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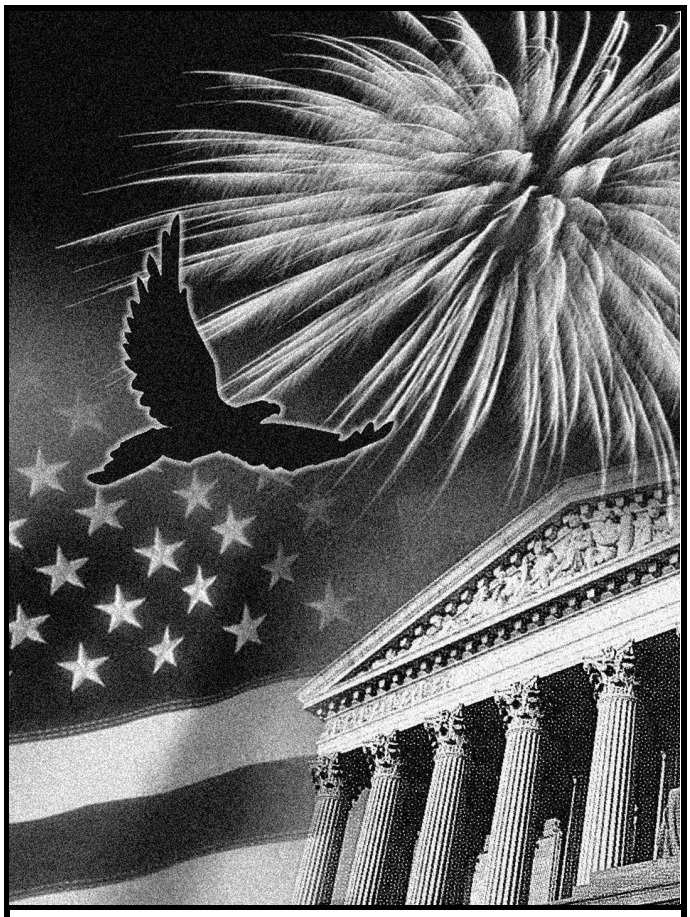
Tax Withholding and Estimated Tax



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Introduction

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

- ***Withholding.*** If you are an employee, your employer probably withholds income tax from your pay. In addition, tax may be withheld from certain other income, such as pensions, bonuses, commissions, and gambling winnings. 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. Generally, the IRS can figure this penalty for you. This underpayment penalty, and the exceptions to it, are discussed in chapter 4.

Nonresident aliens. If you are a nonresident alien, see chapter 8 in Publication 519, U.S. Tax Guide for Aliens, for a discussion of Form 1040-ES (NR) and withholding.

What's new for 2010 and 2011. See *What's New for 2011* that begins on this page, and *What's New* in chapter 4 for 2010 changes.

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

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What's New for 2011

Recent legislation (Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010) extended many of the tax provisions that were set to expire in 2010. This section lists only those provisions that were changed in addition to being extended, as well as those that were not extended. Also listed are tax benefits with adjustments for inflation. For more information, see IRS.gov.

Income limits for excluding education savings bond interest increased. In order to exclude interest, your modified adjusted gross income (MAGI) must be less than $86,100 ($136,650 if married filing jointly or qualifying widow(er)).

Foreign earned income exclusion. The maximum exclusion has increased to $92,900.

Qualified charitable distribution (QCD). Tax-free treatment of distributions from traditional and Roth IRAs for charitable purposes has been extended through December 31, 2011, with the following special rule. For QCDs made during January 2011, you can elect to have the distribution deemed to have been made on December 31, 2010. If you make this election, the QCD will count toward your 2010 exclusion limit of $100,000, as well as your 2010 minimum required distribution.

Standard mileage rates. The rate for business use of your vehicle is increased to 51 cents per mile. The rate for use of your vehicle to get medical care or move is increased to 19 cents per mile. The rate of 14 cents per mile for charitable use is unchanged.

Personal exemption increased. For tax years beginning in 2011, the personal exemption amount is increased to $3,700.

Alternative minimum tax (AMT) exemption amount increased. The AMT exemption amount is increased to $48,450 ($74,450 if married filing jointly or qualifying widow(er); $37,225 if married filing separately).

