



Department  
of the  
Treasury

Internal  
Revenue  
Service

**Publication 505**

(Rev. February 2006)

Cat. No. 15008E

# Tax Withholding and Estimated Tax



**Get forms and other information  
faster and easier by:**

**Internet • [www.irs.gov](http://www.irs.gov)**

## Contents

<b>Introduction</b> . . . . .	<b>1</b>
<b>What's New for 2005</b> . . . . .	<b>2</b>
<b>What's New for 2006</b> . . . . .	<b>2</b>
<b>Reminders</b> . . . . .	<b>3</b>
<b>Chapter</b>	
<b>1. Tax Withholding for 2006</b> . . . . .	<b>4</b>
Salaries and Wages . . . . .	4
Tips . . . . .	14
Taxable Fringe Benefits . . . . .	14
Sick Pay . . . . .	15
Pensions and Annuities . . . . .	15
Gambling Winnings . . . . .	16
Unemployment Compensation . . . . .	16
Federal Payments . . . . .	16
Backup Withholding . . . . .	17
<b>2. Estimated Tax for 2006</b> . . . . .	<b>18</b>
Who Does Not Have To Pay Estimated Tax . . . . .	19
Who Must Pay Estimated Tax . . . . .	20
How To Figure Estimated Tax . . . . .	22
When To Pay Estimated Tax . . . . .	24
How To Figure Each Payment . . . . .	25
How To Pay Estimated Tax . . . . .	28
Illustrated Examples . . . . .	29
Worksheets for Chapter 2 . . . . .	33
2006 Tax Rate Schedules . . . . .	37
2006 Standard Deduction Tables . . . . .	42
<b>3. Credit for Withholding and Estimated Tax for 2005</b> . . . . .	<b>43</b>
Withholding . . . . .	43
Estimated Tax . . . . .	44
Excess Social Security or Railroad Retirement Tax Withholding . . . . .	44
<b>4. Underpayment Penalty for 2005</b> . . . . .	<b>47</b>
General Rule . . . . .	47
Exceptions . . . . .	48
Figuring Your Required Annual Payment (Part I) . . . . .	49
Short Method for Figuring the Penalty (Part III) . . . . .	49
Regular Method for Figuring the Penalty (Part IV) . . . . .	50
Farmers and Fishermen . . . . .	53
Waiver of Penalty . . . . .	53
<b>5. How To Get Tax Help</b> . . . . .	<b>61</b>
<b>Index</b> . . . . .	<b>63</b>

## 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 amount withheld is paid to the Internal Revenue Service (IRS) in your name.

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

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

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

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

You can write to us at the following address:

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

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

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

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

**Ordering forms and publications.** Visit [www.irs.gov/formspubs](http://www.irs.gov/formspubs) to download forms and publications, call 1-800-829-3676, or write to the National Distribution Center at the address shown under *How To Get Tax Help* in the back of this publication.

## What's New for 2005

You should consider the items in this section when figuring any underpayment penalty for 2005. Figuring the penalty is discussed in chapter 4.

**Penalty rate.** The penalty for underpayment of 2005 estimated tax is figured at an annual rate of 6% for the number of days the underpayment remained unpaid from April 15, 2005, through

September 30, 2005, and 7% from October 1, 2005, through April 15, 2006.



*If you were affected by Hurricane Katrina, the due dates for the September 15, 2005, and January 17, 2006, required installments are both extended to February 28, 2006. If you were affected by Hurricane Rita or Wilma, the due date for the January 17, 2006, required installment is extended to February 28, 2006. See the 2005 Instructions for Form 2210 for more information.*

## What's New for 2006

This section summarizes important changes that could affect your estimated tax payments for 2006. More information on these and other changes can be found in Publication 553.

**Additional exemption for housing individuals displaced by Hurricane Katrina.** You may be able to claim an additional exemption amount of \$500 per person (up to \$2,000) if you provided housing to a person who was displaced from his or her main home as a result of Hurricane Katrina. See *Taxpayers housing individuals displaced by Hurricane Katrina* in chapter 2 for more information.

**Personal exemption and itemized deduction phaseouts reduced.** The phaseouts of the limitations on personal exemptions and itemized deductions are reduced by 33 $\frac{1}{3}$ %. See chapter 2 for more information.

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

- A child lived with you and you earned less than \$36,348 (\$38,348 if married filing jointly), or
- A child did not live with you and you earned less than \$12,120 (\$14,120 if married filing jointly).

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

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

**Traditional or Roth IRA contribution limits increased.** The contribution limit to a traditional or Roth IRA for 2006 is increased to \$5,000 if you are 50 or older.

**Traditional IRA deduction limits increased.** For 2006, if you are covered by a retirement plan at work and your filing status is married filing jointly or a qualifying widow(er), your deduction for contributions to a traditional IRA will be reduced (phased out) if your modified adjusted gross income (AGI) is more than \$75,000 but less than \$85,000.

**Additional salary reduction contributions to SIMPLE IRAs.** For 2006, additional salary reduction contributions can be made to your SIMPLE IRA if you meet certain requirements. For more information, see *How Much Can Be Contributed on Your Behalf?* in Publication 590, chapter 3.

**Standard mileage rates.** For tax years beginning in 2006, the standard mileage rate for the cost of operating your car is:

- 44 $\frac{1}{2}$  cents a mile for all business miles driven,
- 18 cents a mile for the use of your car for medical reasons,
- 18 cents a mile for the use of your car for a deductible move,
- 32 cents a mile for the use of your car to provide relief related to Hurricane Katrina, and
- 14 cents a mile for the use of your car for charitable reasons not related to Hurricane Katrina.

**Alternative motor vehicles and refueling property.** You may be able to take a credit if you place an energy efficient motor vehicle or alternative fuel vehicle refueling property in service in 2006. You can no longer take a deduction for clean-fuel vehicles or refueling property. For details, see Form 8910 (Form 8911 for alternative fuel vehicle refueling property).

**Clean renewable energy bond credit.** You may be able to take a credit based on the face amount of any clean renewable energy bond you hold during 2006. The amount of any credit claimed must be included as interest income. For details, see Form 8912.

**Nonconventional source fuel credit.** You may be able to claim the nonconventional source fuel credit for facilities producing coke or coke gas. Also, the nonconventional source fuel credit is now a general business credit subject to the general business credit tax liability limits. In general, any 2006 unused credit can be carried forward 20 years. See Form 8907 for details.

**Qualified contributions expired.** You can no longer elect to treat gifts by cash or check as qualified contributions on Schedule A. Qualified contributions for which you made this election were not subject to the 50% of adjusted gross income limit or the overall limit on itemized deductions.

### Residential Energy Credits

If you make energy saving improvements to your home in 2006, you may be able to take two new credits, the nonbusiness energy property credit and the residential energy efficient property credit. For credit purposes, costs are treated as being paid when the original installation of the item is completed, or in the case of costs connected with the construction or reconstruction of a building, when your original use of the constructed or reconstructed building begins. If less than 80% of the use of an item is for nonbusiness purposes, only that portion of the expenses that are allocable to the nonbusiness use can be used to determine the credit.

A home includes a house, houseboat, mobile home, cooperative apartment, condominium, and certain manufactured homes. For factors used in determining if a home is your main home, see Publication 523. You must reduce the basis of your home by the amount of credit allowed.



If you are a member of a qualified condominium management association for a condominium that you own or a tenant-stockholder in a cooperative housing corporation, you are treated as having paid your proportionate share of any expenses of such association or corporation. Credits must be allocated based on the ratio of individual qualified costs to total qualified costs in the case of joint occupancy.

**Nonbusiness energy property credit.** You may be able to take a credit equal to (a) 10% of the amount paid in 2006 for qualified energy efficiency improvements installed during 2006, plus (b) any residential energy property costs paid in 2006. However, this credit is limited as follows.

- A total accumulated credit limit of \$500 for all tax years.
- A maximum accumulated credit limit of \$200 for windows for all tax years.
- A maximum credit for residential energy property costs of \$50 for any advanced main air circulating fan; \$150 for any qualified natural gas, propane, or oil furnace or hot water boiler; and \$300 for any item of energy efficient building property.

**Qualified energy efficiency improvements.** Qualified energy efficiency improvements are the following items installed on or in your main home located in the United States if such items are new and can be expected to remain in use for at least 5 years.

- Any insulation material or system that is specifically or primarily designed to reduce the heat loss or gain of a home when installed in or on such home.
- Exterior windows (including skylights).
- Exterior doors.
- Any metal roof installed on a home, but only if such roof has appropriate pigmented coatings specifically and primarily designed to reduce the heat gain of such home.



To qualify for the credit, qualified energy efficiency improvements must meet certain energy efficiency requirements.

**Residential energy property costs.** Residential energy property costs are costs of new qualified energy property that is installed on or in connection with your main home located in the United States. This includes labor costs properly allocable to the onsite preparation, assembly, or original installation of the property. Qualified energy property is any of the following.

- Certain electric heat pump water heaters; electric heat pumps; geothermal heat

pumps; central air conditioners; and natural gas, propane, or oil water heaters.

- Qualified natural gas, propane, or oil furnace or hot water boilers.
- Certain advanced main air circulating fans used in a natural gas, propane, or oil furnace.



To qualify for the credit, qualified energy property must meet certain performance and quality standards.

**Residential energy efficient property credit.**

You may be able to take a credit of 30% of your costs of qualified photovoltaic property, solar water heating property, and fuel cell property. This includes labor costs properly allocable to the onsite preparation, assembly, or original installation of the property and for piping or wiring to interconnect such property to the home. This credit is limited to:

- \$2,000 for qualified photovoltaic property costs,
- \$2,000 for qualified solar water heating property costs, and
- \$500 for each half kilowatt of capacity of qualified fuel cell property for which qualified fuel cell property costs are paid.



Costs allocable to a swimming pool, hot tub, or any other energy storage medium that has a function other than the function of such storage do not qualify for the residential energy efficiency credit.

**Qualified photovoltaic property costs.**

Qualified photovoltaic property costs are costs for property that uses solar energy to generate electricity for use in a home located in the United States and used by you as a home. This includes costs relating to a solar panel or other property installed as a roof or a portion of a roof.

**Qualified solar water heating property costs.**

Qualified solar water heating property costs are costs for property to heat water for use in a home located in the United States and used by you as a home if at least half of the energy used by such property for such purpose is derived from the sun. This includes costs relating to a solar panel or other property installed as a roof or a portion of a roof. To qualify for the credit, the property must be certified for performance by the nonprofit Solar Rating Certification Corporation or a comparable entity endorsed by the government of the state in which such property is installed.

**Qualified fuel cell property costs.** Qualified fuel cell property costs are costs for qualified fuel cell property installed on or in connection with your main home located in the United

States. Qualified fuel cell property is an integrated system comprised of a fuel cell stack assembly and associated balance of plant components that converts a fuel into electricity using electrochemical means. To qualify for the credit, the fuel cell property must have a nameplate capacity of at least one-half kilowatt of electricity using an electrochemical process and an electricity-only generation efficiency greater than 30%.



Pending legislation may eliminate one or more of the following changes.

**Certain credits no longer allowed against alternative minimum tax (AMT).**

The credit for child and dependent care expenses, credit for the elderly or the disabled, education credits, mortgage interest credit, and carryforwards of the District of Columbia first-time homebuyer credit are no longer allowed against AMT and a new tax liability limit applies. For most people, this limit is your regular tax minus any tentative minimum tax.

**AMT exemption amount decreased.**

The AMT exemption amount will decrease to \$33,750 (\$45,000 if married filing jointly or a qualifying widow(er); \$22,500 if married filing separately).

**Expired tax benefits.** The following tax benefits have expired and will not apply for 2006.

- Deduction from adjusted gross income for educator expenses.
- Tuition and fees deduction.
- Deduction for state and local general sales taxes.
- District of Columbia first-time homebuyer credit (for homes purchased after 2005).

## Reminders

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

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

# 1.

## Tax Withholding for 2006

### Introduction

This chapter discusses income tax withholding on:

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

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

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

### Useful Items

You may want to see:

#### Publication

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

#### Form (and Instructions)

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

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

## Salaries and Wages

Income tax is withheld from the pay of most employees. Your pay includes your regular pay, bonuses, commissions, and vacation allowances. It also includes reimbursements and other expense allowances paid under a nonaccountable plan. See *Supplemental Wages*, later, for definitions of accountable and nonaccountable plans.

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

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

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

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

**Farmworkers.** Income tax is generally withheld from your cash wages for work on a farm unless your employer both:

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

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

## Determining Amount of Tax Withheld Using Form W-4

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

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

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

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

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

### New Job

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

If you work only part of the year (for example, you start working after the beginning of the year), too much tax may be withheld. You may be able to avoid overwithholding if your em-

ployer agrees to use the part-year method, explained later.

## Changing Your Withholding

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

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

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

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

- You have been claiming an allowance for your spouse, but you get divorced or your spouse begins claiming his or her own allowance on a separate Form W-4.
- You have been claiming an allowance for a dependent (qualifying relative), but you no longer expect to provide more than half the dependent's support for the year.
- You have been claiming an allowance for your qualifying child, but you now find that he or she will provide more than half of his or her own support during the year.
- You have been claiming allowances for your expected deductions, but you now find 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 2007.** If events in 2006 will decrease the number of your withholding allowances for 2007, you must give your employer a new Form W-4 by December 1, 2006. If an event occurs in December 2006, 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 2006 based on child care expenses, moving expenses, or large medical expenses, but you will not have these expenses in 2007.
- You have been claiming an allowance for your spouse, but he or she died in 2006.

**Note.** Because you can still file a joint return for 2006, your spouse's death will not affect the number of your withholding allowances until 2007. You will also have to change from married to single status for 2007, unless you can file as a

qualifying widow or widower because you have a dependent child, or you remarry.

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

## Checking Your Withholding

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

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

## Completing Form W-4 and Worksheets

When reading the following discussion, you may find it helpful to refer to the filled-in Form W-4 on pages 10 and 11.

### Marital Status (Line 3 of Form W-4)

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

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

- You are single. If you are divorced, or separated from your spouse under a court decree of separate maintenance, you are considered single.
- You are married, but either you or your spouse is neither a citizen nor a resident of the United States. However, if one of you is a citizen or a resident, you can choose to have the other treated as a resident. You can then file a joint return and claim married status on your Form W-4. See *Nonresident Spouse Treated as a Resident* in chapter 1 of Publication 519, U.S. Tax Guide for Aliens, for more information.

**Married.** You can check the "Married" box if either of the following applies.

- You are married and neither you nor your spouse is a nonresident alien. You are considered married for the whole year even if your spouse died during the year.
- You expect to be able to file your return as a qualifying widow or widower. You usually can use this filing status if your spouse died within the previous 2 years and you provide more than half the cost of keeping up a home that was the main home for you and your dependent child for the entire year. However, you must file a new

Form W-4 showing your filing status as single by December 1 of the last year you are eligible to file as a qualifying widow or widower. For more information, see *Qualifying Widow(er) With Dependent Child* under *Filing Status* in Publication 501, Exemptions, Standard Deduction, and Filing Information.

### Married, but withhold at higher single rate.

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

### Withholding Allowances (Line 5 of Form W-4)

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

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

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

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

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

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

Complete all worksheets that apply to your situation. The worksheets will help you figure the maximum number of withholding allowances you are entitled to claim so that the amount of

income tax withheld from your wages will match, as closely as possible, the amount of income tax you will owe at the end of the year.

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

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

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

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

The method you use must be based on withholding schedules, the tax rate schedules, and the 2006 Estimated Tax Worksheet in chapter 2. It must take into account only the items of income, adjustments to income, deductions, and tax credits that are taken into account on Form W-4.

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

### Employees who are not citizens or residents.

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

### Personal Allowances Worksheet

Use the Personal Allowances Worksheet on page 1 of Form W-4 to figure your withholding allowances 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.

**Spouse.** You can claim an allowance for your spouse's exemption on line C unless your spouse is claiming his or her own exemption or another person can claim an exemption for your spouse. Do not claim this allowance if you and your spouse expect to file separate returns.

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



**Reduction of personal allowances.**

For 2006, your deduction for personal exemptions on your tax return is reduced if your adjusted gross income (AGI) is over the AGI shown below for your filing status.

Single . . . . .	\$150,500
Married filing jointly or qualifying widow(er) . . . . .	\$225,750
Married filing separately . . . . .	\$112,875
Head of household . . . . .	\$188,150

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

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

- You are single, and you have only one job at a time.
- You are married, you have only one job at a time, and your spouse does not work.

- Your wages from a second job or your spouse's wages (or the total of both) are \$1,000 or less.

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

**Head of household (worksheet line E).** You can file as head of household if you are unmarried and pay more than half the cost of keeping up a home that was the main home for all year of your parent whom you can claim as a dependent or that you lived in for more than half the year with your qualifying child or any other person you can claim as a dependent. For more information, see Publication 501.

If you expect to file as head of household on your 2006 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 2006 return. Generally, qualifying expenses are those you pay for the care of your qualifying child who is under age 13 or for your spouse or dependent who is not able to care for himself or herself so that you can work or look for work. For more information, get Publication 503.

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

**Child tax credit (worksheet line G).** If your total income will be less than \$55,000 (\$82,000 if married), enter "2" on line G for each eligible child.

If your total income will be between \$55,000 and \$84,000 (\$82,000 and \$119,000 if married), enter "1" on line G for each eligible child plus "1" additional if you have four or more eligible children.

An eligible child is any child:

- Who is your son, daughter, stepchild, foster child, brother, sister, stepbrother, step-

sister, or a descendant of any of them (for example, your grandchild),

- Who was under age 17 at the end of 2006,
- Who did not provide over half of his or her own support for 2006,
- Who lived with you for more than half of 2006, and
- Who was a U.S. citizen, U.S. national, or a resident of the United States.

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

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

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

**Deductions and Adjustments Worksheet**

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

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 2005 return (or your 2004 return if you have not yet filed your 2005 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 2005 or 2006.

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

**Example.** On June 30, 2005, you bought your first home. On your 2005 tax return, you claimed itemized deductions of \$6,600, the total mortgage interest and real estate tax you paid during the 6 months you owned your home. Based on your mortgage payment schedule and your real estate tax assessment, you can reasonably expect to claim deductions of \$13,200 for those items on your 2006 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 2006. You normally claim these deductions on Schedule A of Form 1040.

1. Medical and dental expenses that are more than 7.5% of your 2006 adjusted gross income (defined later).

**Worksheet 1-1. Personal Allowances Worksheet (Form W-4) Reduction of Personal Allowances**

1. Enter your expected AGI . . . . .	1. _____
2. Enter:	
\$150,500 if single	
\$225,750 if married filing jointly or qualifying widow(er)	
\$112,875 if married filing separately	
\$188,150 if head of household . . . . .	2. _____
3. Subtract line 2 from line 1 . . . . .	3. _____
4. Divide line 3 by \$125,000 (\$62,500 if married filing separately). Enter the result as a decimal . . . . .	4. _____
5. Enter the total number of allowances on lines A, C, and D of the Personal Allowances Worksheet without regard to the phaseout rule . . . . .	5. _____
6. Multiply line 4 by line 5. If the result is not a whole number, increase it to the next higher whole number . . . . .	6. _____
7. Divide line 6 by 1.5 . . . . .	7. _____
8. Subtract line 7 from line 5. The total of the numbers you enter on lines A, C, and D of the Personal Allowances Worksheet cannot be more than this amount . . . . .	8. _____

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. Certain fees paid to an IRA trustee or custodian.

Adjusted gross income for purposes of the worksheet is your estimated total income for 2006 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.



**Phaseout of itemized deductions.**

For 2006, your total itemized deductions may be phased out (reduced) if your adjusted gross income (AGI) is more than \$150,500 (\$75,250 if married filing separately). If you expect your AGI to be more than that amount, use Worksheet 1-2 to figure the amount to enter 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 2006. These adjustments appear on page 1 of your Form 1040 or 1040A.

- Net losses from Schedules C, D, E, and F of Form 1040 and from Part II of Form 4797, line 18b.
- Net operating loss carryovers.
- Certain business expenses of reservists, performing artists, and fee-based government officials.
- Health savings account or medical savings account deduction.
- Certain moving expenses.
- Deduction for one-half of self-employment tax.

- Deduction for contributions to self-employed SEP, and qualified SIMPLE plans.
- Self-employed health insurance deduction.
- Penalty on early withdrawal of savings.
- Alimony paid.
- IRA deduction.
- Student loan interest deduction.
- Jury duty pay given to your employer.
- Reforestation amortization and expenses.
- Repayment of certain supplemental unemployment benefits.
- Attorney fees and court costs for certain unlawful discrimination claims.

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.

- Foreign tax credit, except any credit that applies to wages not subject to U.S. income tax withholding because they are subject to income tax withholding by a foreign country. See Publication 514, Foreign Tax Credit for Individuals.
- Credit for the elderly or the disabled. See Publication 524, Credit for the Elderly or the Disabled.
- Hope credit. See Publication 970, Tax Benefits for Education.
- Lifetime learning credit. See Publication 970, Tax Benefits for Education.
- Retirement savings contributions credit. See Publication 590, Individual Retirement Arrangements.
- Adoption credit. See the instructions for Form 8839, Qualified Adoption Expenses.
- Mortgage interest credit. See *Mortgage Interest Credit* in Publication 530, Tax Information for First-Time Homeowners.
- 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.
- Qualified electric vehicle credit. See the instructions for Form 8834, Qualified Electric Vehicle Credit.
- General business credit. See Form 3800, General Business Credit.

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

1. Enter the estimated total of your itemized deductions . . . . .	1. _____
2. Enter the amount included in line 1 for medical and dental expenses, investment interest, casualty or theft losses, and gambling losses . . . . .	2. _____
3. Subtract line 2 from line 1 . . . . .	3. _____
<b>Note.</b> If line 3 is zero, stop here and enter line 1 of this worksheet on line 1 of the Deductions and Adjustments Worksheet.	
4. Multiply line 3 by 80% (.80) . . . . .	4. _____
5. Enter your expected AGI . . . . .	5. _____
6. Enter \$150,500 (\$75,250 if married filing separately). . . . .	6. _____
7. Subtract line 6 from line 5 . . . . .	7. _____
8. Multiply line 7 by 3% (.03) . . . . .	8. _____
9. Enter the smaller of line 4 or line 8 . . . . .	9. _____
10. Divide line 9 by 3.0 . . . . .	10. _____
11. Subtract line 10 from line 9 . . . . .	11. _____
12. Subtract line 11 from line 1. Enter the result here and on line 1 of the Deductions and Adjustments Worksheet . . . . .	12. _____

- Earned income credit, unless you requested advance payment of the credit. See Publication 596, Earned Income Credit.
- Alternative motor vehicle credit. See Form 8910, Alternative Motor Vehicle Credit.
- Alternative fuel vehicle refueling property credit. See Form 8911, Alternative Fuel Vehicle Refueling Property Credit.
- Clean renewable energy bond credit. See Form 8912, Clean Renewable Energy Bond Credit and Gulf Bond Credit.
- Qualified zone academy bond credit. See Form 8860, Qualified Zone Academy Bond Credit.
- Health coverage tax credit. See Form 8885, Health Coverage Tax Credit.
- Residential energy credits. See Publication 553, Highlights of 2005 Tax Changes.

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

**Example.** You are married and expect to file a joint return for 2006. Your combined estimated wages are \$68,000. Your estimated tax credits include a child and dependent care credit of \$960 and a mortgage interest credit of \$1,700.

In Table 1-1, section A, the number for your combined estimated wages (\$36,001 – \$82,000) is 6.7. Multiply your total estimated tax credits of \$2,660 by 6.7. Add the result, \$17,822, to the amount you would otherwise show on line 5 of the Deductions and Adjustments Worksheet and enter the total on line 5. Because you choose to account for your child and dependent care credit this way, do not make an entry on line F of the Personal Allowances Worksheet.

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

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

**Net deductions and adjustments (worksheet line 7).** If line 7 is less than \$3,300, enter “0” on line 8. If line 7 is \$3,300 or more, divide it by \$3,300, drop any fraction, and enter the result on line 8.

### Two-Earner/Two-Job Worksheet

You should complete this worksheet if you have more than one job or are married and you and your spouse both work and the combined earnings from all jobs are more than \$35,000 (\$25,000 if married).



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

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

#### A. Married Filing Jointly or Qualifying Widow(er)

If combined income from all sources is:	Multiply credits by:
\$0 – 36,000 . . . . .	10.0
\$36,001 – 82,000 . . . . .	6.7
\$82,001 – 150,000 . . . . .	4.0
\$150,001 – 220,000 . . . . .	3.6
\$220,001 – 360,000 . . . . .	3.0
\$360,001 and over . . . . .	2.8

#### B. Single

If combined income from all sources is:	Multiply credits by:
\$0 – 16,000 . . . . .	10.0
\$16,001 – 39,000 . . . . .	6.7
\$39,001 – 85,000 . . . . .	4.0
\$85,001 – 170,000 . . . . .	3.6
\$170,001 – 350,000 . . . . .	3.0
\$350,001 and over . . . . .	2.8

#### C. Head of Household

If combined income from all sources is:	Multiply credits by:
\$0 – 25,000 . . . . .	10.0
\$25,001 – 55,000 . . . . .	6.7
\$55,001 – 125,000 . . . . .	4.0
\$125,001 – 190,000 . . . . .	3.6
\$190,001 – 355,000 . . . . .	3.0
\$355,001 and over . . . . .	2.8

#### D. Married Filing Separately

If combined income from all sources is:	Multiply credits by:
\$0 – 18,000 . . . . .	10.0
\$18,001 – 41,000 . . . . .	6.7
\$41,001 – 75,000 . . . . .	4.0
\$75,001 – 110,000 . . . . .	3.6
\$110,001 – 180,000 . . . . .	3.0
\$180,001 and over . . . . .	2.8

**Reducing your allowances (worksheet lines 1–3).** On line 1 of the worksheet, enter the number from line H of the Personal Allowances Worksheet (or line 10 of the Deductions and Adjustments Worksheet, if used). Using Table 1 on Form W-4, find the number listed beside the amount of your estimated wages for the year from your lowest paying job (or if lower, your spouse’s job). Enter that number on line 2.

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

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

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

### Illustrated Example—Form W-4

Joyce Green works in a bookstore and expects to earn about \$13,300. Her husband, John, works full time at the Acme Corporation, where his expected pay is \$48,500. They file a joint income tax return and claim exemptions for their two children. Because they file jointly, they use only one set of Form W-4 worksheets to figure the number of withholding allowances. The Greens’ worksheets and John’s W-4 are shown in Figure 1-A, beginning on page 10.

**Personal Allowances Worksheet.** On this worksheet, John and Joyce claim allowances for themselves and their children by entering “1” on line A, “1” on line C, and “2” on line D. Because both John and Joyce will receive wages of more than \$1,000, they are not entitled to the additional withholding allowance on line B. The Greens expect to have child and dependent care expenses of \$2,400. They enter “1” on line F of the worksheet. Because they are married, their total income will be less than \$82,000 and they have two eligible children, they enter “4” on line G.

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

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

The Greens’ estimated itemized deductions total \$11,300, which they enter on line 1 of the worksheet. Because they will file a joint return, they enter \$10,300 on line 2. They subtract \$10,300 from \$11,300 and enter the result, \$1,000, on line 3.

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

The Greens add line 3 and line 4 and enter the total, \$4,000, on line 5.

Joyce and John expect to receive \$600 in interest and dividend income during the year. They enter \$600 on line 6 and subtract line 6 from line 5. They enter the result, \$3,400, on line 7. They divide line 7 by \$3,300, and drop the fraction to determine one additional allowance. They enter “1” on line 8.

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

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

Next, they use Table 1 on Form W-4 to find the number to enter on line 2 of the worksheet. Because they will file a joint return, their expected wages from the highest paying job are more than \$42,000, and their expected wages from their lowest paying job are \$13,300, they enter “2” on line 2. They subtract line 2 from line 1 and enter “8” on line 3 of the worksheet and on Form W-4, line 5.

John and Joyce Green can take a total of 8 withholding allowances between them. They decide that John will take all 8 allowances on his Form W-4. Joyce, therefore, cannot claim any

allowances on hers. She will enter "0" on line 5 of the Form W-4 she gives to her employer.

## Getting the Right Amount of Tax Withheld

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

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

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

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

### Part-Year Method

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

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

**How to apply for the part-year method.** You must ask in writing that your employer use this

method. The request must state all three of the following.

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

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

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

### Publication 919

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

## Rules Your Employer Must Follow

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

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

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

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

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

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

If you are not repaid, your Form W-2, Wage and Tax Statement, will reflect the full amount actually withheld.

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

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

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

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

If you later believe that you are entitled to claim exempt status or more allowances than the IRS determined, you can complete a new Form W-4 and a written statement to support the claims made on the Form W-4 and send them directly to the IRS address shown on the lock-in letter. Your employer must continue to figure your withholding on the basis of the number of allowances previously determined by the IRS until the IRS advises your employer otherwise.

At any time, either before or after the lock-in letter becomes effective, you may furnish to your employer a new Form W-4 that does not claim complete exemption from withholding and claims fewer than the number of withholding allowances specified in the lock-in letter. Your employer must then withhold tax based on this new Form W-4.

## 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 2006 only if both the following situations apply.

- For 2005 you had a right to a refund of all federal income tax withheld because you had no tax liability.
- For 2006 you expect a refund of all federal income tax withheld because you expect to have no tax liability.

Figure 1-A. Illustrated Example—Form W-4

# Form W-4 (2006)

**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 2006 expires February 16, 2007. See Pub. 505, Tax Withholding and Estimated Tax.

**Note.** You cannot claim exemption from withholding if (a) your income exceeds \$850 and includes more than \$300 of unearned income (for example, interest and dividends) and (b) another person can claim you as a dependent on their tax return.

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

earner/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 2006. See Pub. 919, especially if your earnings exceed \$130,000 (Single) or \$180,000 (Married).

