1.3 Exemption From Withholding Worksheet for 65 or Older or Blind**

Use this worksheet only if, for 2003, 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.
   
   a) 65 or older  
   b) Blind

2. Check the boxes below that apply to your spouse if you will claim your spouse’s exemption on your 2003 return.
   
   a) 65 or older  
   b) 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:
  - Single and the number on line 3 above is:  
  - $8,950
  - $11,200
  - $12,350

- Your spouse's filing status is:
  - Married filing separately for both 2002 and 2003
  - 9,875
  - 10,825

- Your 2003 total income will be no more than:
  - $15,000*
  - 15,950*
  - 17,850*

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

**Qualifying widow(er).** If you cannot claim exemption from withholding if your total income will be more than the amount shown for your filing status.

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

Supplemental wages include bonuses, commissions, overtime pay, and certain sick pay. 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 payor of supplemental wages can withheld income tax from these wages at a flat rate of 27%.

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.

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.

1) You make statements or claim withholding allowances on your Form W-4 that reduce the amount of tax withheld.

2) You have no reasonable basis for those statements or allowances.

Tips

The tips you receive while working on your job as a dependent from one employer, or both.

Tips not reported to your employer. On your tax return, you must report all the tips the 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 estimated tax, to cover all your income tax.

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 withholding rules for tip income and on tip allocation, see 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 with-
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.

Start Here

For 2002, did you have a right to a refund of ALL federal income tax withheld because you had NO tax liability?

Yes

For 2003, will someone (such as your parent) be able to claim you as a dependent?

No

Yes

Will your 2003 total income be more than the amount shown below for your filing status?

No

Yes

Single

$7,800

Head of household

10,050

Married filing separately for BOTH 2002 and 2003

7,025

Other married status (include BOTH spouses’ income whether filing separately or jointly)

14,050

Qualifying widow(er)

11,000

Will your 2003 income include more than $250 of unearned income (interest, dividends, etc.)?

Yes

No

Yes

You CANNOT claim exemption from withholding.

You CAN claim exemption from withholding.

Will your 2003 total income be:

$4,750 or less if single, or

$3,975 or less if married?

No

Yes

You CANNOT claim exemption from withholding.

You CAN claim exemption from withholding.

Will your 2003 total income be more than $750?

No

Yes

hold income tax on these benefits from your regular pay for the period the benefits are paid or considered paid.

For information on fringe benefits, see Fringe Benefits under Employee Compensation in Publication 525.

Your employer can choose not to withhold income tax on the value of your personal use of a car, truck, or other highway motor vehicle provided by your employer. 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, 2001, through October 31, 2002, as paid to you in 2002. To determine the total value of benefits paid to you in 2003, your employer will add the value of any benefits paid in November and December of 2002 to the value of any benefits paid in January through October of 2003.

Exceptions. Your employer cannot choose 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 withheld on the total or withhold 27% 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, payment or distribution is made that you choose not to have it withheld. This rule applies to:

1) Military retirement pay.
2) One of a series of substantially equal periodic pension or annuity payments made within one year (nonperiodic payments), or as an eligible rollover distribution (ERD). You cannot choose to have it withheld. See chapters 2 and 4. 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.

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 endorsement, annuity, or life insurance contract,
- A pension, annuity, or profit-sharing plan,
- A stock bonus plan,
- 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.

Nonexempt 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 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:

1) Military retirement pay,
2) Payments from a nonqualified deferred compensation plan,
3) Payments from state and local deferred compensation plan.

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

1) 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 $1,320 a month (or $15,840 a year).
2) 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.
3) If you do not pay the giver 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 at a 27% rate and the payer is claiming no withholding allowances. This means that tax will be withheld at a 10% rate if your pension or annuity is at least $320 a month (or $3,840 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 made on or after January 1, May 1, July 1, or October 1, whichever 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 10% rate on any nonperiodic payments you receive.

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

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

Eligible Rollover Distributions

A distribution you receive that is eligible to be rolled over tax-free into a rollover 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:
Gambling Winnings

Income tax is withheld from certain kinds of gambling winnings. For 2003, the amount with- held is 27% of the proceeds paid (the amount of your winnings minus the amount of your bet).

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 information to your employer with your social security number to avoid withholding. See Backup withholding on gambling winnings, later. If you receive gam- bling winnings not subject to withholding, you may need to make estimated tax payments. See chapter 4.

If you do not pay enough tax either through estimated tax withholding or estimated tax payments, you may have to make estimated tax payments. See chapter 2.

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 the rate of 30%. This rule applies to keno winnings more than $2,200, 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. The amount withheld will be 10% of each payment.

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

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 payments you choose to in- clude 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 be- cause 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. For 2003, you can choose to have 7%, 10%, 15%, or 27% of each payment withheld.

If you do not choose to have income tax withheld, you may have to make estimated tax payments. 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.

Chapter 1 Tax Withholding for 2003

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The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.
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.

1) The amount you receive from any one payer is $600 or more.
2) The payer had to give you a Form 1099 last year.
3) 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 must also certify (under penalties of perjury) that your TIN is correct and that you are not subject to backup withholding.

For 2003, the payment must withhold at a flat 30% 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 that the TIN you gave is incorrect, you can usually prevent 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 of 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 2003

Important Change

Estimated tax safe harbor for higher income individuals. For installment payments for tax years beginning in 2003, the estimated tax safe harbor for higher income individuals (other than farmers and fishermen) has been modified. If your adjusted gross income is 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 2003 or 110% of the tax shown on your 2002 return (provided your 2002 return covered all 12 months) to avoid an estimated tax penalty.

Important Reminders

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. If you either receive income from which tax is withheld or must make estimated tax payments, you must include any expected employment (social security, Medicare, and federal unemployment) taxes for household employees when figuring your estimated tax.

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 by making 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 2002 tax return and an estimate of your 2003 income nearby while reading this chapter.

Topics

This chapter discusses:

- Who must make estimated tax payments,
- 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 2002 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 Must Make Estimated Tax Payments?

If you had a tax liability for 2002, you may have to pay estimated tax for 2003.

General Rule

You must make estimated tax payments for 2003 if both of the following apply.

1) You expect to owe at least $1,000 in tax for 2003, 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 2003 tax return, or
   b) 100% of the tax shown on your 2002 tax return. Your 2002 tax return must cover all 12 months.

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

Example 2.1.

To figure whether she should pay estimated tax for 2003, Jane, who files as head of household, uses the following information.

- Jane’s answer to the chart’s first question is YES — she expects her income tax withholding ($8,500) to be at least 100% of the tax shown on her 2002 return ($10,500). Jane does not need to pay estimated tax.
- 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 2003 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 2003 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 $6,500 tax to be withheld in 2003. 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 2002 return ($10,500). Jane must make estimated tax payments for 2003.

Example 2.3.

The facts are the same as in Example 2.2, except that the tax shown on Jane’s 2002 return was $8,000. Because she expects to have more than $8,000 withheld in 2003, her answer to the chart’s third question is YES. Jane does not need to pay estimated tax for 2003.

Married Taxpayers

To figure whether you must make estimated tax payments, 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:

1) You are legally separated under a decree of divorce or separate maintenance.
2) Either spouse is a nonresident alien, or
3) 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 2003.

2002 separate returns and 2003 joint return.

If you plan to file a joint return with your spouse for 2003, but you filed separate returns for 2002, your 2002 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.

2002 joint return and 2003 separate returns.

If you file a separate return for 2003, but you filed a joint return for 2002, your 2002 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.
Figure B. Do You Have To Pay Estimated Tax?

**Start Here**

Will you owe $1000 or more for 2003 after subtracting income tax withholding and credits from your total tax? (Do not subtract any estimated tax payments.)

- **Yes**
  - **Will your income tax withholding and credits be at least 90% (66 2/3% for farmers and fishermen) of the tax shown on your 2003 tax return?**
    - **Yes**
      - **You MUST make estimated tax payment(s) by the required due date(s).**
      - See When To Pay Estimated Tax.
    - **No**
      - **You are NOT required to pay estimated tax.**

- **No**
  - **Will your income tax withholding and credits be at least 100% * of the tax shown on your 2002 tax return?**
    - **Yes**
      - **You MUST make estimated tax payment(s) by the required due date(s).**
      - See When To Pay Estimated Tax.
    - **No**

---

* 110% if less than two-thirds of your gross income for 2002 and 2003 is from farming or fishing and your 2002 adjusted gross income was more than $150,000 ($75,000 if your filing status for 2003 is married filing a separate return).

---

**Farmers and Fishermen**

If at least two-thirds of your gross income for 2002 or 2003 is from farming or fishing, substitute 66 2/3% 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 2002 was more than $150,000 ($75,000 if your filing status for 2003 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.

**Example 2.4.** Joe and Heather filed a joint return for 2002 showing taxable income of $48,500 and a tax of $6,898. Of the $48,500 taxable income, $40,100 was Joe’s and the rest was Heather’s. For 2003, they plan to file married filing separately. Joe figures his share of the tax on the 2002 joint return as follows:

- Tax on $40,100 based on a separate return
  - Total $7,732
- Tax on $8,400 based on a separate return
  - Total $8,696
- Joe’s percentage of total ($7,732 + $8,696) = 89%
- Joe’s share of tax on joint return ($6,898 x 89%) = $6,139

**Special Rules for Farmers and Fishermen and Higher Income Taxpayers**

- For 2002, AGI is the amount shown on Form 1040, line 36; Form 1040A, line 22; and Form 1040EZ, line 4.
- **Aliens**
  - Resident and nonresident aliens may also have to make estimated tax payments. 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.

**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 2003 estimated tax, it may be helpful to use your income, deductions, and credits for 2002 as a starting point. Use your
2002 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 laws. For 2003, there are several changes in the law. These changes are discussed in this publication—2003 at the beginning of this publication. For information about these and other changes in the law, get Publication 553, Highlights of 2002 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 blank worksheet appears later in this chapter. Example 2.9 illustrates the use of the worksheet.

Expected Adjusted Gross Income

Your expected adjusted gross income for 2003 (line 1 of the 2003 Estimated Tax Worksheet) is your expected total income minus your expected adjustments to income.

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

Total income includes all income and loss for 2003 that, if you had received it in 2002, would have been included 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, be sure to use only 92.35% of your total net profit from self-employment.

Social security and railroad retirement benefits. If you receive social security or 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 2003 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 or 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 2003 Estimated Tax Worksheet
10. Enter $9,900 ($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. Multiply line 11 by 85% (0.85). If line 11 is zero, enter –0–
15. Add lines 14 and 15
16. Multiply line 11 by 85% (0.85)
17. Enter the smaller of line 16 or line 17
18. 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 2003 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 2003 tax return. If you are using your 2002 return as a guide and filed Form 1040, your adjustments for 2002 were on lines 23–33a. If you filed Form 1040A, your 2002 adjustments were on lines 16–19.

Self-employed. If you expect to have income from self-employment, use the following worksheet to figure your expected self-employment tax. The result on line 10 of the worksheet is your deduction for one-half of your self-employment tax. Include this amount in the adjustments you subtract from your total income to arrive at your expected AGI. 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 the amount on line 1 by 0.33
3. Multiply the amount on line 2 by 0.29
4. Social security tax maximum income $87,000
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 the amount on line 7 by 0.124
9. Subtract line 3 and line 8. Enter the result here and on line 11 of your 2003 Estimated Tax Worksheet
10. Multiply the amount on line 9 by 0.50. This is your deduction for one-half of your self-employment tax

Expected Taxable Income

Reduce your expected adjusted gross income for 2003 by either your expected itemized deductions or your standard deduction and by your exemptions (lines 2 through 5 of the 2002 Estimated Tax Worksheet).

Itemized deductions. If you expect to claim itemized deductions on your 2003 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 2003, your total itemized deductions may be reduced if your adjusted gross income (AGI) is more than $139,500 ($69,750 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 2003 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 the amount on line 3 is zero, stop here and enter the amount from line 1 of this worksheet on line 2 of the 2003 Estimated Tax Worksheet.
4. Multiply the amount on line 3 by 0.85
5. Enter the amount from line 1 of the 2003 Estimated Tax Worksheet
6. Enter $139,500 ($69,750 if married separately)
7. Subtract line 6 from line 5
8. Multiply the amount on line 7 by 0.26
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 2003 Estimated Tax Worksheet

Standard deduction. If you expect to claim the standard deduction on your 2003 tax return, subtract it from your expected adjusted gross income. Use the 2003 Standard Deduction Table 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:
1) File a separate return and your spouse itemizes deductions,
2) Are a nonresident alien, or
3) 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 $3,050 for each exemption you expect to take on your 2003 tax return (lines 4 and 5 of the 2003 Estimated Tax Worksheet). Someone (such as your parent) can claim an exemption for you on his or her tax return, but 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 2003, your deduction for personal exemptions is phased out if your adjusted gross income (AGI) falls within the following brackets.