Lifetime learning credit income limits increased. In order to claim a lifetime learning credit, your MAGI must be less than $61,000 ($122,000 if married filing jointly).

Retirement savings contribution credit income limits increased. In order to claim this credit, your MAGI must be less than $28,250 ($56,500 if married filing jointly; $42,375 if head of household).

Nonbusiness energy property credit. This credit has been extended for 1 year with a reduced rate of 10%. Amounts provided by subsidized federal, state, or local energy financing do not qualify for the credit. The energy-efficiency standards for qualified natural gas, propane, or oil furnaces, or hot water boilers have been increased. For 2011, the credit is limited as follows.

- A total combined credit limit of $500 for all tax years after 2005 (Form 5695, Part I).
- A combined credit limit of $200 for windows for all tax years after 2005.
- 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.

Adoption credit or exclusion. The maximum adoption credit or exclusion for employer-provided adoption benefits has increased to $13,360. In order to claim either the credit or exclusion, your MAGI must be less than $225,210.

Temporary decrease in employee's share of payroll tax. Social security will be withheld from an employee's wages at the rate of 4.2% (down from 6.2%) up to the social security wage limit of $106,800. There will be no change to Medicare withholding.

The same reduction applies to net earnings from self-employment—the temporary rate will be 10.4% (down from 12.4%) up to the social security wage limit of $106,800.

Increase in additional tax on certain distributions not used for qualified medical expenses. The tax on distributions from health savings accounts (HSAs) and Archer MSAs made after December 31, 2010, that are not used for qualified medical expenses, is increased to 20%.

Earned income credit (EIC). You may be able to take the EIC in 2011 if:

- Three or more children lived with you and you earned less than $43,998 ($49,078 if married filing jointly),
- Two children lived with you and you earned less than $40,964 ($46,044 if married filing jointly),
- One child lived with you and you earned less than $36,052 ($41,132 if married filing jointly), or
- A child did not live with you and you earned less than $13,660 ($18,740 if married filing jointly).

Also, the maximum AGI you can have and still get the credit has increased. You may be able to take the credit if your AGI is less than the amount in the above list that applies to you. The maximum investment income you can have and get the credit has increased to $3,150.

Health coverage tax credit (HCTC). Beginning after February 12, 2011, the credit has decreased to 65% (from 80%) for amounts paid for qualified health insurance coverage for you, your spouse, and other qualifying family members.

Expiring Tax Benefits

The following benefits are scheduled to expire or have been repealed and will not be available for 2011.

- Making work pay credit.
- Self-employed health insurance deduction when figuring self-employment tax.

- Exclusion from income of benefits provided to volunteer firefighters and emergency medical responders.
- Computer technology and equipment allowed as qualified higher education expenses for qualified tuition programs (section 529 plans).
- Exemption from alternative minimum tax treatment for certain tax-exempt bonds.
- Advance earned income credit.

Reminders

Roth IRAs. If you rolled over or converted part or all of another retirement plan to a Roth IRA in 2010, or made an in-plan rollover to a designated Roth account after September 27, 2010, and did not elect to include all of the resulting taxable amount in income for 2010, you must report half of that taxable amount on your 2011 return and the other half on your 2012 return. See the Instructions for Form 8606 for more information.

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. The annual limit is $106,800 in 2011.

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 otherwise would 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 2011

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
- Certain federal payments.

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 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* on page 12, 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* beginning on page 10.

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.

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. Generally, income tax is 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.

Differential wage payments. When employees are on leave from employment for military duty, some employers make up the difference between the military pay and civilian pay. Payments to an employee who is on active duty for a period of more than 30 days will be subject to income tax withholding, but not subject to social security or Medicare taxes. The wages and withholding will be reported on Form W-2, Wage and Tax Statement.

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 in each payroll period.
- The information you give your employer on Form W-4.

Form W-4 includes four 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.
- Whether you are claiming an exemption from withholding in 2011. See *Exemption From Withholding* on page 10.

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

New Job

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

If you work only part of the year (for example, you start working after the beginning of the year), too much tax may be withheld. You may be able to avoid overwithholding if your employer agrees to use the part-year method. See *Part-Year Method* on page 10 for more information.