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

**Personal Allowances Worksheet** (Keep for your records.)

<b>A</b>	Enter "1" for <b>yourself</b> if no one else can claim you as a dependent . . . . .	<b>A</b>	<u>1</u>
<b>B</b>	Enter "1" if: <ul style="list-style-type: none"> <li>• You are single and have only one job; or</li> <li>• You are married, have only one job, and your spouse does not work; or</li> <li>• Your wages from a second job or your spouse's wages (or the total of both) are \$1,000 or less.</li> </ul>	<b>B</b>	<u>    </u>
<b>C</b>	Enter "1" for your <b>spouse</b> . 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.) . . . . .	<b>C</b>	<u>1</u>
<b>D</b>	Enter number of <b>dependents</b> (other than your spouse or yourself) you will claim on your tax return . . . . .	<b>D</b>	<u>2</u>
<b>E</b>	Enter "1" if you will file as <b>head of household</b> on your tax return (see conditions under <b>Head of household</b> above) . . . . .	<b>E</b>	<u>    </u>
<b>F</b>	Enter "1" if you have at least \$1,500 of <b>child or dependent care expenses</b> for which you plan to claim a credit . . . . .	<b>F</b>	<u>1</u>
<b>(Note. Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)</b>			
<b>G</b>	<b>Child Tax Credit</b> (including additional child tax credit): <ul style="list-style-type: none"> <li>• If your total income will be less than \$55,000 (\$82,000 if married), enter "2" for each eligible child.</li> <li>• If your total income will be between \$55,000 and \$84,000 (\$82,000 and \$119,000 if married), enter "1" for each eligible child plus "1" <b>additional</b> if you have four or more eligible children.</li> </ul>	<b>G</b>	<u>4</u>
<b>H</b>	Add lines A through G and enter total here. <b>(Note. This may be different from the number of exemptions you claim on your tax return.)</b> ▶	<b>H</b>	<u>9</u>
	For accuracy, <b>complete all worksheets that apply.</b> <ul style="list-style-type: none"> <li>• If you plan to <b>itemize or claim adjustments to income</b> and want to reduce your withholding, see the <b>Deductions and Adjustments Worksheet</b> on page 2.</li> <li>• If you have <b>more than one job</b> or are <b>married and you and your spouse both work</b> and the combined earnings from all jobs exceed \$35,000 (\$25,000 if married) see the <b>Two-Earner/Two-Job Worksheet</b> on page 2 to avoid having too little tax withheld.</li> <li>• If <b>neither</b> of the above situations applies, <b>stop here</b> and enter the number from line H on line 5 of Form W-4 below.</li> </ul>		

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

Form <b>W-4</b> Department of the Treasury Internal Revenue Service	<h2 style="margin: 0;">Employee's Withholding Allowance Certificate</h2> <p style="margin: 0;">▶ <b>Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.</b></p>	OMB No. 1545-0074 <div style="font-size: 2em; font-weight: bold; text-align: center;">2006</div>
1 Type or print your first name and middle initial. <span style="float: right;">Last name</span> John M. <span style="float: right;">Green</span>		2 Your social security number 444 ; 00 ; 4444
Home address (number and street or rural route) 28 Fairway		3 <input type="checkbox"/> Single <input checked="" type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.
City or town, state, and ZIP code Anytown, State 00000		4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a new card. <input type="checkbox"/>
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)		5 <u>8</u>
6 Additional amount, if any, you want withheld from each paycheck		6 \$ <u>    </u>
7 I claim exemption from withholding for 2006, and I certify that I meet <b>both</b> of the following conditions for exemption. <ul style="list-style-type: none"> <li>• Last year I had a right to a refund of <b>all</b> federal income tax withheld because I had <b>no</b> tax liability <b>and</b></li> <li>• This year I expect a refund of <b>all</b> federal income tax withheld because I expect to have <b>no</b> tax liability.</li> </ul> If you meet both conditions, write "Exempt" here . . . . . ▶		7 <u>    </u>
Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.		
Employee's signature (Form is not valid unless you sign it.) ▶ John M. Green		Date ▶ January 4, 2006
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		9 Office code (optional)
		10 Employer identification number (EIN)

Figure 1-A. Illustrated Example—Form W-4 (Continued)

**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 2006 tax return.

- 1 Enter an estimate of your 2006 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 2006, you may have to reduce your itemized deductions if your income is over \$150,500 (\$75,250 if married filing separately). See *Worksheet 3* in Pub. 919 for details.) . . . . . **1** \$ 11,300
- 2 Enter:  $\left\{ \begin{array}{l} \$10,300 \text{ if married filing jointly or qualifying widow(er)} \\ \$7,550 \text{ if head of household} \\ \$5,150 \text{ if single or married filing separately} \end{array} \right\}$  . . . . . **2** \$ 10,300
- 3 **Subtract** line 2 from line 1. If line 2 is greater than line 1, enter “-0-” . . . . . **3** \$ 1,000
- 4 Enter an estimate of your 2006 adjustments to income, including alimony, deductible IRA contributions, and student loan interest . . . . . **4** \$ 3,000
- 5 **Add** lines 3 and 4 and enter the total. (Include any amount for credits from *Worksheet 7* in Pub. 919) . . . . . **5** \$ 4,000
- 6 Enter an estimate of your 2006 nonwage income (such as dividends or interest) . . . . . **6** \$ 600
- 7 **Subtract** line 6 from line 5. Enter the result, but not less than “-0-” . . . . . **7** \$ 3,400
- 8 **Divide** the amount on line 7 by \$3,300 and enter the result here. Drop any fraction . . . . . **8** 1
- 9 Enter the number from the **Personal Allowances Worksheet**, line H, page 1 . . . . . **9** 9
- 10 **Add** lines 8 and 9 and enter the total here. If you plan to use the **Two-Earner/Two-Job Worksheet**, also enter this total on line 1 below. Otherwise, **stop here** and enter this total on Form W-4, line 5, page 1 . . . . . **10** 10

**Two-Earner/Two-Job Worksheet** (See *Two earners/two jobs* on page 1.)

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

- 1 Enter the number from line H, page 1 (or from line 10 above if you used the **Deductions and Adjustments Worksheet**) . . . . . **1** 10
- 2 Find the number in **Table 1** below that applies to the **LOWEST** paying job and enter it here . . . . . **2** 2
- 3 If line 1 is **more than or equal to** line 2, subtract line 2 from line 1. Enter the result here (if zero, enter “-0-”) and on Form W-4, line 5, page 1. **Do not** use the rest of this worksheet . . . . . **3** 8

**Note.** If line 1 is *less than* line 2, enter “-0-” on Form W-4, line 5, page 1. Complete lines 4–9 below to calculate the additional withholding amount necessary to avoid a year-end tax bill.

- 4 Enter the number from line 2 of this worksheet . . . . . **4** \_\_\_\_\_
- 5 Enter the number from line 1 of this worksheet . . . . . **5** \_\_\_\_\_
- 6 **Subtract** line 5 from line 4 . . . . . **6** \_\_\_\_\_
- 7 Find the amount in **Table 2** below that applies to the **HIGHEST** paying job and enter it here . . . . . **7** \$ \_\_\_\_\_
- 8 **Multiply** line 7 by line 6 and enter the result here. This is the additional annual withholding needed . . . . . **8** \$ \_\_\_\_\_
- 9 Divide line 8 by the number of pay periods remaining in 2006. For example, divide by 26 if you are paid every two weeks and you complete this form in December 2005. Enter the result here and on Form W-4, line 6, page 1. This is the additional amount to be withheld from each paycheck . . . . . **9** \$ \_\_\_\_\_

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

Married Filing Jointly						All Others			
If wages from <b>HIGHEST</b> paying job are—	AND, wages from <b>LOWEST</b> paying job are—	Enter on line 2 above	If wages from <b>HIGHEST</b> paying job are—	AND, wages from <b>LOWEST</b> paying job are—	Enter on line 2 above	If wages from <b>LOWEST</b> paying job are—	Enter on line 2 above		
\$0 - \$42,000	\$0 - \$4,500	0	\$42,001 and over	32,001 - 38,000	6	\$0 - \$6,000	0		
	4,501 - 9,000	1		38,001 - 46,000	7	6,001 - 12,000	1		
	9,001 - 18,000	2		46,001 - 55,000	8	12,001 - 19,000	2		
	18,001 and over	3		55,001 - 60,000	9	19,001 - 26,000	3		
\$42,001 and over	\$0 - \$4,500	0		60,001 - 65,000	10	26,001 - 35,000	4		
				65,001 - 75,000	11	35,001 - 50,000	5		
				75,001 - 95,000	12	50,001 - 65,000	6		
				95,001 - 105,000	13	65,001 - 80,000	7		
				105,001 - 120,000	14	80,001 - 90,000	8		
				120,001 and over	15	90,001 - 120,000	9		
						120,001 and over	10		

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

Married Filing Jointly		All Others	
If wages from <b>HIGHEST</b> paying job are—	Enter on line 7 above	If wages from <b>HIGHEST</b> paying job are—	Enter on line 7 above
\$0 - \$60,000	\$500	\$0 - \$30,000	\$500
60,001 - 115,000	830	30,001 - 75,000	830
115,001 - 165,000	920	75,001 - 145,000	920
165,001 - 290,000	1,090	145,001 - 330,000	1,090
290,001 and over	1,160	330,001 and over	1,160

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

the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

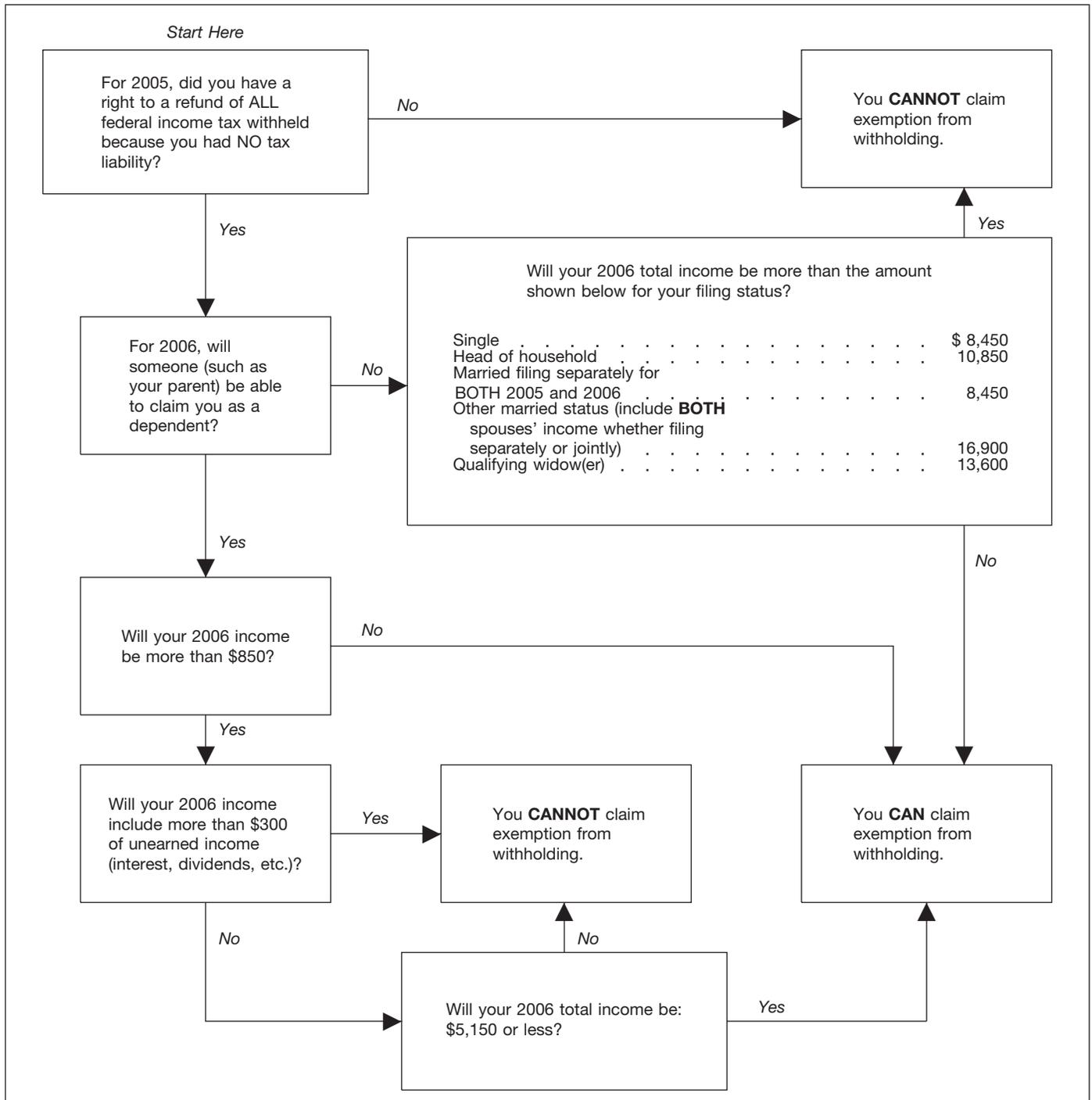
The average time and expenses required to complete and file this form will vary depending on individual circumstances. For estimated averages, see the instructions for your income tax return.

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

You are not required to provide the information requested on a form that is subject to

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

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



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

- Are 65 or older.
- Are blind.
- Will itemize deductions on your 2006 return.

- Will claim an exemption for a dependent on your 2006 return.
- Will claim any tax credits on your 2006 return.

These situations are discussed later.

**Students.** If you are a student, you are not automatically exempt. If you work only part time

or during the summer, you may qualify for exemption from withholding.

**Example 1.** You are a high school student and expect to earn \$2,500 from a summer job. You do not expect to have any other income during the year, and your parents will be able to claim an exemption for you on their tax return. You worked last summer and had \$375 federal income tax withheld from your pay. The entire

\$375 was refunded when you filed your 2005 return. Using Figure 1-B, you find that you can claim exemption from withholding.

**Example 2.** The facts are the same as in Example 1, except that you also have a savings account and expect to have \$320 interest income during the year. Using Figure 1-B, you find that you cannot claim exemption from withholding because your unearned income will be more than \$300 and your total income will be more than \$850.



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



**Age 65 or older or blind.** If you are 65 or older or blind, use Worksheet 1-3 or Worksheet 1-4 to help you decide whether you can claim exemption from withholding. Do not use either worksheet if you will itemize deductions, claim exemptions for dependents, or claim tax credits on your 2006 return—instead, see *Itemizing deductions or claiming exemptions or credits*, next.

**Itemizing deductions or claiming exemptions or credits.** If you had no tax liability for 2005, and you will either:

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

use the 2006 Estimated Tax Worksheet in Form 1040-ES (also see chapter 2), to figure your 2006 expected tax liability. You can claim exemption from withholding only if your total expected tax liability (line 13c of the worksheet) is zero.

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

If you claim exemption, but later your situation changes so that you will have to pay income tax after all, you must file a new Form W-4 within 10 days after the change. If you claim exemption in 2006, but you expect to owe income tax for 2007, you must file a new Form W-4 by December 1, 2006.

Your claim of exempt status may be reviewed by the IRS. See *IRS review of your withholding*, earlier.

**An exemption is good for only one year.** You must give your employer a new Form W-4

by February 15 each year to continue your exemption.

## Supplemental Wages

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

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

Reimbursements or other expense allowances paid under an accountable plan that are more than your proven expenses are treated as paid under a nonaccountable plan if you do

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

Use this worksheet only if, for 2005 you had a right to a refund of **all** federal income tax withheld because you had **no** tax liability.

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

1. Check the boxes below that apply to you.		
65 or older	<input type="checkbox"/>	Blind
Blind	<input type="checkbox"/>	
2. Check the boxes below that apply to your spouse if you will claim your spouse’s exemption on your 2006 return.		
65 or older	<input type="checkbox"/>	Blind
Blind	<input type="checkbox"/>	
3. Add the number of boxes you checked in 1 and 2 above. Enter the result . . . . .		
You <b>can</b> claim exemption from withholding if:		
Your filing status is:	and the number on line 3 above is:	and your 2006 total income will be no more than:
<b>Single</b>	1	\$ 9,700
	2	10,950
<b>Head of household</b>	1	\$12,100
	2	13,350
<b>Married filing separately for both 2004 and 2005</b>	1	\$ 9,450
	2	10,450
	3	11,450
	4	12,450
<b>Other married status</b>	1	\$17,900*
	2	18,900*
	3	19,900*
	4	20,900*
* Include both spouses’ income whether you will file separately or jointly.		
<b>Qualifying widow(er)</b>	1	\$14,600
	2	15,600
You <b>cannot</b> claim exemption from withholding if your total income will be <b>more than</b> the amount shown for your filing status.		

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

Use this worksheet only if, for 2006 you are a dependent and if, for 2005, you had a right to a refund of **all** federal income tax withheld because you had **no** tax liability.

1. Enter your expected earned income plus \$300	1. _____
2. Minimum amount . . . . .	2. \$ 850
3. Compare lines 1 and 2. Enter the <b>larger</b> amount . . . . .	3. _____
4. Limit . . . . .	4. 5,150
5. Compare lines 3 and 4. Enter the <b>smaller</b> amount . . . . .	5. _____
6. Enter the appropriate amount from the following table . . . . .	6. _____
Single	
Either 65 or older or blind	\$1,250
Both 65 or older and blind	2,500
Married filing separately	
Either 65 or older or blind	1,000
Both 65 or older and blind	2,000
7. Add lines 5 and 6. Enter the result . . . . .	7. _____
8. Enter your total expected income . . . . .	8. _____
You <b>can</b> claim exemption from withholding if line 7 is equal to or more than line 8. You <b>cannot</b> claim exemption from withholding if line 8 is more than line 7.	

not return the excess payments within a reasonable period of time.

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

- Your expenses must have a business connection. That is, you must have paid or incurred deductible expenses while performing services as an employee of your employer.
- You must adequately account to your employer for these expenses within a reasonable period of time.
- You must return any excess reimbursement or allowance within a reasonable period of time.

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

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

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

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

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

## Penalties

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

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

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

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

## Tips

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

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

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

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

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

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

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

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

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

Your employer should not withhold income tax, social security tax, Medicare tax, or railroad retirement tax on the allocated amount. Withholding is based only on your pay plus your reported tips. Your employer should refund to you any incorrectly withheld tax.

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

## Taxable Fringe Benefits

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

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

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

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

**Example.** Your employer considers the value of benefits paid from November 1, 2004, through October 31, 2005, as paid to you in 2005. To determine the total value of benefits paid to you in 2006, your employer will add the value of any benefits paid in November and December of 2005 to the value of any benefits paid in January through October of 2006.

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

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

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

April 1 of that next year to recover from you the additional tax paid to the IRS for you.

**How your employer reports your benefits.** Your employer must report on Form W-2 the total of the taxable fringe benefits paid or treated as paid to you during the year and the tax withheld for the benefits. These amounts can be shown either on the Form W-2 for your regular pay or on a separate Form W-2. If your employer provided you with a car, truck, or other motor vehicle and chose to treat all of your use of it as personal, its value must be either separately shown on Form W-2 or reported to you on a separate statement.

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

## Sick Pay

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

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

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

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

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

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

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

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

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

## Pensions and Annuities

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

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

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

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

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

## Periodic Payments

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

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

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

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

- If you do not fill out a withholding certificate, tax will be withheld as if you were married and claiming three withholding allowances. This means that tax will be withheld only if your pension or annuity is at least \$1,480 a month (or \$17,760 a year).
- You can choose not to have tax withheld, regardless of how much tax you owed last year or expect to owe this year. You do not have to qualify for exemption. See *Choosing Not To Have Income Tax Withheld*, later.
- If you do not give the payer your social security number (in the required manner) or the IRS notifies the payer before any payment or distribution is made that you gave it an incorrect social security number, tax will be withheld as if you were single and were claiming no withholding allowances. This means that tax will be withheld if your pension or annuity is at least \$230 a month (or \$2,760 a year).

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

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

## Nonperiodic Payments

Tax will be withheld at a flat 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 pay estimated tax, as explained in chapter 2.*

## Eligible Rollover Distributions

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

1. A required minimum distribution.
2. One of a series of substantially equal periodic pension or annuity payments made over:

- a. Your life (or your life expectancy) or the joint lives of you and your beneficiary (or your life expectancies), or
  - b. A specified period of 10 or more years.
3. A hardship distribution.

The payer of a distribution must withhold at a flat rate on any part of an ERD that is not rolled over directly to another qualified plan. You cannot elect not to have withholding on these distributions. No withholding is required on any part paid directly to another plan.

## Choosing Not To Have Income Tax Withheld

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

The payer must withhold if either of the following applies:

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

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

If you do not pay enough tax either through estimated tax or withholding, you may have to pay a penalty. See chapter 4 for information about this penalty.

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

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

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

**Revoking a choice not to have tax withheld.** The payer of your pension or annuity will tell you how to revoke your choice not to have income tax withheld from periodic or nonperiodic payments. If you use Form W-4P to revoke the choice, print "Revoked" by the checkbox on line 1 of the form.

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

## Gambling Winnings

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

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

- Any sweepstakes, wagering pool, or lottery.
- Any other wager if the proceeds are at least 300 times the amount of the bet.

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

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

If you do not pay enough tax through withholding or estimated tax, you may be subject to a penalty. See chapter 4.

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

Report the tax withheld on Form 1040, line 64.

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

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

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

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

**Backup withholding on gambling winnings.** If you have any kind of gambling winnings and do not give the payer your social security num-

ber, the payer may have to withhold income tax at a flat rate. This rule applies to keno winnings of more than \$1,500, bingo and slot machine winnings of more than \$1,200, and certain other gambling winnings of more than \$600.

## Unemployment Compensation

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

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

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

**Form 1099-G.** If income tax is withheld from your unemployment compensation, you will receive a Form 1099-G, Certain Government Payments. Box 1 will show the amount of unemployment compensation you got for the year. Box 4 will show the amount of federal income tax withheld.

## Federal Payments

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

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

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

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

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

**More information.** For more information about the tax treatment of social security and railroad retirement benefits, get Publication 915, Social Security and Equivalent Railroad Retirement Benefits. Get Publication 225, Farmer's Tax Guide, for information about the tax treat-

ment of commodity credit loans or crop disaster payments.

## Backup Withholding

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

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

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

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

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

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

- The amount you receive from any one payer is \$600 or more.
- The payer had to give you a Form 1099 last year.

- The payer made payments to you last year that were subject to backup withholding.

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

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

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

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

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

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

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

**How to prevent or stop backup withholding.** If you have been notified by a payer that the TIN

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

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

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

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

- No underreporting occurred.
- You have a bona fide dispute with the IRS about whether an underreporting occurred.
- Backup withholding will cause or is causing an undue hardship and it is unlikely that you will underreport interest and dividends in the future.
- You have corrected the underreporting by filing 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 2006

## What's New for 2006

This section summarizes important changes that could affect your estimated tax payments for 2006. More information on these and other changes can be found in Publication 553.

**Additional exemption for housing individuals displaced by Hurricane Katrina.** You may be able to claim an additional exemption amount of \$500 per person (up to \$2,000) if you provided housing to a person who was displaced from his or her main home as a result of Hurricane Katrina. For more information, see *Taxpayers housing individuals displaced by Hurricane Katrina*, later in this chapter.

**Personal exemption and itemized deduction phaseouts reduced.** The phaseouts of the limitations on personal exemptions and itemized deductions are reduced by 33⅓%.

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

- A child lived with you and you earned less than \$36,348 (\$38,348 if married filing jointly), or
- A child did not live with you and you earned less than \$12,120 (\$14,120 if married filing jointly).

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

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

**Traditional or Roth IRA contribution limits increased.** The contribution limit to a traditional or Roth IRA for 2006 is increased to \$5,000 if you are 50 or older.

**Traditional IRA deduction limits increased.** For 2006, if you are covered by a retirement plan at work and your filing status is married filing jointly or a qualifying widow(er), your deduction for contributions to a traditional IRA will be reduced (phased out) if your modified adjusted gross income (AGI) is more than \$75,000 but less than \$85,000.

**Additional salary reduction contributions to SIMPLE IRAs.** For 2006, additional salary reduction contributions can be made to your SIMPLE IRA if you meet certain requirements. For more information, see *How Much Can Be Contributed on Your Behalf?* in Publication 590, chapter 3.

**Standard mileage rates.** For tax years beginning in 2006, the standard mileage rate for the cost of operating your car is:

- 44½ cents a mile for all business miles driven,
- 18 cents a mile for the use of your car for medical reasons,
- 18 cents a mile for the use of your car for a deductible move,
- 32 cents a mile for the use of your car to provide relief related to Hurricane Katrina, and
- 14 cents a mile for the use of your car for charitable reasons not related to Hurricane Katrina.

**Alternative motor vehicles and refueling property.** You may be able to take a credit if you place an energy efficient motor vehicle or alternative fuel vehicle refueling property in service in 2006. You can no longer take a deduction for clean-fuel vehicles or refueling property. For details, see Form 8910 (Form 8911 for alternative fuel vehicle refueling property).

**Clean renewable energy bond credit.** You may be able to take a credit based on the face amount of any clean renewable energy bond you hold during 2006. The amount of any credit claimed must be included as interest income. For details, see Form 8912.

**Nonconventional source fuel credit.** You may be able to claim the nonconventional source fuel credit for facilities producing coke or coke gas. Also, the nonconventional source fuel credit is now a general business credit subject to the general business credit tax liability limits. In general, any 2006 unused credit can be carried forward 20 years. See Form 8907 for details.

**Qualified contributions expired.** You can no longer elect to treat gifts by cash or check as qualified contributions on Schedule A. Qualified contributions for which you made this election were not subject to the 50% of adjusted gross income limit or the overall limit on itemized deductions.

### Residential Energy Credits

If you make energy saving improvements to your home in 2006, you may be able to take two new credits, the nonbusiness energy property credit and the residential energy efficient property credit. For credit purposes, costs are treated as being paid when the original installation of the item is completed, or in the case of costs connected with the construction or reconstruction of a building, when your original use of the constructed or reconstructed building begins. If less than 80% of the use of an item is for nonbusiness purposes, only that portion of the expenses that are allocable to the nonbusiness use can be used to determine the credit.

A home includes a house, houseboat, mobile home, cooperative apartment, condominium, and certain manufactured homes. For factors used in determining if a home is your main home, see Publication 523. You must reduce the basis of your home by the amount of credit allowed.



*If you are a member of a qualified condominium management association for a condominium that you own or a tenant-stockholder in a cooperative housing corporation, you are treated as having paid your proportionate share of any expenses of such association or corporation. Credits must be allocated based on the ratio of individual qualified costs to total qualified costs in the case of joint occupancy.*

**Nonbusiness energy property credit.** You may be able to take a credit equal to (a) 10% of the amount paid in 2006 for qualified energy efficiency improvements installed during 2006, plus (b) any residential energy property costs paid in 2006. However, this credit is limited as follows.

- A total accumulated credit limit of \$500 for all tax years.
- A maximum accumulated credit limit of \$200 for windows for all tax years.
- A maximum credit for residential energy property costs of \$50 for any advanced main air circulating fan; \$150 for any qualified natural gas, propane, or oil furnace or hot water boiler; and \$300 for any item of energy efficient building property.

**Qualified energy efficiency improvements.** Qualified energy efficiency improvements are the following items installed on or in your main home located in the United States if such items are new and can be expected to remain in use for at least 5 years.

- Any insulation material or system that is specifically or primarily designed to reduce the heat loss or gain of a home when installed in or on such home.
- Exterior windows (including skylights).
- Exterior doors.
- Any metal roof installed on a home, but only if such roof has appropriate pigmented coatings specifically and primarily designed to reduce the heat gain of such home.



*To qualify for the credit, qualified energy efficiency improvements must meet certain energy efficiency requirements.*

**Residential energy property costs.** Residential energy property costs are costs of new qualified energy property that is installed on or in connection with your main home located in the United States. This includes labor costs properly allocable to the onsite preparation, assembly, or original installation of the property. Qualified energy property is any of the following.

- Certain electric heat pump water heaters; electric heat pumps; geothermal heat pumps; central air conditioners; and natural gas, propane, or oil water heaters.
- Qualified natural gas, propane, or oil furnace or hot water boilers.
- Certain advanced main air circulating fans used in a natural gas, propane, or oil furnace.



To qualify for the credit, qualified energy property must meet certain performance and quality standards.

**Residential energy efficient property credit.** You may be able to take a credit of 30% of your costs of qualified photovoltaic property, solar water heating property, and fuel cell property. This includes labor costs properly allocable to the onsite preparation, assembly, or original installation of the property and for piping or wiring to interconnect such property to the home. This credit is limited to:

- \$2,000 for qualified photovoltaic property costs,
- \$2,000 for qualified solar water heating property costs, and
- \$500 for each half kilowatt of capacity of qualified fuel cell property for which qualified fuel cell property costs are paid.



Costs allocable to a swimming pool, hot tub, or any other energy storage medium that has a function other than the function of such storage do not qualify for the residential energy efficiency credit.

**Qualified photovoltaic property costs.**

Qualified photovoltaic property costs are costs for property that uses solar energy to generate electricity for use in a home located in the United States and used by you as a home. This includes costs relating to a solar panel or other property installed as a roof or a portion of a roof.

**Qualified solar water heating property costs.** Qualified solar water heating property costs are costs for property to heat water for use in a home located in the United States and used by you as a home if at least half of the energy used by such property for such purpose is derived from the sun. This includes costs relating to a solar panel or other property installed as a roof or a portion of a roof. To qualify for the credit, the property must be certified for performance by the nonprofit Solar Rating Certification Corporation or a comparable entity endorsed by the government of the state in which such property is installed.

**Qualified fuel cell property costs.** Qualified fuel cell property costs are costs for qualified fuel cell property installed on or in connection with your main home located in the United States. Qualified fuel cell property is an integrated system comprised of a fuel cell stack assembly and associated balance of plant components that converts a fuel into electricity using electrochemical means. To qualify for the credit, the fuel cell property must have a nameplate capacity of at least one-half kilowatt of electricity using an electrochemical process and an electricity-only generation efficiency greater than 30%.



Pending legislation may eliminate one or more of the following changes.

**Certain credits no longer allowed against alternative minimum tax (AMT).** The credit for child and dependent care expenses, credit for the elderly or the disabled, education credits, mortgage interest credit, and carryforwards of the District of Columbia first-time homebuyer credit are no longer allowed against AMT and a

new tax liability limit applies. For most people, this limit is your regular tax minus any tentative minimum tax.

**AMT exemption amount decreased.** The AMT exemption amount will decrease to \$33,750 (\$45,000 if married filing jointly or a qualifying widow(er); \$22,500 if married filing separately).

**Expired tax benefits.** The following tax benefits have expired and will not apply for 2006.

- Deduction from adjusted gross income for educator expenses.
- Tuition and fees deduction.
- Deduction for state and local general sales taxes.
- District of Columbia first-time homebuyer credit (for homes purchased after 2005).

## Reminders

**Estimated tax safe harbor for higher income individuals.** If your adjusted gross income for 2005 was more than \$150,000 (\$75,000 if married filing a separate return), your withholding and estimated tax payments must be at least the smaller of 90% of your tax liability for 2006 or 110% of the tax shown on your 2005 return (provided your 2005 return covered all 12 months) to avoid an estimated tax penalty.

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

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

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

**Qualified dividends.** The maximum tax rate for qualified dividends is 15% (generally, 5% for people whose other income is taxed at the 10% or 15% rate). Use Worksheet 2-6 to figure your estimated tax for 2006 if you expect to receive qualified dividends during the year.

## Introduction

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

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



It would be helpful for you to keep a copy of your 2005 tax return and an estimate of your 2006 income nearby while reading this chapter.

## Topics

This chapter discusses:

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

## Useful Items

You may want to see:

### Publication

- ☐ **553** Highlights of 2005 Tax Changes

### Form (and Instructions)

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

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

**Worksheets.** The blank worksheets for chapter 2 are placed at the end of the chapter. See Table 2-1, on the next page, to locate what you need.

## Who Does Not Have To Pay Estimated Tax

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

**Estimated tax not required.** You do not have to pay estimated tax for 2006 if you meet all three of the following conditions.