- $37,450 to $43,450
- $43,450 to $66,250
- $66,250 to $103,650
- $103,650 to $166,350
- $166,350 to $200,000
- $200,000 to $300,000
- $300,000 to $379,950
- $379,950 to $458,450
- $458,450 to $536,950
- $536,950 to $759,050
- $759,050 to $908,750
Table 2.1

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$139,500-$262,000</td>
</tr>
<tr>
<td>Married filing jointly or qualifying widow(er)</td>
<td>$209,250-$331,750</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$104,625-$165,675</td>
</tr>
<tr>
<td>Head of household</td>
<td>$174,400-$296,900</td>
</tr>
</tbody>
</table>

Table 2.2

1. Multiply $3,050 by the number of exemptions you claim to line 6.
2. Enter the amount from line 1 of your 2003 Estimated Tax Worksheet.
3. Enter:
   - $139,500 if single
   - $209,250 if married filing jointly or qualifying widow(er)
   - $104,625 if married filing separately
   - $174,400 if head of household
4. Subtract line 3 from line 2.
5. Divide the amount on line 4 by $2,500.
6. Multiply the number on line 5 by .02.
7. Subtract line 6 from line 2. If zero or less, enter 0.
8. Subtract line 7 from line 1. If zero or less, enter 0.
9. Enter the smaller of line 8 or line 15.
10. Subtract line 2 from line 1. If zero or less, enter 0.
11. Subtract the larger of line 9 or line 10.
12. Tax on amount on line 11 from the 2003 Tax Rate Schedule.
13. Tax on amount on line 11 from the 2003 Tax Rate Schedule.
14. Multiply line 13 by 10% (0.10).
15. Enter the amount, if any, of your qualified 5-year gain. Do not enter more than the amount on line 13.
16. Multiply line 15 by 2% (.02).
17. Subtract line 16 from line 14.
18. Enter the smaller of line 1 or line 6.
19. Subtract line 13 from line 18.
20. Multiply line 19 by 20% (.20).
21. Enter the smaller of line 2 or line 4.
22. Subtract line 2 from line 1.
23. Subtract line 1 from line 22.
24. Multiply line 23 by 20% (.20).
25. Subtract line 24 from line 22.
27. Subtract line 26 from line 21. If zero or less, enter 0.
28. Multiply line 27 by 28%.
30. Tax on the amount on line 1 from the 2003 Tax Rate Schedule.
31. Tax. Enter the smaller of line 29 or line 30 here and on line 6 of the 2003 Estimated Tax Worksheet.

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 2003 Estimated Tax Worksheet).

Include on line 8 the sum of:
1. Your tax on line 6.
2. Your expected alternative minimum tax from Form 6251 (line 43 of the 2002 Form 1040) on line 7.
3. Your expected additional taxes from Form 8814, Parents’ Election To Report Child’s Interest and Dividends, and Form 4972, Tax on Lump-Sum Distributions (line 42 box a and box b of the 2002 Form 1040), and
4. Any recapture of education credits.

Step 3. Subtract your expected credits (line 9 of the 2003 Estimated Tax Worksheet). If you are using your 2002 return as a guide and filed Form 1040, your total credits for 2002 were shown on line 54. If you filed Form 1040A, your total credits for 2002 were on line 35. Tax on tips or group-term life insurance.


Step 5. Add your expected other taxes (line 12 of the 2003 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 2003.

Step 1. Figure your expected income tax (line 6 of the 2003 Estimated Tax Worksheet).

Use the 2003 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 $1,500 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.

The maximum rate may be 8%, 10%, 20%, 25%, or 28%, or a combination of those rates. Use Worksheet 2.5 to figure your tax if you have capital gain.
### 2003 Estimated Tax Worksheet (keep for your records)

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Adjusted gross income you expect in 2003 (see instructions on page 2)</td>
</tr>
<tr>
<td>2</td>
<td>If you plan to itemize deductions, enter the estimated total of your itemized deductions. <strong>Caution:</strong> If line 1 above is over $139,500 ($69,750 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.</td>
</tr>
<tr>
<td>3</td>
<td>Subtract line 2 from line 1</td>
</tr>
<tr>
<td>4</td>
<td>Exemptions. Multiply $3,050 by the number of personal exemptions. If you can be claimed as a dependent on another person’s 2003 return, your personal exemption is not allowed. <strong>Caution:</strong> See Pub. 505 to figure the amount to enter if line 1 above is over: $209,250 if married filing jointly or qualifying widow(er); $174,400 if head of household; $139,500 if single; or $104,625 if married filing separately.</td>
</tr>
<tr>
<td>5</td>
<td>Subtract line 4 from line 3</td>
</tr>
<tr>
<td>6</td>
<td>Tax. Figure your tax on the amount on line 5 by using the 2003 Tax Rate Schedules on page 5. <strong>Caution:</strong> If you have a net capital gain, see Pub. 505 to figure the tax.</td>
</tr>
<tr>
<td>7</td>
<td>Alternative minimum tax from Form 6251</td>
</tr>
<tr>
<td>8</td>
<td>Add lines 6 and 7. Also include any tax from Forms 4972 and 8814 and any recapture of the education credits (see instructions on page 2).</td>
</tr>
<tr>
<td>9</td>
<td>Credits (see instructions on page 2). <strong>Do not</strong> include any income tax withholding on this line.</td>
</tr>
<tr>
<td>10</td>
<td>Subtract line 9 from line 8. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>11</td>
<td>Self-employment tax (see instructions on page 2). Estimate of 2003 net earnings from self-employment $80,000 or less, multiply the amount by 15.3%; if more than $80,000, multiply the amount by 2.9%, add $10,788.00 to the result, and enter the total. <strong>Caution:</strong> If you also have wages subject to social security tax, see Pub. 505 to figure the amount to enter.</td>
</tr>
<tr>
<td>12</td>
<td>Other taxes (see instructions on page 2).</td>
</tr>
<tr>
<td>13a</td>
<td>Add lines 10 through 12</td>
</tr>
<tr>
<td>13b</td>
<td>Earned income credit, additional child tax credit, and credits from Form 4136 and Form 8885</td>
</tr>
<tr>
<td>13c</td>
<td><strong>Total 2003 estimated tax.</strong> Subtract line 13b from line 13a. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>14a</td>
<td>Multiply line 13c by 90% (66 2/3% for farmers and fishermen)</td>
</tr>
<tr>
<td>14b</td>
<td>Enter the tax shown on your 2002 tax return (110% of that amount if you are not a farmer or fisherman and the adjusted gross income shown on line 36 of that return is more than $150,000 or, if married filing separately for 2003, more than $75,000)</td>
</tr>
<tr>
<td>14c</td>
<td><strong>Required annual payment to avoid a penalty.</strong> Enter the smaller of line 14a or 14b. <strong>Caution:</strong> 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 may pay the amount shown on line 13c. For details, see Pub. 505.</td>
</tr>
<tr>
<td>15</td>
<td>Income tax withheld and estimated to be withheld during 2003 (including income tax withholding on pensions, annuities, certain deferred income, etc.)</td>
</tr>
<tr>
<td>16</td>
<td>Subtract line 15 from line 14c. <strong>Note:</strong> 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.</td>
</tr>
<tr>
<td>17</td>
<td>If the first payment you are required to make is due April 15, 2003, enter 1⁄4 of line 16 (minus any 2002 overpayment that you are applying to this installment) here, and on your estimated tax payment voucher(s) if you are paying by check or money order. <strong>Note:</strong> Household employers, see instructions on page 2.</td>
</tr>
</tbody>
</table>
The earned income credit is shown on line 41 of the 2002 Form 1040A. The additional child tax credit is shown on line 42 of the 2002 Form 1040A. The result of steps 1 through 6 is your total expected tax for 2003 (line 13c of the 2003 Estimated Tax Worksheet).

### Required Annual Payment

You figure the total amount you must pay for 2003 through withholding and estimated tax payments on lines 14a through 14c of the 2003 Estimated Tax Worksheet.

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

1. 90% of your total expected tax for 2003, or
2. 100% of the total tax shown on your 2002 return. Your 2002 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 2002 was more than $150,000 ($75,000 if your filing status for 2002 is married filing a separate return), substitute 110% for 100% in (2) above. This rule does not apply to farmers and fishermen.

For 2002, 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 2002 or 2003 is from farming or fishing, your required annual payment is the smaller of:

1. 66 2/3% (0.6667) of your total tax for 2003, or
2. 100% of the total tax shown on your 2002 return. Your 2002 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 2002.

Your 2002 total tax on Form 1040 is the amount on line 61 reduced by the total of the amounts on lines 57, 64, and 66, any credit from Form 4136 included on line 68, any recapture of a federal mortgage subsidy and any uncollected social security, Medicare, or railroad retirement tax included on line 61, and any tax on excess contributions to IRAs and medical savings accounts, and on excess accumulations in qualified retirement plans from Form 5329 included on line 58.

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

**Example 2.5.** Jeremy Martin’s total tax on his 2002 return was $45,000, and his expected tax for 2003 is $70,000. His 2002 AGI was $180,000. Because Jeremy had more than $150,000 of AGI in 2002, he figures his required annual payment as follows. He determines that 90% of his expected tax for 2003 is $63,000 (30 x $70,000). Next, he determines that 110% of the tax shown on his 2002 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 amount you must pay for 2003, through estimated tax payments on lines 15 and 16 of the 2003 Estimated Tax Worksheet. Subtract your expected withholding from your required annual payment. You must make your estimated tax payment 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 need to make estimated tax payments.

**Withholding.** Your expected withholding for 2003 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 railroad retirement tax withheld for 2003 only if your wages from two or more employers are more than $87,000.

### 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

<table>
<thead>
<tr>
<th>For the period:</th>
<th>Due date:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1 through March 31</td>
<td>April 15</td>
</tr>
<tr>
<td>April 1 through May 31</td>
<td>June 15</td>
</tr>
<tr>
<td>June 1 through August 31</td>
<td>September 15</td>
</tr>
<tr>
<td>Sept. 1 through Dec. 31</td>
<td>Jan. 15 next year**</td>
</tr>
</tbody>
</table>

**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 making 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 day that is not a Saturday, Sunday, or legal holiday. For example, a payment due Sunday, June 15, 2003, will be on time if you make it by Monday, June 16, 2003.

#### Table 2.4

<table>
<thead>
<tr>
<th>If you first have income on which you must pay estimated tax for the fiscal year:</th>
<th>Make a payment by:</th>
<th>Make later instalments by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before April 1</td>
<td>April 15</td>
<td>June 15</td>
</tr>
<tr>
<td>After March 31 and before June 1</td>
<td>September 15</td>
<td>January 15 next year*</td>
</tr>
<tr>
<td>After May 31 and before Sept. 1</td>
<td>September 15</td>
<td>January 15 next year*</td>
</tr>
</tbody>
</table>

**January payment.** If you file your 2003 Form 1040 or Form 1040A by February 2, 2004, and pay the rest of the tax you owe, you do not need to make your estimated tax payment that would be due on January 15, 2004.

**Example 2.6.** Janet Adams does not pay any estimated tax for 2003. She files her 2003 income tax return and pays the balance due as shown on her return on January 23, 2004. 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 23, 2004.

#### 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.

**See January payment, later.**

**Saturday, Sunday, holiday rule.** If the due date for making 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 day that is not a Saturday, Sunday, or legal holiday. For example, a payment due Sunday, June 15, 2003, will be on time if you make it by Monday, June 16, 2003.

**January payment.** If you file your 2003 Form 1040 or Form 1040A by February 2, 2004, and pay the rest of the tax you owe, you do not need to make your estimated tax payment that would be due on January 15, 2004.
After August 31 January 15 (None) next year
*See January payment and Saturday, Sunday, holiday rule under When To Pay Estimated Tax, earlier.

Change in estimated tax. After making your first 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.

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 2002 or 2003 is from farming or fishing, you have only one payment due date for your 2003 estimated tax — January 15, 2004. The due dates for the first three payment periods, discussed earlier under When To Pay Estimated Tax, do not apply to you.

If you file your 2003 Form 1040 by March 1, 2004, and pay all the tax you owe, you do not need to pay estimated tax.

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 2002 was from farming or fishing, use as your gross income the total of your income (not loss) amounts.

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

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

For 2002, gross income from farming is the total of the amounts from:

1) Line 11 of Schedule F (Form 1040), Profit or Loss From Farming.
2) Line 7 of Form 4835, Farm Rental Income and Expenses.
3) Your share of a partnership’s or S corporation’s gross income from farming.
4) Your share of distributable net income from farming of an estate or trust.
5) 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 (except lobster, crabs, and shrimp), sponges, seaweeds, or other aquatic forms of animal and vegetable life.

Gross income from fishing includes the following amounts:

1) Income for services as an officer or crew member of a vessel engaged in fishing.
2) Your share of a partnership’s or S corporation’s gross income from fishing.
3) 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.

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:

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

How To Figure Each Payment

After you have figured your 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, 2003, you can figure your required payment for each period by dividing your annual estimated tax due (line 16 of the 2003 Estimated Tax Worksheet) by 4. Use this method only if your income is basically the same throughout the year.