Employee also receiving pension income. If you receive pension or annuity income and begin a new job, you will need to file Form W-4 with your new employer. However, you can choose to split your withholding allowances between your pension and job in any manner. See Publication 919 for more information.

Changing Your Withholding

During the year changes may occur to your marital status, exemptions, adjustments, deductions, or credits you expect to claim on your tax 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 changes reduce the number of allowances you are allowed to claim or changes your marital status from married to single, you must give your employer a new Form W-4 within 10 days. See *Marital Status (Line 3 of Form W-4)* and *Withholding Allowances (Line 5 of Form W-4)* on this page.

Generally, you can submit a new Form W-4 whenever you wish to change your withholding allowances for any other reason. See Table 1-1 for examples of personal and financial changes you should consider.

Table 1-1. **Personal and Financial Changes**

Factor	Examples
Lifestyle change	Marriage Divorce Birth or adoption of child Loss of an exemption Purchase of a new home Retirement Filing chapter 11 bankruptcy
Wage income	You or your spouse start or stop working, or start or stop a second job
Change in the amount of taxable income not subject to withholding	Interest income Dividends Capital gains Self-employment income IRA (including certain Roth IRA) distributions
Change in the amount of adjustments to income	IRA deduction Student loan interest deduction Alimony expense
Change in the amount of itemized deductions or tax credits	Medical expenses Taxes Interest expense Gifts to charity Job expenses Dependent care expenses Education credit Child tax credit Earned income credit

If you change the number of your withholding allowances, you can request that your employer withhold using the cumulative wage method, explained on page 10.

Changing your withholding for 2012. If changes occur in 2011 that will decrease the number of your withholding allowances for 2012, you must give your employer a new Form W-4 by December 1, 2011. If such a change occurs in December 2011 or later, submit a new Form W-4 within 10 days. See Table 1-1 above for examples of items that may decrease the number of your withholding allowances.

Death of spouse. If your spouse died in 2011, you can file a joint return for 2011. Your spouse's death will not affect the number of your withholding allowances until 2012. You will have to change from married to single status for 2012, unless you can file as a qualifying widow or widower because you have a dependent child, or you remarry. For more information, see *Married* on this page under *Marital Status (Line 3 of Form W-4)*.

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* on page 10, for more information. 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 8 and 9.

Marital Status (Line 3 of Form W-4)

There is a lower withholding rate for people who qualify to check the "Married" box on line 3 of Form W-4. Everyone else must have tax withheld at the higher single rate.

Single. You must check the "Single" box if any 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 neither you nor your spouse is a citizen or resident of the United States.
- You are married, either you or your spouse is a nonresident alien, and you have not chosen to have that person treated as a resident alien for tax purposes. For more information, see *Nonresident Spouse Treated as a Resident* in chapter 1 of Publication 519.

Married. You qualify to check the "Married" box if any 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 are married and either you or your spouse is a nonresident alien who has chosen to be treated as a resident alien for tax purposes. For more information, see *Nonresident Spouse Treated as a Resident* in chapter 1 of Publication 519.
- 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 for the entire year that was the main home for you and your child whom you can claim as a dependent. 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 on this filing status, 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-Earners/Multiple Jobs Worksheet, explained on page 7.

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 each must give 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* beginning on page 10), complete the Personal Allowances Worksheet on page 1 of the form. 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 multiple-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.

Multiple jobs. If you have income from more than one job 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(s), 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 2011 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 still must 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 for tax purposes. Special rules apply to residents of South 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 based on all of the following that apply.

- Exemptions.
- Only one job.
- Head of household filing 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.

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.

Only one job (worksheet line B). You can claim an additional withholding allowance if any of the following apply for 2011.

- 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 $1,500 or less.

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

Head of household filing status (worksheet line E). Generally, 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 of 2011 of your parent whom you can claim as a dependent, or
- 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 2011 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 $1,900 of qualifying child or dependent care expenses on your 2011 return. Generally, qualifying expenses are those you pay for the care of your dependent who is your qualifying child 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, see Publication 503, Child and Dependent Care Expenses.