- You had no tax liability for 2005.
- You were a U.S. citizen or resident for the whole year.
- Your 2005 tax year covered a 12-month period.

You had no tax liability for 2005 if your total tax (defined later under *Required Annual Payment*) was zero or you did not have to file an income tax return.

# Who Must Pay Estimated Tax

If you had a tax liability for 2005, you may have to pay estimated tax for 2006.

## General Rule

You must pay estimated tax for 2006 if both of the following apply.

1. You expect to owe at least \$1,000 in tax for 2006, after subtracting your withholding and credits.
2. You expect your withholding and credits to be less than the smaller of:
  - a. 90% of the tax to be shown on your 2006 tax return, or
  - b. 100% of the tax shown on your 2005 tax return. Your 2005 tax return must cover all 12 months.

You may find Figure 2-A (see next page) helpful in determining if you must pay estimated tax.



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

**Example 1.** To figure whether she should pay estimated tax for 2006, Jane, who files as head of household, uses the following information.

Expected AGI for 2006 . . . . .	\$78,725
AGI for 2005 . . . . .	\$73,700
Tax shown on 2005 return . . . . .	\$10,504
Tax expected to be shown on 2006 return . . . . .	\$11,501
Tax expected to be withheld in 2006 . . . . .	\$10,400

Jane uses Figure 2-A (on the next page). Jane's answer to the chart's first question is YES, she expects to owe at least \$1,000 for 2006 after subtracting her withholding from her expected tax (\$11,501 - \$10,400 = \$1,101). 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 2006 return (\$11,501 × 90% = \$10,351). Jane does not need to pay estimated tax.

**Example 2.** The facts are the same as in Example 1, except that Jane expects only \$8,500 tax to be withheld in 2006. Because that

is less than \$10,351, 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 2005 return (\$10,504). Jane must pay estimated tax for 2006.

**Example 3.** The facts are the same as in Example 2, except that the tax shown on Jane's 2005 return was \$8,000. Because she expects to have more than \$8,000 withheld in 2006, her answer to the chart's third question is YES. Jane does not need to pay estimated tax for 2006.

## Married Taxpayers

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

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

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

- You are legally separated under a decree of divorce or separate maintenance,
- You and your spouse have different tax years, or
- Either spouse is a nonresident alien (unless you elected to be treated as a resident alien). See *Choosing Resident Alien Status* in Publication 519.

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 2006.

**2005 separate returns and 2006 joint return.** If you plan to file a joint return with your spouse for 2006, but you filed separate returns for 2005, your 2005 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.

**2005 joint return and 2006 separate returns.** If you plan to file a separate return for 2006, but you filed a joint return for 2005, your 2005 tax is your share of the tax on the joint return. You file a separate return if you file as single, head of household, or married filing separately.

To figure your share of the tax on a joint return, first figure the tax both you and your spouse would have paid had you filed separate returns for 2005 using the same filing status as for 2006. Then multiply the tax on the joint return by the following fraction:

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

**Example.** Joe and Heather filed a joint return for 2005 showing taxable income of \$48,500 and a tax of \$6,549. Of the \$48,500 taxable income, \$40,100 was Joe's and the rest was Heather's. For 2006, they plan to file mar-

Table 2-1. Where To Find Worksheets

IF you need...	THEN use...	ON page...
the 2006 Estimated Tax Worksheet (ES Worksheet)		23, 33
to estimate your taxable social security and railroad retirement benefits—line 1 of ES Worksheet	Worksheet 2-1	34
to estimate your self-employment (SE) tax and your deduction for one-half of your SE tax—lines 1 and 11 of ES Worksheet	Worksheet 2-2	34
to reduce your itemized deductions because your estimated AGI is more than \$150,500 (\$75,250 if married filing separately)—line 2 of ES Worksheet	Worksheet 2-3	35
to reduce your exemption amount because your estimated AGI is more than \$112,875—line 4 of ES Worksheet	Worksheet 2-4	35
to compute the additional exemption amount for housing individuals displaced by Hurricane Katrina	Worksheet 2-5	35
to estimate your income tax if you have net capital gains or qualified dividends—line 6 of ES Worksheet	Worksheet 2-6	36
to refigure your estimated tax during the year	Worksheet 2-7	37
to figure your annualized estimated tax payments	Worksheet 2-8	38-39
to reduce your itemized deductions for line 6 of Worksheet 2-8 because line 3 of Worksheet 2-8 is more than \$150,500 (\$75,250 if married filing separately)	Worksheet 2-9	40
to reduce your exemptions for line 10 of Worksheet 2-8 because line 3 of Worksheet 2-8 is more than \$112,875	Worksheet 2-10	40
to figure the tax for line 12 of Worksheet 2-8 if estimated income includes capital gains or qualified dividends	Worksheet 2-11	41
2006 Standard Deduction Tables		42
2006 Tax Rate Schedules		37

ried filing separately. Joe figures his share of the tax on the 2005 joint return as follows:

Tax on \$40,100 based on separate return	\$6,696
Tax on \$8,400 based on separate return	899
Total	\$7,595
Joe's percentage of total (\$6,696 ÷ \$7,595)	88%
Joe's share of tax on joint return (\$6,549 × 88%)	\$5,763

## Special Rules

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

### Farmers and Fishermen

If at least two-thirds of your gross income for 2005 or 2006 is from farming or fishing, substitute 66 $\frac{2}{3}$ % for 90% in (2a) under *General Rule*, earlier.

**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 2005 was from farming or fishing, use as your gross income the total of the income (not loss) amounts.

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

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

- Income from operating a stock, dairy, poultry, bee, fruit, or truck farm.

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

For 2005, gross income from farming is the total of the amounts from:

- Schedule F (Form 1040), Profit or Loss From Farming, line 11,
- Form 4835, Farm Rental Income and Expenses, line 7,
- Your share of a partnership's or S corporation's gross income from farming,
- Your share of distributable net income from farming of an estate or trust,
- Your gains from sales of draft, breeding, dairy, or sporting livestock shown on Form 4797, Sales of Business Property.

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

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

Gross income from fishing includes the following amounts.

- Income for services as an officer or crew member of a vessel while the vessel is engaged in fishing.

- Your share of a partnership's or S corporation's gross income from fishing.
- Income for services normally performed in connection with fishing.

Services normally performed in connection with fishing include:

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

### Higher Income Taxpayers

If your adjusted gross income (AGI) for 2005 was more than \$150,000 (\$75,000 if your filing status for 2006 is married filing a separate return), substitute 110% for 100% in (2b) under *General Rule*, earlier. This rule does not apply to farmers and fishermen.

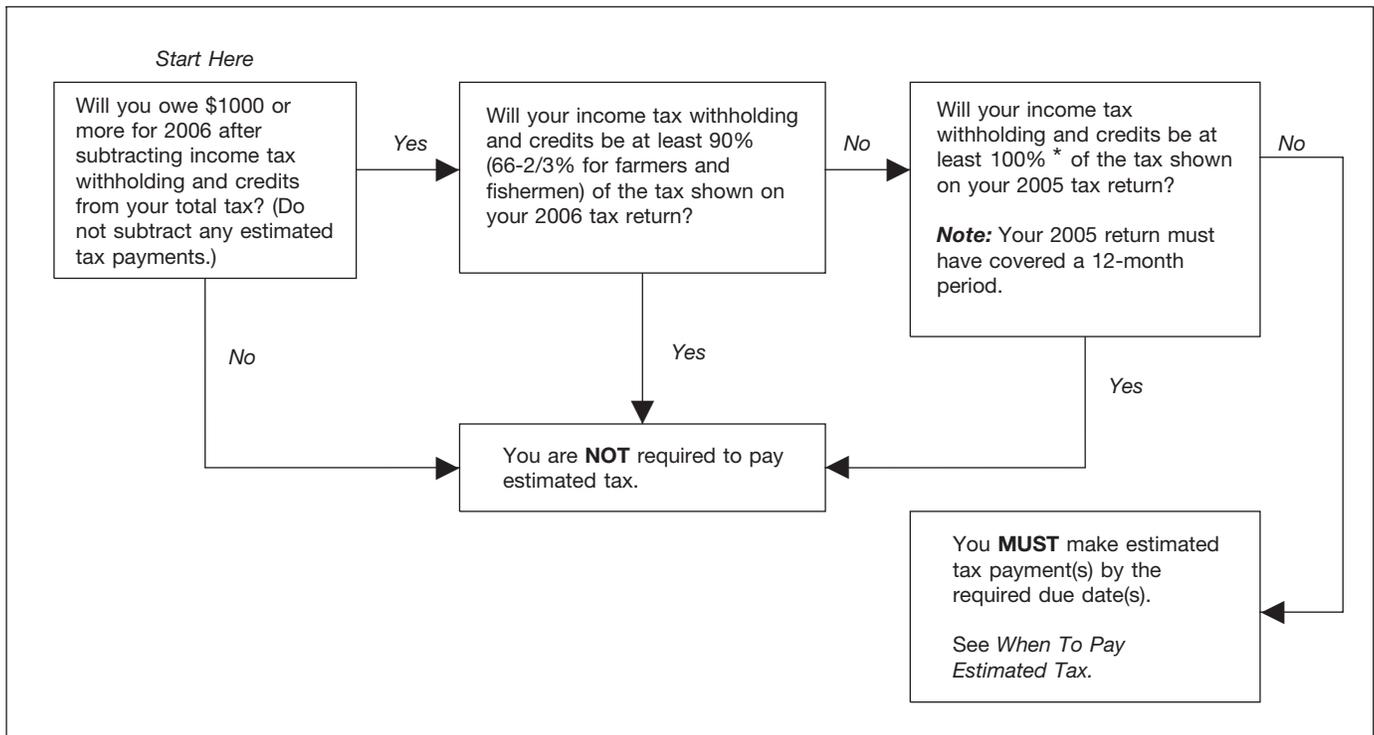
For 2005, AGI is the amount shown on Form 1040, line 37; Form 1040A, line 21; and Form 1040EZ, line 4.

### Aliens

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

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

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



\* 110% if less than two-thirds of your gross income for 2005 and 2006 is from farming or fishing and your 2005 adjusted gross income was more than \$150,000 (\$75,000 if your filing status from 2006 is married filing a separate return).

about the substantial presence test, see Publication 519.

## Estates and Trusts

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

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

## How To Figure Estimated Tax

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

When figuring your 2006 estimated tax, it may be helpful to use your income, deductions, and credits for 2005 as a starting point. Use your 2005 federal tax return as a guide. You can use Form 1040-ES to figure your estimated tax.

You must make adjustments both for changes in your own situation and for recent changes in the tax law. For 2006, there are several changes in the law. Some of these changes are discussed under *What's New for 2006* at the beginning of this chapter. For information about these and other changes in the law, get Publication 553 or visit the IRS web site at [www.irs.gov](http://www.irs.gov).

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

## 2006 Estimated Tax Worksheet

Use the worksheet (Figure 2-B) on the next page to help guide you through the information about completing the 2006 Estimated Tax Worksheet. You will also find a blank worksheet at the end of the chapter.

## Expected Adjusted Gross Income—Line 1

Your expected adjusted gross income for 2006 (line 1 of the 2006 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 2006 that, if you had received it in 2005, would have been included on your 2005 tax return in the total on line 22 of Form 1040, line 15 of Form 1040A, or line 4 of Form 1040EZ.



**Social security and railroad retirement benefits.** If you expect to receive social security or tier 1 railroad retirement benefits during the year, use Worksheet 2-1 at the end of this chapter to figure the amount of expected taxable benefits you should include on line 1 of the 2006 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 2006 tax return. If you are using your 2005 return as a guide and filed Form 1040, your adjustments for 2005 were on lines 23–35, plus any write-in adjustments on line 36. If you filed Form 1040A, your 2005 adjustments were on lines 16–19.



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

## Expected Taxable Income—Lines 2–5

Reduce your expected adjusted gross income for 2006 (line 1 of the 2006 Estimated Tax Worksheet), by either your expected itemized deductions or your standard deduction and by your exemptions (lines 2 through 5 of the 2006 Estimated Tax Worksheet).

**Itemized deductions—Line 2.** If you expect to claim itemized deductions on your 2006 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.



**Phaseout of itemized deductions.** For 2006, your total itemized deductions may be reduced if your adjusted gross income (AGI) is more than \$150,500 (\$75,250 if married filing separately). If you expect your AGI to be more than that amount, use Worksheet 2-3 at the end of this chapter to figure the amount to enter on line 2 of your 2006 Estimated Tax Worksheet.

**Standard deduction—line 2.** If you expect to claim the standard deduction on your 2006 tax return, subtract it from your expected adjusted gross income. Use the 2006 Standard Deduction Tables at the end of this chapter to find your standard deduction.

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

- File a separate return and your spouse itemizes deductions,
- Are a nonresident alien at any time during the tax year, or
- Make a return for a period of less than 12 months because you change your accounting period.

**Exemptions—line 4.** After you have subtracted either your expected itemized deductions or your standard deduction from your expected adjusted gross income, reduce the amount remaining by \$3,300 for each exemption you expect to take on your 2006 tax return. If another person (such as your parent) can claim an exemption for you on his or her tax return, you cannot claim your own personal exemption. This is true even if the other person will not claim your exemption or the exemption will be reduced or eliminated under the phaseout rule.



**Reduction of personal exemption amount.** For 2006, your deduction for personal exemptions is reduced if your adjusted gross income (AGI) is over the AGI shown below for your filing status.

Single . . . . .	\$150,500
Married filing jointly or qualifying widow(er) . . . . .	\$225,750
Married filing separately . . . . .	\$112,875
Head of household . . . . .	\$188,150

If you expect your AGI to be more than that amount, use Worksheet 2-4 at the end of this chapter to figure the amount to enter on line 4 of your 2006 Estimated Tax Worksheet.

However, if in 2006 you housed individuals displaced by Hurricane Katrina, read the following section and complete Worksheet 2-5 before entering an amount on line 4 of your 2006 Estimated Tax Worksheet.



**Taxpayers housing individuals displaced by Hurricane Katrina.** You may be able to claim an additional exemption amount of \$500 per person (up to \$2,000) if you provided housing to a person who was displaced from his or her main home because of Hurricane Katrina and all of the following apply.

- The person displaced lived in your main home for at least 60 consecutive days that ended in 2006.
- You did not receive any rent or other amount from any source for providing the housing.
- The main home of the person displaced was, on August 28, 2005, in the Hurricane Katrina disaster area.
- The person displaced was not your spouse or dependent.
- You did not claim the maximum exemption amount of \$2,000 in 2005.

Use Worksheet 2-5 at the end of this chapter to compute the additional exemption amount. For more information, see Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma.

## Expected Taxes and Credits—Lines 6–13c

After you have figured your expected taxable income (line 5 of the 2006 Estimated Tax Worksheet), follow the steps below to figure your expected taxes, credits, and total tax for 2006. Most people will have entries for only a few of these steps. However, you should check every step to be sure that you do not overlook anything.

# Figure 2-B. Page 4 of the Instructions for 2006 Form 1040-ES



The 2006 Estimated Tax Worksheet is found on page 4 of the instructions for Form 1040-ES. When this worksheet refers you to instructions (for example, "see instructions below") or to specific page numbers, you can find the information on pages 1-7 of the instructions for 2006 Form 1040-ES.

## 2006 Estimated Tax Worksheet

Keep for Your Records



1	Adjusted gross income you expect in 2006 (see instructions below)	1		
2	<ul style="list-style-type: none"> <li>If you plan to itemize deductions, enter the estimated total of your itemized deductions.</li> </ul> <p><b>Caution:</b> If line 1 above is over \$150,500 (\$75,250 if married filing separately), your deduction may be reduced. See Pub. 505 for details.</p> <ul style="list-style-type: none"> <li>If you do not plan to itemize deductions, enter your standard deduction from page 1.</li> </ul>	2		
3	Subtract line 2 from line 1	3		
4	Exemptions. Multiply \$3,300 by the number of personal exemptions. <b>Caution:</b> See Pub. 505 to figure the amount to enter if you provided housing in 2006 to a person displaced by Hurricane Katrina, or if line 1 above is over: \$225,750 if married filing jointly or qualifying widow(er); \$188,150 if head of household; \$150,500 if single; or \$112,875 if married filing separately	4		
5	Subtract line 4 from line 3	5		
6	<b>Tax.</b> Figure your tax on the amount on line 5 by using the <b>2006 Tax Rate Schedules</b> on page 5. <b>Caution:</b> If you have qualified dividends or a net capital gain, see Pub. 505 to figure the tax	6		
7	Alternative minimum tax from Form 6251	7		
8	Add lines 6 and 7. Also include any tax from Forms 4972 and 8814 and any recapture of education credits (see instructions below)	8		
9	Credits (see instructions below). <b>Do not</b> include any income tax withholding on this line	9		
10	Subtract line 9 from line 8. If zero or less, enter -0-	10		
11	Self-employment tax (see instructions below). Estimate of 2006 net earnings from self-employment \$ ..... ; if <b>\$94,200 or less</b> , multiply the amount by 15.3%; if <b>more than \$94,200</b> , multiply the amount by 2.9%, add \$11,680.80 to the result, and enter the total. <b>Caution:</b> If you also have wages subject to social security tax, see Pub. 505 to figure the amount to enter	11		
12	Other taxes (see instructions below)	12		
13a	Add lines 10 through 12	13a		
b	Earned income credit, additional child tax credit, and credits from <b>Form 4136</b> and <b>Form 8885</b>	13b		
c	<b>Total 2006 estimated tax.</b> Subtract line 13b from line 13a. If zero or less, enter -0-	13c		
14a	Multiply line 13c by 90% (66% % for farmers and fishermen)	14a		
b	Enter the tax shown on your 2005 tax return (110% of that amount if you are not a farmer or fisherman and the adjusted gross income shown on that return is more than \$150,000 or, if married filing separately for 2006, more than \$75,000)	14b		
c	<b>Required annual payment to avoid a penalty.</b> Enter the <b>smaller</b> of line 14a or 14b	14c		
	<b>Caution:</b> Generally, if you do not prepay (through income tax withholding and estimated tax payments) at least the amount on line 14c, you may owe a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 13c is as accurate as possible. Even if you pay the required annual payment, you may still owe tax when you file your return. If you prefer, you can pay the amount shown on line 13c. For details, see Pub. 505.			
15	Income tax withheld and estimated to be withheld during 2006 (including income tax withholding on pensions, annuities, certain deferred income, etc.)	15		
16	Subtract line 15 from line 14c. ( <b>Note:</b> If zero or less or line 13c minus line 15 is less than \$1,000, stop here. You are not required to make estimated tax payments.)	16		
17	If the first payment you are required to make is due April 17, 2006, enter $\frac{1}{4}$ of line 16 (minus any 2005 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. ( <b>Note:</b> Household employers, see instructions below.)	17		

**Step 1.** Figure your expected income tax (line 6 of the 2006 Estimated Tax Worksheet). Use the 2006 Tax Rate Schedules found 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 \$1,700 of investment income. See *Tax on Investment Income of Child Under 14* in Publication 929, Tax Rules for Children and Dependents.

**Tax on net capital gain.** The regular income tax rates for individuals do not apply to a

net capital gain. Instead, your net capital gain is taxed at a lower maximum rate.

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

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



**Tax on capital gains and qualified dividends.** If you expect to have a net capital gain or qualified dividends, use Worksheet 2-6 at the end of this chapter to figure your tax.

**Step 2.** Add your expected taxes (line 8 of the 2006 Estimated Tax Worksheet). Include on line 8 the sum of:

1. Your tax on line 6 of the worksheet,
2. Your expected alternative minimum tax from Form 6251, Alternative Minimum

Tax—Individuals, on line 7 of the worksheet,

3. Your expected additional taxes from Form 8814, Parents' Election To Report Child's Interest and Dividends, and Form 4972, Tax on Lump-Sum Distributions (line 44, boxes a and b, of the 2005 Form 1040), and
4. Any recapture of education credits.

**Step 3.** Subtract your expected credits (line 9 of the 2006 Estimated Tax Worksheet). If you are using your 2005 return as a guide and filed Form 1040, your total credits for 2005 were shown on line 56. If you filed Form 1040A, your total credits for 2005 were on line 35.

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

**Step 4.** Add your expected self-employment tax (line 11 of the 2006 Estimated Tax Worksheet). You should have already figured your self-employment tax (see *Self-employed* under *Expected Adjusted Gross Income*, earlier in this chapter).

**Step 5.** Add your expected other taxes (line 12 of the 2006 Estimated Tax Worksheet).

Other taxes include:

1. Taxes on early distributions from:
  - a. An IRA or other qualified plan,
  - b. An annuity, or
  - c. A modified endowment contract entered into after June 20, 1988,
2. Advance earned income credit payments,
3. Household employment taxes (before subtracting advance EIC payments made to your employee(s)) if:
  - a. You will have federal income tax withheld from wages, pensions, annuities, gambling winnings, or other income, or
  - b. You would be required to make estimated tax payments even if you did not include household employment taxes when figuring your estimated tax, and
4. Amounts written in on Form 1040, line 63.

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

If you filed a 2005 Form 1040A, your only "other taxes" were any advance earned income credit payments on line 37.

**Step 6.** Subtract your expected earned income credit, additional child tax credit, Form 4136 fuel tax credit, and Form 8885 health coverage tax credit (line 13b of the 2006 Estimated Tax Worksheet). These are shown on the 2005 Form 1040, lines 66a, 68, and 70.

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

The earned income credit is shown on the 2005 Form 1040A, line 41a. The additional child tax credit is shown on the 2005 Form 1040A, line 42.

The result of steps 1 through 6 is your total estimated tax for 2006 (line 13c of the 2006 Estimated Tax Worksheet).

## Required Annual Payment—Line 14c

You figure the total amount you must pay for 2006 through withholding and estimated tax payments on lines 14a through 14c of the 2006 Estimated Tax Worksheet.

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

1. 90% of your total expected tax for 2006, or
2. 100% of the total tax shown on your 2005 return. Your 2005 tax return must cover all 12 months.

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

**Higher income taxpayers.** If your adjusted gross income (AGI) for 2005 was more than \$150,000 (\$75,000 if your filing status for 2006 is married filing a separate return), substitute 110% for 100% in (2) above. This rule does not apply to farmers and fishermen.

For 2005, AGI is the amount shown on Form 1040, line 37; Form 1040A, line 21; and Form 1040EZ, line 4.

**Farmers and fishermen.** If at least two-thirds of your gross income for 2005 or 2006 is from farming or fishing, your required annual payment is the smaller of:

1. 66⅔% (.6667) of your total tax for 2006, or
2. 100% of the total tax shown on your 2005 return. (Your 2005 tax return must cover all 12 months.)

For definitions of "gross income from farming" and "gross income from fishing," see *Farmers and Fishermen*, earlier, under *Who Must Pay Estimated Tax*.

**Total tax for 2005.** Your 2005 total tax on Form 1040 is the amount on line 63 reduced by the total of the amounts on lines 59, 66a, and 68, any credit from Form 4136 or Form 8885 included on line 70, any recapture of a federal mortgage subsidy, any tax on golden parachute payments, excise tax on insider stock compensation from an expatriated corporation, and any uncollected social security, Medicare, or railroad retirement tax included on line 63, and any tax on excess contributions to IRAs, Archer MSAs, Coverdell education savings accounts, and health savings accounts and on excess accumulations in qualified retirement plans from Form 5329 included on line 60.

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

**Example.** Jeremy Martin's total tax on his 2005 return was \$43,693, and his expected tax for 2006 is \$71,253. His 2005 AGI was

\$180,000. Because Jeremy had more than \$150,000 of AGI in 2005, he figures his required annual payment as follows. He determines that 90% of his expected tax for 2006 is \$64,128 (.90 × \$71,253). Next, he determines that 110% of the tax shown on his 2005 return is \$48,062 (1.10 × \$43,693). Finally, he determines that his required annual payment is \$48,062, the smaller of the two.

## Total Estimated Tax Payments—Line 16

Figure the total estimated tax you must pay for 2006 on lines 15 and 16 of the 2006 Estimated Tax Worksheet. Subtract your expected withholding from your required annual payment. You usually must pay this difference in four equal installments. (See *When To Pay Estimated Tax and How To Figure Each Payment*, later.)

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

**Withholding.** Your expected withholding for 2006 includes the income tax you expect to be withheld from all sources (wages, pensions and annuities, etc.). It also includes excess social security and railroad retirement tax you expect to be withheld from your wages.

For this purpose, you will have excess social security or tier 1 railroad retirement tax withholding for 2006 only if your wages from two or more employers are more than \$94,200.

## When To Pay Estimated Tax

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

For the period:	Due date:
Jan. 1 <sup>1</sup> – March 31 . . . . .	April 15
April 1 – May 31 . . . . .	June 15
June 1 – August 31 . . . . .	September 15
Sept. 1 – Dec. 31 . . . . .	January 15 next year <sup>2</sup>

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

<sup>2</sup> See *January payment*, later.

**Saturday, Sunday, holiday rule.** If the due date for an estimated tax payment falls on a Saturday, Sunday, or legal holiday, the payment will be on time if you make it on the next business day. For example, a payment due Monday, January 15, 2007, will be on time if you make it by Tuesday, January 16, 2007. January 15, 2007, is a legal holiday.

**January payment.** If you file your 2006 Form 1040 or Form 1040A by January 31, 2007, and

pay the rest of the tax you owe, you do not need to make the payment due on January 15, 2007.

A payment for the fourth payment period that is made by January 16, 2007, is considered made on January 15, 2007.

**Example.** Janet Adams does not pay any estimated tax for 2006. She files her 2006 income tax return and pays the balance due as shown on her return on January 24, 2007.

Janet's estimated tax for the fourth payment period is considered to have been paid on time. However, she may owe a penalty for not making the first three estimated tax payments. Any penalty for not making those payments will be figured up to January 24, 2007.

**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. Table 2-2 shows the dates for making installment payments.

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

## Farmers and Fishermen

If at least two-thirds of your gross income for 2005 or 2006 is from farming or fishing, you have only one payment due date for your 2006 estimated tax, January 15, 2007. The due dates for the first three payment periods, discussed

earlier under *When To Pay Estimated Tax*, do not apply to you.

A payment made by January 16, 2007, is considered made on January 15, 2007.

If you file your 2006 Form 1040 by March 1, 2007, and pay all the tax you owe, you do not need to pay estimated tax.

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

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

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

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

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

## 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, 2006, you can figure your required payment for each period by dividing your annual estimated tax due (line 16 of the 2006 Estimated Tax Worksheet) by 4. Use this method only if your income is basically the same throughout the year.

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

**Change in estimated tax.** After you make an estimated tax payment, changes in your income, adjustments, deductions, credits, or exemptions may make it necessary for you to refigure your

estimated tax. Pay the unpaid balance of your amended estimated tax by the next payment due date after the change or in installments by that date and the due dates for the remaining payment periods.

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



**Amended estimated tax.** If you refigure your estimated tax during the year, or if your first estimated tax payment is due after April 15, 2006, figure your required payment for each remaining payment period using Worksheet 2-7 at the end of this chapter.

**Example.** Early in 2006, Mira figures her estimated tax due is \$1,800. She makes estimated tax payments on April 15 and June 15 of \$450 each ( $\$1,800 \div 4$ ).

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

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

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

## Annualized Income Installment Method

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

The annualized income installment method annualizes your tax at the end of each period based on a reasonable estimate of your income, deductions, and other items relating to events that occurred from the beginning of the tax year through the end of the period. To see whether you can pay less for any period, complete the blank 2006 Annualized Estimated Tax Worksheet (Worksheet 2-8) at the end of this chapter. (Note. You must first complete the 2006 Estimated Tax Worksheet through line 16.) Use the result you figure on line 28 to make your estimated tax payments and complete your payment vouchers.

See *Example 2*, under *Illustrated Examples*, 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 2006 tax return. See *Annualized Income Installment Method (Schedule AI)* in chapter 4 for more information.

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

1. Amended total estimated tax due . . . . .	1. <u>\$4,100</u>
2. Multiply line 1 by: .50 if next payment is due June 15, 2006 .75 if next payment is due September 15, 2006 1.00 if next payment is due January 15, 2007 . . . . .	2. <u>3,075</u>
3. Estimated tax payments for all previous periods . . . . .	3. <u>900</u>
4. <b>Next required payment:</b> Subtract line 3 from line 2 and enter the result (but not less than zero) here and on your payment voucher for your next required payment . . . . .	4. <u>\$2,175</u>
<b>Note.</b> If the payment on line 4 is due January 15, 2007, stop here. Otherwise, go to line 5.	
5. Add lines 3 and 4 . . . . .	5. <u>3,075</u>
6. Subtract line 5 from line 1 and enter the result (but not less than zero) . . . . .	6. <u>1,025</u>
7. <b>Each following required payment:</b> If the payment on line 4 is due June 15, 2006, enter one-half of the amount on line 6 here and on the payment vouchers for your payments due September 15, 2006, and January 15, 2007. If the amount on line 4 is due September 15, 2006, enter the full amount on line 6 here and on the payment voucher for your payment due January 15, 2007 . . . . .	7. <u>\$1,025</u>

**Instructions for the 2006 Annualized Estimated Tax Worksheet (Worksheet 2-8)**

**TIP** Use Figure 2-C on the next page to help you follow these instructions. Another worksheet is available for your use at the end of this chapter.

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

**Line 1.** Enter your adjusted gross income for the period. This is your gross income, including your share of partnership or S corporation income or loss, for the period, minus your adjustments to income for that period. (See *Expected Adjusted Gross Income—Line 1* under *How To Figure Estimated Tax*, earlier.)

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

**Line 4.** Be sure to consider all deduction limits figured on Schedule A, such as reducing your medical expenses by 7.5% of your AGI, or reducing certain miscellaneous deductions by 2% of your AGI.

**Line 6.** Multiply line 4 by line 5 and enter the result on line 6, unless line 3 is more than \$150,500 (\$75,250 if married filing separately). In that case, use Worksheet 2-9 at the end of this chapter to figure the amount to enter on line 6. Complete this worksheet for each period, as necessary.

**Line 7.** See the 2006 Standard Deduction Tables at the end of this chapter. Find your standard deduction in the appropriate table.

**Line 10.** Multiply \$3,300 by your total expected exemptions, unless line 3 is more than the amount shown below for your filing status.

Single . . . . .	\$150,500
Married filing jointly or qualifying widow(er) . . . . .	\$225,750
Married filing separately . . . . .	\$112,875
Head of household . . . . .	\$188,150

In that case, use Worksheet 2-10 at the end of this chapter to figure the amount to enter on line 10. However, if, in 2006, you housed individuals displaced by Hurricane Katrina, read the following section and complete Worksheet 2-5 before entering an amount on line 10 of your 2006 Annualized Estimated Tax Worksheet.

**Taxpayers housing individuals displaced by Hurricane Katrina.** You may be able to claim an additional exemption amount of \$500 per person (up to \$2,000) if you provided housing to a person who was displaced from his or her main home because of Hurricane Katrina and all of the following apply.