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, 2003, 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: 
   a) .75 if next payment is due June 15, 2003 
   b) .50 if next payment is due September 15, 2003 
   c) 1.00 if next payment is due January 15, 2004
3. Estimated tax payments for all 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 payment due January 15, 2004

Example 2.7. Early in 2002, Mira figures her estimated tax due is $1,800. She makes estimated tax payments on April 15 and June 16 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 ...........
2. Multiply line 1 by: 
   a) .75 if next payment is due June 15, 2003 
   b) .50 if next payment is due September 15, 2003 
   c) 1.00 if next payment is due January 15, 2004 
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 ...........
5. Add lines 3 and 4 ...........

Note: In computing the required payment, you must reduce your estimated tax by any overpayment you previously made for the current calendar year.
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 16, 2003, enter one-half of the amount on line 6 here and on the payment-voucher for your payments due September 15, 2003, and January 15, 2004. If the amount on line 4 is due September 15, 2003, enter the full amount on line 6 here and on the payment-voucher for your payment due January 15, 2004  

If Mia’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 Installation 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 2003 Annualized Estimated Tax Worksheet (Worksheet 2.10) later in this chapter. (Note. You must first complete the 2003 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 since the beginning of the tax year through the end of the period. Use the result you figure on line 20d 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 2003 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 each 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 under How To Figure Estimated Tax, earlier.)

**Self-employment income.** If you had self-employment income, first complete Section A. Use the amounts on line 34c 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 $19,500 ($97,500 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 the amount from line 4 of Section B.
2. Enter the amount included in line 1 for medical and dental expenses, casualty or theft losses, and gambling losses.
3. Subtract line 2 from line 1. 
4. Enter the number from line 5 of Section A.
5. Multiply the amount on line 1 by the number on line 4.

**Note.** If the amount on line 3 is zero, stop here and enter the amount from line 5 on line 6 of Section A.

6. Multiply the amount on line 3 by the number on line 4.
7. Multiply the amount on line 6 by .80
8. Enter the amount from line 3 of Section A.
10. Multiply the amount on line 10 by line 5.
11. Enter the smaller of line 7 or line 11.
12. Subtract line 12 from line 5. Enter the result here and on line 6 of Section A.

### Line 7. See the 2003 Standard Deduction Tables at the end of this chapter. Find your standard deduction in the appropriate table.

### Line 10. Multiply $3,050 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

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Deduction Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$139,500</td>
</tr>
<tr>
<td>Married filing jointly</td>
<td>$209,250</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$104,625</td>
</tr>
<tr>
<td>Head of household</td>
<td>$174,400</td>
</tr>
</tbody>
</table>

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

#### Worksheet 2.8

1. Multiply $3,050 by your total expected exemptions.
2. Enter the amount from 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 the amount on line 4 by $2,500 ($1,250 if married filing separately). If the result is 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.

### Line 12. Use the 2003 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 income of a child under 14 who has more than $1,500 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. The maximum rate may be 8%, 10%, 20%, 25%, or 28%, or a combination of those rates.

**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 the amount from line 11 of your 2003 Annualized Estimated Tax Worksheet.
2. Enter the net capital gain expected for 2003.
3. Combine the net short-term capital loss and 28% rate or less, enter 0.
4. Enter the unreaptured section 1231 gains expected for 2002.
5. Add lines 3 and 4.
6. Subtract line 5 from line 2. If zero or less, enter 0.
7. Subtract line 6 from line 1. If zero or less, enter 0.
8. Enter the smaller of line 1 or $47,450 ($28,400 if single; $23,725 if married filing separately; $38,050 if head of household).
9. Enter the smaller of line 7 or line 8.
10. Subtract line 2 from line 1. If zero or less, enter 0.
11. Enter the larger of line 9 or line 10.
12. Tax on amount on line 11 of the 2003 Tax Rate Schedule.

**Note.** If line 7 is more than line 6, go to line 18.

13. Subtract line 9 from line 8. If zero or less, enter 0.
14. Multiply line 13 by 10%.
15. Enter the amount, if any, of your qualified 5-year gain. Do not enter more than the amount on line 13.
16. Multiply line 15 by 20%.
17. Subtract line 16 from line 14.

**Note.** If line 13 minus line 15 is more than zero and equal to line 6, enter 0 on lines 20, 25, and 28, and go to line 29.

18. Enter the smaller of line 1 or line 6.
19. Subtract line 13 from line 18.
20. Multiply line 19 by 20%.
21. Enter the smaller of line 2 or line 4.
22. Add lines 2 and 11.
The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.

**How To Pay Estimated Tax**

There are five ways to pay estimated tax.

1. **By crediting an overpayment** on your 2002 return to your 2003 estimated tax.
2. **By sending in your payment** with a payment-voucher from Form 1040–ES.
4. **By electronic funds withdrawal** if you are filing Form 1040 or Form 1040A electronically.
5. **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 2003 trust payments of estimated tax to you, you can treat the amount credited as paid by you on January 15, 2004.

**Crediting an Overpayment**

When you file your Form 1040 or Form 1040A for 2002 and you have an overpayment of tax, you can apply part or all of it to your estimated tax for 2003. On line 72 of Form 1040, or line 46 of Form 1040A, write the amount you want credited to your estimated tax rather than re-funded. The amount you have credited should be taken into account when figuring your estimated tax payments.

You can use all the credited amount toward your first payment, or you can spread it out in any way you choose among any or all of your payments.

If you ask that an overpayment be credited to your estimated tax for the next year, the payment is considered to have been made on the due date of the first estimated tax installment (April 15 for calendar year taxpayers). You can not have any of that amount refunded to you after that due date until the close of that tax year. You also cannot use that overpayment in any other way after that date.

**Example 2.8.** When Kathleen finished filling out her 2002 tax return, she saw that she had overpaid her taxes by $750. Kathleen knew she would owe additional tax in 2003. She credited $600 of the overpayment to her 2003 estimated tax and had the remaining $150 refunded to her. In September, she amended her 2002 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 2002 overpayment from $750 to $500. Because the $750 had already been applied to her 2003 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 2003 estimated tax to pay this bill.
Worksheet 2.10. 2003 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.

<table>
<thead>
<tr>
<th>Estates and trusts: Use the following ending dates in each column—2/28, 4/30, 7/31, 11/30.</th>
<th>1/1/03 to 3/31/03</th>
<th>1/1/03 to 5/31/03</th>
<th>1/1/03 to 8/31/03</th>
<th>1/1/03 to 12/31/03</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Adjusted gross income for each period. (Caution: See instructions.) Self-employed: Complete Section B first.</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Annualization amounts.</td>
<td>2</td>
<td>4</td>
<td>2.4</td>
<td>1.5</td>
</tr>
<tr>
<td>3 Annualized income. Multiply line 1 by line 2.</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Itemized deductions for period. If you do not expect to itemize, enter zero and skip to line 7.</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Annualization amounts.</td>
<td>5</td>
<td>4</td>
<td>2.4</td>
<td>1.5</td>
</tr>
<tr>
<td>6 Multiply line 4 by line 5. (Caution: See instructions and Worksheet 2.7.)</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Standard deduction from 2003 tables.</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Enter the larger of line 6 or line 7.</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Subtract line 8 from line 3.</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Multiply $3,050 by your total expected exemptions. (Caution: See instructions and Worksheet 2.8.)</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Subtract line 10 from line 9.</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Tax on the amount on line 11 from the 2003 Tax Rate Schedules. (Caution: See instructions and Worksheet 2.9.)</td>
<td>12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 Self-employment tax from line 34a of Section B.</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 Other taxes for each payment period.</td>
<td>14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 Total tax. Add lines 12, 13, and 14.</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16 Credits for each period.</td>
<td>16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17 Subtract line 16 from line 15. (If less than zero, enter zero.)</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18 Applicable percentage.</td>
<td>18</td>
<td>22.5%</td>
<td>45%</td>
<td>67.5%</td>
</tr>
<tr>
<td>19 Multiply line 17 by line 18.</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 Add amounts on line 25a of all preceding columns.</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21 Annualized income installment. Subtract line 20 from line 19. (If less than zero, enter zero.)</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22 Divide line 14c of the Form 1040-ES Estimated Tax Worksheet by 4.</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23 Subtract line 25a of preceding column from line 24 of preceding column.</td>
<td>23</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24 Add lines 22 and 23.</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25a Enter the smaller of line 21 or line 24. (Caution: See instructions.)</td>
<td>25a</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25b Total required payments for the period. Add lines 20 and 25a.</td>
<td>25b</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25c Estimated tax payments made (line 25d of all previous columns) and tax withholding through the due date for the period.</td>
<td>25c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25d Estimated tax payment required by the next due date. Subtract line 25c from line 25b and enter the result (but not less than zero) here and on your payment-voucher.</td>
<td>25d</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Worksheet 2.10. (continued) 2003 Annualized Estimated Tax Worksheet

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

<table>
<thead>
<tr>
<th></th>
<th>1/1/03 to</th>
<th>1/1/03 to</th>
<th>1/1/03 to</th>
<th>1/1/03 to</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>3/31/03</td>
<td>5/31/03</td>
<td>8/31/03</td>
<td>12/31/03</td>
</tr>
<tr>
<td>27</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>$21,750</td>
<td>$36,250</td>
<td>$58,000</td>
<td>$87,000</td>
</tr>
<tr>
<td>29</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>0.496</td>
<td>0.2976</td>
<td>0.186</td>
<td>0.124</td>
</tr>
<tr>
<td>31</td>
<td>0.116</td>
<td>0.0696</td>
<td>0.0435</td>
<td>0.029</td>
</tr>
<tr>
<td>32</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>33</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>34a</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>4.8</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>34c</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### 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 2003 Form 1040–ES in the mail. It will have payment-vouchers preprinted with your name, address, and social security number. Using the preprinted vouchers will speed processing, reduce the chance of error, and help save processing costs. If you did not pay estimated tax last year, you will have to get a copy of Form 1040–ES from the IRS. See chapter 5. 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. 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 pre-printed payment-vouchers until the IRS sends you new ones. However, do not correct the address on the old voucher.

### Payment by Electronic Funds Withdrawal

You can make a 2003 estimated tax payment when you electronically file your 2002 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, 2003, June 16, 2003, or September 15, 2003. 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 – 877 – 754 – 4413 (Customer Service)
- www.officialpayments.com

#### Link2Gov Corporation

- 1 – 888 – 659 – 5465 (Customer Service)
- www.PAY1040.com

See the Form 1040–ES instructions for more information.
Dividends would be entered on lines 7 or 12, or have any amount, $2,720, and their $1,000 adjustment for the regular installment method of figuring estimate and $5,440 in the blank on line 11 of the lines 22 and 24 they enter $3,392, one-fourth of use the 

Note.

Itemized deductions which is Anne's net profit from self-employment 

Example 2.9: Regular Installment Method

Early in 2003, Anne and Larry Jones figure their estimated tax payments for the year. They expect to receive the following income during 2003:

- Larry's salary $30,200
- Unemployment compensation $600
- Anne's net profit from self-employment $38,500
- Net rental income $2,671
- Interest income $2,300
- Dividends $75

Total $74,781

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

- Adjustment to income for IRA contributions $1,100
- Itemized deductions $9,200
- Deduction for exemptions ($3,050 x 2) $6,100
- 2002 total tax $15,220
- Withholding $5,792

The Joneses plan to file a joint return. They use the 2003 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)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Enter your expected income and profits subject to self-employment tax</td>
<td>$38,500</td>
</tr>
<tr>
<td>2. Multiply the amount on line 1 by .9235</td>
<td>$35,555</td>
</tr>
<tr>
<td>3. Multiply the amount on line 2 by .029</td>
<td>$1,031</td>
</tr>
<tr>
<td>4. Social security tax maximum deduction</td>
<td>$87,000</td>
</tr>
<tr>
<td>5. Enter your expected wages (if subject to social security tax)</td>
<td>$87,000</td>
</tr>
<tr>
<td>6. Subtract line 5 from line 4</td>
<td>$0</td>
</tr>
<tr>
<td>7. Enter the smaller of line 2 or line 6</td>
<td>$35,555</td>
</tr>
<tr>
<td>8. Multiply the amount on line 7 by .116</td>
<td>$4,405</td>
</tr>
<tr>
<td>9. Add line 3 and line 8. Enter the result here and on line 11 of your 2003 Estimated Tax Worksheet</td>
<td>$5,440</td>
</tr>
<tr>
<td>10. Multiply the amount on line 9 by .50. This is your deduction for one-half of your self-employment tax</td>
<td>$2,720</td>
</tr>
</tbody>
</table>

The Joneses enter $35,555 on the dotted line and $5,440 in the blank on line 1 of the worksheet. They subtract one-half of that amount, $2,720, and their $1,000 adjustment for IRA contributions from their $78,016 total income to find their expected adjusted gross income, $74,296. They then multiply that amount on line 1 of the worksheet.

Expected taxable income. The Joneses find their expected adjusted gross income, $74,296, and then they enter it on line 2 of the worksheet. They subtract the amount on line 2 from the amount on line 1 and enter the result, $65,096, on line 3. They enter their deduction for exemptions, $6,100, on line 4. After subtracting this amount, their expected taxable income on line 5 is $58,996.