Instead of using line F, you can choose to take the credit into account on line 5 of the Deductions and Adjustments Worksheet, as explained under *Tax credits* beginning on page 6.

Child tax credit (worksheet line G). If your total income will be less than $61,000 ($90,000 if married), enter "2" on line G for each eligible child. Subtract "1" from that amount if you have three or more eligible children.

If your total income will be between $61,000 and $84,000 ($90,000 and $119,000 if married), enter "1" on line G for each eligible child plus "1" additional if you have six or more eligible children.

An eligible child is any child:

- Who is your son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, half brother, half sister, or a descendant of any of them (for example, your grandchild, niece, or nephew),
- Who will be under age 17 at the end of 2011,
- Who is younger than you (or your spouse if filing jointly) or permanently and totally disabled,
- Who will not provide over half of his or her own support for 2011,
- Who will not file a joint return, unless the return is filed only as a claim for refund,
- Who will live with you for more than half of 2011,
- Who is a U.S. citizen, U.S. national, or U.S. resident alien, and
- Who will be claimed as a dependent on your return.

If you are a U.S. citizen or U.S. national and your adopted child lived with you all year as a member of your household, that child meets the citizenship test.

Also, if any other person can claim the child as an eligible child, see *Qualifying child of more than one person* in the 2010 instructions for Form 1040 or 1040A, line 6c.

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

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 under *Tax credits* beginning on page 6.

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 the Deductions and Adjustments Worksheet on page 2 of Form W-4 in the following situations.

- You plan to itemize your deductions, claim certain credits, or claim adjustments to the income on your 2011 tax return and you want to reduce your withholding.
- You are increasing your standard deduction by certain items allowed for 2011 (see *Adjustments to income* on page 6).
- You have changes to any of the above items and need to see if you should change your withholding.

Use the amount of each item you reasonably can expect to show on your return. However, do not use more than:

- The amount shown for that item on your 2010 return (or your 2009 return if you have not yet filed your 2010 return), plus
- Any additional amount related to a transaction or occurrence (such as payments already made, the signing of an agreement, or the sale of property) that you can prove has happened or will happen during 2010 or 2011.

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

Example. On June 30, 2010, you bought your first home. On your 2010 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 reasonably can expect to claim deductions of $13,200 for those items on your 2011 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). Enter your estimated total itemized deductions on line 1 of the worksheet.

Listed below are some of the deductions you can take into account when figuring additional withholding allowances for 2011. You normally claim these deductions on Schedule A of Form 1040.

1. Medical and dental expenses that are more than 7.5% of your 2011 AGI (defined under *AGI* on this page).
2. State and local income or 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 $100 and 10% of your AGI.
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 AGI, including:
   a. Unreimbursed employee business expenses, such as education 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.

AGI. For the purpose of estimating your itemized deductions, your AGI is your estimated total income for 2011 minus any estimated adjustments to income (discussed below) that you include on line 4 of the Deductions and Adjustments Worksheet.

Adjustments to income (worksheet line 4). Enter your estimated total adjustments to income on line 4 of the Deductions and Adjustments Worksheet.

You can take the following adjustments to income into account when figuring additional withholding allowances for 2011. 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.
- Educator expenses.
- 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 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.
- Tuition and fees deduction.
- Jury duty pay given to your employer.
- Reforestation amortization and expenses.
- Deductible expenses related to income reported on line 21 from the rental of personal property engaged in for profit.
- Repayment of certain supplemental unemployment benefits.
- Contributions to IRC 501(c)(18)(D) pension plans.
- Contributions by certain chaplains to IRC 403(b) plans.
- Attorney fees and court costs for certain unlawful discrimination claims.
- Attorney fees and court costs for certain whistleblower awards.
- Estimated amount of decrease in tax attributable to income averaging using Schedule J (Form 1040).