- The person displaced lived in your main home for at least 60 consecutive days.
- You did not receive any rent or other amount from any source for providing the housing.
- The main home of the person displaced was, on August 28, 2005, in the Hurricane Katrina disaster area.
- The person displaced was not your spouse or dependent.
- You did not claim the maximum exemption amount of \$2,000 in 2005.

Use Worksheet 2-5 at the end of this chapter to compute the additional exemption amount. For more information, see Publication 4492.

**Line 12.** Use the 2006 Tax Rate Schedules at the end of this chapter or in the instructions to Form 1040-ES to figure your annualized income tax. For the special method that must be used to figure tax on the income of a child under 14 who has more than \$1,700 investment income, see *Tax on Investment Income of Child Under 14* in Publication 929.

**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.

 **Tax on capital gains and qualified dividends.** If the amount on line 1 includes capital gains or qualified dividends, use Worksheet 2-11 at the end of this chapter to figure the amount to enter on line 12.

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

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

If you filed a 2005 Form 1040, these include:

- Taxes on qualified plans, including IRAs, and other tax favored accounts,
- Advance earned income credit,
- Household employment taxes that are reported on your income tax return, and
- Amounts written in on line 63 of Form 1040.

Do not include tax on recapture of a federal mortgage subsidy, tax on golden parachute payments, excise tax on insider stock compensation from an expatriated corporation, social security and Medicare tax on unreported tip income, and any uncollected social security, Medicare, or railroad retirement tax.

If you filed a 2005 Form 1040A, "other tax" is any advance earned income credit payments on line 37 of that form.

**Line 16.** Include all the credits (other than withholding credits) you can claim because of events that occurred during the period. If you are using your 2005 return as a guide and filed Form 1040, your 2005 credits included the credits on lines 66a, 68, and 70 boxes b and c, and the credits that are included in the total on line 56 (lines 46–55). If you filed Form 1040A, your 2005 credits included the credits on lines 41a and 42.

**Line 25.** If line 24 is smaller than line 21 and you are not certain of the estimate of your 2006 tax, you can avoid a penalty by entering the amount from line 21 on line 25.

**Line 27.** Include all estimated tax payments credited to 2006 and federal income tax withholding through the payment due date for the period. Also include excess social security and excess railroad retirement for the period.

Your withholding is considered paid in four equal installments, one on the due date of each payment period. To figure the amount to include

## Figure 2-C. Worksheet for Annualized Income Installment Method

Worksheet 2-8. 2006 Annualized Estimated Tax Worksheet

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

**Estates and trusts:** Use the following ending dates shown in each column—2/28, 4/30, 7/31, 11/30.

	(a) 1/1/06-3/31/06	(b) 1/1/06-5/31/06	(c) 1/1/06-8/31/06	(d) 1/1/06-12/31/06
<b>1</b> Adjusted gross income for each period. ( <b>Caution:</b> See instructions.) Self-employed: Complete Section B first . . . . .				
<b>2</b> Annualization amounts . . . . .	4	2.4	1.5	1
<b>3</b> Annualized income. Multiply line 1 by line 2 . . . . .				
<b>4</b> Itemized deductions for period. If you do not expect to itemize, enter -0- and skip to line 7. . . . .				
<b>5</b> Annualization amounts . . . . .	4	2.4	1.5	1
<b>6</b> Multiply line 4 by line 5. ( <b>Caution:</b> See instructions and Worksheet 2-9) . . . . .				
<b>7</b> Standard deduction from 2006 tables . . . . .				
<b>8</b> Enter the larger of line 6 or line 7. . . . .				
<b>9</b> Subtract line 8 from line 3 . . . . .				
<b>10</b> Multiply \$3,300 by your total expected exemptions. ( <b>Caution:</b> See instructions and Worksheet 2-10). . . . .				
<b>11</b> Subtract line 10 from line 9. . . . .				
<b>12</b> Tax on the amount on line 11 from the 2006 Tax Rate Schedules. ( <b>Caution:</b> See instructions and Worksheet 2-11). . . . .				
<b>13</b> Self-employment tax from line 37 of Section B . . . . .				
<b>14</b> Other taxes for each payment period . . . . .				
<b>15</b> Total tax. Add lines 12, 13, and 14 . . . . .				
<b>16</b> Credits for each period . . . . .				
<b>17</b> Subtract line 16 from line 15. (If less than zero, enter -0-) . . . . .				
<b>18</b> Applicable percentage . . . . .	22.5%	45%	67.5%	90%
<b>19</b> Multiply line 17 by line 18 . . . . .				
<b>20</b> Add amounts on line 25 of all preceding columns . . . . .				
<b>21</b> Annualized income installment. Subtract line 20 from line 19. (If less than zero, enter -0-) . . . . .				
<b>22</b> Divide line 14c of the Form 1040-ES Estimated Tax Worksheet by 4 . . . . .				
<b>23</b> Subtract line 25 of preceding column from line 24 of preceding column . . . . .				
<b>24</b> Add lines 22 and 23 . . . . .				
<b>25</b> Enter the smaller of line 21 or line 24. ( <b>Caution:</b> See instructions). . . . .				
<b>26</b> Total required payments for the period. Add lines 20 and 25 . . . . .				
<b>27</b> Estimated tax payments made (line 28 of preceding columns) and tax withholding through the due date for the period. . . . .				
<b>28</b> Estimated tax payment required by the next due date. Subtract line 27 from line 26 and enter the result (but not less than zero) here and on your payment voucher . . . . .				

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

<b>29</b> Net earnings from self-employment for the period . . . . .				
<b>30</b> Prorated social security tax limit . . . . .	\$23,550	\$39,250	\$62,800	\$94,200
<b>31</b> 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 . . . . .				
<b>32</b> Subtract line 31 from line 30. If zero or less, enter -0- . . . . .				
<b>33</b> Annualization amounts . . . . .	0.496	0.2976	0.186	0.124
<b>34</b> Multiply line 33 by the smaller of line 29 or line 32 . . . . .				
<b>35</b> Annualization amounts . . . . .	0.116	0.0696	0.0435	0.029
<b>36</b> Multiply line 29 by line 35 . . . . .				
<b>37</b> Add lines 34 and 36. Enter the result here and on line 13 of Section A . . . . .				
<b>38</b> Annualization amounts . . . . .	8	4.8	3	2
<b>39</b> Deduction for one-half of self-employment tax. Divide line 37 by line 38. Enter the result here. Also use this result to figure your adjusted gross income on line 1 . . . . .				

on line 27 for each period, multiply your total expected withholding for 2006 by:

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

However, you may choose to include your actual withholding through the due date for each period on line 27. You can make this choice separately for the taxes withheld from your wages and all other withholding. For an explanation of what to include in withholding, see *Total Estimated Tax Payments—Line 16* under *How To Figure Estimated Tax*, earlier.

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

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

1. Skip column (a).
  2. On line 1, enter your income for the period that is effectively connected with a U.S. trade or business.
  3. On line 17, increase your entry by the amount determined by multiplying your income for the period that is not effectively connected with a U.S. trade or business by the following.
    - a. 72% for column (b).
    - b. 45% for column (c).
    - c. 30% for column (d).
- However, if you can use a treaty rate lower than 30%, use the percentages determined by multiplying your treaty rate by 2.4, 1.5, and 1, respectively.
4. On line 22, enter one-half of the amount from line 16c of the Form 1040-ES(NR) 2006 Estimated Tax Worksheet in column (b), and one-fourth in columns (c) and (d).
  5. On lines 20 and 23, skip column (b).
  6. On line 27, if you do not use the actual withholding method, include one-third of your total expected withholding in column (b) and two-thirds in columns (c) and (d).

See Publication 519 for more information.

## Estimated Tax Payments Not Required

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

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

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

## How To Pay Estimated Tax

There are five ways to pay estimated tax.

- By crediting an overpayment on your 2005 return to your 2006 estimated tax.
- By sending in your payment with a payment voucher from Form 1040-ES.
- By paying electronically using the Electronic Federal Tax Payment System (EFTPS).
- By electronic funds withdrawal if you are filing Form 1040 or Form 1040A electronically.
- By credit card using a pay-by-phone system or the Internet.

## Crediting an Overpayment

If you show an overpayment of tax on your Form 1040 or Form 1040A for 2005, you can apply part or all of it to your estimated tax for 2006. On line 74 of Form 1040, or line 46 of Form 1040A, enter the amount you want credited to your estimated tax rather than refunded. The amount you have credited should be taken into account when figuring your estimated tax payments.

If you are a beneficiary of an estate or trust, and the trustee elects to credit 2006 trust payments of estimated tax to you, you can treat the amount credited as paid by you on January 15, 2007.

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

**Example.** When Kathleen finished filling out her 2005 tax return, she saw that she had overpaid her taxes by \$750. Kathleen knew she would owe additional tax in 2006. She credited \$600 of the overpayment to her 2006 estimated tax and had the remaining \$150 refunded to her.

In September, she amended her 2005 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 2005 overpayment from \$750 to \$500. Because the \$750 had already been applied to her 2006 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 2006 estimated tax to pay this bill.

## Using the Payment Vouchers

Each payment of estimated tax must be accompanied by a payment voucher from Form 1040-ES. If you made estimated tax payments

last year, you should receive a copy of the 2006 Form 1040-ES in the mail. It will have payment vouchers preprinted with your name, address, and social security number. Using the preprinted vouchers will speed processing, reduce the chance of error, and help save processing costs.

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

If you did not pay estimated tax last year, you will have to get a copy of Form 1040-ES from the IRS. See chapter 5. After you make your first payment, a Form 1040-ES package with the preprinted vouchers will be mailed to you. Follow the instructions in the package to make sure you use the vouchers correctly.

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



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

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

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

## Electronic Federal Tax Payment System (EFTPS)

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

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

- Convenient and flexible. It is available 24 hours a day, 7 days a week, and you can use it to schedule payments in advance. For example, you can schedule estimated tax payments weekly, monthly, or quarterly.

- Fast and accurate. You can make a tax payment in minutes. Because there are verification steps along the way, you can check and review your information before sending it.
- Safe and secure. It offers the highest available levels of security. Every transaction receives an immediate confirmation.

For more information or details on enrolling, visit [www.EFTPS.gov](http://www.EFTPS.gov) or call EFTPS Customer Service at 1-800-555-4477 (business accounts) or 1-800-316-6541 (individual accounts). Call 1-800-733-4829 if you are a TTY/TDD user. Call 1-800-244-4829 for Spanish.

## Payment by Electronic Funds Withdrawal

You can make a 2006 estimated tax payment when you electronically file your 2005 Form 1040 or Form 1040A by authorizing an electronic funds withdrawal from your checking or savings account. Regardless of whether you have a balance due on your electronically filed tax return, you can schedule a one-time estimated tax payment for April 15, 2006, June 15, 2006, or September 15, 2006. 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® Card, Discover® Card, MasterCard® card, or Visa® 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.

Link2Gov Corporation  
1-888-PAY-1040<sup>SM</sup> (1-888-729-1040)  
1-888-658-5465 (Customer Service)  
[www.PAY1040.com](http://www.PAY1040.com)

Official Payments Corporation  
1-800-2PAY-TAX<sup>SM</sup> (1-800-272-9829)  
1-877-754-4413 (Customer Service)  
[www.officialpayments.com](http://www.officialpayments.com)

See the Form 1040-ES instructions for more information.

## Illustrated Examples

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

### Example 1—Regular Installment Method

Early in 2006, Anne and Larry Jones figure their estimated tax payments for the year. They ex-

pect to receive the following income during 2006.

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

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

Adjustment to income for IRA contributions . . . . .	\$ 1,000
Itemized deductions . . . . .	10,500
Deduction for exemptions (\$3,300 × 2) . . . . .	6,600
2005 total tax . . . . .	15,220
Withholding . . . . .	<u>5,792</u>

The Joneses plan to file a joint return. They use the 2006 Estimated Tax Worksheet included in Form 1040-ES to figure their estimated tax payments. Their filled-in worksheet follows Example 2.

**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. See their filled-in Worksheet 2-2 below.

On line 11 of their 2006 Estimated Tax Worksheet, the Joneses enter \$35,555 on the dotted line and \$5,440 in the blank. They subtract one-half of that amount, \$2,720, and their \$1,000 adjustment for IRA contributions from their \$82,016 total income to find their expected adjusted gross income, \$78,296. They enter that amount on line 1 of the worksheet. See their filled-in 2006 Estimated Tax Worksheet showing the regular installment method, Figure 2-D, on page 31.

**Expected taxable income.** The Joneses find their standard deduction, \$10,300, in the 2006 Standard Deduction Tables. This is smaller than their expected itemized deductions, so they enter \$10,500 on line 2 of the worksheet. They subtract the amount on line 2 from the amount on line 1 and enter the result, \$67,796, on line 3.

They enter their deduction for exemptions, \$6,600, on line 4. After subtracting this amount, their expected taxable income on line 5 is \$61,196.

**Expected taxes and credits.** The Joneses use the 2006 Tax Rate Schedule Y-1 at the end of this chapter to figure their expected income tax, and enter \$8,424 on line 6 of the worksheet. They do not expect to owe any other taxes that would be entered on lines 7 or 12, or have any credits that would be entered on lines 9 or 13b, so they leave those lines blank.

The Joneses' total expected tax on line 13c, after adding Anne's self-employment tax, is \$13,864.

**Estimated tax.** The Joneses multiply their total expected tax by 90% and enter \$12,478 on line 14a of the worksheet. They enter their 2005 tax on line 14b. Their required annual payment on line 14c is the smaller amount, \$12,478.

They enter Larry's expected withholding, \$5,792, on line 15 and subtract it from their required annual payment. Their estimated tax on line 16 is \$6,686.

**Required estimated tax payment.** The Joneses must pay their first estimated tax payment by April 17, 2006. They enter one-fourth of their estimated tax, \$1,672, on line 17 of the worksheet and on their Form 1040-ES payment voucher that shows "Due April 17, 2006." They mail the voucher with their payment to the address shown for their area in the Form 1040-ES instructions and record the payment on the Record of Estimated Tax Payments in the instructions.

If their estimated tax does not change during the year, the Joneses also will pay \$1,672 estimated tax by June 15 and September 15, 2006, and January 16, 2007.

### Example 2—Annualized Income Installment Method

The facts are the same as in *Example 1*, except that the Joneses do not expect to receive their income evenly throughout the year. Anne expects to receive the largest portion of her self-employment income during the last few months of the year, and the Joneses' rental

### Worksheet 2-2. Expected Self-Employment Tax—Illustrated

1. Enter your expected income and profits subject to self-employment tax* . . . . .	1.	<u>\$38,500</u>
2. Multiply line 1 by 92.35% (.9235) . . . . .	2.	<u>35,555</u>
3. Multiply line 2 by 2.9% (.029) . . . . .	3.	<u>1,031</u>
4. Social security tax maximum income . . . . .	4.	<u>\$94,200</u>
5. Enter your expected wages (if subject to social security tax) . . . . .	5.	<u>-0-</u>
6. Subtract line 5 from line 4 . . . . .	6.	<u>94,200</u>
<i>Note. If line 6 is zero or less, enter -0- on line 8 and skip to line 9.</i>		
7. Enter the smaller of line 2 or line 6 . . . . .	7.	<u>35,555</u>
8. Multiply line 7 by 12.4% (.124) . . . . .	8.	<u>4,409</u>
9. Add line 3 and line 8. Enter the result here and on line 11 of your 2006 Estimated Tax Worksheet . . . . .	9.	<u>\$ 5,440</u>
10. Multiply line 9 by .50. This is your expected deduction for one-half of your self-employment tax. . . . .	10.	<u>\$ 2,720</u>

\*Your net profit from self-employment is found on line 31 of Schedule C or line 3 of Schedule C-EZ.

income is from a vacation home rented only in the summer months.

After completing their 2006 Estimated Tax Worksheet, the Joneses decide to use the annualized income installment method to see if they can pay less than \$1,672 estimated tax for one or more payment periods. They complete the 2006 Annualized Estimated Tax Worksheet (Worksheet 2-8) in this chapter. See their filled-in worksheet (Figure 2-E) on page 32.

### First Period

On April 1, 2006, the Joneses complete the first column of the worksheet for the period January 1 through March 31. They had the following income for the period.

Larry's salary . . . . .	\$ 8,550
Unemployment compensation . . . . .	600
Anne's net profit from self-employment . . . . .	3,000
Net rental income . . . . .	-0-
Interest income . . . . .	500
Dividends . . . . .	462
Total . . . . .	<u>\$13,112</u>

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

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

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

On line 29 of Section B, they enter \$2,771, which is Anne's net profit from self-employment for the period ( $\$3,000 \times .9235$ ). The prorated social security tax limit is preprinted on line 30. She has no social security wages, so they enter zero on line 31, and \$23,550 on line 32. Anne's annualized social security tax on line 34 is \$1,374, ( $\$2,771 \times .496$ ). Her annualized Medicare tax on line 36 is \$321 ( $\$2,771 \times .116$ ). Her total annualized self-employment tax on line 37

is \$1,695. They enter that amount on line 13 of Section A.

The Joneses figure their adjustment to income for Anne's self-employment tax on lines 38 and 39. That amount is \$212 ( $\$1,695 \div 8$ ). They subtract that amount and their \$150 IRA contributions from their \$13,112 total income and enter their adjusted gross income for the period, \$12,750, on line 1 of Section A. They multiply that amount by 4 and enter their annualized adjusted gross income, \$51,000, on line 3.

**Annualized taxable income.** The Joneses figure their annualized itemized deductions ( $\$1,200 \times 4$ ) on lines 4 through 6 of Section A. Because the result is smaller than their standard deduction, they enter their \$10,300 standard deduction on line 8. After subtracting that amount and their \$6,600 deduction for exemptions, the Joneses' annualized taxable income on line 11 is \$34,100.

**Annualized taxes and credits.** The Joneses use the 2006 Tax Rate Schedule Y-1 at the end of this chapter to figure their annualized income tax, \$4,360, which they enter on line 12 of Section A.

The Joneses have no other taxes or credits for the period that would be entered on lines 14 or 16, so they leave those lines blank and enter \$6,055 ( $\$4,360 + \$1,695$ ) 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 \$1,362 ( $\$6,055 \times 22.5\%$ ). On lines 22 and 24 they enter \$3,120, one-fourth of their \$12,478 required annual payment (line 14c of the 2006 Estimated Tax Worksheet). Because \$1,362 is smaller, they enter that amount on lines 25 and 26.

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

On line 28, the Joneses' required estimated tax payment for the period under the annualized

income installment method is \$0 ( $\$1,362 - \$1,448$  is less than zero). Therefore, they do not have to send in an estimated tax payment for the first period.

### Second, Third, and Fourth Periods

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

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

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

	Second Period	Third Period	Fourth Period
	Jan. 1- May 31	Jan. 1- Aug. 31	Jan. 1- Dec. 31
Adjustment to income for IRA contributions . . . . .	\$ 250	\$ 400	\$ 1,000
Itemized deductions . . . . .	2,700	6,400	10,500

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 2006.

# Figure 2-D. Illustrated Example 1—Regular Installment Method

## 2006 Estimated Tax Worksheet

Keep for Your Records



1	Adjusted gross income you expect in 2006 (see instructions below)	1	78,296
2	<ul style="list-style-type: none"> <li>If you plan to itemize deductions, enter the estimated total of your itemized deductions.</li> </ul> <p><b>Caution:</b> If line 1 above is over \$150,500 (\$75,250 if married filing separately), your deduction may be reduced. See Pub. 505 for details.</p> <ul style="list-style-type: none"> <li>If you do not plan to itemize deductions, enter your standard deduction from page 1.</li> </ul>	2	10,500
3	Subtract line 2 from line 1	3	67,796
4	Exemptions. Multiply \$3,300 by the number of personal exemptions. <b>Caution:</b> See Pub. 505 to figure the amount to enter if you provided housing in 2006 to a person displaced by Hurricane Katrina, or if line 1 above is over: \$225,750 if married filing jointly or qualifying widow(er); \$188,150 if head of household; \$150,500 if single; or \$112,875 if married filing separately	4	6,600
5	Subtract line 4 from line 3	5	61,196
6	<b>Tax.</b> Figure your tax on the amount on line 5 by using the <b>2006 Tax Rate Schedules</b> on page 5. <b>Caution:</b> If you have qualified dividends or a net capital gain, see Pub. 505 to figure the tax	6	8,424
7	Alternative minimum tax from Form 6251	7	
8	Add lines 6 and 7. Also include any tax from Forms 4972 and 8814 and any recapture of education credits (see instructions below)	8	8,424
9	Credits (see instructions below). <b>Do not</b> include any income tax withholding on this line	9	
10	Subtract line 9 from line 8. If zero or less, enter -0-	10	8,424
11	Self-employment tax (see instructions below). Estimate of 2006 net earnings from self-employment \$ <u>35,555</u> ; if <b>\$94,200 or less</b> , multiply the amount by 15.3%; if <b>more than \$94,200</b> , multiply the amount by 2.9%, add \$11,680.80 to the result, and enter the total. <b>Caution:</b> If you also have wages subject to social security tax, see Pub. 505 to figure the amount to enter	11	5,440
12	Other taxes (see instructions below)	12	
13a	Add lines 10 through 12	13a	13,864
b	Earned income credit, additional child tax credit, and credits from <b>Form 4136</b> and <b>Form 8885</b>	13b	
c	<b>Total 2006 estimated tax.</b> Subtract line 13b from line 13a. If zero or less, enter -0-	13c	13,864
14a	Multiply line 13c by 90% (66% % for farmers and fishermen)	14a	12,478
b	Enter the tax shown on your 2005 tax return (110% of that amount if you are not a farmer or fisherman and the adjusted gross income shown on that return is more than \$150,000 or, if married filing separately for 2006, more than \$75,000)	14b	15,220
c	<b>Required annual payment to avoid a penalty.</b> Enter the <b>smaller</b> of line 14a or 14b	14c	12,478
<b>Caution:</b> Generally, if you do not prepay (through income tax withholding and estimated tax payments) at least the amount on line 14c, you may owe a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 13c is as accurate as possible. Even if you pay the required annual payment, you may still owe tax when you file your return. If you prefer, you can pay the amount shown on line 13c. For details, see Pub. 505.			
15	Income tax withheld and estimated to be withheld during 2006 (including income tax withholding on pensions, annuities, certain deferred income, etc.)	15	5,792
16	Subtract line 15 from line 14c. ( <b>Note:</b> If zero or less or line 13c minus line 15 is less than \$1,000, stop here. You are not required to make estimated tax payments.)	16	6,686
17	If the first payment you are required to make is due April 17, 2006, enter ¼ of line 16 (minus any 2005 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. ( <b>Note:</b> Household employers, see instructions below.)	17	1,672

## Figure 2-E. Illustrated Example 2—Annualized Income Installment Method

Worksheet 2-8. **2006 Annualized Estimated Tax Worksheet**

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

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

Estates and trusts: Use the following ending dates shown in each column—2/28, 4/30, 7/31, 11/30.		(a) 1/1/06–3/31/06	(b) 1/1/06–5/31/06	(c) 1/1/06–8/31/06	(d) 1/1/06–12/31/06
<b>1</b> Adjusted gross income for each period. ( <b>Caution:</b> See instructions.) Self-employed: Complete Section B first . . . . .	<b>1</b>	12,750	25,218	46,409	78,296
<b>2</b> Annualization amounts . . . . .	<b>2</b>	4	2.4	1.5	1
<b>3</b> Annualized income. Multiply line 1 by line 2 . . . . .	<b>3</b>	51,000	60,523	69,614	78,296
<b>4</b> Itemized deductions for period. If you do not expect to itemize, enter -0- and skip to line 7. . . . .	<b>4</b>	1,200	2,700	6,400	10,500
<b>5</b> Annualization amounts . . . . .	<b>5</b>	4	2.4	1.5	1
<b>6</b> Multiply line 4 by line 5. ( <b>Caution:</b> See instructions and Worksheet 2-9) . . . . .	<b>6</b>	4,800	6,480	9,600	10,500
<b>7</b> Standard deduction from 2006 tables . . . . .	<b>7</b>	10,300	10,300	10,300	10,300
<b>8</b> Enter the larger of line 6 or line 7. . . . .	<b>8</b>	10,300	10,300	10,300	10,500
<b>9</b> Subtract line 8 from line 3 . . . . .	<b>9</b>	40,700	50,223	59,314	67,796
<b>10</b> Multiply \$3,300 by your total expected exemptions. ( <b>Caution:</b> See instructions and Worksheet 2-10) . . . . .	<b>10</b>	6,600	6,600	6,600	6,600
<b>11</b> Subtract line 10 from line 9 . . . . .	<b>11</b>	34,100	43,623	52,714	61,196
<b>12</b> Tax on the amount on line 11 from the 2006 Tax Rate Schedules ( <b>Caution:</b> See instructions and Worksheet 2-11) . . . . .	<b>12</b>	4,360	5,788	7,152	8,424
<b>13</b> Self-employment tax from line 37 of Section B . . . . .	<b>13</b>	1,695	2,035	3,359	5,440
<b>14</b> Other taxes for each payment period . . . . .	<b>14</b>				
<b>15</b> Total tax. Add lines 12, 13, and 14 . . . . .	<b>15</b>	6,055	7,823	10,511	13,864
<b>16</b> Credits for each period . . . . .	<b>16</b>				
<b>17</b> Subtract line 16 from line 15. (If less than zero, enter -0-) . . . . .	<b>17</b>	6,055	7,823	10,511	13,864
<b>18</b> Applicable percentage . . . . .	<b>18</b>	22.5%	45%	67.5%	90%
<b>19</b> Multiply line 17 by line 18 . . . . .	<b>19</b>	1,362	3,520	7,095	12,478
<b>20</b> Add amounts on line 25 of all preceding columns . . . . .	<b>20</b>		1,362	3,520	7,095
<b>21</b> Annualized income installment. Subtract line 20 from line 19. (If less than zero, enter -0-) . . . . .	<b>21</b>	1,362	2,158	3,575	5,383
<b>22</b> Divide line 14c of the Form 1040-ES Estimated Tax Worksheet by 4 . . . . .	<b>22</b>	3,120	3,120	3,120	3,120
<b>23</b> Subtract line 25 of preceding column from line 24 of preceding column . . . . .	<b>23</b>		1,758	2,720	2,265
<b>24</b> Add lines 22 and 23 . . . . .	<b>24</b>	3,120	4,878	5,840	5,385
<b>25</b> Enter the smaller of line 21 or line 24. ( <b>Caution:</b> See instructions) . . . . .	<b>25</b>	1,362	2,158	3,575	5,383
<b>26</b> Total required payments for the period. Add lines 20 and 25 . . . . .	<b>26</b>	1,362	3,520	7,095	12,478
<b>27</b> Estimated tax payments made (line 28 of preceding columns) and tax withholding through the due date for the period. . . . .	<b>27</b>	1,448	2,896	4,968	8,543
<b>28</b> Estimated tax payment required by the next due date. Subtract line 27 from line 26 and enter the result (but not less than zero) here and on your payment voucher . . . . .	<b>28</b>	-0-	624	2,127	3,935

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

<b>29</b> Net earnings from self-employment for the period . . . . .	<b>29</b>	2,771	5,541	14,637	35,555
<b>30</b> Prorated social security tax limit . . . . .	<b>30</b>	<b>\$23,550</b>	<b>\$39,250</b>	<b>\$62,800</b>	<b>\$94,200</b>
<b>31</b> 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 . . . . .	<b>31</b>	0	0	0	0
<b>32</b> Subtract line 31 from line 30. If zero or less, enter -0-. . . . .	<b>32</b>	23,550	39,250	62,800	94,200
<b>33</b> Annualization amounts . . . . .	<b>33</b>	<b>0.496</b>	<b>0.2976</b>	<b>0.186</b>	<b>0.124</b>
<b>34</b> Multiply line 33 by the smaller of line 29 or line 32 . . . . .	<b>34</b>	1,374	1,649	2,722	4,409
<b>35</b> Annualization amounts . . . . .	<b>35</b>	<b>0.116</b>	<b>0.0696</b>	<b>0.0435</b>	<b>0.029</b>
<b>36</b> Multiply line 29 by line 35 . . . . .	<b>36</b>	321	386	637	1,031
<b>37</b> Add lines 34 and 36. Enter the result here and on line 13 of Section A . . . . .	<b>37</b>	1,695	2,035	3,359	5,440
<b>38</b> Annualization amounts . . . . .	<b>38</b>	<b>8</b>	<b>4.8</b>	<b>3</b>	<b>2</b>
<b>39</b> Deduction for one-half of self-employment tax. Divide line 37 by line 38. Enter the result here. Also use this result to figure your adjusted gross income on line 1 . . . . .	<b>39</b>	212	424	1,120	2,720

# Worksheets for Chapter 2

## Page 4 of the Instructions for 2006 Form 1040-ES



The 2006 Estimated Tax Worksheet is found on page 4 of the instructions for Form 1040-ES. When this worksheet refers you to instructions (for example, "see instructions below") or to specific page numbers, you can find the information on pages 1-7 of the instructions for 2006 Form 1040-ES.