Required estimated tax payment. The Joneses' 2003 Estimated Tax payment due April 15, 2003. They enter that amount on line 6 of the worksheet and use the Federal Tax Rate Schedule Y–1 at the end of this chapter to figure their expected income tax for 2003. They multiply the amount by 0.0292 and enter the result on line 7. They enter their expected withholding, $44,400, on line 8. They subtract that amount and their $15,462 IRA contributions from their $11,100 total income and enter their adjusted gross income for the period, $35,555, on line 10. They then multiply that amount by 0.029 and enter the result on line 11. This is their annualized total tax.

First Period

On April 1, 2003, 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 $6,900
- Unemployment compensation $600
- Anne's net profit from self-employment $3,000
- Net rental income $150
- Interest income $500
- Dividends $462

Total $11,462

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 adjusted income for self-employment tax.

On line 26 of Section B, they enter $2,721, 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 27. They enter $5,648 in the blank on line 28. They enter Larry’s salary in the blank on line 29. Anne’s annualized social security tax on line 31 is $1,374, ($2,771 x .496). Her annualized medicare tax on line 33 is $321 ($2,771 x .116). Her total annualized self-employment tax on line 34a 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 34b and 34c. They figure the amount to be $12 ($695 + 5). They subtract that amount and their $17,000 IRA contributions from their $11,100 total income and enter their adjusted gross income for the period, for $10,400, on line 1 of Section A. They multiply that amount by 0.029 and enter the result on line 11. This is their annualized total tax.

Annualized taxable income. The Joneses figure their annualized itemized deductions ($1,200 x 4) on lines 4 through 6 of Section A. Because the result is smaller than their standard deduction, they enter their $7,950 standard deduction on line 8. After subtracting that amount and their $6,100 deduction for exemptions, the Joneses’ annualized taxable income on line 11 is $30,350.

Annualized taxes and credits. The Joneses’ 2003 Tax Rate Schedule Y–1 at the end of this chapter to figure their estimated income tax, $3,953, 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 $5,648 ($3,953 + $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 $1,271 ($5,648 x 22.5%). On lines 22 and 24 they enter $3,392, one-fourth of their $13,568 required annual payment under the regular installment method of figuring estimated tax payments (from line 14c of the 2003 Tax Rate Schedule Y–1 at the end of this chapter).

The facts are the same as in Example 2.9 (Example 2.10). As a result of their activity in the summer months, the Joneses expect to receive the following income during 2003:

- Interest income $2,300
- Early in 2003, the Joneses complete the first of the worksheet. They enter $35,555 on the dotted line of Section A is $1,271 ($5,648 x 22.5%). On lines 22 and 24 they enter $3,392, one-fourth of their $13,568 required annual payment under the regular installment method of figuring estimated tax payments (from line 14c of the 2003 Tax Rate Schedule Y–1 at the end of this chapter).

The facts are the same as in Example 2.9 (Example 2.10). As a result of their activity in the summer months, the Joneses expect to receive the following income during 2003:

- Interest income $2,300
- Early in 2003, the Joneses complete the first of the worksheet. They enter $35,555 on the dotted line of Section A is $1,271 ($5,648 x 22.5%). On lines 22 and 24 they enter $3,392, one-fourth of their $13,568 required annual payment under the regular installment method of figuring estimated tax payments (from line 14c of the 2003 Tax Rate Schedule Y–1 at the end of this chapter).
Estimated Tax Worksheet. Because $1,271 is smaller, they enter that amount on lines 25a and 25b.

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 25c.

On line 25d, the Joneses’ required estimated tax payment for the period under the annualized income installment method is $0 ($1,271 – $1,448). They do not have a Form 1040–ES payment-voucher due April 15, 2003.

**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:

<table>
<thead>
<tr>
<th>Period</th>
<th>Second</th>
<th>Third</th>
<th>Fourth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Larry’s salary</td>
<td>$11,800</td>
<td>$19,200</td>
<td>$30,200</td>
</tr>
<tr>
<td>Unemployment compensation</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>Anne’s net profit from self-employment</td>
<td>6,000</td>
<td>15,850</td>
<td>38,500</td>
</tr>
<tr>
<td>Net rental income</td>
<td>668</td>
<td>2,671</td>
<td>2,671</td>
</tr>
<tr>
<td>Interest income</td>
<td>850</td>
<td>1,450</td>
<td>2,300</td>
</tr>
<tr>
<td>Dividends</td>
<td>674</td>
<td>1,758</td>
<td>3,745</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$20,792</strong></td>
<td><strong>$41,479</strong></td>
<td><strong>$78,016</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Period</th>
<th>Second</th>
<th>Third</th>
<th>Fourth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustment to income for IRA contributions</td>
<td>$250</td>
<td>$400</td>
<td>$1,000</td>
</tr>
<tr>
<td>Itemized deductions</td>
<td>2,700</td>
<td>6,400</td>
<td>9,200</td>
</tr>
</tbody>
</table>

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 2003.
### 2003 Estimated Tax Worksheet (keep for your records)

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Adjusted gross income you expect in 2003 (see instructions on page 2)</td>
</tr>
<tr>
<td>1.2</td>
<td>If you plan to itemize deductions, enter the estimated total of your itemized deductions. <strong>Caution:</strong> If line 1 above is over $139,500 ($69,750 if married filing separately), your deduction may be reduced. See Pub. 505 for details. <strong>Caution:</strong> If line 1 above is over $209,250 if married filing jointly or qualifying widow(er); $174,400 if head of household; $139,500 if single; or $104,625 if married filing separately.</td>
</tr>
<tr>
<td>1.3</td>
<td>If you do not plan to itemize deductions, enter your standard deduction from page 2.</td>
</tr>
<tr>
<td>2</td>
<td>Subtract line 2 from line 1.</td>
</tr>
<tr>
<td>3</td>
<td>Subtract line 3 from line 1.</td>
</tr>
<tr>
<td>4</td>
<td>Exemptions. Multiply $3,050 by the number of personal exemptions. If you can be claimed as a dependent on another person's 2003 return, your personal exemption is not allowed. <strong>Caution:</strong> If line 1 above is over $209,250 if married filing jointly or qualifying widow(er); $174,400 if head of household; $139,500 if single; or $104,625 if married filing separately.</td>
</tr>
<tr>
<td>5</td>
<td>Subtract line 4 from line 3.</td>
</tr>
<tr>
<td>6</td>
<td>Tax. Figure your tax on the amount on line 5 by using the 2003 Tax Rate Schedules on page 5. <strong>Caution:</strong> If you have a net capital gain, see Pub. 505 to figure the tax.</td>
</tr>
<tr>
<td>7</td>
<td>Alternative minimum tax from Form 6251.</td>
</tr>
<tr>
<td>8</td>
<td>Add lines 6 and 7. Also include any tax from Forms 4972 and 8814 and any recapture of the education credits (see instructions on page 2).</td>
</tr>
<tr>
<td>9</td>
<td>Credits (see instructions on page 2). Do not include any income tax withholding on this line.</td>
</tr>
<tr>
<td>10</td>
<td>Subtract line 9 from line 8. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>11</td>
<td>Self-employment tax (see instructions on page 2). Estimate of 2003 net earnings from self-employment $... $87,000 or less, multiply the amount by 15.3%; if more than $87,000, multiply the amount by 2.9%, add $10,788.00 to the result, and enter the total. <strong>Caution:</strong> If you also have wages subject to social security tax, see Pub. 505 to figure the amount to enter.</td>
</tr>
<tr>
<td>12</td>
<td>Other taxes (see instructions on page 2).</td>
</tr>
<tr>
<td>13a</td>
<td>Add lines 10 through 12.</td>
</tr>
<tr>
<td>13b</td>
<td>Earned income credit, additional child tax credit, and credits from Form 4136 and Form 8885.</td>
</tr>
<tr>
<td>13c</td>
<td>Total 2003 estimated tax. Subtract line 13b from line 13a. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>14a</td>
<td>Multiply line 13c by 90% (66 2⁄3% for farmers and fishermen).</td>
</tr>
<tr>
<td>14b</td>
<td>Enter the tax shown on your 2002 tax return (10% of that amount if you are not a farmer or fisherman and the adjusted gross income shown on line 36 of that return is more than $150,000 or, if married filing separately for 2003, more than $75,000).</td>
</tr>
<tr>
<td>14c</td>
<td>Required annual payment to avoid a penalty. Enter the smaller of line 14a or 14b. <strong>Caution:</strong> 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 may pay the amount shown on line 13c. For details, see Pub. 505.</td>
</tr>
<tr>
<td>15</td>
<td>Income tax withheld and estimated to be withheld during 2003 (including income tax withholding on pensions, annuities, certain deferred income, etc.).</td>
</tr>
<tr>
<td>16</td>
<td>Subtract line 15 from line 14c. <strong>Note:</strong> 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.</td>
</tr>
</tbody>
</table>
| 17 | If the first payment you are required to make is due April 15, 2003, enter 1⁄4 of line 16 (minus any 2002 overpayment that you are applying to this installment) here, and on your estimated tax payment voucher(s) if you are paying by check or money order. **Note:** Household employers, see instructions on page 2.)
### Filled-in 2003 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.**

<table>
<thead>
<tr>
<th>Estates and trusts: Use the following ending dates in each column—2/28, 4/30, 7/31, 11/30.</th>
<th>1/1/03 to 3/31/03</th>
<th>1/1/03 to 5/31/03</th>
<th>1/1/03 to 8/31/03</th>
<th>1/1/03 to 12/31/03</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Adjusted gross income for each period. (Caution: See instructions.) Self-employed: Complete Section B first.</td>
<td>11,100</td>
<td>19,918</td>
<td>39,959</td>
<td>74,296</td>
</tr>
<tr>
<td>2 Annualization amounts.</td>
<td>4</td>
<td>2.4</td>
<td>1.5</td>
<td>1</td>
</tr>
<tr>
<td>3 Annualized income. Multiply line 1 by line 2.</td>
<td>44,400</td>
<td>47,803</td>
<td>59,939</td>
<td>74,296</td>
</tr>
<tr>
<td>4 Itemized deductions for period. If you do not expect to itemize, skip to line 7 and enter zero.</td>
<td>1,200</td>
<td>2,700</td>
<td>6,400</td>
<td>9,200</td>
</tr>
<tr>
<td>5 Annualization amounts.</td>
<td>4</td>
<td>2.4</td>
<td>1.5</td>
<td>1</td>
</tr>
<tr>
<td>6 Multiply line 4 by line 5. (Caution: See instructions and Worksheet 2.7.)</td>
<td>4,800</td>
<td>6,480</td>
<td>9,600</td>
<td>9,200</td>
</tr>
<tr>
<td>7 Standard deduction from 2003 tables.</td>
<td>7,950</td>
<td>7,950</td>
<td>7,950</td>
<td>7,950</td>
</tr>
<tr>
<td>8 Enter the larger of line 6 or line 7.</td>
<td>7,950</td>
<td>7,950</td>
<td>7,950</td>
<td>7,950</td>
</tr>
<tr>
<td>9 Subtract line 8 from line 3.</td>
<td>36,450</td>
<td>39,853</td>
<td>50,339</td>
<td>65,096</td>
</tr>
<tr>
<td>10 Multiply $3,050 by your total expected exemptions. (Caution: See instructions and Worksheet 2.8.)</td>
<td>6,100</td>
<td>6,100</td>
<td>6,100</td>
<td>6,100</td>
</tr>
<tr>
<td>11 Subtract line 10 from line 9.</td>
<td>30,350</td>
<td>33,753</td>
<td>44,239</td>
<td>58,996</td>
</tr>
<tr>
<td>12 Tax on the amount on line 11 from the 2003 Tax Rate Schedules. (Caution: See instructions and Worksheet 2.9.)</td>
<td>3,953</td>
<td>4,463</td>
<td>6,036</td>
<td>9,635</td>
</tr>
<tr>
<td>13 Self-employment tax from line 34a of Section B.</td>
<td>1,695</td>
<td>2,035</td>
<td>3,359</td>
<td>5,440</td>
</tr>
<tr>
<td>14 Other taxes for each payment period.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 Add lines 12, 13, and 14.</td>
<td>5,648</td>
<td>6,498</td>
<td>9,395</td>
<td>15,075</td>
</tr>
<tr>
<td>16 Credits for each period.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17 Total tax. Subtract line 16 from line 15. (If less than zero, enter zero.)</td>
<td>5,648</td>
<td>6,498</td>
<td>9,395</td>
<td>15,075</td>
</tr>
<tr>
<td>18 Applicable percentage.</td>
<td>22.5%</td>
<td>45%</td>
<td>67.5%</td>
<td>90%</td>
</tr>
<tr>
<td>19 Multiply line 17 by line 18.</td>
<td>1,271</td>
<td>2,924</td>
<td>6,342</td>
<td>13,568</td>
</tr>
<tr>
<td>20 Add amounts on line 25a of all preceding columns.</td>
<td>1,271</td>
<td>1,271</td>
<td>2,924</td>
<td>6,342</td>
</tr>
<tr>
<td>21 Annualized income installment. Subtract line 20 from line 19. (If less than zero, enter zero.)</td>
<td>1,271</td>
<td>1,653</td>
<td>3,418</td>
<td>7,226</td>
</tr>
<tr>
<td>22 Divide line 14c of the Form 1040-ES Estimated Tax Worksheet by 4.</td>
<td>3,392</td>
<td>3,392</td>
<td>3,392</td>
<td>3,392</td>
</tr>
<tr>
<td>23 Subtract line 25a of preceding column from line 24 of preceding column.</td>
<td>3,392</td>
<td>2,121</td>
<td>3,860</td>
<td>3,834</td>
</tr>
<tr>
<td>24 Add lines 22 and 23.</td>
<td>3,392</td>
<td>5,513</td>
<td>7,252</td>
<td>7,226</td>
</tr>
<tr>
<td>25a Enter the smaller of line 21 or line 24. (Caution: See instructions.)</td>
<td>1,271</td>
<td>1,653</td>
<td>3,418</td>
<td>7,226</td>
</tr>
<tr>
<td>25b Total required payments for the period. Add lines 20 and 25a.</td>
<td>1,271</td>
<td>2,924</td>
<td>6,342</td>
<td>13,568</td>
</tr>
<tr>
<td>25c Estimated tax payments made (line 25d of all previous columns) and tax withholding through the due date for the period.</td>
<td>1,448</td>
<td>2,896</td>
<td>4,372</td>
<td>7,790</td>
</tr>
<tr>
<td>25d Estimated tax payment required by the next due date. Subtract line 25c from line 25b and enter the result (but not less than zero) here and on your payment-voucher.</td>
<td>-0-</td>
<td>28</td>
<td>1,970</td>
<td>5,778</td>
</tr>
</tbody>
</table>
### Filled-in 2003 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.