Tax credits (worksheet line 5). Although you can take most tax credits into account when figuring withholding allowances, the Personal Allowances Worksheet uses only the child and dependent care credit (line F) 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. 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 the 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.
- Education credits. See Publication 970, Tax Benefits for Education.
- Retirement savings contributions credit (saver's credit). See Publication 590.
- Mortgage interest credit. See Publication 530, Tax Information for Homeowners.
- Adoption credit. See the Instructions for Form 8839.
- Credit for prior year minimum tax (both refundable and nonrefundable) if you paid alternative minimum tax in an earlier year. See the Instructions for Form 8801.
- General business credit. See the Instructions for Form 3800.
- Earned income credit. See Publication 596.
- Alternative motor vehicle credit (including the plug-in conversion credit). See Form 8910, Part III, and instructions.
- Alternative fuel vehicle refueling property credit. See Form 8911, Part III, and instructions.
- Qualified plug-in electric vehicle credit. See Form 8834, Part I, and instructions.
- Credit to holders of tax credit bonds. See Form 8912 and instructions.
- Health coverage tax credit. See Form 8885 and instructions.
- Residential energy credits. See Form 5695 and instructions.
- Qualified electric vehicle passive activity credit. See Form 8834, Part II, and instructions.
- District of Columbia first-time homebuyer credit. See the Instructions for Form 8859.

- First-time homebuyer credit. See the Instructions for Form 5405.
- Qualified plug-in electric drive motor vehicle credit. See the Instructions for Form 8936.

Figuring line 5 entry. To figure the amount to add on line 5 for tax credits, multiply your estimated total credits by the appropriate number from Table 1-2 on this page.

Example. You are married and expect to file a joint return for 2011. 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 (total credits = $2,660).

In Table 1-2a, the number corresponding to your combined estimated wages ($40,001 – $92,000) is 6.7. Multiply your total estimated tax credits of $2,660 by 6.7. Add the result, $17,822, to the amount you otherwise would 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* beginning on this page.

Net deductions and adjustments (worksheet line 8). If line 7 is less than $3,700, enter "0" on line 8. If line 7 is $3,700 or more, divide it by $3,700, drop any fraction, and enter the result on line 8.

Example. If line 7 is $5,200, $5,200 ÷ $3,700 = 1.41. Drop the fraction (.41) and enter "1" on line 8.

Two-Earners/Multiple Jobs Worksheet

Complete the Two-Earners/Multiple Jobs Worksheet on page 2 of Form W-4 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 $40,000 ($10,000 if married).

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 in the Two-Earners/Multiple Jobs Worksheet, find the number listed beside the amount of your estimated wages for the year from your lowest paying job (or if lower and you are filing jointly, your spouse's job). Enter that number on line 2. However, if you are married filing jointly and estimated wages from the highest paying job are $65,000 or less, do not enter more than "3."

Table 1-2. 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 – 40,000	10.0
$40,001 – 92,000	6.7
$92,001 – 166,000	4.0
$166,001 – 250,000	3.6
$250,001 – 420,000	3.0
$420,001 and over	2.8

b. **Single**

If combined income from all sources is:	Multiply credits by:
$0 – 18,000	10.0
$18,001 – 44,000	6.7
$44,001 – 95,000	4.0
$95,001 – 190,000	3.6
$190,001 – 410,000	3.0
$410,001 and over	2.8

c. **Head of Household**

If combined income from all sources is:	Multiply credits by:
$0 – 28,000	10.0
$28,001 – 62,000	6.7
$62,001 – 136,000	4.0
$136,001 – 220,000	3.6
$220,001 – 410,000	3.0
$410,001 and over	2.8

d. **Married Filing Separately**

If combined income from all sources is:	Multiply credits by:
$0 – 20,000	10.0
$20,001 – 46,000	6.7
$46,001 – 83,000	4.0
$83,001 – 125,000	3.6
$125,001 – 210,000	3.0
$210,001 and over	2.8

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, enter "0" on Form W-4, line 5. Then 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 Form W-4 are shown in Figure 1-A, on pages 8 and 9.

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 $1,500, 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 $90,000, 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 $12,800, which they enter on line 1 of the worksheet. Because they will file a joint return, they enter $11,600 on line 2. They subtract $11,600 from $12,800 and enter the result, $1,200, on line 3.

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

They add line 3 and line 4 and enter the total, $5,200, 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, $4,600, on line 7. They divide line 7 by $3,700, 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-Earners/Multiple Jobs Worksheet. The Greens use this worksheet because they both work and together earn over $10,000. They enter "10" (the number from line 10 of the Deductions and Adjustments Worksheet) on line 1.