### 2006 Estimated Tax Worksheet

Keep for Your Records



1	Adjusted gross income you expect in 2006 (see instructions below)		1	
2	<ul style="list-style-type: none"> <li>If you plan to itemize deductions, enter the estimated total of your itemized deductions.</li> </ul> <p><b>Caution:</b> If line 1 above is over \$150,500 (\$75,250 if married filing separately), your deduction may be reduced. See Pub. 505 for details.</p> <ul style="list-style-type: none"> <li>If you do not plan to itemize deductions, enter your standard deduction from page 1.</li> </ul>		2	
3	Subtract line 2 from line 1		3	
4	Exemptions. Multiply \$3,300 by the number of personal exemptions. <b>Caution:</b> See Pub. 505 to figure the amount to enter if you provided housing in 2006 to a person displaced by Hurricane Katrina, or if line 1 above is over: \$225,750 if married filing jointly or qualifying widow(er); \$188,150 if head of household; \$150,500 if single; or \$112,875 if married filing separately		4	
5	Subtract line 4 from line 3		5	
6	<b>Tax.</b> Figure your tax on the amount on line 5 by using the <b>2006 Tax Rate Schedules</b> on page 5. <b>Caution:</b> If you have qualified dividends or a net capital gain, see Pub. 505 to figure the tax		6	
7	Alternative minimum tax from Form 6251		7	
8	Add lines 6 and 7. Also include any tax from Forms 4972 and 8814 and any recapture of education credits (see instructions below)		8	
9	Credits (see instructions below). <b>Do not</b> include any income tax withholding on this line		9	
10	Subtract line 9 from line 8. If zero or less, enter -0-		10	
11	Self-employment tax (see instructions below). Estimate of 2006 net earnings from self-employment \$ ..... ; if <b>\$94,200 or less</b> , multiply the amount by 15.3%; if <b>more than \$94,200</b> , multiply the amount by 2.9%, add \$11,680.80 to the result, and enter the total. <b>Caution:</b> If you also have wages subject to social security tax, see Pub. 505 to figure the amount to enter		11	
12	Other taxes (see instructions below)		12	
13a	Add lines 10 through 12		13a	
b	Earned income credit, additional child tax credit, and credits from <b>Form 4136</b> and <b>Form 8885</b>		13b	
c	<b>Total 2006 estimated tax.</b> Subtract line 13b from line 13a. If zero or less, enter -0- ▶		13c	
14a	Multiply line 13c by 90% (66% % for farmers and fishermen)	14a		
b	Enter the tax shown on your 2005 tax return (110% of that amount if you are not a farmer or fisherman and the adjusted gross income shown on that return is more than \$150,000 or, if married filing separately for 2006, more than \$75,000)	14b		
c	<b>Required annual payment to avoid a penalty.</b> Enter the <b>smaller</b> of line 14a or 14b ▶		14c	
	<b>Caution:</b> Generally, if you do not prepay (through income tax withholding and estimated tax payments) at least the amount on line 14c, you may owe a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 13c is as accurate as possible. Even if you pay the required annual payment, you may still owe tax when you file your return. If you prefer, you can pay the amount shown on line 13c. For details, see Pub. 505.			
15	Income tax withheld and estimated to be withheld during 2006 (including income tax withholding on pensions, annuities, certain deferred income, etc.)		15	
16	Subtract line 15 from line 14c. ( <b>Note:</b> If zero or less or line 13c minus line 15 is less than \$1,000, stop here. You are not required to make estimated tax payments.)		16	
17	If the first payment you are required to make is due April 17, 2006, enter ¼ of line 16 (minus any 2005 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. ( <b>Note:</b> Household employers, see instructions below.)		17	

Worksheet 2-1. **2006 Estimated Tax Worksheet—Line 1**  
**Expected Taxable Social Security and Railroad Retirement Benefits**

1. Enter your expected social security and railroad retirement benefits . . . . .	1. _____
2. Enter one-half of line 1 . . . . .	2. _____
3. Enter your expected total income. Do not include any social security and railroad retirement benefits, nontaxable interest income, nontaxable IRA distributions, or nontaxable pension distributions . . . . .	3. _____
4. Enter your expected nontaxable interest income . . . . .	4. _____
5. Add lines 2, 3, and 4 . . . . .	5. _____
6. Enter your expected adjustments to income except any student loan interest deduction and any tuition and fees deduction . . . . .	6. _____
7. Subtract line 6 from line 5 . . . . .	7. _____
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) . . . . .	8. _____
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 2006 Estimated Tax Worksheet . . . . .	9. _____
10. Enter \$9,000 (\$12,000 if you expect to file married filing a joint return; \$0 if you expect to file married filing a separate return and expect to live with your spouse at any time during the year) . . . . .	10. _____
11. Subtract line 10 from line 9. If zero or less, enter -0- . . . . .	11. _____
12. Enter the smaller of line 9 or line 10 . . . . .	12. _____
13. Enter one-half of line 12 . . . . .	13. _____
14. Enter the smaller of line 2 or line 13 . . . . .	14. _____
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- . . . . .	15. _____
16. Add lines 14 and 15 . . . . .	16. _____
17. Multiply line 1 by 85% (.85) . . . . .	17. _____
18. Enter the smaller of line 16 or line 17. This is the amount of your expected taxable social security and railroad retirement benefits. Include this amount in the total on line 1 of your 2006 Estimated Tax Worksheet . . . . .	18. _____

Worksheet 2-2. **2006 Estimated Tax Worksheet—Line 1**  
**Expected Self-Employment Tax and Deduction**

1. Enter your expected income and profits subject to self-employment tax* . . . . .	1. _____
2. Multiply line 1 by 92.35% (.9235) . . . . .	2. _____
3. Multiply line 2 by 2.9% (.029) . . . . .	3. _____
4. Social security tax maximum income . . . . .	4. <u>                    \$94,200                    </u>
5. Enter your expected wages (if subject to social security tax) . . . . .	5. _____
6. Subtract line 5 from line 4 . . . . . <i>Note. If line 6 is zero or less, enter -0- on line 8 and skip to line 9.</i>	6. _____
7. Enter the smaller of line 2 or line 6 . . . . .	7. _____
8. Multiply line 7 by 12.4% (.124) . . . . .	8. _____
9. Add line 3 and line 8. Enter the result here and on line 11 of your 2006 Estimated Tax Worksheet . . . . .	9. _____
10. Multiply line 9 by .50. This is your expected deduction for one-half of your self-employment tax. . . . .	10. _____

\*Your net profit from self-employment is found on line 31 of Schedule C or line 3 of Schedule C-EZ.

Worksheet 2-3. **2006 Estimated Tax Worksheet—Line 2  
Phaseout of Itemized Deductions**

1. Enter the estimated total of your itemized deductions . . . . .	1. _____
2. Enter the amount included in line 1 for medical and dental expenses, investment interest, casualty or theft losses, and gambling losses . . . . .	2. _____
3. Subtract line 2 from line 1 . . . . . <i>Note. If line 3 is zero, stop here and enter line 1 of this worksheet on line 2 of the 2006 Estimated Tax Worksheet.</i>	3. _____
4. Multiply line 3 by 80% (.80) . . . . .	4. _____
5. Enter the amount from line 1 of the 2006 Estimated Tax Worksheet . . . . .	5. _____
6. Enter \$150,500 (\$75,250 if married filing separately) . . . . .	6. _____
7. Subtract line 6 from line 5 . . . . .	7. _____
8. Multiply line 7 by 3% (.03) . . . . .	8. _____
9. Enter the smaller of line 4 or line 8 . . . . .	9. _____
10. Divide line 9 by 3.0. . . . .	10. _____
11. Subtract line 10 from line 9 . . . . .	11. _____
12. Subtract line 11 from line 1. Enter the result here and on line 2 of your 2006 Estimated Tax Worksheet . . . . .	12. _____

Worksheet 2-4. **2006 Estimated Tax Worksheet—Line 4  
Reduction of Exemption Amount**

1. Multiply \$3,300 by the number of exemptions you plan to claim . . . . .	1. _____
2. Enter the amount from line 1 of your 2006 Estimated Tax Worksheet . . . . .	2. _____
3. Enter: \$150,500 if single \$225,750 if married filing jointly or qualifying widow(er) \$112,875 if married filing separately \$188,150 if head of household . . . . .	3. _____
4. Subtract line 3 from line 2 and enter here . . . . .	4. _____
5. Is line 4 more than \$122,500 (more than \$61,250 if married filing separately)? <input type="checkbox"/> <b>Yes.</b> Multiply \$1,100 by the number of exemptions you plan to claim and enter the result here and on line 4 of your 2006 Estimated Tax Worksheet. Do not complete the rest of this worksheet. <input type="checkbox"/> <b>No.</b> Divide line 4 by \$2,500 (\$1,250 if married filing separately). If the result is not a whole number, increase it to the next whole number . . . . .	5. _____
6. Multiply line 5 by 2% (.02). Enter the result as a decimal, but not more than 1.0 . . . . .	6. _____
7. Multiply line 1 by the decimal on line 6 . . . . .	7. _____
8. Divide line 7 by 1.5 . . . . .	8. _____
9. Subtract line 8 from line 1. Enter the result here and on line 4 of your 2006 Estimated Tax Worksheet . . . . .	9. _____

Worksheet 2-5. **2006 Estimated Tax Worksheet—Line 4  
Additional Exemption Amount for Taxpayers Housing Individuals Displaced  
by Hurricane Katrina**

1. Maximum additional exemption amount. Enter \$2,000 (\$1,000 if married filing separately) . . . . .	1. _____
2. Did you file Form 8914 in 2005? <input type="checkbox"/> <b>Yes.</b> Enter the additional exemption amount claimed in 2005 from Form 8914, line 2. <input type="checkbox"/> <b>No.</b> Enter -0- . . . . .	2. _____
3. Subtract line 2 from line 1. This is the maximum additional exemption amount you can claim in 2006 . . . . .	3. _____
4. Multiply \$500 by the total number of displaced individuals that you housed. Do not enter more than the amount shown on line 3 . . . . .	4. _____
5. Enter the previously computed exemption amount (see <i>Exemptions—line 4</i> or Worksheet 2-4, line 9) . . . . .	5. _____
6. Add lines 4 and 5. Enter the result here and on line 4 of your 2006 Estimated Tax Worksheet . . . . .	6. _____

Worksheet 2-6. **2006 Estimated Tax Worksheet—Line 6**  
**Qualified Dividends and Capital Gains Tax Worksheet**

1. Enter the amount from line 5 of your 2006 Estimated Tax Worksheet . . . . .	1. _____
2. Enter your expected qualified dividends for 2006 <sup>1</sup> . . . . .	2. _____
3. Enter the net capital gain expected for 2006 <sup>1</sup> . . . . .	3. _____
4. Add lines 2 and 3 . . . . .	4. _____
5. Enter your 28% rate gain or loss expected for 2006 <sup>2</sup> . . . . .	5. _____
6. Enter the unrecaptured section 1250 gain expected for 2006 . . . . .	6. _____
7. Add lines 5 and 6 . . . . .	7. _____
8. Enter the <b>smaller</b> of line 3 or line 7 . . . . .	8. _____
9. Subtract line 8 from line 4 . . . . .	9. _____
10. Subtract line 9 from line 1. If zero or less, enter -0- . . . . .	10. _____
11. Enter the <b>smaller</b> of line 1 or \$61,300 (\$30,650 if single or married filing separately or \$41,050 if head of household) . . . . .	11. _____
12. Enter the <b>smaller</b> of line 10 or line 11 . . . . .	12. _____
13. Subtract line 4 from line 1. If zero or less, enter -0- . . . . .	13. _____
14. Enter the <b>larger</b> of line 12 or line 13. . . . .	14. _____
<i>Note. If line 11 and line 12 are the same, skip lines 15 and 16 and go to line 17.</i>	
15. Subtract line 12 from line 11 . . . . .	15. _____
16. Multiply line 15 by 5% (.05) . . . . .	16. _____
<i>Note. If lines 1 and 11 are the same, skip lines 17–23 and go to line 24.</i>	
17. Enter the <b>smaller</b> of line 1 or line 9 . . . . .	17. _____
18. Subtract line 15 from line 17. If zero or less, enter -0- . . . . .	18. _____
19. Multiply line 18 by 15% (.15) . . . . .	19. _____
<i>Note. If line 6 is zero or blank, skip lines 20–24 and go to line 25.</i>	
20. Enter the <b>smaller</b> of line 3 or line 6 . . . . .	20. _____
21. Add lines 4 and 14 . . . . .	21. _____
22. Subtract line 1 from line 21. If zero or less, enter -0- . . . . .	22. _____
23. Subtract line 22 from line 20. If zero or less, enter -0- . . . . .	23. _____
24. Multiply line 23 by 25% (.25) . . . . .	24. _____
<i>Note. If line 5 is zero or blank, skip lines 25–27 and go to line 28.</i>	
25. Add lines 14, 15, 18, and 23 . . . . .	25. _____
26. Subtract line 25 from line 1 . . . . .	26. _____
27. Multiply line 26 by 28% (.28) . . . . .	27. _____
28. Tax on line 14 from the 2006 Tax Rate Schedules . . . . .	28. _____
29. Add lines 16, 19, 24, 27, and 28 . . . . .	29. _____
30. Tax on line 1 from the 2006 Tax Rate Schedules . . . . .	30. _____
31. <b>Tax.</b> Enter the <b>smaller</b> of line 29 or line 30 here and on line 6 of the 2006 Estimated Tax Worksheet . . . . .	31. _____

<sup>1</sup> If you expect to deduct investment interest expense, do not include on this line any qualified dividends or net capital gain that you will elect to treat as investment income.  
<sup>2</sup> This includes a section 1202 exclusion from eligible gain on qualified small business stock and gain or loss from the sale or exchange of collectibles. See the instructions for Schedule D (Form 1040) for more information.

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

1. Amended total estimated tax due . . . . .	1.	
2. Multiply line 1 by: .50 if next payment is due June 15, 2006 .75 if next payment is due September 15, 2006 1.00 if next payment is due January 15, 2007 . . . . .	2.	
3. Estimated tax payments for all previous periods . . . . .	3.	
4. <b>Next required payment:</b> Subtract line 3 from line 2 and enter the result (but not less than zero) here and on your payment voucher for your next required payment . . . . .	4.	
<b>Note.</b> <i>If the payment on line 4 is due January 15, 2007, <b>stop here.</b> Otherwise, go to line 5.</i>		
5. Add lines 3 and 4 . . . . .	5.	
6. Subtract line 5 from line 1 and enter the result (but not less than zero) . . . . .	6.	
7. <b>Each following required payment:</b> If the payment on line 4 is due June 15, 2006, enter one-half of the amount on line 6 here and on the payment vouchers for your payments due September 15, 2006, and January 15, 2007. If the amount on line 4 is due September 15, 2006, enter the full amount on line 6 here and on the payment voucher for your payment due January 15, 2007 . . . . .	7.	

## 2006 Tax Rate Schedules

**Caution.** Do not use Tax Rate Schedules to figure your 2005 taxes. Use only to figure your 2006 estimated taxes.

<b>Single—Schedule X</b>				<b>Married filing separately—Schedule Y-2</b>			
If line 5 is:	<i>But not over—</i>	The tax is:	of the amount over—	If line 5 is:	<i>But not over—</i>	The tax is:	of the amount over—
Over—				Over—			
\$0	\$7,550	----- 10%	<b>\$0</b>	\$0	\$7,550	----- 10%	<b>\$0</b>
7,550	30,650	<b>\$755.00 + 15%</b>	<b>7,550</b>	7,550	30,650	<b>\$755.00 + 15%</b>	<b>7,550</b>
30,650	74,200	<b>4,220.00 + 25%</b>	<b>30,650</b>	30,650	61,850	<b>4,220.00 + 25%</b>	<b>30,650</b>
74,200	154,800	<b>15,107.50 + 28%</b>	<b>74,200</b>	61,850	94,225	<b>12,020.00 + 28%</b>	<b>61,850</b>
154,800	336,550	<b>37,675.50 + 33%</b>	<b>154,800</b>	94,225	168,275	<b>21,085.00 + 33%</b>	<b>94,225</b>
336,550	-----	<b>97,653.00 + 35%</b>	<b>336,550</b>	168,275	-----	<b>45,521.50 + 35%</b>	<b>168,275</b>

<b>Married filing jointly or Qualifying widow(er)—Schedule Y-1</b>				<b>Head of household—Schedule Z</b>			
If line 5 is:	<i>But not over—</i>	The tax is:	of the amount over—	If line 5 is:	<i>But not over—</i>	The tax is:	of the amount over—
Over—				Over—			
\$0	\$15,100	----- 10%	<b>\$0</b>	\$0	\$10,750	----- 10%	<b>\$0</b>
15,100	61,300	<b>\$1,510.00 + 15%</b>	<b>15,100</b>	10,750	41,050	<b>\$1,075.00 + 15%</b>	<b>10,750</b>
61,300	123,700	<b>8,440.00 + 25%</b>	<b>61,300</b>	41,050	106,000	<b>5,620.00 + 25%</b>	<b>41,050</b>
123,700	188,450	<b>24,040.00 + 28%</b>	<b>123,700</b>	106,000	171,650	<b>21,857.50 + 28%</b>	<b>106,000</b>
188,450	336,550	<b>42,170.00 + 33%</b>	<b>188,450</b>	171,650	336,550	<b>40,239.50 + 33%</b>	<b>171,650</b>
336,550	-----	<b>91,043.00 + 35%</b>	<b>336,550</b>	336,550	-----	<b>94,656.50 + 35%</b>	<b>336,550</b>

Worksheet 2-8. **2006 Annualized Estimated Tax Worksheet**

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

<b>Section A (For Figuring Your Annualized Estimated Tax Payments)</b> —Complete each column after end of period shown.					
<b>Estates and trusts:</b> Use the following ending dates in each column—2/28, 4/30, 7/31, 11/30.		(a) 1/1/06 to 3/31/06	(b) 1/1/06 to 5/31/06	(c) 1/1/06 to 8/31/06	(d) 1/1/06 to 12/31/06
1	Adjusted gross income for each period. ( <b>Caution:</b> See instructions.) Self-employed: Complete Section B first.	1			
2	Annualization amounts.	2	4	2.4	1.5
3	Annualized income. Multiply line 1 by line 2.	3			
4	Itemized deductions for period. If you do not expect to itemize, enter -0- and skip to line 7.	4			
5	Annualization amounts.	5	4	2.4	1.5
6	Multiply line 4 by line 5. ( <b>Caution:</b> See instructions and Worksheet 2-9.)	6			
7	Standard deduction from 2006 tables.	7			
8	Enter the larger of line 6 or line 7.	8			
9	Subtract line 8 from line 3.	9			
10	Multiply \$3,300 by your total expected exemptions. ( <b>Caution:</b> See instructions and Worksheet 2-10.)	10			
11	Subtract line 10 from line 9.	11			
12	Tax on the amount on line 11 from the 2006 Tax Rate Schedules. ( <b>Caution:</b> See instructions and Worksheet 2-11.)	12			
13	Self-employment tax from line 37 of Section B.	13			
14	Other taxes for each payment period.	14			
15	Total tax. Add lines 12, 13, and 14.	15			
16	Credits for each period.	16			
17	Subtract line 16 from line 15. (If less than zero, enter -0-.)	17			
18	Applicable percentage.	18	22.5%	45%	67.5%
19	Multiply line 17 by line 18.	19			
20	Add amounts on line 25 of all preceding columns.	20			
21	Annualized income installment. Subtract line 20 from line 19. (If less than zero, enter -0-.)	21			
22	Divide line 14c of the Form 1040-ES Estimated Tax Worksheet by 4.	22			
23	Subtract line 25 of preceding column from line 24 of preceding column.	23			
24	Add lines 22 and 23.	24			
25	Enter the smaller of line 21 or line 24. ( <b>Caution:</b> See instructions.)	25			
26	Total required payments for the period. Add lines 20 and 25.	26			
27	Estimated tax payments made (line 28 of preceding columns) and tax withholding through the due date for the period.	27			
28	Estimated tax payment required by the next due date. Subtract line 27 from line 26 and enter the result (but not less than zero) here and on your payment voucher.	28			

Worksheet 2-8. **2006 Annualized Estimated Worksheet** (Continued)

<b>Section B (For Figuring Your Annualized Estimated Self-Employment Tax)</b> —Complete each column after end of period shown.					
		(a) 1/1/06 to 3/31/06	(b) 1/1/06 to 5/31/06	(c) 1/1/06 to 8/31/06	(d) 1/1/06 to 12/31/06
<b>29</b>	Net earnings from self-employment for the period.	<b>29</b>			
<b>30</b>	Prorated social security tax limit.	<b>30</b>	<b>\$23,550</b>	<b>\$39,250</b>	<b>\$62,800</b>
<b>31</b>	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.	<b>31</b>			
<b>32</b>	Subtract line 31 from line 30. If zero or less, enter -0-.	<b>32</b>			
<b>33</b>	Annualization amounts.	<b>33</b>	<b>0.496</b>	<b>0.2976</b>	<b>0.186</b>
<b>34</b>	Multiply line 33 by the smaller of line 29 or line 32.	<b>34</b>			
<b>35</b>	Annualization amounts.	<b>35</b>	<b>0.116</b>	<b>0.0696</b>	<b>0.0435</b>
<b>36</b>	Multiply line 29 by line 35.	<b>36</b>			
<b>37</b>	Add lines 34 and 36. Enter the result here and on line 13 of Section A.	<b>37</b>			
<b>38</b>	Annualization amounts.	<b>38</b>	<b>8</b>	<b>4.8</b>	<b>3</b>
<b>39</b>	Deduction for one-half of self-employment tax. Divide line 37 by line 38. Enter the result here. Also use this result to figure your adjusted gross income on line 1.	<b>39</b>			

Worksheet 2-9. **2006 Annualized Estimated Tax Worksheet—Line 6  
Phaseout of Itemized Deductions**

1. Enter line 4 of Section A . . . . .	1. _____
2. Enter the amount included in line 1 for medical and dental expenses, investment interest, casualty or theft losses, and gambling losses . . . . .	2. _____
3. Subtract line 2 from line 1 . . . . .	3. _____
4. Enter line 5 of Section A . . . . .	4. _____
5. Multiply line 1 by line 4 . . . . .	5. _____
<b>Note.</b> If line 3 is zero, stop here and enter line 5 on line 6 of Section A.	
6. Multiply line 3 by line 4 . . . . .	6. _____
7. Multiply line 6 by 80% (.80) . . . . .	7. _____
8. Enter line 3 of Section A . . . . .	8. _____
9. Enter \$150,500 (\$75,250 if married filing separately) . . . . .	9. _____
10. Subtract line 9 from line 8 . . . . .	10. _____
11. Multiply line 10 by 3% (.03) . . . . .	11. _____
12. Enter the smaller of line 7 or line 11 . . . . .	12. _____
13. Divide line 12 by 3.0 . . . . .	13. _____
14. Subtract line 13 from line 12 . . . . .	14. _____
15. Subtract line 14 from line 5. Enter the result here and on line 6 of Section A . . . . .	15. _____

Worksheet 2-10. **2006 Annualized Estimated Tax Worksheet—Line 10  
Reduction of Exemption Amount**

1. Multiply \$3,300 by the number of exemptions you plan to claim . . . . .	1. _____
2. Enter line 3 of Section A . . . . .	2. _____
3. Enter the amount shown below for your filing status	
Single—\$150,500	
Married filing jointly or qualifying widow(er)—\$225,750	
Married filing separately—\$112,875	
Head of household—\$188,150 . . . . .	3. _____
4. Subtract line 3 from line 2 . . . . .	4. _____
5. Is line 4 more than \$122,500 (more than \$61,250 if married filing separately)? . . . . .	
<input type="checkbox"/> <b>Yes.</b> Multiply \$1,100 by the number of exemptions you plan to claim and enter the result here and on line 10 of Section A. Do not complete the rest of this worksheet.	
<input type="checkbox"/> <b>No.</b> Divide line 4 by \$2,500 (\$1,250 if married filing separately). If the result is not a whole number, increase it to the next whole number . . . . .	5. _____
6. Multiply line 5 by 2% (.02). Enter the result as a decimal, but not more than 1.0 . . . . .	6. _____
7. Multiply line 1 by the decimal on line 6 . . . . .	7. _____
8. Divide line 7 by 1.5 . . . . .	8. _____
9. Subtract line 8 from line 1. Enter the result here and on line 10 of Section A . . . . .	9. _____

Worksheet 2-11. **2006 Annualized Estimated Tax Worksheet—Line 12**  
**Qualified Dividends and Capital Gains Tax Worksheet**

1. Enter line 11 of your 2006 Annualized Estimated Tax Worksheet . . . . .	1. _____
2. Enter your expected qualified dividends for 2006 <sup>1</sup> . . . . .	2. _____
3. Enter the net capital gain expected for 2006 <sup>1</sup> . . . . .	3. _____
4. Add lines 2 and 3 . . . . .	4. _____
5. Enter your 28% rate gain or loss expected for 2006 <sup>2</sup> . . . . .	5. _____
6. Enter the unrecaptured section 1250 gain expected for 2006 . . . . .	6. _____
7. Add lines 5 and 6 . . . . .	7. _____
8. Enter the <b>smaller</b> of line 3 or line 7 . . . . .	8. _____
9. Subtract line 8 from line 4 . . . . .	9. _____
10. Subtract line 9 from line 1. If zero or less, enter -0- . . . . .	10. _____
11. Enter the <b>smaller</b> of line 1 or \$61,300 (\$30,650 if single or married filing separately or \$41,050 if head of household) . . . . .	11. _____
12. Enter the <b>smaller</b> of line 10 or line 11 . . . . .	12. _____
13. Subtract line 4 from line 1. If zero or less, enter -0- . . . . .	13. _____
14. Enter the <b>larger</b> of line 12 or line 13 . . . . .	14. _____
<b>Note.</b> If line 11 and line 12 are the same, skip lines 15 and 16 and go to line 17.	
15. Subtract line 12 from line 11 . . . . .	15. _____
16. Multiply line 15 by 5% (.05) . . . . .	16. _____
<b>Note.</b> If lines 1 and 11 are the same, skip lines 17–23 and go to line 24.	
17. Enter the <b>smaller</b> of line 1 or line 9 . . . . .	17. _____
18. Subtract line 15 from line 17. If zero or less, enter -0- . . . . .	18. _____
19. Multiply line 18 by 15% (.15) . . . . .	19. _____
<b>Note.</b> If line 6 is zero or blank, skip lines 20–24 and go to line 25.	
20. Enter the <b>smaller</b> of line 3 or line 6 . . . . .	20. _____
21. Add lines 4 and 14 . . . . .	21. _____
22. Subtract line 1 from line 21. If zero or less, enter -0- . . . . .	22. _____
23. Subtract line 22 from line 20. If zero or less, enter -0- . . . . .	23. _____
24. Multiply line 23 by 25% (.25) . . . . .	24. _____
<b>Note.</b> If line 5 is zero or blank, skip lines 25–27 and go to line 28.	
25. Add lines 14, 15, 18, and 23 . . . . .	25. _____
26. Subtract line 25 from line 1 . . . . .	26. _____
27. Multiply line 26 by 28% (.28) . . . . .	27. _____
28. Tax on line 14 from the 2006 Tax Rate Schedules . . . . .	28. _____
29. Add lines 16, 19, 24, 27, and 28 . . . . .	29. _____
30. Tax on line 1 from the 2006 Tax Rate Schedules . . . . .	30. _____
31. <b>Tax.</b> Enter the <b>smaller</b> of line 29 or line 30 here and on line 12 of the 2006 Annualized Estimated Tax Worksheet . . . . .	31. _____

<sup>1</sup> If you expect to deduct investment interest expense, do not include on this line any qualified dividends or net capital gain that you will elect to treat as investment income.  
<sup>2</sup> This includes a section 1202 exclusion from eligible gain on qualified small business stock and gain or loss from the sale or exchange of collectibles. See the instructions for Schedule D (Form 1040) for more information.

## 2006 Standard Deduction Tables



If you are married filing a separate return and your spouse itemizes deductions, or if you are a dual-status alien, you cannot take the standard deduction even if you were born before January 2, 1942, or you are blind.

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

IF your filing status is...	THEN your standard deduction is...
Single or Married filing separately	\$ 5,150
Married filing jointly or Qualifying widow(er) with dependent child	10,300
Head of household	7,550

\* Do not use this chart if you were born before January 2, 1942, or you are blind, or if someone else can claim an exemption for you (or your spouse if married filing jointly). Use Table 2-4 or 2-5 instead.

**Table 2-4. Standard Deduction Chart for People Born Before January 2, 1942, or Who are Blind\***

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

You Born before  
January 2, 1942  Blind

Your spouse, if claiming Born before  
 spouse's exemption January 2, 1942  Blind

**Total number of boxes you checked**

IF your filing status is...	AND the number in the box above is...	THEN your standard deduction is...
Single	1	\$ 6,400
	2	7,650
Married filing jointly or Qualifying widow(er) with dependent child	1	11,300
	2	12,300
	3	13,300
	4	14,300
Married filing separately	1	6,150
	2	7,150
	3	8,150
	4	9,150
Head of household	1	8,800
	2	10,050

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

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

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

If you were born before January 2, 1942, or you are blind, check the correct number of boxes below. Then go to the worksheet.

You Born before  
January 2, 1942  Blind

Your spouse, if claiming Born before  
 spouse's exemption January 2, 1942  Blind

**Total number of boxes you checked**

<b>1.</b> Enter your <b>earned income</b> (defined below). If none, enter -0-.	<b>1.</b> _____
<b>2.</b> Additional amount	<b>2.</b> \$300
<b>3.</b> Add lines 1 and 2.	<b>3.</b> _____
<b>4.</b> Minimum standard deduction.	<b>4.</b> \$850
<b>5.</b> Enter the <b>larger</b> of line 3 or line 4.	<b>5.</b> _____
<b>6.</b> Enter the amount shown below for your filing status. <ul style="list-style-type: none"> <li>• Single or Married filing separately—\$5,150</li> <li>• Married filing jointly or Qualifying widow(er) with dependent child—\$10,300</li> <li>• Head of household—\$7,550</li> </ul>	<b>6.</b> _____
<b>7. Standard deduction.</b> <p><b>a.</b> Enter the <b>smaller</b> of line 5 or line 6. If born after January 1, 1942, and not blind, stop here. This is your standard deduction. Otherwise, go on to line 7b.</p> <p><b>b.</b> If born before January 2, 1942, or blind, multiply \$1,250 (\$1,000 if married or qualifying widow(er) with dependent child) by the number in the box above.</p> <p><b>c.</b> Add lines 7a and 7b. This is your standard deduction for 2006.</p>	<b>7a.</b> _____  <b>7b.</b> _____  <b>7c.</b> _____

***Earned income** includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income.*

---

## 3.

---

# Credit for Withholding and Estimated Tax for 2005

---

## What's New

**Excess social security or railroad retirement tax withholding.** You can claim a credit for excess social security or tier 1 railroad retirement tax withholding for 2005 only if your total wages from two or more employers were more than \$90,000.

---

## Introduction

When you file your 2005 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 2005. 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 2005, you should receive a statement by January 31, 2006, 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.** 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 2005 by January 31, 2006. You should receive a separate Form W-2 from each employer you worked for.

If you stopped working before the end of the year, your employer could have given you your Form W-2 at any time after you stopped working. However, your employer must give it to you by January 31, 2006.

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

If you have not received your Form W-2 by January 31, 2006, you should ask your employer for it. If you do not receive it by February 15, call the IRS. The number is listed in the Form 1040, Form 1040A, and Form 1040EZ instructions. You will be asked for the following information.

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

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

- Line 64, 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 2005, the payer may have withheld income tax. If tax was withheld, the payer will give you a Form W-2G showing the amount you won and the amount of tax withheld.

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

Gambling losses can be deducted on Schedule A (Form 1040) as a miscellaneous itemized deduction. However, you cannot deduct more than the gambling winnings you report on line 21.

## The 1099 Series

Most forms in the 1099 series are not filed with your return. You should receive these forms by January 31, 2006. Keep these forms for your records. There are several different forms in this series, including:

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

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

**Form 1099-R.** Attach Form 1099-R to your return if federal income tax withholding is shown in box 4. Include the amount withheld in the total on line 64 of Form 1040, or on line 39 of Form 1040A. You cannot use Form 1040EZ if you received payments reported on Form 1099-R.

**Backup withholding.** If you were subject to backup withholding on income you received during 2005, include the amount withheld, as shown on your Form 1099, in the total on line 64 of Form 1040, line 39 of Form 1040A, or line 7 of Form 1040EZ.

## Form Not Correct

If you receive a form with incorrect information, you should ask the payer for a corrected form. Call the telephone number or write to the address given for the payer on the form. The corrected Form W-2G or Form 1099 you receive will 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.

Generally, 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. If you are required to report half of all community income, you are entitled to take credit for half of all taxes withheld on the community income. If you were divorced during the year, each of you generally must report half the community income and can take credit for half the withholding on that community income for the period before the divorce.

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

## Fiscal Years

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

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

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

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

**Example.** Miles Hanson files his return for a fiscal year ending June 30, 2005. In January 2005, he received a Form W-2 that showed that his wages for 2004 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, 2004, and \$8,100 from July 1 through December 31, 2004.