<table>
<thead>
<tr>
<th>Period</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
<th>Column 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/03 to 3/31/03</td>
<td>2,771</td>
<td>5,541</td>
<td>14,637</td>
<td>35,555</td>
</tr>
<tr>
<td>1/1/03 to 5/31/03</td>
<td>(21,750)</td>
<td>(36,250)</td>
<td>(58,000)</td>
<td>(87,000)</td>
</tr>
<tr>
<td>1/1/03 to 8/31/03</td>
<td>(21,750)</td>
<td>(36,250)</td>
<td>(58,000)</td>
<td>(87,000)</td>
</tr>
<tr>
<td>1/1/03 to 12/31/03</td>
<td>(321)</td>
<td>(424)</td>
<td>(1,120)</td>
<td>(2,720)</td>
</tr>
</tbody>
</table>

#### 2003 Tax Rate Schedules

**Caution:** Do not use these Tax Rate Schedules to figure your 2002 taxes. Use only to figure your 2003 estimated taxes.

**Single—Schedule X**

<table>
<thead>
<tr>
<th>Over—</th>
<th>But not over—</th>
<th>The tax is: of the amount over—</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$6,000</td>
<td>(10%)</td>
</tr>
<tr>
<td>6,000</td>
<td>28,400</td>
<td>$600.00 + 15%</td>
</tr>
<tr>
<td>28,400</td>
<td>68,800</td>
<td>3,960.00 + 27%</td>
</tr>
<tr>
<td>68,800</td>
<td>143,500</td>
<td>14,966.00 + 30%</td>
</tr>
<tr>
<td>143,500</td>
<td>311,950</td>
<td>37,278.00 + 35%</td>
</tr>
<tr>
<td>311,950</td>
<td>(.........)</td>
<td>96,235.50 + 38.6%</td>
</tr>
</tbody>
</table>

**Head of household—Schedule Z**

<table>
<thead>
<tr>
<th>Over—</th>
<th>But not over—</th>
<th>The tax is: of the amount over—</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$10,000</td>
<td>(10%)</td>
</tr>
<tr>
<td>10,000</td>
<td>38,050</td>
<td>$1,000.00 + 15%</td>
</tr>
<tr>
<td>38,050</td>
<td>68,800</td>
<td>5,207.50 + 27%</td>
</tr>
<tr>
<td>68,800</td>
<td>123,725</td>
<td>21,461.50 + 30%</td>
</tr>
<tr>
<td>123,725</td>
<td>155,975</td>
<td>39,716.50 + 35%</td>
</tr>
<tr>
<td>155,975</td>
<td>(.........)</td>
<td>93,214.00 + 38.6%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Over—</th>
<th>But not over—</th>
<th>The tax is: of the amount over—</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$12,000</td>
<td>(10%)</td>
</tr>
<tr>
<td>12,000</td>
<td>23,725</td>
<td>$1,200.00 + 15%</td>
</tr>
<tr>
<td>23,725</td>
<td>47,450</td>
<td>6,517.50 + 27%</td>
</tr>
<tr>
<td>47,450</td>
<td>114,650</td>
<td>24,661.50 + 30%</td>
</tr>
<tr>
<td>114,650</td>
<td>174,700</td>
<td>42,676.50 + 35%</td>
</tr>
<tr>
<td>174,700</td>
<td>311,950</td>
<td>90,714.00 + 38.6%</td>
</tr>
</tbody>
</table>

**Married filing separately—Schedule Y-2**

<table>
<thead>
<tr>
<th>Over—</th>
<th>But not over—</th>
<th>The tax is: of the amount over—</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$6,000</td>
<td>(10%)</td>
</tr>
<tr>
<td>6,000</td>
<td>23,725</td>
<td>$600.00 + 15%</td>
</tr>
<tr>
<td>23,725</td>
<td>57,325</td>
<td>3,258.75 + 27%</td>
</tr>
<tr>
<td>57,325</td>
<td>87,350</td>
<td>12,330.75 + 30%</td>
</tr>
<tr>
<td>87,350</td>
<td>155,975</td>
<td>21,338.25 + 35%</td>
</tr>
<tr>
<td>155,975</td>
<td>(.........)</td>
<td>45,357.00 + 38.6%</td>
</tr>
</tbody>
</table>

### 2003 Tax Rate Schedules

<table>
<thead>
<tr>
<th>Over—</th>
<th>But not over—</th>
<th>The tax is: of the amount over—</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$10,000</td>
<td>(10%)</td>
</tr>
<tr>
<td>10,000</td>
<td>38,050</td>
<td>$1,000.00 + 15%</td>
</tr>
<tr>
<td>38,050</td>
<td>68,800</td>
<td>5,207.50 + 27%</td>
</tr>
<tr>
<td>68,800</td>
<td>123,725</td>
<td>21,461.50 + 30%</td>
</tr>
<tr>
<td>123,725</td>
<td>155,975</td>
<td>39,716.50 + 35%</td>
</tr>
<tr>
<td>155,975</td>
<td>(.........)</td>
<td>93,214.00 + 38.6%</td>
</tr>
</tbody>
</table>

### 2003 Tax Rate Schedules

<table>
<thead>
<tr>
<th>Over—</th>
<th>But not over—</th>
<th>The tax is: of the amount over—</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$12,000</td>
<td>(10%)</td>
</tr>
<tr>
<td>12,000</td>
<td>23,725</td>
<td>$1,200.00 + 15%</td>
</tr>
<tr>
<td>23,725</td>
<td>47,450</td>
<td>6,517.50 + 27%</td>
</tr>
<tr>
<td>47,450</td>
<td>114,650</td>
<td>24,661.50 + 30%</td>
</tr>
<tr>
<td>114,650</td>
<td>174,700</td>
<td>42,676.50 + 35%</td>
</tr>
<tr>
<td>174,700</td>
<td>311,950</td>
<td>90,714.00 + 38.6%</td>
</tr>
</tbody>
</table>
### 2003 Standard Deduction Tables

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

<table>
<thead>
<tr>
<th>If Your Filing Status is:</th>
<th>Your Standard Deduction is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$4,750</td>
</tr>
<tr>
<td>Married filing joint return or Qualifying widow(er) with dependent child</td>
<td>7,950</td>
</tr>
<tr>
<td>Married filing separate return</td>
<td>3,975</td>
</tr>
<tr>
<td>Head of household</td>
<td>7,000</td>
</tr>
</tbody>
</table>

*DO NOT use this chart if you are 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.

<table>
<thead>
<tr>
<th>If Your Filing Status is:</th>
<th>Your Standard Deduction is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$5,900</td>
</tr>
<tr>
<td>Married filing joint return or Qualifying widow(er) with dependent child</td>
<td>8,900</td>
</tr>
<tr>
<td>Married filing separate return</td>
<td>10,800</td>
</tr>
<tr>
<td>Head of household</td>
<td>11,750</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Your</th>
<th>$4,750</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spouse, if claiming spouse’s exemption</td>
<td>$3,975</td>
</tr>
<tr>
<td>Head of household</td>
<td>$7,000</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>If you are 65 or older or blind, check the correct number of boxes below. Then go to the worksheet.</th>
</tr>
</thead>
<tbody>
<tr>
<td>You 65 or older Blind</td>
</tr>
<tr>
<td>Your spouse, if claiming spouse’s exemption 65 or older Blind</td>
</tr>
<tr>
<td>Total number of boxes you checked</td>
</tr>
</tbody>
</table>

1. Enter your earned income (defined below) plus $250.

2. Minimum amount $750

3. Enter the larger of the two amounts here

4. Enter on line 4 the amount shown below for your filing status.
   - Single, enter $4,750
   - Married filing joint return, enter $3,975
   - Married filing separate return or Qualifying widow(er) with dependent child, enter $7,950
   - Head of household, enter $7,000

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 $1,150 ($950 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 2003.

**Earnings 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 can claim you (or your spouse if married filing jointly) as a dependent.

---

**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.
3.

Credit for Withholding and Estimated Tax for 2002

Important Change

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 2002 only if your total wages from two or more employers were more than $84,900.

Introduction

When you file your 2002 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 2002. 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 2002, you should receive a statement by January 31, 2003, 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 2002 by January 31, 2003. You should receive a separate Form W–2 from each employer you worked for.

If you stop working before the end of the year, your employer can give you your Form W–2 at any time after you leave your job. However, your employer must give it to you by January 31 of the following year (or the next day that is not a Saturday, Sunday, or holiday if January 31 is a Saturday, Sunday, or holiday). If you ask for the form, your employer must give 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 February 1, 2003, 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:

1) Your employer’s name, address, and telephone number, and, if known, your employer’s identification number.
2) Your address, social security number, and daytime telephone number.
3) The dates of employment.
4) 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 62, 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 2002, the payer may have withheld 27% as 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 62 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 February 1, 2003. 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, Qualified Tuition Program Payments,
- 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.

You can claim a credit for excess social security or railroad retirement tax withheld from your gambling winnings if you were subject to backup withholding on income you received during 2002, include the amount withheld, as shown on your Form 1099, in the total on line 62 of Form 1040, or 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 2002, include the amount withheld, as shown on your Form 1099, in the total on line 62 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
- 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 next year.

Example 3.1. Miles Hanson files his return for a fiscal year ending June 30, 2002. In January 2003, he received a Form W–2 that showed that his wages for 2002 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, 2002, and $8,100 from July 1 through December 31, 2002.

On his return for the fiscal year ending June 30, 2003, Miles takes credit for any income tax withheld in 2003.

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 2003 from which $50 was withheld under the backup withholding rule. On her tax return for the fiscal year ending June 30, 2003, Emily takes credit for withheld income tax of $50.

Estimated Tax

Take credit for all your estimated tax payments for 2002 on line 63 of Form 1040 or line 40 of Form 1040A. Include any overpayment from 2001 that you had credited to your 2002 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 line 63, Form 1040, 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 36 of Schedule E (Form 1040) write “ES payment claimed” and the amount. Do not include this amount in the total on line 36. The payment is treated as being made by you on January 15, 2003.

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.
- 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 2002 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 2002.

Example 3.3. James and Evelyn Brown made joint estimated tax payments for 2002 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 2002, 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 2002. 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 2002, enter your present spouse’s SSN in that space and write your former spouse’s SSN, followed by “DIV,” to the left of line 63, 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 2002, 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 2002. Figure the excess withholding on the appropriate worksheet following Table 3.1. Use Worksheet 3.2 to figure excess social security tax; use Worksheet 3.2a 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.
3. Add lines 1 and 2. If $5,263.80 or less, stop here. You cannot claim the credit.

4. Social security and tier 1 RRTA tax limit

5. Excess. Subtract line 4 from line 3.

Where to claim credit for excess tier 1 RRTA withholding. If you file Form 1040A, include the excess in the total on line 43. Write "Excess SST" and show the amount of the credit in the space to the left of the line. If you file Form 1040, enter the excess on line 65. You cannot claim excess tier 1 RRTA withholding on Form 1040EZ.

Worksheet 3.3

1. Add all tier 2 RRTA tax withheld (but not more than $3,087.00 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 61.

3 Add lines 1 and 2. If $3,087.00 or less, stop here. You cannot claim the credit.

4. Tier 2 RRTA tax limit

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.