On his return for the fiscal year ending June 30, 2005, Miles will report the \$8,100 he was paid in July through December of 2004, plus whatever he was paid during the rest of the fiscal year, January 1, 2005, to June 30, 2005. However, he takes credit for all \$1,409.40 that was withheld during 2004. On his return for the fiscal year ending June 30, 2006, he can take credit

for any tax withheld during 2005 but not for any tax withheld during 2006.

On his return for the fiscal year ending June 30, 2007, Miles takes credit for any income tax withheld in 2006.

**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.** Emily Smith's records show that she received income in February 2006 from which \$50 was withheld under the backup withholding rule. On her tax return for the fiscal year ending June 30, 2006, Emily takes credit for withheld income tax of \$50.

## Estimated Tax

Take credit for all your estimated tax payments for 2005 on line 65 of Form 1040 or line 40 of Form 1040A. Include any overpayment from 2004 that you had credited to your 2005 estimated tax. You must use Form 1040 or Form 1040A if you paid estimated tax. You cannot use Form 1040EZ.

If you were a beneficiary of an estate or trust, include on Form 1040, line 65, any trust payments of estimated tax credited to you (from box 13 (code A) of Schedule K-1 (Form 1041), Beneficiary's Share of Income, Deductions, Credits, etc.). On the dotted line next to line 37 of Schedule E (Form 1040) write "ES payment claimed" and the amount. Do not include this amount in the total on line 37. The payment is treated as being made by you on January 15, 2006.

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

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

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

## Separate Returns

If you and your spouse made separate estimated tax payments for 2005 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 2005.

**Example.** James and Evelyn Brown made joint estimated tax payments for 2005 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 2005, 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 2005. See *Example* above under *Separate Returns*.

If you claim any of the joint payments on your tax return, enter your former spouse's social security number (SSN) in the space provided on the front of Form 1040 or Form 1040A. If you divorced and remarried in 2005, enter your present spouse's SSN in that space and write your former spouse's SSN, followed by "DIV," to the left of Form 1040, line 65, or Form 1040A, line 40.

## 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 2005, 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 2005. Figure the excess withholding on the appropriate worksheet on page 46.

Table 3-1. **Maximum Social Security and RRTA Withholding for 2005**

Type of Tax	Maximum wages subject to tax	Tax rate	Maximum tax to be withheld
Social security	\$90,000	6.2%	\$5,580.00
Tier 1 railroad retirement (RRTA) . . . .	\$90,000	6.2%	\$5,580.00
Tier 2 RRTA . . .	\$66,900	4.4%	\$2,943.60

**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.

**Note.** All wages are subject to Medicare tax withholding.

**Employer's error.** If any one employer withheld too much social security or RRTA tax, you cannot claim the excess as a credit against your income tax. The employer should adjust the tax for you. If the employer does not adjust the overcollection, you can file a claim for refund using Form 843, Claim for Refund and Request for Abatement.

## Worksheet for Nonrailroad Employees

If you did not work for a railroad during 2005, figure the excess social security withholding on Worksheet 3-1 (see next page).

**Note.** If you worked for both a railroad employer and a nonrailroad employer, use Worksheet 3-2 (see next page) to figure excess social security and tier 1 RRTA tax.

**Where to claim credit for excess social security withholding.** If you file Form 1040, enter the excess on line 67.

If you file Form 1040A, include the excess in the total on line 43. Write "Excess SST" and show the amount of the credit in the space to the left of the line.

You cannot claim excess social security tax withholding on Form 1040EZ.

**Example.** In 2005, Tom Martin earned \$52,000 working for Company A and \$40,200 working for Company B. Company A withheld \$3,224 for social security tax. Company B withheld \$2,492.40 for social security tax. Because he worked for two employers and earned more than \$90,000, he had too much social security tax withheld. Tom figures his credit of \$136.40, as shown on the illustrated Worksheet 3-1 below.

## Worksheets for Railroad Employees

If you worked for a railroad during 2005, figure your excess withholding on Worksheets 3-2 and 3-3 (see next page).

**Where to claim credit for excess tier 1 RRTA withholding.** If you file Form 1040, enter the excess on line 67.

If you file Form 1040A, include the excess in the total on line 43. Write "Excess SST" and show the amount of the credit in the space to the left of the line.

You cannot claim excess tier 1 RRTA withholding on Form 1040EZ.

**How to claim refund of excess tier 2 RRTA.** To claim a refund of tier 2 tax, use Form 843. Be sure to attach a copy of all of your W-2 forms.

### Worksheet 3-1. Excess Social Security—Nonrailroad Employees—Illustrated

1. Add all social security tax withheld (but not more than \$5,580 for each employer). This tax should be shown in box 4 of your Forms W-2. Enter the total here . . . . .	1.	<u>\$5,716.40</u>
2. Enter any uncollected social security tax on tips or group-term life insurance included in the total on Form 1040, line 63 . . . . .	2.	<u>-0-</u>
3. Add lines 1 and 2. If \$5,580 or less, stop here. You cannot claim the credit . . . . .	3.	<u>5,716.40</u>
4. Social security limit . . . . .	4.	<u>\$5,580.00</u>
5. Excess. Subtract line 4 from line 3 . . . . .	5.	<u>\$136.40</u>

**Worksheet 3-1. Excess Social Security—Nonrailroad Employees**

1. Add all social security tax withheld (but not more than \$5,580 for each employer). This tax should be shown in box 4 of your Forms W-2. Enter the total here . . . . .	1.	_____
2. Enter any uncollected social security tax on tips or group-term life insurance included in the total on Form 1040, line 63 . . . . .	2.	_____
3. Add lines 1 and 2. If \$5,580 or less, stop here. You cannot claim the credit . . . . .	3.	_____
4. Social security limit . . . . .	4.	<b>\$5,580.00</b>
5. Excess. Subtract line 4 from line 3 . . . . .	5.	_____

**Worksheet 3-2. Excess Social Security and Tier 1 RRTA—Railroad Employees**

1. Add all social security and tier 1 RRTA tax withheld (but not more than \$5,580 for each employer). Social security tax should be shown in box 4 and tier 1 RRTA should be shown in box 14 of your Forms W-2. Enter the total here . . . . .	1.	_____
2. Enter any uncollected social security and tier 1 RRTA tax on tips or group-term life insurance included in the total on Form 1040, line 63 . . . . .	2.	_____
3. Add lines 1 and 2. If \$5,580 or less, stop here. You cannot claim the credit . . . . .	3.	_____
4. Social security and tier 1 RRTA tax limit . . . . .	4.	<b>\$5,580.00</b>
5. Excess. Subtract line 4 from line 3 . . . . .	5.	_____

**Worksheet 3-3. Excess Tier 2 RRTA—Railroad Employees**

1. Add all tier 2 RRTA tax withheld (but not more than \$2,943.60 for each employer). Box 14 of your Forms W-2 should show tier 2 RRTA tax. Enter the total here . . . . .	1.	_____
2. Enter any uncollected tier 2 RRTA tax on tips or group-term life insurance included in the total on Form 1040, line 63 . . . . .	2.	_____
3. Add lines 1 and 2. If \$2,943.60 or less, stop here. You cannot claim the credit. . . . .	3.	_____
4. Tier 2 RRTA tax limit . . . . .	4.	<b>\$2,943.60</b>
5. Excess. Subtract line 4 from line 3. . . . .	5.	_____

## 4.

# Underpayment Penalty for 2005

## What's New

**Penalty rate.** The penalty for underpayment of 2005 estimated tax is figured at an annual rate of 6% for the number of days the underpayment remained unpaid from April 16, 2005, through September 30, 2005; and 7% from October 1, 2005, through April 15, 2006.



*If you were affected by Hurricane Katrina, the due dates for the September 15, 2005, and January 17, 2006, required installments are both extended to February 28, 2006. If you were affected by Hurricane Rita or Wilma, the due date for the January 17, 2006, required installment is extended to February 28, 2006. See the 2005 Instructions for Form 2210 for more information.*

## 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.

**Waiver of penalty.** The IRS can waive the penalty for underpayment if you did not make a payment because of a casualty, disaster, or other unusual circumstance and it would be inequitable to impose the penalty. See *Waiver of Penalty*, later.

**IRS will figure your penalty.** You generally do not need to figure your underpayment penalty. In most cases, the IRS will figure it for you. You only need to figure your penalty in the following three situations.

- You are requesting a waiver of part, but not all, of the penalty.
- You are using the annualized income installment method to figure the penalty.
- You are treating the federal income tax withheld from your wages as paid on the dates actually withheld.

## Introduction

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

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

**No penalty.** Generally, you will not have to pay a penalty for 2005 if any of the following situations applies.

- The total of your withholding and estimated tax payments was at least as much as your 2004 tax (or 110% of your 2004 tax if your adjusted gross income was more than \$150,000, \$75,000 if your 2005 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 2005 tax, and you paid all required estimated tax payments on time.
- Your total 2005 tax (defined later) minus your withholding is less than \$1,000.
- You did not have a tax liability for 2004.
- 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, if you think you are able to lower or eliminate your penalty, you must complete Form 2210 or Form 2210-F and attach it to your return. 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 2005 if the total of your withholding and estimated tax payments did not equal at least the smaller of:

1. 90% of your 2005 tax, or
2. 100% of your 2004 tax. (Your 2004 tax return must cover a 12-month period.)

Your 2005 tax, for this purpose, is your *Total tax for 2005*, 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 2004 or 2005 is from farming or fishing, substitute 66 $\frac{2}{3}$ % for 90% in (1) above.

See *Farmers and Fishermen*, later.

**Higher income taxpayers.** If less than two-thirds of your gross income for 2004 and 2005 is from farming or fishing and your adjusted gross income (AGI) for 2004 was more than \$150,000 (\$75,000 if your 2005 filing status is married filing a separate return), substitute 110% for 100% in (2) above.

For 2004, AGI is the amount shown on Form 1040, line 37; Form 1040A, line 21; and Form 1040EZ, line 4.

**Penalty figured for each period.** Because the penalty is figured separately for each payment period, you may owe a penalty for a payment period even if you later paid enough to make up the underpayment. If you did not pay enough tax by the due date of any of the payment periods, you may owe a penalty even if you are due a refund when you file your income tax return.

**Example.** You did not make estimated tax payments for 2005 because you thought you had enough tax withheld from your wages. Early in January 2006, you made an estimate of your total 2005 tax. Then you realized that your withholding was \$2,000 less than the amount needed to avoid a penalty for underpayment of estimated tax.

On January 10, you made an estimated tax payment of \$3,000, which is the difference between your withholding and your estimate of your total tax. Your final return shows your total tax to be \$50 less than your estimate, so you are due a refund.

You do not owe a penalty for your payment due January 15, 2006. However, you may owe a penalty through January 10, 2006, the day you made the \$3,000 payment, for your underpayments for the earlier payment periods.

**Minimum required each period.** You will owe a penalty for any 2005 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 2005 tax, or
2. 25% of your 2004 tax. (Your 2004 tax return must cover a 12-month period.)

**Note.** If you are subject to the rule for higher income taxpayers, discussed earlier, substitute 27.5% for 25% in (2) above.

**When penalty is charged.** If you miss a payment or you paid less than the minimum required in a period, you may be charged an underpayment penalty from the date the amount was due to the date the payment is made.

**Trust payments of estimated tax.** If you were a beneficiary of an estate or trust that credited its estimated tax payments to you, treat the amount credited (box 13 (code A) 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, 2006.

**Amended returns.** If you file an amended return by the due date of your original return, use the tax shown on your amended return to figure your required estimated tax payments. If you file an amended return after the due date of the original return, use the tax shown on the original return.

However, if you and your spouse file a joint return after the due date to replace separate returns you originally filed by the due date, use the tax shown on the joint return to figure your required estimated tax payments. This rule applies only if both original separate returns were filed on time.

**2004 separate returns and 2005 joint return.** If you file a joint return with your spouse for 2005, but you filed separate returns for 2004, your 2004 tax is the total of the tax shown on your separate returns. You filed a separate return if you filed as single, head of household, or married filing separately.

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

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

**Example.** Lisa and Paul filed a joint return for 2004 showing taxable income of \$49,000 and a tax of \$6,639. Of the \$49,000 taxable income, \$41,000 was Lisa's and the rest was Paul's. For 2005, they file married filing separately. Lisa figures her share of the tax on the 2004 joint return as follows.

2004 tax on \$41,000 based on a separate return . . . . .	\$ 6,994
2004 tax on \$8,000 based on a separate return . . . . .	846
Total . . . . .	<u>\$ 7,840</u>

Lisa's percentage of total (\$6,994 ÷ \$ 7,840) . . . . .	89.21%
Lisa's part of tax on joint return (\$6,639 × 89.21%) . . . . .	<u>\$ 5,923</u>

**Form 2210.** In most cases, you do not need to file Form 2210. The IRS will figure the penalty for you and send you a bill. If you want us to figure the penalty for you, leave the penalty line on your return blank. Do not file Form 2210.

To determine if you should file Form 2210, see Part II of Form 2210. If you decide to figure your penalty, complete Part I, Part II, and either Part III or Part IV of Form 2210. If you use Form 2210, you cannot file Form 1040EZ.

On Form 1040, enter the amount of your penalty on line 76. If you owe tax on line 75, add the penalty to your tax due and show your total payment on line 75. If you are due a refund, subtract the penalty from the overpayment you show on line 72.

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

**Lowering or eliminating the penalty.** You may be able to lower or eliminate your penalty if you file Form 2210. You must file Form 2210 with your return if any of the following applies.

- You request a waiver. See *Waiver of Penalty*, later.
- You use the annualized income installment method. See the explanation of this method under *Annualized Income Installment Method (Schedule AI)*, later.
- You use your actual withholding for each payment period for estimated tax purposes. See *Actual withholding method under Figuring Your Underpayment (Section A)*, later.
- You base any of your required installments on the tax shown on your 2004 return and you filed or are filing a joint return for either 2004 or 2005, 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 2005.** For 2005, your total tax on Form 1040 is the amount on line 57 increased by certain other taxes and reduced by certain refundable credits.

Add the total of the following taxes to the amount on Form 1040, line 57.

- Self-employment tax (line 58).
- Tax from recapture of investment credit, low-income housing credit, qualified electric vehicle credit, Indian employment credit, new markets credit, or credit for employer-provided childcare facilities (included on line 63).
- Tax on early distributions from (a) an IRA or other qualified retirement plan, (b) an annuity, or (c) a modified endowment contract entered into after June 20, 1988 (included on line 60).
- Tax on distributions from a Coverdell education savings account or a qualified tuition program not used for qualified education expenses (included on line 60).
- Tax on Archer MSA or health savings account distributions not used for qualified medical expenses (included on line 63).
- Section 72(m)(5) penalty tax (included on line 63).
- Advance earned income credit payments (line 61).
- Tax on accumulation distribution of trusts (included on line 63).
- Interest due under sections 453(l)(3) and 453A(c) on certain installment sales of property (included on line 63).
- An increase or decrease in tax as a shareholder in a qualified electing fund (included on line 63).
- Tax on electing small business trusts included on Form 1041, Schedule G, line 7 (included on line 63).
- Tax on income not effectively connected with a U.S. trade or business from Form 1040NR, lines 53 and 56 (included on line 63).
- Household employment taxes, including any advance EIC payments (line 62). See the Instructions for Form 2210, *Line 2*, for an exception to including this amount.

From the total of Form 1040, line 57 and the other taxes listed above, subtract the following refundable credits.

- Earned income credit (line 66a).
- Additional child tax credit (line 68).
- Credit for federal tax paid on fuels (included on line 70).
- Health coverage tax credit (included on line 70).

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

**Paid through withholding.** For 2005, the amount you paid through withholding on Form 1040 is the amount on line 64 plus any excess social security or railroad retirement tax withholding on line 67. On Form 1040A, the amount you paid through withholding is the amount on line 39 plus any excess social security or rail-

road retirement tax withholding included on line 43. On Form 1040EZ, it is the amount on line 7.

## No Tax Liability Last Year

You do not owe a penalty if you had no tax liability last year and you were a U.S. citizen or resident for the whole year. For this rule to apply, your tax year must have included all 12 months of the year.

You had no tax liability for 2004 if your total tax was zero or you were not required to file an income tax return.

**Example.** Ray, who is single and 22 years old, was unemployed for most of 2004. 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 (\$7,950 for 2004). He filed a return only to have his withheld income tax refunded to him.

In 2005, Ray began regular work as an independent contractor. Ray made no estimated tax payments in 2005. Even though he did owe tax at the end of the year, Ray does not owe the underpayment penalty for 2005 because he had no tax liability in 2004.

**Total tax for 2004.** For 2004, your total tax on Form 1040 is the amount on line 56 increased by certain other taxes and reduced by certain refundable credits.

Add the total of the following taxes to the amount on Form 1040, line 56.

- Self-employment tax (line 57).
- Tax from recapture of investment credit, low-income housing credit, qualified electric vehicle credit, Indian employment credit, new markets credit, or credit for employer-provided childcare facilities (included on line 62).
- Tax on early distributions from (a) an IRA or other qualified retirement plan, (b) an annuity, or (c) a modified endowment contract entered into after June 20, 1988 (included on line 59).
- Tax on distributions from a Coverdell education savings account or a qualified tuition program not used for qualified education expenses (included on line 59).
- Tax on Archer MSA or health savings account distributions not used for qualified medical expenses (included on line 62).
- Section 72(m)(5) penalty tax (included on line 62).
- Advance earned income credit payments (line 60).
- Tax on accumulation distribution of trusts (included on line 62).
- Interest due under sections 453(l)(3) and 453A(c) on certain installment sales of property (included on line 62).
- An increase or decrease in tax as a shareholder in a qualified electing fund (included on line 62).

- Tax on electing small business trusts included on Form 1041, Schedule G, line 7 (included on line 62).
- Tax on income not effectively connected with a U.S. trade or business from Form 1040NR, lines 52 and 55 (included on line 62).
- Household employment taxes, including any advance EIC payments (line 61). See the Instructions for Form 2210, *Line 2*, for an exception to including this amount.

From the total of Form 1040, line 56 and the other taxes listed above, subtract the following refundable credits.

- Earned income credit (line 65a).
- Additional child tax credit (line 67).
- Credit for federal tax paid on fuels (included on line 69).
- Health coverage tax credit (included on line 69).

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

## Figuring Your Required Annual Payment (Part I)

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

**Example.** The tax on Ivy Fields' 2004 return was \$10,000. Her AGI was not more than \$150,000. The tax on her 2005 return (Form 1040, line 44) is \$11,000. She does not claim any credits or pay any other taxes.

For 2005, Ivy had \$1,600 income tax withheld and paid \$6,800 estimated tax. Her total payments were \$8,400. 90% of her 2005 tax is \$9,900. Because she paid less than her 2004 tax (\$10,000) and less than 90% of her 2005 tax, and does not meet an exception, Ivy knows that she owes a penalty for underpayment of estimated tax. The IRS will figure the penalty for Ivy, but she decides to figure it herself on Form 2210 and pay it with her \$2,600 tax balance when she files her tax return.

Ivy's required annual payment is \$9,900 (\$11,000 × 90%) because that is smaller than her 2004 tax.

Figure 4-A, at the end of this chapter, shows page 1 of Ivy's filled-in Form 2210. Her required annual payment of \$9,900 is shown on line 9.

**Different 2004 filing status.** If you file a separate return for 2005, but you filed a joint return with your spouse for 2004, see *2004 joint return and 2005 separate returns*, earlier, to figure the amount to enter as your 2004 tax on line 8 of Form 2210.

## Short Method for Figuring the Penalty (Part III)

You may be able to use the short method in Part III of Form 2210 to figure your penalty for underpayment of estimated tax. If you qualify to use this method, it will result in the same penalty amount as the regular method. However, either the annualized income installment method or the actual withholding method, explained later, may result in a lower penalty.

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

- You made no estimated tax payments for 2005 (it does not matter whether you had income tax withholding).
- You paid estimated tax in equal amounts on your due dates.

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

**Note.** If any payment was made before the due date, you can use the short method, but the penalty may be less if you use the regular method. If the payment was only a few days early, the difference is likely to be small.

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

- You made any estimated tax payments late.
- You checked box C or D in Part II of Form 2210.
- You are filing Form 1040NR or 1040NR-EZ and you did not receive wages as an employee subject to U.S. income tax withholding.



If you use the short method, you cannot use the annualized income installment method to figure your underpayment for each payment period. Also, you cannot use your actual withholding during each period to figure your payments for each period. These methods, which may give you a smaller penalty amount, are explained later under Figuring Your Underpayment.

**Completing Part III.** Complete Part III of Form 2210 following the line-by-line instructions.

First, figure your total underpayment for the year (line 14) by subtracting the total of your withholding and estimated tax payments (line 13) from your required annual payment (Part I, line 9). Then figure the penalty you would owe if the underpayment remained unpaid up to April 15, 2006. This amount (line 15) is the maximum estimated tax penalty on your underpayment.

Next, figure any part of the maximum penalty you do not owe (line 16) because your underpayment was paid before the due date of your return. For example, if you filed your 2005 return and paid the tax balance on April 3, 2006, you do not owe the penalty for the 12-day period from April 4 through April 15. Therefore, you would figure the amount to enter on line 16 using 12 days.

Finally, subtract from the maximum penalty amount (line 15) any part you do not owe (line 16). The result (line 17) is the penalty you owe. Enter that amount on line 76 of Form 1040 or line 48 of Form 1040A. Attach Form 2210 to your return only if you checked one of the boxes in Part II.

**Example.** Assume the same facts for Ivy Fields as in the previous example. Ivy paid her estimated tax payments in four installments of \$1,700 ( $\$6,800 \div 4$ ) each on the dates they were due.

Ivy qualifies to use the short method to figure her estimated tax penalty. Using the annualized income installment method or actual withholding will not give her a smaller penalty amount because her income and withholding were distributed evenly throughout the year. Therefore, she figures her penalty in Part III of Form 2210 and leaves Part IV (not shown) blank.

Ivy figures her \$1,500 total underpayment for the year (line 14) by subtracting the total of her withholding and estimated tax payments (\$8,400) from her \$9,900 required annual payment (Part I, line 9). The maximum penalty on her underpayment (line 15) is \$67 ( $\$1,500 \times .04457$ ).

Ivy plans to file her return and pay her \$2,600 tax balance on March 16, 2006, 30 days before April 15. Therefore, she does not owe part of the maximum penalty amount. The part she does not owe (line 16) is figured as follows.

$$\$1,500 \times 30 \times .00019 = \$9$$

Ivy subtracts the \$9 from the \$67 maximum penalty and enters the result, \$58, on Form 2210, line 17, and on Form 1040, line 76. She adds \$58 to her \$2,600 tax balance and enters the result, \$2,658 on line 75 of her Form 1040. Ivy files her return on March 16 and attaches a check for \$2,658. Because Ivy did not check any of the boxes in Part II, she does not attach Form 2210 to her tax return.

Figure 4-A, at the end of this chapter, shows Ivy's filled-in Form 2210, Part III.

## Regular Method for Figuring the Penalty (Part IV)

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.



*If you were affected by Hurricanes Katrina, Rita, or Wilma, see the Instructions for Form 2210 for special rules that apply.*

## Figuring Your Underpayment (Section A)

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

**Required installment—line 18.** Your required payment for each payment period (line 18) is usually one-fourth of your required annual payment (Part I, line 9). However, if you are using the annualized income installment method (described later), first complete Schedule AI (Form 2210), and then enter the amounts from line 25 of that schedule on line 18 of Form 2210.

**Payments.** On line 19, enter in each column the total of:

- Your estimated tax paid after the due date for the previous column and by the due date shown at the top of the column, and
- One-fourth of your withholding.

For special rules for figuring your payments, see the instructions for Form 2210.

If you file Form 1040, your withholding is the amount on line 64, plus any excess social security or railroad retirement tax withholding on line 67. If you file Form 1040A, your withholding is the amount on line 39 plus any excess social security or railroad retirement tax withholding included in line 43.

**Actual withholding method.** Instead of using one-fourth of your withholding for each quarter, you can choose to use the amounts actually withheld by each due date. You can make this choice separately for the tax withheld from your wages and for all other withholding.

Using your actual withholding may result in a smaller penalty if most of your withholding occurred early in the year.

If you use your actual withholding, you must check box D in Form 2210, Part II. Then complete Form 2210 and file it with your return.

## Regular Installment Method

If you received your income evenly throughout the year, use the regular installment method to figure your estimated tax underpayment for the year.

**Example.** Ben Brown's 2005 total tax (Form 1040, line 63) is \$7,031, the total of his \$4,685 income tax and \$2,346 self-employment tax. His 2004 AGI was less than \$150,000. He does not owe any other taxes or claim any credits other than for withholding. His 2004 tax was \$6,116. See Figure 4-B, at the end of this chapter, to see Ben's completed Form 2210, Part I.

Ben's employer withheld \$3,228 income tax during 2005. Ben paid no estimated tax for either

the first or second period, but he paid \$1,000 each on September 2, 2005, and January 12, 2006, 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 2005 tax (\$6,328), and was also less than his 2004 tax (\$6,116), Ben knows he owes a penalty for underpayment of estimated tax. He decides to figure the penalty on Form 2210 and pay it with his \$1,803 tax balance ( $\$7,031 - \$5,228$ ) when he files his tax return on April 17, 2006.

Ben's required annual payment (Part I, line 9) is \$6,116. Because his income and withholding were distributed evenly throughout the year, Ben enters one-fourth of his required annual payment, \$1,529, in each column of line 18 (see Figure 4-B, Part IV, Section A, at the end of this chapter). On line 19, he enters one-fourth of his withholding, \$807 in the first two columns and \$1,807 ( $\$807$  plus \$1,000 estimated tax payment) in the last two columns.

Ben has an underpayment (line 25) for each payment period even though his withholding and estimated tax payments for the third and fourth periods were more than his required installments (line 18). This is because the estimated tax payments made in the third and fourth periods are first applied to underpayments for the earlier periods.

## Annualized Income Installment Method (Schedule AI)

If you did not receive your income evenly throughout the year (for example, your income from a repair shop you operated was much larger in the summer than it was during the rest of the year), you may be able to lower or eliminate your penalty by figuring your underpayment using the annualized income installment method. Under this method, your required installment (line 18) for one or more payment periods may be less than one-fourth of your required annual payment.

To figure your underpayment using this method, complete Schedule AI of Form 2210 (see Figure 4-C, page 59, for an example). The schedule annualizes your tax at the end of each payment period based on your income, deductions, and other items relating to events that occurred since the beginning of the tax year through the end of the period.

If you use the annualized income installment method, you must check box C in Part II of Form 2210. You also must attach Form 2210 and Schedule AI to your return.



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

**Completing Schedule AI.** Follow your Form 2210 instructions to complete Schedule AI. For each period shown on Schedule AI, figure your income and deductions based on your method of accounting. If you use the cash method of accounting (used by most people), include all income actually or constructively received during the period and all deductions actually paid during the period.

**Note.** Each period includes amounts from the previous period(s).

- Period (a) includes items for January through March.
- Period (b) includes items for January through May.
- Period (c) includes items for January through August.
- Period (d) includes items for the entire year.

**Example.** Betty Beige's income tax is \$3,741. Her AGI was less than \$150,000. She does not owe any other taxes nor claim any credits other than withholding. Her required annual payment on Form 2210, Part I, line 9, is \$5,478 (the lower of her \$6,116 tax for 2004 or 90% of her \$6,087 total tax for 2005).

Betty's employer withheld \$3,228 income tax during 2005. Betty paid no estimated tax for either the first or second period, but she paid \$1,000 each on September 2, 2005, and January 12, 2006, for the third and fourth periods.

Betty did not receive her income evenly throughout the year. Therefore, she decides to figure her required installment for each period (Part IV, line 18) using the annualized income installment method. To use this method, Betty completes Schedule AI before starting Part IV. Figure 4-C, at the end of the chapter, shows Betty's filled-in Schedule AI and Part IV, Section A.

Betty's wages during 2005 were \$21,000 (\$1,750 a month). Her net earnings from a business she started during the year were \$16,600, received as follows.

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

**Self-employment tax and deduction.** Before Betty can figure her adjusted gross income for each period (Schedule AI, line 1), she must figure her deduction for self-employment tax for each period. She completes Schedule AI, Part II, first (see Figure 4-C at the end of this chapter). She figures the deduction for self-employment tax by dividing the amounts on line 34 by the annualization amounts for each period. The annualization amounts are 8 for the first period, 4.8 for the second period, 3 for the third period, and 2 for the fourth period.

Betty had no self-employment income for the first period, so she leaves the lines in that column blank. Her self-employment income was \$4,600 for the second period, \$8,600 (\$4,600 + \$4,000) for the third period, and \$16,600 (\$8,600 + \$8,000) for the fourth period. She multiplies each amount by 92.35% (.9235) to find the amounts to enter on line 26. She then fills out the rest of Part II. See Figure 4-C at the end of the chapter.

**Adjusted gross income.** Betty figures the amounts to enter on Schedule AI, line 1, as follows.

**Column (a)**—1/1/05 to 3/31/05:  
\$1,750 per month × 3 months . . . . . \$ 5,250

**Column (b)**—1/1/05 to 5/31/05:  
\$1,750 per month × 5 months . . . . . \$ 8,750  
Plus: Self-employment income through 5/31/05 . . . . . 4,600  
Less: Self-employment tax deduction (\$1,560 ÷ 4.8) . . . . . (325)  
\$13,025

**Column (c)**—1/1/05 to 8/31/05:  
\$1,750 per month × 8 months . . . . . \$14,000  
Plus: Self-employment income through 8/31/05 . . . . . 8,600  
Less: Self-employment tax deduction (\$1,822 ÷ 3) . . . . . (607)  
\$21,993

**Column (d)**—1/1/05 to 12/31/05:  
\$1,750 per month × 12 months . . . . . \$21,000  
Plus: Self-employment income through 12/31/05 . . . . . 16,600  
Less: Self-employment tax deduction (\$2,346 ÷ 2) . . . . . (1,173)  
\$36,427

**Itemized deductions.** Betty had \$6,000 in itemized deductions for 2005. She divided them by period in the following manner.

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

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

Now that Betty has figured her entries for lines 1 and 4, she can complete the rest of Schedule AI to determine the amounts to put on Form 2210, line 18. Figure 4-C, at the end of the chapter, shows her completed Part I.

**Underpayment.** Betty then figures her underpayment in Part IV, Section A (see Figure 4-C at the end of the chapter). She finds that she overpaid her estimated tax for the first and third payment periods, but she underpaid her estimated tax for the other two periods.

## Figuring Your Penalty (Section B)

Figure the amount of your penalty in Section B following the instructions. The penalty is imposed on each underpayment shown on Section A, line 25, for the number of days that it remained unpaid. (You may find it helpful to show the date of payment beside each amount on line 25.)

There are two rate periods to figure the penalty. Use *Rate Period 1* (lines 27 and 28) to apply the 6% rate in effect between April 16, 2005, and September 30, 2005. Use *Rate Period 2* (lines 29 and 30) to apply the 7% rate in effect between October 1, 2005, and April 15, 2006.

**Aid for counting days.** Table 4-1, on the next page, provides a simple method to count the number of days between payment dates or between a due date and a payment date.

1. Find the number for the date the payment was due by going across to the column of the month the payment was due and moving down the column to the due date.
2. In the same manner, find the number for the date the payment was made.

3. Subtract the due date "number" from the payment date "number."

For example, if a payment was due on June 15 (61), but was not paid until November 4 (203), the payment was 142 (203 – 61) days late.

**Payments.** Before completing Section B, make a list of the payments you made after the due date (or the last day payments could be made on time) for the earliest payment period an underpayment occurred. For example, if you had an underpayment for the first payment period, list your payments after April 15, 2005. You can use the tables in the Form 2210 instructions to make your list. Follow those instructions for listing income tax withheld and payments made with your return. Use the list to determine when each underpayment was paid.

**Underpayment paid in two or more parts.** If an underpayment was paid in two or more parts on different dates, you must figure the penalty separately for each part. You may find it helpful to show the underpayment on Section A, line 25, broken down into the amounts paid on different dates. See Figure 4-B, at the end of this chapter, for an example of this.

**Figuring the penalty.** For each underpayment in Part IV, columns (a)–(d), figure the penalty by:

1. Determining the date(s) it was paid,
2. Determining the number of days between the due date and the payment date(s), and
3. Multiplying the amount of underpayment by the number of days unpaid and the appropriate penalty rate.

If an underpayment remained unpaid for more than one rate period, the penalty on that underpayment will be figured using more than one rate.

Use lines 27 and 29 to figure the number of days the underpayment remained unpaid. (Also see Table 4-1.) Use lines 28 and 30 to figure the actual penalty amount by applying the rate against the underpayment for the number of days it remained unpaid.

If an underpayment remained unpaid for the entire period, use Table 4-2 to determine the number of days to enter for each period.

Table 4-2. Chart of Total Days

	Column (a)	Column (b)	Column (c)	Column (d)
line 27	168	107	15	NA
line 29	197	197	197	90

To figure the total penalty, add the amounts on lines 28 and 30 in all columns. Enter the total on line 31.

**Example 1.** In the previous example for Ben Brown (see *Regular Installment Method*, page 50) he determined that he had an underpayment for all four payment periods. See Ben's completed Section A in Figure 4-B at the end of this chapter.

Ben's 2005 tax is \$7,031. His minimum required payment for each period is \$1,529 (\$6,116 ÷ 4). His \$3,228 withholding is considered paid in four equal installments of \$807, one on each payment due date. Therefore, he must

Table 4-1. **Calendar To Determine the Number of Days a Payment Is Late**

**Instructions.** Use this table with Form 2210 if you are completing Part IV, Section B. First, find the number for the payment due date by going across to the column of the month the payment was due and moving down the column to the due date. Then, in the same manner, find the number for the date the payment was made. Finally, subtract the due date number from the payment date number. The result is the number of days the payment is late.

**Example.** The payment due date is June 15 (61). The payment was made on November 4 (203). The payment is 142 days late (203 – 61).

Day of Month	Tax Year 2005												
	2005 April	2005 May	2005 June	2005 July	2005 Aug.	2005 Sept.	2005 Oct.	2005 Nov.	2005 Dec.	2006 Jan.	2006 Feb.	2006 Mar.	2006 Apr.
1		16	47	77	108	139	169	200	230	261	292	320	351
2		17	48	78	109	140	170	201	231	262	293	321	352
3		18	49	79	110	141	171	202	232	263	294	322	353
4		19	50	80	111	142	172	203	233	264	295	323	354
5		20	51	81	112	143	173	204	234	265	296	324	355
6		21	52	82	113	144	174	205	235	266	297	325	356
7		22	53	83	114	145	175	206	236	267	298	326	357
8		23	54	84	115	146	176	207	237	268	299	327	358
9		24	55	85	116	147	177	208	238	269	300	328	359
10		25	56	86	117	148	178	209	239	270	301	329	360
11		26	57	87	118	149	179	210	240	271	302	330	361
12		27	58	88	119	150	180	211	241	272	303	331	362
13		28	59	89	120	151	181	212	242	273	304	332	363
14		29	60	90	121	152	182	213	243	274	305	333	364
15	0	30	61	91	122	153	183	214	244	275	306	334	365
16	1	31	62	92	123	154	184	215	245	276	307	335	
17	2	32	63	93	124	155	185	216	246	277	308	336	
18	3	33	64	94	125	156	186	217	247	278	309	337	
19	4	34	65	95	126	157	187	218	248	279	310	338	
20	5	35	66	96	127	158	188	219	249	280	311	339	
21	6	36	67	97	128	159	189	220	250	281	312	340	
22	7	37	68	98	129	160	190	221	251	282	313	341	
23	8	38	69	99	130	161	191	222	252	283	314	342	
24	9	39	70	100	131	162	192	223	253	284	315	343	
25	10	40	71	101	132	163	193	224	254	285	316	344	
26	11	41	72	102	133	164	194	225	255	286	317	345	
27	12	42	73	103	134	165	195	226	256	287	318	346	
28	13	43	74	104	135	166	196	227	257	288	319	347	
29	14	44	75	105	136	167	197	228	258	289		348	
30	15	45	76	106	137	168	198	229	259	290		349	
31		46		107	138		199		260	291		350	

make estimated tax payments of \$722 (\$1,529 – \$807) each period. Ben made estimated tax payments of \$1,000 on September 2, 2005, and \$1,000 on January 12, 2006. He plans to file his return and pay his \$1,803 tax balance (\$7,031 tax – \$5,228 withholding and estimated tax payments) on April 15, 2006. Therefore, he is considered to have made the following payments for tax year 2005.

April 15, 2005 <sup>1</sup>	\$ 807
June 15, 2005 <sup>1</sup>	807
September 2, 2005 <sup>2</sup>	1,000
September 15, 2005 <sup>1</sup>	807
January 12, 2006 <sup>2</sup>	1,000
January 15, 2006 <sup>1</sup>	807
April 15, 2006 <sup>3</sup>	1,803

<sup>1</sup> One-fourth of withholding  
<sup>2</sup> Estimated tax payment  
<sup>3</sup> Tax balance paid with return

**Penalty for first payment period (April 15, 2005)—column (a).** Ben's \$722 underpayment for the first payment period was paid by applying \$722 of his \$807 payment on June 15,

2005. The \$722 remained unpaid 61 days (April 16 through June 15, 2005). Ben enters "61" on line 27 and figures this part of the penalty on line 28 ( $\$722 \times (61 \div 365) \times .06 = \$7.24$ ). See his completed Section B in Figure 4-B at the end of this chapter.

**Penalty for second payment period (June 15, 2005)—column (b).** Ben figures his second period underpayment as follows.

1. Of the \$807 he paid for the second period, \$722 is applied to the underpayment remaining from the first period.

2. That leaves \$85 (\$807 – \$722) to apply to his second period required installment of \$1,529.
3. The result, \$1,444 (\$1,529 – \$85), is Ben's underpayment for the second period.

The \$1,444 underpayment is paid in two parts by applying the \$1,000 paid on September 2 and \$444 of his \$807 September 15 payment. To help him figure his penalty, Ben shows each part of the underpayment paid on different dates on line 25.

\$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 27, column (b). He shows the result of both penalty computations on line 28 (see Figure 4-B at the end of this chapter).

**Penalty for third payment period (September 15, 2005)—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, 2006, and \$166 of his \$807 payment on January 15. On line 25, Ben shows each part of the underpayment paid on different dates.

For **Rate Period 1**, the entire underpayment remained unpaid 15 days (September 16 through September 30). Ben enters "15" on line 27. He shows the result of the penalty computation on line 28 (see Figure 4-B at the end of this chapter).

For **Rate Period 2**, \$1,000 of the underpayment remained unpaid for 104 days (September 16 through January 12) and \$166 remained unpaid for 107 days (September 16 through January 15). Ben enters "104" and "107" on line 29. He shows the result of both penalty computations on line 30 (see Figure 4-B at the end of this chapter).

**Penalty for fourth payment period (January 15, 2006)—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, 2006, with his tax return. The \$888 remained unpaid 90 days (January 16 through April 15, 2006). Ben enters that number on line 29 and shows the result of the penalty computation on line 30 (see Figure 4-B at the end of this chapter).

**Total penalty.** Ben's total penalty for 2005 on line 31 is \$68.51, the total of all amounts on

lines 28 and 30 in all columns. Ben enters that amount on line 76 of his Form 1040. He also adds \$69 to his \$1,803 tax balance and enters the \$1,872 total on line 75. He files his return on April 17 and includes a check for \$1,872. He keeps his completed Form 2210 for his records.

**Example 2.** In the previous example for Betty Beige (see *Completing Schedule AI*, page 50), her first underpayment was for the second payment period. See Betty's completed Section A in Figure 4-C, at the end of this chapter.

This example illustrates completion of Part IV, Section B, of Betty's Form 2210 under the annualized income installment method.

Betty made the following payments for tax year 2005.

April 15, 2005 <sup>1</sup>	\$ 807
June 15, 2005 <sup>1</sup>	807
September 2, 2005 <sup>2</sup>	1,000
September 15, 2005 <sup>1</sup>	807
January 12, 2006 <sup>2</sup>	1,000
January 15, 2006 <sup>1</sup>	807
April 15, 2006 <sup>3</sup>	859

<sup>1</sup> One-fourth of withholding

<sup>2</sup> Estimated tax payment

<sup>3</sup> Tax balance paid with return

**Penalty for second payment period—column (b).** Betty's \$414 underpayment for the second payment period was paid by applying \$414 of her \$1,000 September 2, 2005, payment. To help her figure her penalty, Betty shows the date the underpayment was paid on line 25.

The entire underpayment remained unpaid for 79 days (June 16 through September 2). Betty enters "79" on line 27 and shows the result of the penalty computation on line 28 (see Figure 4-C at the end of this chapter).

**Penalty for fourth payment period—column (d).** Betty's \$231 underpayment for the fourth payment period was paid on April 15, 2006, with her tax return. The entire amount remained unpaid 90 days (January 16 through April 15, 2006). Betty enters that number on line 29. She shows the result of the penalty computation on line 30 (see Figure 4-C at the end of this chapter).

**Total penalty.** Betty's total penalty for 2005 on line 31 is \$9.37, the total of all amounts on lines 28 and 30 in all columns. Betty enters that amount on line 76 of her Form 1040. She also adds \$9 to her \$859 tax balance and enters the \$868 total on line 75. She files her return on April 15 and includes a check for \$868. Because she used the annualized income installment method, she must attach Form 2210, including Schedule AI, to her return and check box C in Part II.

## Farmers and Fishermen

If you are a farmer or fisherman, the following special rules for underpayment of estimated tax apply to you.

1. The penalty for underpaying your 2005 estimated tax will not apply if you file your

return and pay all the tax due by March 1, 2006. 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 2005 estimated tax will be figured from one payment due date, January 15, 2006.
3. The underpayment penalty for 2005 is figured on the difference between the amount of 2005 withholding plus estimated tax paid by the due date and the smaller of:
  - a. 100% of the tax shown on your 2004 return, or
  - b. 66⅔% (rather than 90%) of your 2005 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 2004 or 2005 and both the following requirements are met.
  - a. You had a reasonable cause for not making the payment.
  - b. Your underpayment was not due to willful neglect.

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

1. Check box A or B in Part II.
2. If you checked box A:
  - a. Complete only page 1 of Form 2210.
  - b. Submit Form 2210 with your tax return.
3. If you checked box B:
  - a. Complete line 1 through line 16 (or through line 30 if you use the regular method) without regard to the waiver.
  - b. Write the amount you want waived in parentheses on the dotted line next to line 17 (line 31 for the regular method).

- c. Subtract this amount from the total penalty you figured without regard to the waiver. Enter the result on line 17 (line 31 for the regular method).
4. Attach Form 2210 and a statement to your return explaining the reasons you were unable to meet the estimated tax requirements and the time period for which you are requesting a waiver.
5. If you are requesting a penalty waiver due to retirement or disability, attach documentation that shows your retirement date (and your age on that date) or the date you became disabled.
6. If you are requesting a penalty waiver due to a casualty, disaster, or other unusual circumstance, attach documentation such as police and insurance company reports.

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

**Farmers and fishermen.** To request a waiver, you must complete Form 2210-F as follows.

1. Check box 1a in Part I.
2. Complete line 2 through line 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 unusual circumstance, attach 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.

Figure 4-A. Form 2210—Illustrated (Ivy Fields)

Form **2210**  
Department of the Treasury  
Internal Revenue Service

**Underpayment of  
Estimated Tax by Individuals, Estates, and Trusts**

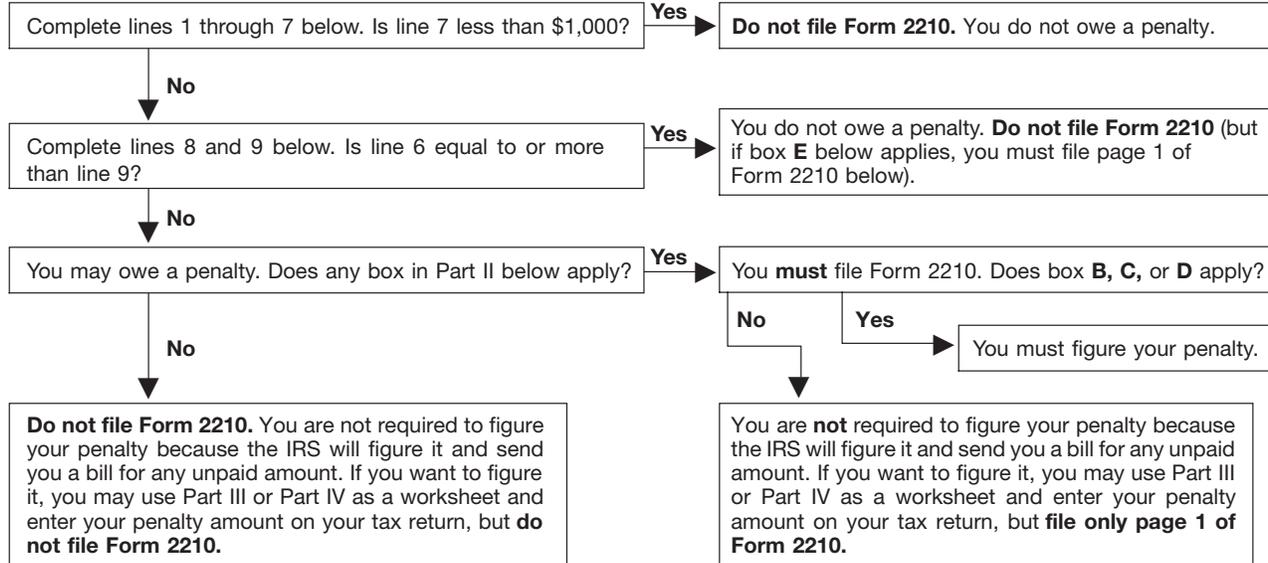
▶ See separate instructions.  
▶ Attach to Form 1040, 1040A, 1040NR, 1040NR-EZ, or 1041.

OMB No. 1545-0140  
**2005**  
Attachment  
Sequence No. **06**

Name(s) shown on tax return  
Ivy Fields

Identifying number  
222 - 00 - 2222

**Do You Have To File Form 2210?**



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

1	Enter your 2005 tax after credits from Form 1040, line 57 (or comparable line of your return)	1	11,000
2	Other taxes, including self-employment tax (see page 2 of the instructions)	2	
3	Refundable credits. Enter the total of your earned income credit, additional child tax credit, credit for federal tax paid on fuels, and health coverage tax credit for eligible individuals	3	( )
4	Current year tax. Combine lines 1, 2, and 3. If less than \$1,000, see page 3 of the instructions	4	11,000
5	Multiply line 4 by 90% (.90)	5	9,900
6	Withholding taxes. Do not include estimated tax payments. See page 3 of the instructions	6	1,600
7	Subtract line 6 from line 4. If less than \$1,000, you do not owe a penalty; do not file Form 2210	7	9,400
8	Maximum required annual payment based on prior year's tax (see page 3 of the instructions)	8	10,000
9	Required annual payment. Enter the smaller of line 5 or line 8	9	9,900

Next: Is line 9 more than line 6?

- No. You do not owe a penalty. Do not file Form 2210 unless box E below applies.
- Yes. You may owe a penalty, but do not file Form 2210 unless one or more boxes in Part II below applies.
  - If box B, C, or D applies, you must figure your penalty and file Form 2210.
  - If only box A or E (or both) applies, file only page 1 of Form 2210. You are not required to figure your penalty; the IRS will figure it and send you a bill for any unpaid amount. If you want to figure your penalty, you may use Part III or IV as a worksheet and enter your penalty on your tax return, but file only page 1 of Form 2210.

**Part II Reasons for Filing.** Check applicable boxes. If none apply, do not file Form 2210.

- A  You request a **waiver** (see page 2 of the instructions) of your entire penalty. You must check this box and file page 1 of Form 2210, but you are not required to figure your penalty.
- B  You request a waiver (see page 2 of the instructions) of part of your penalty. You must figure your penalty and waiver amount and file Form 2210.
- C  Your income varied during the year and your penalty is reduced or eliminated when figured using the **annualized income installment method**. You must figure the penalty using Schedule AI and file Form 2210.
- D  Your penalty is lower when figured by treating the federal income tax withheld from your wages as paid on the dates it was actually withheld, instead of in equal amounts on the payment due dates. You must figure your penalty and file Form 2210.
- E  You filed or are filing a joint return for either 2004 or 2005, but not for both years, and line 8 above is smaller than line 5 above. You must file page 1 of Form 2210, but you are not required to figure your penalty (unless box B, C, or D applies).

For Paperwork Reduction Act Notice, see page 6 of separate instructions.

Cat. No. 11744P

Form **2210** (2005)

Figure 4-A. Form 2210—Illustrated (Ivy Fields) (Continued)

**Part III Short Method**

You may use the short method if:

- You made no estimated tax payments (or your only payments were withheld federal income tax), **or**
- You paid estimated tax in **equal** amounts on your due dates.

You must use the regular method (Part IV) instead of the short method if:

- You made any estimated tax payments late,
- You checked box **C** or **D** in Part II, **or**
- You are filing Form 1040NR or 1040NR-EZ and you did not receive wages as an employee subject to U.S. income tax withholding.



*You do not need to file Form 2210 unless you checked a box in Part II on page 1.*

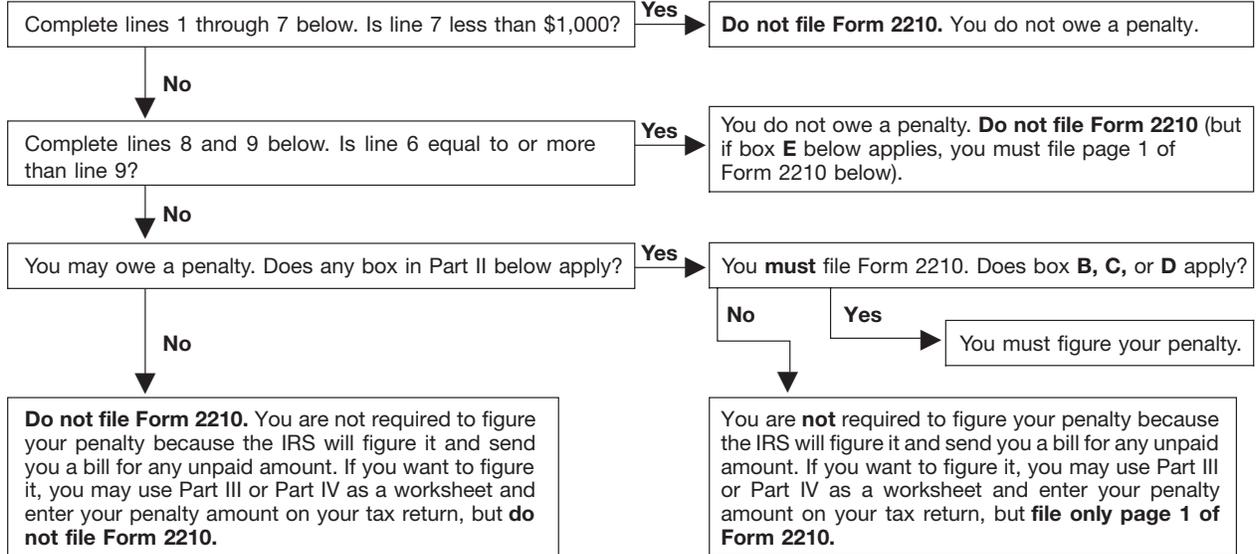
**Note:** *If any payment was made earlier than the due date, you may use the short method, but using it may cause you to pay a larger penalty than the regular method. If the payment was only a few days early, the difference is likely to be small.*

<b>10</b>	Enter the amount from Form 2210, line 9 . . . . .			<b>10</b>	9,900	
<b>11</b>	Enter the amount, if any, from Form 2210, line 6 . . . . .	<b>11</b>	1,600			
<b>12</b>	Enter the total amount, if any, of estimated tax payments you made	<b>12</b>	6,800			
<b>13</b>	Add lines 11 and 12 . . . . .			<b>13</b>	8,400	
<b>14</b>	<b>Total underpayment for year.</b> Subtract line 13 from line 10. If zero or less, stop here; you do not owe the penalty. <b>Do not file Form 2210 unless you checked box E on page 1</b> . . . . .			<b>14</b>	1,500	
<b>15</b>	Multiply line 14 by .04457 (use the factor shown in the instructions if you are eligible for hurricane relief)			<b>15</b>	67	
<b>16</b>	<ul style="list-style-type: none"> <li>● If the amount on line 14 was paid <b>on or after</b> 4/15/06, enter -0-.</li> <li>● If the amount on line 14 was paid <b>before</b> 4/15/06, make the following computation to find the amount to enter on line 16.</li> </ul>					
	Amount on line 14    ×    Number of days paid before 4/15/06    ×    .00019 . . . . .	<b>16</b>	9			
<b>17</b>	<b>Penalty.</b> Subtract line 16 from line 15. Enter the result here and on Form 1040, line 76; Form 1040A, line 48; Form 1040NR, line 74; Form 1040NR-EZ, line 26; or Form 1041, line 26 . . . ▶			<b>17</b>	58	

Figure 4-B. Regular Installment Method—Illustrated (Ben Brown)

Form <b>2210</b> Department of the Treasury Internal Revenue Service	<b>Underpayment of                  Estimated Tax by Individuals, Estates, and Trusts</b> ▶ See separate instructions. ▶ Attach to Form 1040, 1040A, 1040NR, 1040NR-EZ, or 1041.	OMB No. 1545-0140 <b>2005</b> Attachment Sequence No. <b>06</b>
Name(s) shown on tax return Ben Brown		Identifying number 333 - 00 - 3333

**Do You Have To File Form 2210?**



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

1 Enter your 2005 tax after credits from Form 1040, line 57 (or comparable line of your return)	<b>1</b>	4,685	
2 Other taxes, including self-employment tax (see page 2 of the instructions)	<b>2</b>	2,346	
3 Refundable credits. Enter the total of your earned income credit, additional child tax credit, credit for federal tax paid on fuels, and health coverage tax credit for eligible individuals	<b>3</b>	( )	
4 Current year tax. Combine lines 1, 2, and 3. If less than \$1,000, see page 3 of the instructions	<b>4</b>	7,031	
5 Multiply line 4 by 90% (.90)	<b>5</b>	6,328	
6 Withholding taxes. Do not include estimated tax payments. See page 3 of the instructions	<b>6</b>	3,228	
7 Subtract line 6 from line 4. If less than \$1,000, you do not owe a penalty; do not file Form 2210	<b>7</b>	3,803	
8 Maximum required annual payment based on prior year's tax (see page 3 of the instructions)	<b>8</b>	6,116	
9 Required annual payment. Enter the smaller of line 5 or line 8	<b>9</b>	6,116	

Next: Is line 9 more than line 6?

- No. You do not owe a penalty. Do not file Form 2210 unless box E below applies.
- Yes. You may owe a penalty, but do not file Form 2210 unless one or more boxes in Part II below applies.
- If box B, C, or D applies, you must figure your penalty and file Form 2210.
  - If only box A or E (or both) applies, file only page 1 of Form 2210. You are not required to figure your penalty; the IRS will figure it and send you a bill for any unpaid amount. If you want to figure your penalty, you may use Part III or IV as a worksheet and enter your penalty on your tax return, but file only page 1 of Form 2210.

**Part II Reasons for Filing.** Check applicable boxes. If none apply, do not file Form 2210.

- A**  You request a **waiver** (see page 2 of the instructions) of your entire penalty. You must check this box and file page 1 of Form 2210, but you are not required to figure your penalty.
- B**  You request a waiver (see page 2 of the instructions) of part of your penalty. You must figure your penalty and waiver amount and file Form 2210.
- C**  Your income varied during the year and your penalty is reduced or eliminated when figured using the **annualized income installment method**. You must figure the penalty using Schedule AI and file Form 2210.
- D**  Your penalty is lower when figured by treating the federal income tax withheld from your wages as paid on the dates it was actually withheld, instead of in equal amounts on the payment due dates. You must figure your penalty and file Form 2210.
- E**  You filed or are filing a joint return for either 2004 or 2005, but not for both years, and line 8 above is smaller than line 5 above. You must file page 1 of Form 2210, but you are not required to figure your penalty (unless box B, C, or D applies).

For Paperwork Reduction Act Notice, see page 6 of separate instructions.

Cat. No. 11744P

Form **2210** (2005)

Figure 4-B. Regular Installment Method—Illustrated (Ben Brown) (Continued)

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

Section A—Figure Your Underpayment		Payment Due Dates			
		(a) 4/15/05	(b) 6/15/05	(c) 9/15/05	(d) 1/15/06
<b>18</b>	<b>Required installments.</b> If box C in Part II applies, enter the amounts from Schedule AI, line 25. Otherwise, enter 25% (.25) of line 9, Form 2210, in each column . . . . .	1,529	1,529	1,529	1,529
<b>19</b>	<b>Estimated tax paid and tax withheld</b> (see page 3 of the instructions). For column (a) only, also enter the amount from line 19 on line 23. If line 19 is equal to or more than line 18 for all payment periods, stop here; you do not owe a penalty. <b>Do not file Form 2210 unless you checked a box in Part II</b> . . . . . <i>Complete lines 20 through 26 of one column before going to the next column.</i>	807	807	807 +1,000 1,807	807 +1,000 1,807
<b>20</b>	Enter the amount, if any, from line 26 in previous column . . . . .				
<b>21</b>	Add lines 19 and 20 . . . . .		807	1,807	1,807
<b>22</b>	Add the amounts on lines 24 and 25 in previous column . . . . .		722	1,444	1,166
<b>23</b>	Subtract line 22 from line 21. If zero or less, enter -0-. For column (a) only, enter the amount from line 19. . . . .	807	85	363	641
<b>24</b>	If line 23 is zero, subtract line 21 from line 22. Otherwise, enter -0- . . . . .		0	0	
<b>25</b>	<b>Underpayment.</b> If line 18 is equal to or more than line 23, subtract line 23 from line 18. Then go to line 20 of the next column. Otherwise, go to line 26 ▶	6/15 0 722	9/2 1,000 9/15 444 1,444	1/12 1,000 1/15 166 1,166	4/15 0 888
<b>26</b>	<b>Overpayment.</b> If line 23 is more than line 18, subtract line 18 from line 23. Then go to line 20 of the next column . . . . .				

**Section B—Figure the Penalty** (Complete lines 27 through 30 of one column before going to the next column.)

Rate Period 1 April 16, 2005—September 30, 2005		4/15/05	6/15/05	9/15/05	
		Days: 61	Days: 79 / 92	Days: 15	
<b>27</b>	Number of days <b>from</b> the date shown above line 27 <b>to</b> the date the amount on line 25 was paid <b>or</b> 9/30/05, whichever is earlier . . . . .				
<b>28</b>	Underpayment on line 25 (see page 4 of the instructions) × $\frac{\text{Number of days on line 27}}{365} \times .06$ ▶	\$ 7.24	\$ 6.71	\$ 2.88	
<b>Rate Period 2 October 1, 2005—April 15, 2006</b>		9/30/05	9/30/05	9/30/05	1/15/06
<b>29</b>	Number of days <b>from</b> the date shown above line 29 <b>to</b> the date the amount on line 25 was paid <b>or</b> 4/15/06, whichever is earlier . . . . .	Days: 90	Days: 104 / 107	Days: 90	Days: 90
<b>30</b>	Underpayment on line 25 (see page 4 of the instructions) × $\frac{\text{Number of days on line 29}}{365} \times .07$ ▶	\$	\$	\$ 3.41	\$ 15.33
<b>31</b>	<b>Penalty.</b> Add all amounts on lines 28 and 30 in all columns. Enter the total here and on Form 1040, line 76; Form 1040A, line 48; Form 1040NR, line 74; Form 1040NR-EZ, line 26; or Form 1041, line 26, <b>but do not file Form 2210 unless you checked a box in Part II</b> . . . . . ▶				\$ 68.51

# Figure 4-C. Annualized Income Installment Method—Illustrated (Betty Beige)

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

Estates and trusts, **do not** use the period ending dates shown to the right. Instead, use the following: 2/28/05, 4/30/05, 7/31/05, and 11/30/05.