Table 3.1

<table>
<thead>
<tr>
<th>Type of Tax</th>
<th>Maximum wages withheld</th>
<th>Tax rate</th>
<th>Maximum social security tax to be withheld</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security</td>
<td>$84,900</td>
<td>6.2%</td>
<td>$5,263.80</td>
</tr>
<tr>
<td>Tier 1 railroad retirement (RRTA)</td>
<td>$84,900</td>
<td>6.2%</td>
<td>$5,263.80</td>
</tr>
<tr>
<td>Tier 2 RRTA</td>
<td>$63,000</td>
<td>4.9%</td>
<td>$3,087.00</td>
</tr>
</tbody>
</table>

Example 3.4. In 2002, Tom Martin earned $55,000 working for Shoe Company and $40,200 working for Leather Design. Shoe Company withheld $3,224 for social security tax. Leather Design withheld $2,492.40 for social security tax. Because he worked for two employers and earned more than $84,900, he had too much social security tax withheld. Tom figures his credit of $452.60 as follows:

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

1. Add all social security tax withheld (but not more than $5,263.80 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 61.

3. Add lines 1 and 2. If $5,263.80 or less, stop here. You cannot claim the credit.

4. Social security tax limit

5. Excess. Subtract line 4 from line 3.

Worksheets for Nonrailroad Employees

Unless you worked for a railroad during 2002, figure the excess on the following worksheet.

Worksheet 3.1

1. Add all social security tax withheld (but not more than $5,263.80 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 61.

3. Add lines 1 and 2. If $5,263.80 or less, stop here. You cannot claim the credit.

4. Social security limit

5. Excess. Subtract line 4 from line 3.

Where to claim credit for excess social security withholding. If you file Form 1040A, include the excess in the total on line 43. Write "Excess SST" and show the amount of the credit in the space to the left of the line. If you file Form 1040, enter the excess on line 65. You cannot claim excess SST withholding on Form 1040EZ.

Chapter 3 Credit for Withholding and Estimated Tax for 2002
4. Underpayment Penalty for 2002

Penalty rate. The penalty for underpayment of 2002 estimated tax is figured at an annual rate of 6% for the number of days the underpayment remained unpaid from April 16, 2002, through December 31, 2002 and 5% from January 1, 2003, through April 15, 2003.

Important 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.

Exception to use of prior year’s tax. Certain taxpayers (other than farmers and fishermen) must use 112% of their 2001 tax to figure any 2002 underpayment penalty. See Higher income taxpayers under General Rule, later.

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 2002 if any of the following situations applies.

• The total of your withholding and estimated tax payments was at least as much as your 2001 tax (or 112% of your 2001 tax if your adjusted gross income was more than $150,000 — $75,000 if your 2002 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 2002 tax, and you paid all required estimated tax payments on time.

• Your total 2002 tax (defined later) minus your withholding is less than $1,000.

• You did not have a tax liability for 2001.

• 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 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 2002 if the total of your withholding and estimated tax payments did not equal at least the smaller of:

1) 90% of your 2002 tax, or

2) 100% of your 2001 tax. (Your 2001 tax return must cover a 12-month period.)

Your 2002 tax, for this purpose, is your total tax for 2002, 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 2001 or 2002 is from farming or fishing, substitute 66⅔% for 90% in (1) above.

See Farmers and Fishermen, later.

Higher income taxpayers. If less than two-thirds of your gross income for 2001 and 2002 is from farming or fishing and your adjusted gross income (AGI) for 2001 was more than $150,000 ($75,000 if your filing status is married filing a separate return in 2002), substitute 112% for 100% in (2) above.

For 2001, AGI is the amount shown on Form 1040 – line 34, Form 1040A – line 20; 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 2002 because you thought you had enough tax withheld from your wages. Early in January 2003, you made an estimate of your total 2002 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, 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, 2003. However, you may owe a penalty through January 10, 2003, for your underpayments for the earlier payment periods.

Minimum required each period. You owe a penalty for any 2002 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 2002 tax, or

2) 25% of your 2001 tax. (Your 2001 tax return must cover a 12-month period.)

Note. If you are subject to the rule for higher income taxpayers, discussed earlier, substitute 26% 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, 2003.

Amended returns. If you file an amended return by the due date of your original return, use the tax shown on the original return for the tax shown on the return you filed in the due date, use the tax shown on the return to figure your required estimated tax payments. This rule ap-
2001 separate returns and 2002 joint return. If you file a joint return with your spouse for 2002, but you filed separate returns for 2001, your 2001 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.

2001 joint return and 2002 separate returns. If you file a separate return for 2002, but you filed a joint return with your spouse for 2001, your 2001 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 2001 using the same filing status as for 2002. Then multiply the tax on the joint return by the following fraction:

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

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

Example 4.2. Lisa and Paul filed a joint return for 2001 showing taxable income of $49,000 and a tax of $7,832. Of the $49,000 taxable income, $41,000 was Lisa’s and the rest was Paul’s. For 2002, they file married filing separately. Lisa figures her share of the tax on the 2001 joint return as follows:

2001 Tax on $41,000 based on a separate return .................................. $ 8,457
2001 Tax on $8,000 based on a separate return .................................. 1,204
Total ............................................................................................................. 9,661

Lisa’s percentage of tax on Form 1040 (8457/9661) ............ 87.53%
Lisa’s part of tax on joint return ($7,832 x 87.53%) .................................... $ 6,855

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 4040, enter the amount of your penalty on line 7a. If you owe tax on line 73, add the penalty to your tax due and show your total payment on line 73. If you are due a refund, subtract the penalty from the overpayment you show on line 70.

On Form 4040A, 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 2001 return and you filed or are filing a joint return for either 2001 or 2002 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 2002. For 2002, your total tax on Form 1040 is the amount on line 61 reduced by the total of the following amounts.

1) Any recapture of a federal mortgage subsidy from Form 8828 included on line 61.
2) Any social security or Medicare tax on tips not reported to your employer on line 57.
3) Any tax on excess contributions to IRAs and medical savings accounts, and any tax on excess accumulations in qualified retirement plans from Form 5329 included on line 58.
4) Any uncollected social security, Medicare, or railroad retirement tax included on line 58.
5) Any earned income credit on line 64.
6) Any additional child tax credit on line 66.
7) Any credit for federal tax on fuels from Form 4136 included on line 68.
8) Any tax liability for 2001 if your total tax was zero or you did not need to file an income tax return.

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 2001 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 2001. 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 ($7,450 for 2001). He filed a return only to have his withheld income tax refunded to him.

In 2002, Ray began regular work as an independent contractor. Ray made no estimated tax payments in 2002. Even though he did owe tax at the end of the year, Ray does not owe the underpayment penalty for 2002 because he had no tax liability in 2001.

Total tax for 2001. For 2001, your total tax on Form 1040 is the amount on line 58 reduced by the total of the following amounts.

1) Any recapture of a federal mortgage subsidy from Form 8828 included on line 58.
2) Any social security or Medicare tax on tips not reported to your employer on line 54.
3) Any tax on excess contributions to IRAs and medical savings accounts, and any tax on excess accumulations in qualified retirement plans from Form 5329 included on line 55.
4) Any uncollected social security, Medicare, or railroad retirement tax included on line 58.
5) Any earned income credit on line 61a.
6) Any additional child tax credit on line 63.
7) Any credit for federal tax on fuels from Form 4136 included on line 65.

Your total tax on Form 1040A is the amount on line 36 minus the amount on lines 39a and 40. Your total tax on Form 1040EZ is the amount on line 11 minus the amount on line 9a.

Figuring Your Required Annual Payment

Figure your required annual payment in Part II 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’ 2001 return was $10,000 (her AGI was not more than $150,000). The tax on her 2002 return (Form 1040) was $8,457 (her AGI was not more than $8,000). The tax on her 2002 return was $10,000 (her AGI was not more than $150,000). The tax on her 2002 return to show on line 65. On Form 1040A, the amount you paid through withholding is the amount on line 39, plus any excess social security or railroad retirement tax withholding included in the amount on line 43. On Form 1040EZ, it is the amount on line 7.
She decides to figure the penalty on Form 2210 First, figure your total underpayment for the penalty for underpayment of estimated tax. applying the line-by-line instructions. apply to you. Not meet an exception, Ivy knows that she owes Completing Part III. Completing Part III follow-
ing the line-by-line instructions. First, figure your total underpayment for the year (line 15) by subtracting the total of your withholding and estimated tax payments (line 18) from your required annual payment (Part II, line 14). Then figure any part of the maximum penalty amount that remains unpaid up to April 15, 2003. This amount (line 20) is the maximum estimated tax penalty on your underpayment.

**Different 2001 Filing Status.** If you file a separate return for 2002, but you filed a joint return with your spouse for 2001, see 2001 joint return and 2002 separate returns, earlier, to figure the amount to enter as your 2001 tax on line 14 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:

1. You made no estimated tax payments for 2002 (it does not matter whether you had income tax withholding), or
2. You paid estimated tax in four equal amounts on the due dates.

Note. If any payment was made earlier than the due date, you can use the short method, but using it may cause you to pay a larger penalty than using the regular method. If the payment was made a few days early, the difference is likely to be small.

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

You cannot use the short method if any of the following applies.

1. You made any estimated tax payments late.
2. You paid estimated tax in four equal amounts on the due dates.

### 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 pay-
ment for each payment period (line 23) is usually one-fourth of your required annual payment (Part II, line 15). 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 23 of Form 2210.

**Payments.** On line 24, enter in each column the total of:

1. Your estimated tax paid after the due date for the previous column and by the due date shown, and
2. 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 62, plus any excess social security or railroad retirement tax withholding included in the total on line 43.

**Actual Withholding Method.** Instead of us-
ing one-fourth of your withholding for each quar-
ter, 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.
Regular Installment Method

The filled-in form for the following example is shown at the end of this chapter.

Example 4.6. Ben Brown’s 2002 total tax (Form 1040, line 61) is $7,031, the total of his $6,485 income tax and $2,346 self-employment tax. (His 2001 AGI was less than $150,000.) He does not owe any other taxes or claim any credits other than for withholding. His 2001 tax was $6,116.

Ben’s employer withheld $3,228 income tax during 2002. Ben made no estimated tax payment for either the first or second period, but he paid $1,000 each on September 2, 2002, and January 12, 2003, 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 2002 tax ($6,328), and was also less than his 2001 tax ($6,116), Ben knows he owes a penalty for underpayment of estimated tax. Ben enters one-fourth of his withholding and estimated tax payments for the third and fourth periods were more than his required installment payments (line 23). This is because the estimated tax payments made in the third and fourth periods were first applied to underpayments for the earlier periods. Part IV, Section A, of Ben’s Form 2210 is shown at the end of this chapter.

Ben has an underpayment (line 30) for each payment period even though his withholding and estimated tax payments for the third and fourth periods were more than his required installment payments (line 23). Because the estimated tax payments made in the third and fourth periods were applied to underpayments for the earlier periods.

Annualized Income Installment Method (Schedule AI)

If you did not receive your income evenly throughout the year (for example, your income from a repair shop you operated was much larger in the summer than it was during the rest of the year), you may be able to lower or eliminate your penalty by figuring your underpayment using the annualized income installment method.

Table 4–1. Calendar to Determine the Number of Days a Payment is Late

Instructions. First, find the number for the payment due date. Then, find the number for the date the payment was made. Finally, subtract the payment due date number from the payment due 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).
method. Under this method, your required in-
stallment (line 23) 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.
Form 2210 annualizes your tax at the end of
each payment period based on your income,
deductions, and other items relating to events
that occurred during the tax year through the
end of the period.

If you use the annualized income installment
method, you must check the box on line 1b of
Form 2210. You also must attach Form 2210
and Schedule AI to your return.

If you use Schedule AI for any payment
due date, you must use it for all pay-
ment due dates.

Completing Schedule AI of Form 2210. 
Follow your Form 2210 instructions to complete 
Schedule AI. For each period shown on Sched-
ule AI, list your payments after April 15, 2002. 
You figure the amount of your penalty in 
Part IV, Section B, of that form. See Table 4–2 to
determine the number of days to enter for each 
period.

Figuring Your Penalty

Example 4.7. The facts are the same as in
Example 4.6, except that Ben did not receive his 
income evenly throughout the year. Therefore, 
he decides to figure his required installment for 
each period (line 23 of Form 2210) using the 
annualized income installment method.

Ben’s filled-in Schedule AI and Part IV of 
Form 2210 using this method are shown at the 
end of this chapter. Ben’s wages for 2002 were 
$21,000 ($1,750 per month). His withholdings from 
a business he 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 Ben can figure his adjusted gross 
income for each period (line 1 of Schedule AI), he 
must figure his deduction for self-employ-
ment tax for each period. He completes Part II of 
Schedule AI first.

Ben had no self-employment income for the 
first period, so he leaves the lines in that column 
blank. His 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. He multiplies each 
amount by 92.35% (0.9235) to find the amounts 
to enter on line 26. He then fills out the rest of 
Part II.

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

<table>
<thead>
<tr>
<th>Period</th>
<th>Payments</th>
<th>Tax Due</th>
<th>Total Due</th>
<th>Underpayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Column</td>
<td>$1,750</td>
<td>$1,750</td>
<td>$1,750</td>
<td>$0</td>
</tr>
<tr>
<td>2nd Column</td>
<td>$8,750</td>
<td>$8,750</td>
<td>$8,750</td>
<td>$0</td>
</tr>
<tr>
<td>3rd Column</td>
<td>$14,000</td>
<td>$14,000</td>
<td>$14,000</td>
<td>$0</td>
</tr>
<tr>
<td>4th Column</td>
<td>$14,000</td>
<td>$14,000</td>
<td>$14,000</td>
<td>$0</td>
</tr>
</tbody>
</table>

Figuring the penalty, in Example 4.8, Ben Brown de-
termined that he had an underpayment for all 
four payment periods.

Ben’s filled-in Form 2210 is shown at the end 
of this chapter. This example illustrates Part IV, 
Section B, of Form 2210.

Penalty for first period (April 15, 2002) — 
column (a).

Ben’s $722 underpayment for the 
first period was paid by applying $722 
of his $867 payment on June 15, 2002. 
The $722 remained unpaid 91 days (April 16 through 
June 15, 2002). Ben enters “61” on line 32 and 
figures this part of the penalty on line 33.
Penalty for second period (June 15, 2002) — 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 30.

$1,000 of the underpayment remained unpaid for 79 days (June 16 through September 2) and $444 remained unpaid for 92 days (June 16 through September 15).

Ben enters “79” and “92” on line 32. He figures this part of the penalty on line 33 by adding the result of the two penalty computations.

Penalty for third period (September 15, 2002) — 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, 2003, and $166 of his $807 payment on January 15. On line 30, Ben shows each part of the underpayment paid on different dates.

For Rate Period 1, the entire underpayment remained unpaid 107 days (September 16 through December 31). Ben enters “107” on line 32 and figures this part of his penalty on line 33.

For Rate Period 2, $1,000 of the underpayment remained unpaid for 12 days (January 1 through January 15) and $166 remained unpaid for 15 days (January 1 through January 15).

Ben enters “12” and “15” on line 34 and figures his penalty for each part of the underpayment on line 35. He includes both penalty amounts on line 35.

Penalty for fourth period (January 15, 2003) — 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, 2003, with his tax return. The $888 remained unpaid 90 days (January 16 through April 15, 2003). Ben enters that number on line 34 and figures his penalty on line 35.

Total penalty. Ben’s total penalty for 2002 on line 36 is $60.38, the total of all amounts on lines 33 and 35 in all columns. Ben enters that amount on line 74 of his Form 1040. He also adds $60 to his $1,803 tax balance and enters the $1,863 total on line 73. He files his return on April 15 and includes a check for $1,863.

He keeps his completed Form 2210 for his records.

Example 4.9. In Example 4.7, Ben Brown’s first underpayment was for the second payment period.

Ben’s filled-in Schedule A1 and Part IV of Form 2210 are shown at the end of this chapter. The example illustrates completion of Part IV, Section B, of Ben’s Form 2210 under the annualized income installment method.

Ben made the same payments listed in the table in Example 4.8.

Penalty for second period — column (b).
Ben’s $456 underpayment for the second payment period was paid by applying $456 of his $1,000 Second Period 2002 payment to help him figure his penalty. Ben shows the date the underpayment was paid on line 30.

The entire underpayment remained unpaid for 79 days (June 16 through September 2). Ben enters “79” on line 32 and figures this part of his penalty on line 33.

Penalty for third period — column (c).
Ben’s $34 underpayment for the third payment period was paid by applying $34 of his $1,000 payment on January 12, 2003.

For Rate Period 1, the entire underpayment remained unpaid 107 days (September 16 through December 31, 2002). Ben enters “107” on line 32 and figures this part of the penalty on line 33.

For Rate Period 2, the entire underpayment remained unpaid 12 days (January 1 through January 15, 2003). Ben enters “12” on line 34 and figures this part of the penalty on line 35.

Penalty for fourth period — column (d).
Ben’s $316 underpayment for the fourth payment period was paid on April 15, 2003, with his tax return. The entire amount remained unpaid 90 days (January 16 through April 15, 2003). Ben enters that number on line 34 and figures this part of his penalty on line 35.

Penalty for fourth period — column (d).
Ben’s $316 underpayment for the fourth payment period was paid on April 15, 2003, with his tax return. The entire amount remained unpaid 90 days (January 16 through April 15, 2003). Ben enters that number on line 34 and figures this part of his penalty on line 35.

Total penalty. Ben’s total penalty for 2002 on line 36 is $10.48, the total of all amounts on lines 33 and 35 in all columns. Ben enters that amount on line 74 of his Form 1040. He also adds $10 to his $1,803 tax balance and enters the $1,813 total on line 73. He files his return on April 15 and includes a check for $1,813.

Because he used the annualized income installment method, he must attach Form 2210, including Schedule A1, to his return and check the box on line 1b 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 2002 estimated tax will not apply if you file your return and pay all the tax due by March 1, 2003. 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 2002 estimated tax will be figured from one payment due date, January 15, 2003.

3) The underpayment penalty for 2002 is figured on the difference between the amount of 2002 withholding plus estimated tax paid by the due date and the smaller of:
   a) 100% of the tax shown on your 2001 return, or
   b) 66 2/3% (rather than 90%) of your 2002 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 2001 or 2002 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 the box on line 1a.

2) Complete line 2 through line 21 (or through line 35 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 22 (line 36 for the regular method).

4) Subtract this amount from the total penalty you figured without regard to the waiver.
Underpayment Penalty for 2002

Enter the result on line 22 (line 36 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 the box on line 1a.

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.
In most cases, you do not need to file Form 2210. The IRS will figure any penalty you owe and send you a bill. File Form 2210 only if one or more boxes in Part I apply to you. If you do not need to file Form 2210, you may still use it to figure your penalty. Enter the amount from Part III, line 22, or Part IV, line 36, on the penalty line of your return, but do not attach Form 2210.

### Part I: Reasons for Filing
- **1** Check whichever boxes apply (if none apply, see the text above Part I and do not file Form 2210):
  - a You request a waiver. In certain circumstances, the IRS will waive all or part of the penalty. See Waiver of Penalty on page 1 of the instructions.
  - b You use the annualized income installment method. If your income varied during the year, this method may reduce the amount of one or more required installments. See page 4 of the instructions.
  - c You had Federal income tax withheld from wages and, for estimated tax purposes, you treat the withheld tax as paid on the dates it was actually withheld, instead of in equal amounts on the payment due dates. See the instructions for line 23 on page 2.
  - d Your required annual payment (line 15 below) is based on your 2001 tax and you filed or are filing a joint return for either 2001 or 2002 but not for both years.

### Part II: Required Annual Payment

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Current year tax. Subtract line 9 from line 4</td>
<td>10,000</td>
</tr>
<tr>
<td>2</td>
<td>Multiply line 10 by 90% (.90)</td>
<td>9,900</td>
</tr>
<tr>
<td>3</td>
<td>Add your 2002 tax after credits (see page 2 of the instructions)</td>
<td>11,000</td>
</tr>
<tr>
<td>4</td>
<td>Add lines 2 and 3</td>
<td>11,000</td>
</tr>
<tr>
<td>5</td>
<td>Earned income credit</td>
<td>6</td>
</tr>
<tr>
<td>6</td>
<td>Additional child tax credit</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Credit for Federal tax paid on fuels</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>Health insurance credit for eligible recipients</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>Add lines 5 through 8</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>Enter the required annual payment (line 9 above)</td>
<td>11,000</td>
</tr>
</tbody>
</table>

**Example 4.4**

After determining your required annual payment, you must file Form 2210 unless you checked box 1d above.

**Example 4.5**

If line 12 is equal to or more than line 15, stop here; you do not owe the penalty. Do not file Form 2210 unless you checked box 1d above.

### Part III: Short Method (Caution: See page 2 of the instructions to find out if you can use the short method. If you checked box 1b or 1c in Part I, skip this part and go to Part IV.)

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>Enter the amount, if any, from line 12 above</td>
<td>1,600</td>
</tr>
<tr>
<td>17</td>
<td>Enter the total amount, if any, of estimated tax payments you made</td>
<td>6,900</td>
</tr>
<tr>
<td>18</td>
<td>Add lines 16 and 17</td>
<td>8,400</td>
</tr>
<tr>
<td>19</td>
<td>Total underpayment for year. Subtract line 18 from line 15. If zero or less, stop here; you do not owe the penalty. Do not file Form 2210 unless you checked box 1d above</td>
<td>1,500</td>
</tr>
<tr>
<td>20</td>
<td>Multiply line 19 by .03713</td>
<td>56</td>
</tr>
<tr>
<td>21</td>
<td>If the amount on line 19 was paid on or after 4/15/03, enter -0-. If the amount on line 19 was paid before 4/15/03, make the following computation to find the amount to enter on line 21.</td>
<td>6</td>
</tr>
<tr>
<td>22</td>
<td>Penalty. Subtract line 21 from line 20. Enter the result here and on Form 1040, line 74; Form 1040A, line 48; Form 1040NR, line 73; Form 1040NR-EZ, line 28; or Form 1041, line 26, but do not file Form 2210 unless you checked one or more of the boxes in Part I above</td>
<td>50</td>
</tr>
</tbody>
</table>
Form 2210

Department of the Treasury
Internal Revenue Service

Underpayment of Estimated Tax by Individuals, Estates, and Trusts

Underpayment Penalty for 2002

Page 44 Chapter 4

The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.

In most cases, you do not need to file Form 2210. The IRS will figure any penalty you owe and send you a bill. File Form 2210 only if one or more boxes in Part I apply to you. If you do not need to file Form 2210, you may use it to figure your penalty. Enter the amount from Part III, line 22, or Part IV, line 36, on the penalty line of your return, but do not attach Form 2210.

Part I Reasons for Filing—if 1a, 1b, or 1c below applies to you, you may be able to lower or eliminate your penalty. But you must check the boxes that apply and file Form 2210 with your tax return. If 1d below applies to you, check that box and file Form 2210 with your tax return.

1 Check whichever boxes apply (if none apply, see the text above Part I and do not file Form 2210):
   a ☐ You request a waiver. In certain circumstances, the IRS will waive all or part of the penalty. See Waiver of Penalty on page 1 of the instructions.
   b ☐ You use the annualized income installment method. If your income varied during the year, this method may reduce the amount of one or more required installments. See page 4 of the instructions.
   c ☐ You had Federal income tax withheld from wages and, for estimated tax purposes, you treat the withheld tax as paid on the dates it was actually withheld, instead of in equal amounts on the payment due dates. See the instructions for line 23 on page 2.
   d ☐ Your required annual payment (line 15 below) is based on your 2001 tax and you filed or are filing a joint return for either 2001 or 2002 but not for both years.

Part II Required Annual Payment

Example 4.6

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Enter your 2002 tax after credits (see page 2 of the instructions)</td>
<td>4,685</td>
</tr>
<tr>
<td>3</td>
<td>Other taxes (see page 2 of the instructions)</td>
<td>2,346</td>
</tr>
<tr>
<td>4</td>
<td>Add lines 2 and 3</td>
<td>7,031</td>
</tr>
<tr>
<td>5</td>
<td>Earned income credit</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Additional child tax credit</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Credit for Federal tax paid on fuels</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Health insurance credit for eligible recipients</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Add lines 5 through 8</td>
<td>- 0.00</td>
</tr>
<tr>
<td>10</td>
<td>Current year tax. Subtract line 9 from line 4</td>
<td>7,031</td>
</tr>
<tr>
<td>11</td>
<td>Multiply line 10 by 90% (90)</td>
<td>6,228</td>
</tr>
<tr>
<td>12</td>
<td>Withholding taxes. Do not include any estimated tax payments on this line</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(see page 2 of the instructions)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Subtract line 12 from line 10.</td>
<td>3,228</td>
</tr>
<tr>
<td></td>
<td>If less than $1,000, stop here; you do not owe the penalty. Do not</td>
<td></td>
</tr>
<tr>
<td></td>
<td>file Form 2210</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Enter the tax shown on your 2001 tax return (112% of that amount if the</td>
<td>6,116</td>
</tr>
<tr>
<td></td>
<td>adjusted gross income shown on that return is more than $150,000, or, if</td>
<td></td>
</tr>
<tr>
<td></td>
<td>married filing separately for 2002, more than $75,000). Caution: See page</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2 of the instructions</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Subtract line 12 from line 10.</td>
<td>6,116</td>
</tr>
<tr>
<td>15</td>
<td>If line 12 is equal to or more than line 15, stop here; you do not owe the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>penalty. Do not file Form 2210 unless you checked box 1d above.</td>
<td></td>
</tr>
</tbody>
</table>

Part III Short Method (Caution: See page 2 of the instructions to find out if you can use the short method. If you checked box 1b or 1c in Part I, skip this part and go to Part IV)

Example 4.6

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>Enter the amount, if any, from line 12 above</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Enter the total amount, if any, of estimated tax payments you made</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Add lines 16 and 17</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Total underpayment for year. Subtract line 18 from line 15. If zero or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>less, stop here; you do not owe the penalty. Do not file Form 2210 unless</td>
<td></td>
</tr>
<tr>
<td></td>
<td>you checked box 1d above</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Multiply line 19 by .03713</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>• If the amount on line 19 was paid on or after 4/15/03, enter -0-.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• If the amount on line 19 was paid before 4/15/03, make the following</td>
<td></td>
</tr>
<tr>
<td></td>
<td>computation to find the amount to enter on line 21.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Amount on line 18 × Number of days paid before 4/15/03 × 00014</td>
<td>21</td>
</tr>
<tr>
<td>22</td>
<td>Penalty. Subtract line 21 from line 20. Enter the result here and on Form</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1040, line 74; Form 1040A, line 48; Form 1040NR, line 73; Form 1040NR-EZ,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>line 26; or Form 1041, line 26, but do not file Form 2210 unless you</td>
<td></td>
</tr>
<tr>
<td></td>
<td>checked one or more of the boxes in Part I above</td>
<td></td>
</tr>
</tbody>
</table>

For Paperwork Reduction Act Notice, see page 5 of separate instructions.