(a)	(b)	(c)	(d)
1/1/05-3/31/05	1/1/05-5/31/05	1/1/05-8/31/05	1/1/05-12/31/05

### Part I Annualized Income Installments

<b>1</b>	Enter your adjusted gross income for each period (see instructions). (Estates and trusts, enter your taxable income without your exemption for each period.) . . . . .	1	5,250	13,025	21,993	36,427
<b>2</b>	Annualization amounts. (Estates and trusts, see instructions.) . . . . .	2	4	2.4	1.5	1
<b>3</b>	Annualized income. Multiply line 1 by line 2 . . . . .	3	21,000	31,260	32,990	36,427
<b>4</b>	Enter your itemized deductions for the period shown in each column. If you do not itemize, enter -0- and skip to line 7. (Estates and trusts, enter -0-, skip to line 9, and enter the amount from line 3 on line 9.)	4	1,500	2,500	4,000	6,000
<b>5</b>	Annualization amounts . . . . .	5	4	2.4	1.5	1
<b>6</b>	Multiply line 4 by line 5 (see instructions if line 3 is more than \$72,975)	6	6,000	6,000	6,000	6,000
<b>7</b>	In each column, enter the full amount of your standard deduction from Form 1040, line 40, or Form 1040A, line 24 (Form 1040NR or 1040NR-EZ filers, enter -0-. <b>Exception:</b> Indian students and business apprentices, enter standard deduction from Form 1040NR, line 37, or Form 1040NR-EZ, line 11.) . . . . .	7	5,000	5,000	5,000	5,000
<b>8</b>	Enter the <b>larger</b> of line 6 or line 7 . . . . .	8	6,000	6,000	6,000	6,000
<b>9</b>	Subtract line 8 from line 3 . . . . .	9	15,000	25,260	26,990	30,427
<b>10</b>	In each column, multiply \$3,200 by the total number of exemptions claimed (see instructions if line 3 is more than \$109,475). (Estates and trusts and Form 1040NR or 1040NR-EZ filers, enter the exemption amount shown on your tax return.) . . . . .	10	3,200	3,200	3,200	3,200
<b>11</b>	Subtract line 10 from line 9 . . . . .	11	11,800	22,060	23,790	27,227
<b>12</b>	Figure your tax on the amount on line 11 (see instructions) . . . . .	12	1,409	2,946	3,201	3,719
<b>13</b>	Self-employment tax from line 34 below (complete Part II) . . . . .	13		1,560	1,822	2,346
<b>14</b>	Enter other taxes for each payment period (see instructions) . . . . .	14				
<b>15</b>	Total tax. Add lines 12, 13, and 14 . . . . .	15	1,409	4,506	5,023	6,065
<b>16</b>	For each period, enter the same type of credits as allowed on Form 2210, lines 1 and 3 (see instructions) . . . . .	16				
<b>17</b>	Subtract line 16 from line 15. If zero or less, enter -0- . . . . .	17	1,409	4,506	5,023	6,065
<b>18</b>	Applicable percentage . . . . .	18	22.5%	45%	67.5%	90%
<b>19</b>	Multiply line 17 by line 18 . . . . .	19	317	2,028	3,391	5,459
<b>Complete lines 20–25 of one column before going to the next column.</b>						
<b>20</b>	Enter the total of the amounts in all previous columns of line 25 . . . . .	20		317	2,028	3,391
<b>21</b>	Subtract line 20 from line 19. If zero or less, enter -0- . . . . .	21	317	1,711	1,363	2,068
<b>22</b>	Enter 25% (.25) of line 9 on page 1 of Form 2210 in each column . . . . .	22	1,370	1,370	1,370	1,370
<b>23</b>	Subtract line 25 of the previous column from line 24 of that column . . . . .	23		1,053	712	719
<b>24</b>	Add lines 22 and 23 . . . . .	24	1,370	2,423	2,082	2,089
<b>25</b>	Enter the <b>smaller</b> of line 21 or line 24 here and on Form 2210, line 18 . . . . . ▶	25	317	1,711	1,363	2,068

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

<b>26</b>	Net earnings from self-employment for the period (see instructions)	26		4,248	7,942	15,330
<b>27</b>	Prorated social security tax limit . . . . .	27	\$22,500	\$37,500	\$60,000	\$90,000
<b>28</b>	Enter actual wages for the period subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax . . . . .	28		8,750	14,000	21,000
<b>29</b>	Subtract line 28 from line 27. If zero or less, enter -0- . . . . .	29		28,750	46,000	69,000
<b>30</b>	Annualization amounts . . . . .	30	0.496	0.2976	0.186	0.124
<b>31</b>	Multiply line 30 by the <b>smaller</b> of line 26 or line 29 . . . . .	31		1,264	1,477	1,901
<b>32</b>	Annualization amounts . . . . .	32	0.116	0.0696	0.0435	0.029
<b>33</b>	Multiply line 26 by line 32 . . . . .	33		296	345	445
<b>34</b>	Add lines 31 and 33. Enter here and on line 13 above . . . . . ▶	34		1,560	1,822	2,346

Figure 4-C. Annualized Income Method—Illustrated (Betty Beige) (Continued)

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

Section A—Figure Your Underpayment		Payment Due Dates				
		(a) 4/15/05	(b) 6/15/05	(c) 9/15/05	(d) 1/15/06	
<b>18</b>	<b>Required installments.</b> If box C in Part II applies, enter the amounts from Schedule AI, line 25. Otherwise, enter 25% (.25) of line 9, Form 2210, in each column . . . . .	18	317	1,711	1,363	2,068
<b>19</b>	<b>Estimated tax paid and tax withheld</b> (see page 3 of the instructions). For column (a) only, also enter the amount from line 19 on line 23. If line 19 is equal to or more than line 18 for all payment periods, stop here; you do not owe a penalty. <b>Do not file Form 2210 unless you checked a box in Part II</b> . . . . . <b>Complete lines 20 through 26 of one column before going to the next column.</b>	19	807	807	807 +1,000 1,807	807 +1,000 1,807
<b>20</b>	Enter the amount, if any, from line 26 in previous column . . . . .	20		490		30
<b>21</b>	Add lines 19 and 20 . . . . .	21		1,297	1,807	1,837
<b>22</b>	Add the amounts on lines 24 and 25 in previous column . . . . .	22		0	414	0
<b>23</b>	Subtract line 22 from line 21. If zero or less, enter -0-. For column (a) only, enter the amount from line 19. . . . .	23	807	1,297	1,393	1,837
<b>24</b>	If line 23 is zero, subtract line 21 from line 22. Otherwise, enter -0- . . . . .	24		0	0	
<b>25</b>	<b>Underpayment.</b> If line 18 is equal to or more than line 23, subtract line 23 from line 18. Then go to line 20 of the next column. Otherwise, go to line 26 ▶	25		9/2 414		231
<b>26</b>	<b>Overpayment.</b> If line 23 is more than line 18, subtract line 18 from line 23. Then go to line 20 of the next column . . . . .	26	490		30	

**Section B—Figure the Penalty** (Complete lines 27 through 30 of one column before going to the next column.)

		4/15/05	6/15/05	9/15/05		
Rate Period 1	<b>April 16, 2005—September 30, 2005</b>					
	<b>27</b>	Number of days from the date shown above line 27 to the date the amount on line 25 was paid or 9/30/05, whichever is earlier . . . . .	Days:	Days:	Days:	
	<b>28</b>	Underpayment on line 25 (see page 4 of the instructions) × $\frac{\text{Number of days on line 27}}{365} \times .06$ ▶	\$	\$ 5.38	\$	
Rate Period 2	<b>October 1, 2005—April 15, 2006</b>		9/30/05	9/30/05	9/30/05	
	<b>29</b>	Number of days from the date shown above line 29 to the date the amount on line 25 was paid or 4/15/06, whichever is earlier . . . . .	Days:	Days:	Days:	
	<b>30</b>	Underpayment on line 25 (see page 4 of the instructions) × $\frac{\text{Number of days on line 29}}{365} \times .07$ ▶	\$	\$	\$	\$ 3.99
<b>31</b>	<b>Penalty.</b> Add all amounts on lines 28 and 30 in all columns. Enter the total here and on Form 1040, line 76; Form 1040A, line 48; Form 1040NR, line 74; Form 1040NR-EZ, line 26; or Form 1041, line 26, but do not file Form 2210 unless you checked a box in Part II . . . . . ▶				<b>31</b>	\$ 9.37

## 5.

# How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

**Contacting your Taxpayer Advocate.** If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

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

To contact your Taxpayer Advocate:

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

For more information, see Publication 1546, How To Get Help With Unresolved Tax Problems (now available in Chinese, Korean, Russian, and Vietnamese, in addition to English and Spanish).

**Free tax services.** To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



**Internet.** You can access the IRS website 24 hours a day, 7 days a week, at [www.irs.gov](http://www.irs.gov) to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2005 refund. Click on *Where's My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.

- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our Form W-4 calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



**Phone.** Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to [www.irs.gov/localcontacts](http://www.irs.gov/localcontacts) or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2005 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

**Evaluating the quality of our telephone services.** To ensure 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, gro-

cery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to [www.irs.gov/localcontacts](http://www.irs.gov/localcontacts) or look in the phone book under *United States Government, Internal Revenue Service*.



**Mail.** You can send your order for forms, instructions, and publications to the address below and receive a response within 10 business days after your request is received.

National Distribution Center  
P.O. Box 8903  
Bloomington, IL 61702-8903



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

- A CD that is released twice so you have the latest products. The first release ships in late December and the final release ships in late February.
- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions (FAQs).
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.

Buy the CD-ROM from National Technical Information Service (NTIS) at [www.irs.gov/cdorders](http://www.irs.gov/cdorders) for \$25 (no handling fee) or call 1-877-233-6767 toll free to buy the CD-ROM for \$25 (plus a \$5 handling fee).



**CD-ROM for small businesses.**

Publication 3207, The Small Business Resource Guide CD-ROM for 2005,

has a new look and enhanced navigation features. This year's CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.

- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2005.
- IRS Tax Map to help you find forms, instructions, and publications by searching on a keyword or topic.

- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting [www.irs.gov/smallbiz](http://www.irs.gov/smallbiz).



**A**

**Address change** ..... 28

**Adjusted gross income (AGI):**

Annualized AGI ..... 30

Deductions and Adjustments Worksheet ..... 7

Expected AGI ..... 22, 29

**Adjustments to income:**

Estimated tax ..... 22

Withholding allowances ..... 7

Worksheet instructions ..... 6-8

**Age 65 or older:**

withholding

withholding ..... 13

**Aliens (See Nonresident aliens)**

**Amended returns** ..... 43, 48

**Annualized income installment method** ..... 29

tax

tax ..... 39

Estimated tax ..... 25

Form 2210 ..... 50

Underpayment penalty ..... 50

**Annuities** ..... 15-16

**Assistance (See Tax help)**

---

**B**

**Backup withholding** ..... 17

tax

tax ..... 44

**Blind persons:**

withholding

withholding ..... 13

---

**C**

**Capital gains and losses:**

tax

tax ..... 26

Estimated tax on net capital gain ..... 23

Qualified dividends ..... 19, 23

**Casualty and theft losses** ..... 7

Waiver of penalty ..... 53

**Change of address** ..... 28

**Change of name** ..... 44

**Changing withholding** ..... 4-5

**Charitable contributions** ..... 7

**Child and dependent care credit:**

Worksheet

Worksheet ..... 6

**Child tax credit:**

Worksheet

Worksheet ..... 6

**Claim of right** ..... 7

**Collection of tax:**

Estimated tax (See Estimated tax)

Withholding (See Withholding)

**Comments on publication** ..... 2

**Commodity credit loans** ..... 16

states

states ..... 44

**Compensation:**

Independent contractors,

backup withholding ..... 17

Supplemental wages ..... 13

Tips ..... 14

Wages and salaries ..... 4-14

**Credit cards** ..... 29

**overpayment**

**overpayment** ..... 28

**Credits:**

2005 withholding and estimated taxes ..... 43

credits

credits ..... 30

Deductions and Adjustments Worksheet ..... 7-8

Estimated tax against income tax ..... 44

Excess withholding on social security or railroad retirement taxes ..... 44

withholding

withholding ..... 13

credits

credits ..... 22, 29

Withholding allowances ..... 7

for

for ..... 43

**Criminal penalties:**

Willfully false or fraudulent Form W-4 ..... 14

**payments**

**payments** ..... 16

**Cumulative wage method of withholding** ..... 9

---

**D**

**Deductions:**

Home mortgage interest ..... 7

decrease

decrease ..... 4

Worksheet instructions ..... 6-8

**Deferred compensation, nonqualified** ..... 15

**Dependents:**

Exemptions ..... 6

decrease

decrease ..... 4

**Disabled persons:**

Impairment-related work expenses ..... 7

**Disaster:**

Waiver of penalty ..... 53

**Dividends:**

Backup withholding ..... 17

Qualified dividends, estimated tax ..... 19, 23

Underreported ..... 17

**Divorced taxpayers:**

Estimated tax credit ..... 44

Withholding ..... 4, 5

**Domestic help:**

Definition ..... 4

Employment taxes ..... 19, 47

Estimated tax, regular installment method ..... 25

Withholding ..... 4

---

**E**

**withdrawal**

**withdrawal** ..... 19, 29

**distributions**

**distributions** ..... 15-16

**Employee business expenses:**

Accountable plans ..... 14

Excess reimbursements or allowances ..... 14

Nonaccountable plans ..... 14

Reimbursements ..... 13

**Employer Identification Numbers (EINs)** ..... 17

**Employers** ..... 9

Excess withholding on social security and railroad retirement taxes ..... 44, 45

Repaying withheld tax ..... 9

Tips ..... 14

**Errors:**

Excess withholding of social security or railroad retirement taxes by employer ..... 45

**Estate beneficiaries:**

Underpayment penalty ..... 48

**Estate tax:**

decendent

decendent ..... 7

**Estates:**

Estimated tax ..... 22

**Estimated tax:**

Adjustments to income ..... 22

Aliens ..... 21, 28

Amended tax ..... 25

Annualized adjusted gross income ..... 30

Annualized income installment method ..... 25, 29

Blank worksheet ..... 39

income

income ..... 30

credits

credits ..... 30

Change in amount ..... 25

Change of address ..... 28

Change of name ..... 44

tax

tax ..... 44

Credit card, payment by ..... 29

overpayment

overpayment ..... 28

Divorced taxpayers ..... 44

Domestic help ..... 19, 25

withdrawal

withdrawal ..... 19, 29

Employment taxes ..... 19, 47

Estates and trusts ..... 22

Exemptions ..... 22

Expected adjusted gross income ..... 22, 29

income

income ..... 22, 29

credits

credits ..... 22, 29

Failure to pay penalty ..... 47

Farmers and fishermen ..... 21, 24, 25, 47

Fiscal year taxpayers ..... 25

Form 1040-ES ..... 22

individuals

individuals ..... 19, 24

How to figure ..... 22, 25

How to pay ..... 28

Illustrated examples ..... 29

Instructions for Worksheet 2-8,

tax

tax ..... 26

Itemized deductions ..... 22

Married taxpayers ..... 20

Net capital gain ..... 23, 26

No standard deduction ..... 22

Nonresident aliens ..... 26, 28

Overpayment ..... 28

Payment-vouchers ..... 28

Payments not required ..... 28

Qualified dividends ..... 19, 23

benefits

benefits ..... 22

method

method ..... 25, 29

payment

payment ..... 24, 29

Required estimated tax payment ..... 29, 30

Safe harbor for higher income individuals ..... 19

income

income ..... 22, 26

Separate returns ..... 44

Sick pay ..... 15

Social security benefits ..... 22

Standard deduction ..... 22, 26

payments

payments ..... 24

Types of taxes included ..... 19

Underpayment penalty ..... 2, 25, 47

When to pay ..... 24

When to start payments ..... 25

pay

pay ..... 19

Who must pay ..... 19, 20

**Estimated tax worksheets:**

2006 annualized estimated tax worksheet ..... 39

worksheet

worksheet ..... 31

Amended estimated tax ..... 25

Capital gains ..... 36, 41

reduction

reduction ..... 35, 40

exemption

exemption ..... 35

phaseout

phaseout ..... 35, 40

Qualified dividends ..... 23, 41

benefits

benefits ..... 34

Self-employment tax ..... 34

illustrated

illustrated ..... 29

Social security benefits ..... 34

**Excess social security or railroad retirement tax withholding** ..... 43, 44-45

Nonrailroad employees

worksheet ..... 45

worksheets

worksheets ..... 45

**withholding**

**withholding** ..... 9-13

Age 65 or older ..... 13

<b>Exemption from withholding</b> (Cont.)	
Blind persons	13
Claiming	13
Good for only one year	13
Itemized deductions	13
Students	12
<b>Exemptions:</b>	
Dependents	6
income	
income	22, 35
Hurricane Katrina	22, 35
Worksheet	
Worksheet	5
Reduction of	6, 22, 26
Self	6
Spouse	6
Withholding allowances	5
Worksheets	35, 40
<b>Expenses:</b>	
Allowances	13
Standard mileage rates	2, 18
<hr/>	
<b>F</b>	
<b>Failure to comply with tax laws</b> (See Penalties)	
<b>Farmers:</b>	
Estimated tax	21, 24, 25, 47
Fiscal years	25
Gross income	21
Joint returns	21
payment	
payment	24
Underpayment penalty	47, 53
Waiver of underpayment penalty	54
farmworkers	
farmworkers	4
<b>Figures</b> (See Tables and figures)	
<b>Fiscal years:</b>	
Estimated tax	25
Farmers and fishermen	25
Withholding tax credit	44
<b>Fishermen:</b>	
Backup withholding, fishing boat operators' payments	17
Estimated tax	21, 24, 25, 47
Fiscal years	25
Gross income	21
Joint returns	21
payment	
payment	24
Underpayment penalty	47, 53
Waiver of underpayment penalty	54
<b>Form 1040-ES</b>	19, 22, 28
<b>Form 1040-ES(NR)</b>	21
<b>Form 1040X</b>	43
<b>Form 1041-ES</b>	22
<b>Form 1099 series</b>	17, 43
<b>Form 2210</b>	48, 50, 51
<b>Form 2210-F</b>	53
<b>Form 8822</b>	28
<b>Form W-2</b>	43
<b>Form W-2c</b>	43
<b>Form W-2G</b>	16, 43

<b>Form W-4</b> (See Form W-4 worksheets)	
Illustrated example	8, 9
<b>Form W-4 worksheets:</b>	
worksheets	
worksheets	8
Completing of	5
Deductions and Adjustments Worksheet	8
Deductions and adjustments worksheet instructions	6
claimed	
claimed	6, 8
Worksheet	
Worksheet	5, 8
Two-Earner/Two-Job Worksheet	8
Withholding allowances	5
<b>Form W-4, Employee's Allowance Withholding Certificate</b>	4-13
<b>Form W-4P</b>	15
<b>Form W-4S</b>	15
<b>Form W-4V</b>	16
<b>Form W-7</b>	17
<b>Form W-9</b>	17
<b>Fraud:</b>	
Form W-4 statements	14
<b>Free tax services</b>	61
<b>Fringe benefits</b>	14-15
<hr/>	
<b>G</b>	
<b>Gambling:</b>	
Form W-2G	43
Losses	7, 43
Winnings	43
<b>Gross income</b>	21
Farming	21
Fishing	21
<hr/>	
<b>H</b>	
<b>Head of household:</b>	
Worksheet	
Worksheet	6
Withholding allowance	6
<b>Help</b> (See Tax help)	
<b>Higher income individuals:</b>	
harbor	
harbor	19
payment	
payment	24
Underpayment penalty	47
<b>Household workers</b> (See Domestic help)	
<b>Hurricane Katrina, additional exemption amount</b>	22
<b>exemptions</b>	
<b>exemptions</b>	35
<hr/>	
<b>I</b>	
<b>Independent contractors:</b>	
Backup withholding	17
<b>Individual retirement arrangements (IRAs):</b> (See also Pensions) (See also Retirement plans)	15
Income limits	2, 18
SIMPLE IRA salary reduction contributions	2, 18
<b>Interest income:</b>	
Backup withholding	17

Underreported	17
<b>Itemized deductions:</b>	
Deductions and Adjustments Worksheet	6
Estimated tax, expected taxable income	22
withholding	
withholding	13
Gambling losses	43
Phaseout of	7, 22
Reduction	7, 22
Worksheets	7, 35, 40
<hr/>	
<b>J</b>	
<b>Joint returns:</b>	
Excess withholding on social security and railroad retirement taxes	44
Farmers and fishermen	21
Underpayment penalty	48
<hr/>	
<b>M</b>	
<b>Marital status:</b>	
Form W-4 worksheet	5
Withholding rate	5
<b>Married taxpayers:</b> (See also Joint returns)	44
Estimated tax	20
Marital status	5
Withholding allowances	5
<b>expenses</b>	
<b>expenses</b>	7
<b>Military retirement pay</b>	4, 15
<b>Missing children, photographs of</b>	3
<b>More information</b> (See Tax help)	
<hr/>	
<b>N</b>	
<b>Name change</b>	44
<b>Noncitizens:</b>	
Estimated tax	21
Withholding	5
<b>Nonqualified deferred compensation</b>	15
<b>Nonresident aliens:</b>	
Estimated tax	21, 28
Individual taxpayer identification numbers (ITINs)	17
<hr/>	
<b>O</b>	
<b>Overpayment:</b>	
tax	
tax	28
<hr/>	
<b>P</b>	
<b>withholding</b>	
<b>withholding</b>	9
<b>Patronage dividends:</b>	
Backup withholding	17
<b>Payment-vouchers</b>	28
<b>Penalties:</b>	
Backup withholding	17
tax	
tax	47
tax	47
Waiver of	53
Willfully false or fraudulent Form W-4	14
Withholding allowances	14

<b>Pensions:</b> (See also Individual retirement arrangements (IRAs); Retirement plans)	2, 15-16, 18
Rollovers	15-16
Wages and salaries withholding rules compared	15
<b>Personal allowances:</b>	
Reduction of	6
<b>Personal Allowances Worksheet</b>	5-6
<b>Personal exemptions</b> (See Exemptions)	
<b>Publication 919</b>	9
<b>Publications</b> (See Tax help)	
<hr/>	
<b>Q</b>	
<b>Qualified dividends</b>	19, 23
<hr/>	
<b>R</b>	
<b>Railroad retirement benefits:</b>	
Choosing to withhold	16
Estimated tax	22
<b>Railroad retirement tax:</b>	
Excess withholding	43, 44, 45
Worksheets	46
Refund claims	45
<b>Regular installment method, estimated tax</b>	25, 29
<b>Reimbursements</b>	13
Excess	14
<b>Rents, profits, or other gains:</b>	
Backup withholding	17
<b>Reporting:</b>	
Fringe benefits	15
Gambling winnings	16
Tips to employer	14
<b>payment</b>	
<b>payment</b>	24
<b>Required estimated tax payment</b>	29, 30
<b>Retirement plans:</b>	
IRAs (See Individual retirement arrangements (IRAs))	
Pension plans (See Pensions)	
Rollovers	15-16
State or local deferred payments	
payments	15
<b>Rollovers</b>	15-16
<b>Royalties:</b>	
Backup withholding	17
<hr/>	
<b>S</b>	
<b>Safe harbors:</b>	
2005 estimated tax for higher income individuals	19
<b>Salaries</b> (See Compensation)	
<b>Salary reduction contributions:</b>	
SIMPLE IRAs	2, 18
<b>rule</b>	
<b>rule</b>	24
<b>Self-employment tax</b>	22, 26
<b>Separate returns:</b>	
Estimated tax credit	44
Underpayment penalty	48
Withholding tax credit	43
<b>Sick pay</b>	15
<b>SIMPLE IRAs</b>	2, 18
<b>Single marital status</b>	5



**Worksheets: (Cont.)**

Excess tier 2 railroad retirement tax (Worksheet 3-3) ..... 46  
Exemption amount reduction (Worksheet 2-10) ..... 40  
Exemption amount reduction (Worksheet 2-4) ..... 35  
Form W-4 (See Form W-4 worksheets)

Hurricane Katrina (Worksheet 2-5) ..... 35  
Itemized deductions phaseout: Worksheet 2-3 ..... 35  
Worksheet 2-9 ..... 40  
Itemized deductions, Form W-4 (Worksheet 1-2) ..... 7  
Personal allowances reduction (Worksheet 1-1) ..... 6

Worksheet  
Worksheet ..... 5-6  
Qualified dividends: Worksheet 2-11 ..... 41  
Worksheet 2-6 ..... 36  
Railroad retirement benefits (Worksheet 2-1) ..... 34  
Self-employment tax (Worksheet 2-2) ..... 34

Self-employment tax, illustrated (Worksheet 2-2) ..... 29  
Social security benefits (Worksheet 2-1) ..... 34



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

<p><b>General Guides</b></p> <p><b>1</b> Your Rights as a Taxpayer</p> <p><b>17</b> Your Federal Income Tax (For Individuals)</p> <p><b>334</b> Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)</p> <p><b>509</b> Tax Calendars for 2006</p> <p><b>553</b> Highlights of 2005 Tax Changes</p> <p><b>910</b> Guide to Free Tax Services</p> <p><b>Specialized Publication</b></p> <p><b>3</b> Armed Forces' Tax Guide</p> <p><b>54</b> Tax Guide for United States Citizens and Residents Aliens Abroad</p> <p><b>225</b> Farmer's Tax Guide</p> <p><b>463</b> Travel, Entertainment, Gift, and Car Expenses</p> <p><b>501</b> Exemptions, Standard Deduction, and Filing Information</p> <p><b>502</b> Medical and Dental Expenses</p> <p><b>503</b> Child and Dependent Care Expenses</p> <p><b>504</b> Divorced or Separated Individuals</p> <p><b>505</b> Tax Withholding and Estimated Tax</p> <p><b>508</b> Tax Benefits for Work-Related Education</p> <p><b>514</b> Foreign Tax Credit for Individuals</p> <p><b>516</b> United States Government Civilian Employees Stationed Abroad</p> <p><b>517</b> Social Security and Other Information for Members of the Clergy and Religious Workers</p> <p><b>519</b> United States Tax Guide for Aliens</p> <p><b>520</b> Scholarships and Fellowships</p> <p><b>521</b> Moving Expenses</p> <p><b>523</b> Selling Your Home</p> <p><b>524</b> Credit for the Elderly or the Disabled</p> <p><b>525</b> Taxable and Nontaxable Income</p> <p><b>526</b> Charitable Contributions</p> <p><b>527</b> Residential Rental Property</p> <p><b>529</b> Miscellaneous Deductions</p> <p><b>530</b> Tax Information for First-Time Homeowners</p>	<p><b>531</b> Reporting Tip Income</p> <p><b>534</b> Depreciating Property Placed in Service Before 1987</p> <p><b>536</b> Net Operating Losses for Individuals, Estates, and Trusts</p> <p><b>537</b> Installment Sales</p> <p><b>541</b> Partnerships</p> <p><b>544</b> Sales and Other Dispositions of Assets</p> <p><b>547</b> Casualties, Disasters, and Thefts</p> <p><b>550</b> Investment Income and Expenses</p> <p><b>551</b> Basis of Assets</p> <p><b>552</b> Recordkeeping for Individuals</p> <p><b>554</b> Older Americans' Tax Guide</p> <p><b>555</b> Community Property</p> <p><b>556</b> Examination of Returns, Appeal Rights, and Claims for Refund</p> <p><b>559</b> Survivors, Executors, and Administrators</p> <p><b>561</b> Determining the Value of Donated Property</p> <p><b>564</b> Mutual Fund Distributions</p> <p><b>570</b> Tax Guide for Individuals With Income From United States Possessions</p> <p><b>571</b> Tax-Sheltered Annuity Plans (403(b) Plans)</p> <p><b>575</b> Pension and Annuity Income</p> <p><b>584</b> Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)</p> <p><b>587</b> Business Use of Your Home (Including Use by Day-care Providers)</p> <p><b>590</b> Individual Retirement Arrangements</p> <p><b>593</b> Tax Highlights for United States Citizens and Residents Going Abroad</p> <p><b>594</b> The Internal Revenue Service Collection Process</p> <p><b>596</b> Earned Income Credit</p> <p><b>721</b> Tax Guide to United States Civil Service Retirement Benefits</p> <p><b>901</b> United States Tax Treaties</p> <p><b>907</b> Tax Highlights for Persons with Disabilities</p>	<p><b>908</b> Bankruptcy Tax Guide</p> <p><b>915</b> Social Security and Equivalent Railroad Retirement Benefits</p> <p><b>919</b> How Do I Adjust My Tax Withholding?</p> <p><b>925</b> Passive Activity and At-Risk Rules</p> <p><b>926</b> Household Employer's Tax Guide</p> <p><b>929</b> Tax Rules for Children and Dependents</p> <p><b>936</b> Home Mortgage Interest Deduction</p> <p><b>946</b> How To Depreciate Property</p> <p><b>947</b> Practice Before the Internal Revenue Service and Power of Attorney</p> <p><b>950</b> Introduction to Estate and Gift Taxes</p> <p><b>967</b> Internal Revenue Service Will Figure Your Tax</p> <p><b>969</b> Medical Savings Accounts</p> <p><b>970</b> Tax Benefits for Education</p> <p><b>971</b> Innocent Spouse Relief</p> <p><b>972</b> Child Tax Credit (For Individuals Sent Here From the Form 1040 or 1040A Instructions)</p> <p><b>1542</b> Per Diem Rates</p> <p><b>1544</b> Reporting Cash Payments of Over \$10,000</p> <p><b>1546</b> The Taxpayer Advocate Service of the Internal Revenue Service</p> <p><b>Spanish Language Publications</b></p> <p><b>1SP</b> Derechos del Contribuyente</p> <p><b>579SP</b> Cómo Preparar la Declaración de Impuesto Federal</p> <p><b>594SP</b> Qué es lo que Debemos Saber sobre el Proceso de Cobro del IRS</p> <p><b>596SP</b> Crédito por Ingreso del Trabajo</p> <p><b>850</b> English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service</p> <p><b>1544SP</b> Informe de Pagos en Efectivo en Exceso de \$10,000 (Recibidos en una Ocupación o Negocio)</p>
---	--	--

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

Form Number and Form Title	Form Number and Form Title
<b>1040</b> United States Individual Income Tax Return	<b>1040X</b> Amended United States Individual Income Tax Return
<b>Schedule A &amp; B</b> Itemized Deductions & Interest and Ordinary Dividends	<b>2106</b> Employee Business Expenses
<b>Schedule C</b> Profit or Loss From Business	<b>2106-EZ</b> Unreimbursed Employee Business Expenses
<b>Schedule C-EZ</b> Net Profit From Business	<b>2210</b> Underpayment of Estimated Tax by Individuals, Estates, and Trusts
<b>Schedule D</b> Capital Gains and Losses	<b>2441</b> Child and Dependent Care Expenses
<b>Schedule D-1</b> Continuation Sheet for Schedule D	<b>2848</b> Power of Attorney and Declaration of Representative
<b>Schedule E</b> Supplemental Income and Loss	<b>3903</b> Moving Expenses
<b>Schedule EIC</b> Earned Income Credit	<b>4562</b> Depreciation and Amortization
<b>Schedule F</b> Profit or Loss From Farming	<b>4868</b> Application for Automatic Extension of Time To File United States Individual Income Tax Return
<b>Schedule H</b> Household Employment Taxes	<b>4952</b> Investment Interest Expense Deduction
<b>Schedule J</b> Income Averaging For Farmers and Fishermen	<b>5329</b> Additional Taxes on Qualified Plans (including Individual Retirement Arrangements) and Other Tax-Favored Accounts
<b>Schedule R</b> Credit for the Elderly or the Disabled	<b>6251</b> Alternative Minimum Tax--Individuals
<b>Schedule SE</b> Self-Employment Tax	<b>8283</b> Non-cash Charitable Contributions
<b>1040A</b> United States Individual Income Tax Return	<b>8582</b> Passive Activity Loss Limitations
<b>Schedule 1</b> Interest and Ordinary Dividends for Form 1040A Filers	<b>8606</b> Nondeductible Individual Retirement Arrangements
<b>Schedule 2</b> Child and Dependent Care Expenses for Form 1040A Filers	<b>8812</b> Additional Child Tax Credit
<b>Schedule 3</b> Credit for the Elderly or the Disabled for Form 1040A Filers	<b>8822</b> Change of Address
<b>1040EZ</b> Income Tax Return for Single and Joint Filers With No Dependents	<b>8829</b> Expenses for Business Use of Your Home
<b>1040-ES</b> Estimated Tax for Individuals	<b>8863</b> Education Credits
	<b>9465</b> Installment Agreement Request