Cat. No. 11744P

Form 2210 (2002)
## Part IV  Regular Method (See page 3 of the instructions if you are filing Form 1040NR or 1040NR-EZ.)

### Section A—Figure Your Underpayment

<table>
<thead>
<tr>
<th></th>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
<th>(d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>1,529</td>
<td>1,529</td>
<td>1,529</td>
<td>1,529</td>
</tr>
<tr>
<td>24</td>
<td>807</td>
<td>807</td>
<td>1,807</td>
<td>1,807</td>
</tr>
<tr>
<td>25</td>
<td>722</td>
<td>1,444</td>
<td>1,166</td>
<td>888</td>
</tr>
</tbody>
</table>

**Example 4.6**

### Section B—Figure the Penalty

#### Rate Period 1

<table>
<thead>
<tr>
<th>April 16, 2002—December 31, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of days from the date shown above line 32 to the date the amount on line 30 was paid or 12/31/02, whichever is earlier</td>
</tr>
<tr>
<td>Underpayment on line 32 (see page 4 of the instructions) [ \frac{\text{days on line 32}}{365} \times .06 ]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>4/15/02</th>
<th>6/15/02</th>
<th>9/15/02</th>
</tr>
</thead>
<tbody>
<tr>
<td>32</td>
<td>61</td>
<td>79</td>
<td>92</td>
</tr>
<tr>
<td>33</td>
<td>$7.24</td>
<td>$6.71</td>
<td>$20.51</td>
</tr>
</tbody>
</table>

#### Rate Period 2

<table>
<thead>
<tr>
<th>January 1, 2003—April 15, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of days from the date shown above line 34 to the date the amount on line 30 was paid or 4/15/03, whichever is earlier</td>
</tr>
<tr>
<td>Underpayment on line 34 (see page 5 of the instructions) [ \frac{\text{days on line 34}}{365} \times .05 ]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>12/31/02</th>
<th>12/31/02</th>
<th>12/31/02</th>
<th>1/15/03</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>12</td>
<td>12</td>
<td>15</td>
<td>90</td>
</tr>
<tr>
<td>35</td>
<td>$1.64</td>
<td>$3.4</td>
<td>$10.95</td>
<td></td>
</tr>
</tbody>
</table>

**Example 4.8**

### Form 2210 (2002) Page 2

#### Required installments. If box 1b applies, enter the amounts from Schedule AI, line 25. Otherwise, enter 25% (.25) of line 15, Form 2210, in each column.

#### Estimated tax paid and tax withheld (see page 3 of the instructions). For column (a) only, also enter the amount from line 24 on line 28. If line 24 is equal to or more than line 23 for all payment periods, stop here; you do not owe the penalty. Do not file Form 2210 unless you checked a box in Part I. . . Complete lines 25 through 31 of one column before going to the next column.

#### Section A—Figure Your Underpayment

- Enter amount, if any, from line 31 of previous column.
- Add lines 24 and 25.
- Subtract line 27 from line 26. If zero or less, enter -0-. For column (a) only, enter the amount from line 24.

#### Section B—Figure the Penalty

- Enter amount, if any, from line 31 of previous column.
- Add lines 24 and 25.
- Add amounts on lines 29 and 30 of the previous column.
- Subtract line 27 from line 26. If zero or less, enter -0-. For column (a) only, enter the amount from line 24.

#### Example 4.6

- Overpayment. If line 28 is more than line 23, subtract line 23 from line 28. Then go to line 25 of next column.
- Underpayment. If line 23 is equal to or more than line 28, subtract line 28 from line 23. Then go to line 25 of next column.

#### Example 4.8

- Enter amount on line 28 from line 24 on line 28.
- If line 24 is equal to or more than line 28, subtract line 28 from line 23. Then go to line 25 of next column.

#### Penalty

- Add all amounts on lines 33 and 35 in all columns. Enter the total here and on Form 1040, line 74; Form 1040NR, line 74; Form 1040NR-EZ, line 26; or Form 1041, line 26, but do not file Form 2210 unless you checked one or more of the boxes in Part I. . .

---

Form 2210 (2002)
### Part I  Annualized Income Installments

1. Enter your adjusted gross income for each period (see instructions). (Estates and trusts, enter your taxable income without your exemption for each period.)

2. Annualization amounts. (Estates and trusts, see instructions.)

3. Annualized income. Multiply line 1 by line 2.

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.)

5. Annualization amounts.

6. Multiply line 4 by line 5. (see instructions if line 3 is more than $68,650)

7. In each column, enter the full amount of your standard deduction from Form 1040, line 38, 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.

8. Enter the larger of line 6 or line 7.

9. Subtract line 8 from line 3.

10. In each column, multiply $3,000 by the total number of exemptions claimed (see instructions if line 3 is more than $103,000). (Estates and trusts and Form 1040NR or 1040NR-EZ filers, enter the exemption amount shown on your tax return.)

11. Subtract line 10 from line 9.

12. Figure your tax on the amount on line 11 (see instructions).

13. Form 1040 filers only, complete Part II and enter your self-employment tax from line 34 below.

14. Enter other taxes for each payment period (see instructions).

15. Total tax. Add lines 12, 13, and 14.

16. For each period, enter the same type of credits as allowed on Form 2210, lines 2, 5, 6, and 7 (see instructions).

17. Subtract line 16 from line 15. If zero or less, enter -0-.

18. Applicable percentage.

19. Multiply line 17 by line 18. Caution: Complete lines 20–25 of one column before going to the next column.

20. Add the amounts in all previous columns of line 25.

21. Subtract line 20 from line 19. If zero or less, enter -0-.

22. Enter 25% (25) of line 15 on page 1 of Form 2210 in each column.

23. Subtract line 25 of the previous column from line 24 of the previous column.

24. Add lines 22 and 23 and enter the total.

25. Enter the smaller of line 21 or line 24 here and on Form 2210, line 23.

### Part II  Annualized Self-Employment Tax

26. Net earnings from self-employment for the period (see instructions).

27. Prorated social security tax limit.

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.

29. Subtract line 28 from line 27. If zero or less, enter -0-.

30. Annualization amounts.

31. Multiply line 30 by the smaller of line 26 or line 29.

32. Subtract line 31 from line 30. If zero or less, enter -0-.

33. Multiply line 26 by line 32.

34. Add lines 31 and 33. Enter the result here and on line 13 above.
### Part IV  Regular Method

(See page 3 of the instructions if you are filing Form 1040NR or 1040NR-EZ.)

#### Section A—Figure Your Underpayment

<table>
<thead>
<tr>
<th></th>
<th>(a) 4/15/02</th>
<th>(b) 6/15/02</th>
<th>(c) 9/15/02</th>
<th>(d) 1/15/03</th>
</tr>
</thead>
<tbody>
<tr>
<td>23 Required installments. If box 1b applies, enter the amounts from Schedule AI, line 25. Otherwise, enter 25% (.25) of line 15, Form 2210, in each column.</td>
<td>336</td>
<td>1,732</td>
<td>1,395</td>
<td>2,089</td>
</tr>
<tr>
<td>24 Estimated tax paid and tax withheld (see page 3 of the instructions). For column (a) only, also enter the amount from line 24 on line 28. If line 24 is equal to or more than line 23 for all payment periods, stop here; you do not owe the penalty. Do not file Form 2210 unless you checked a box in Part I. Complete lines 25 through 31 of one column before going to the next column.</td>
<td>807</td>
<td>807</td>
<td>+ 1,000</td>
<td>+ 1,000</td>
</tr>
<tr>
<td>25 Enter amount, if any, from line 31 of previous column</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26 Add lines 24 and 25</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27 Add amounts on lines 29 and 30 of the previous column</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 Subtract line 27 from line 26. If zero or less, enter -0-. For column (a) only, enter the amount from line 24</td>
<td>807</td>
<td>1,276</td>
<td>1,351</td>
<td>1,773</td>
</tr>
<tr>
<td>29 If the amount on line 28 is zero, subtract line 26 from line 27. Otherwise, enter -0-.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 Underpayment. If line 23 is equal to or more than line 28, subtract line 28 from line 23. Then go to line 25 of next column. Otherwise, go to line 31.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 Overpayment. If line 28 is more than line 23, subtract line 23 from line 28. Then go to line 25 of next column</td>
<td>469</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Section B—Figure the Penalty

(Complete lines 32 through 35 of one column before going to the next column.)

<table>
<thead>
<tr>
<th></th>
<th>4/15/02</th>
<th>6/15/02</th>
<th>9/15/02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Period 1</td>
<td>April 16, 2002—December 31, 2002</td>
<td></td>
<td></td>
</tr>
<tr>
<td>32 Number of days from the date shown above line 32 to the date the amount on line 30 was paid or 12/31/02, whichever is earlier</td>
<td>32</td>
<td>79</td>
<td>107</td>
</tr>
<tr>
<td>33 Underpayment on line 30 × Number of days on line 32 × .06</td>
<td>$</td>
<td>$5.92</td>
<td>$6.00</td>
</tr>
<tr>
<td>Rate Period 2</td>
<td>January 1, 2003—April 15, 2003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>34 Number of days from the date shown above line 34 to the date the amount on line 30 was paid or 4/15/03, whichever is earlier</td>
<td>34</td>
<td>12</td>
<td>90</td>
</tr>
<tr>
<td>35 Underpayment on line 34 × Number of days on line 34 × .05</td>
<td>$</td>
<td>$</td>
<td>$3.90</td>
</tr>
</tbody>
</table>

#### Penalty

Add all amounts on lines 33 and 35 in all columns. Enter the total here and on Form 1040, line 74; 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 one or more of the boxes in Part I. $10,48
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 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 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.

For more information, see Publication 1546, The Taxpayer Advocate Service of the IRS.

Free tax services. To find out what services are available, get Publication 910, 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.

Personal computer. With your personal computer and modem, you can access the IRS on the Internet at www.irs.gov. While visiting our web site, you can:
- See answers to frequently asked tax questions or request help by e-mail.
- Download forms and publications or search for forms and publications by topic or keyword.
- Order IRS products on-line.
- View forms that may be filled in electronically, print the completed form, and then save the form for recordkeeping.
- View Internal Revenue Bulletins published in the last few years.
- Search regulations and the Internal Revenue Code.
- Receive our electronic newsletters on hot tax issues and news.
- Learn about the benefits of filing electronically (IRS e-file).
- Get information on starting and operating a small business.
- You can also reach us with your computer using File Transfer Protocol at ftp.irs.gov.

TaxFax Service. Using the phone attached to your fax machine, you can receive forms and instructions by calling 703–368–9694. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

For help with transmission problems, call the FedEx Help Desk at 703–487–4606.

Phone. Many services are available by phone:
- Ordering forms, instructions, and publications. Call 1–800–829–3676 to order current and prior year forms, instructions, and publications.
- Asking tax questions. Call the IRS with your tax questions at 1–800–829–1040.
- Solving problems. Take advantage of Everyday Tax Solutions service by calling your local IRS office to set up an in-person appointment at your convenience. Check your local directory assistance or www.irs.gov for the numbers.
- TTY/TDD equipment. If you have access to TTY/TDD equipment, call 1–800–829–4059 to ask tax questions or to order forms and publications.
- TeleTax topics. Call 1–800–829–4477 to listen to pre-recorded messages covering various tax topics.

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 governments, credit unions, and office supply stores have an extensive 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 IRS office to ask tax questions or get help with a tax problem. Now you can set up an appointment by calling your local IRS office number 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.

Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Find 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 65074 Richmond, VA 23261–5074

CD-ROM for tax products. You can order IRS Publication 1796, Federal Tax Products on CD-ROM, and obtain:
- Current tax forms, instructions, and publications.
- Prior-year tax forms and instructions.
- Popular tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling 1–877–233–6767 or on the Internet at http://www.irs.gov/cdorders. The first release is available in early January and the final release is available in late February.

CD-ROM for small businesses. IRS Publication 3207, Small Business Resource Guide, 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 an abundance of 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 March. You can get a free copy by calling 1–800–829–3676 or by visiting the website at www.irs.gov/smallbiz.
**Index**

To help us develop a more useful index, please let us know if you have ideas for index entries. See “Comments and Suggestions” in the “Introduction” for the ways you can reach us.

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