Next, they use Table 1 of the worksheet to find the number to enter on line 2. Because they will file a joint return and their expected wages from their lowest paying job are $13,300, they enter "2" on line 2. They subtract line 2 from line 1 and enter "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.

Figure 1-A. **Form W-4—Illustrated (John and Joyce Green)**

Form W-4 (2011)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

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 2011 expires February 16, 2012. See Pub. 505, Tax Withholding and Estimated Tax.

Note. If another person can claim you as a dependent on his or her tax return, you cannot claim exemption from withholding if your income exceeds $950 and includes more than $300 of unearned income (for example, interest and dividends).

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations. Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

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 Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

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. If you have pension or annuity income, see Pub. 919 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple 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. See Pub. 919 for details.

Nonresident alien. If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Check your withholding. After your Form W-4 takes effect, use Pub. 919 to see how the amount you are having withheld compares to your projected total tax for 2011. See Pub. 919, especially if your earnings exceed $130,000 (Single) or $180,000 (Married).

Personal Allowances Worksheet (Keep for your records.)

A	Enter "1" for **yourself** if no one else can claim you as a dependent	A	1
B	Enter "1" if: • You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are $1,500 or less.	B	
C	Enter "1" for your **spouse.** But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.)	C	1
D	Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return	D	2
E	Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above)	E	
F	Enter "1" if you have at least $1,900 of **child or dependent care expenses** for which you plan to claim a credit (**Note.** Do **not** include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)	F	1
G	**Child Tax Credit** (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. • If your total income will be less than $61,000 ($90,000 if married), enter "2" for each eligible child; then **less** "1" if you have three or more eligible children. • If your total income will be between $61,000 and $84,000 ($90,000 and $119,000 if married), enter "1" for each eligible child plus "1" **additional** if you have six or more eligible children	G	4
H	Add lines A through G and enter total here. (**Note.** This may be different from the number of exemptions you claim on your tax return.) ►	H	9

For accuracy, **complete all worksheets that apply.**
- If you plan to **itemize** or **claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
- If you have **more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed $40,000 ($10,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

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

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

► **Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.**

OMB No. 1545-0074
2011

1 Type or print your first name and middle initial. John M.	Last name Green	2 **Your social security number** 444-00-4444
Home address (number and street or rural route) 28 Fairway	3 ☐ Single ☑ Married ☐ Married, but withhold at higher Single rate. **Note.** If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.	
City or town, state, and ZIP code Anytown, State 00000	4 **If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card.** ► ☐	

5	Total number of allowances you are claiming (from line **H** above **or** from the applicable worksheet on page 2)	5	8
6	Additional amount, if any, you want withheld from each paycheck	6	$
7	I claim exemption from withholding for 2011, and I certify that I meet **both** of the following conditions for exemption. • Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability **and** • This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability. If you meet both conditions, write "Exempt" here ►	7	

Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature
(This form is not valid unless you sign it.) ► John M. Green **Date** ► January 5, 2011

8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)	9 Office code (optional)	10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form **W-4** (2011)

Figure 1-A. **Form W-4—Illustrated (John and Joyce Green)** *(Continued)*

Deductions and Adjustments Worksheet

Note. Use this worksheet *only* if you plan to itemize deductions or claim certain credits or adjustments to income.

1	Enter an estimate of your 2011 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	**1**	$ 12,800
2	Enter: { $11,600 if married filing jointly or qualifying widow(er); $8,500 if head of household; $5,800 if single or married filing separately }	**2**	$ 11,600
3	**Subtract** line 2 from line 1. If zero or less, enter "-0-"	**3**	$ 1,200
4	Enter an estimate of your 2011 adjustments to income and any additional standard deduction (see Pub. 919)	**4**	$ 4,000
5	**Add** lines 3 and 4 and enter the total. (Include any amount for credits from the *Converting Credits to Withholding Allowances for 2011 Form W-4 Worksheet* in Pub. 919.)	**5**	$ 5,200
6	Enter an estimate of your 2011 nonwage income (such as dividends or interest)	**6**	$ 600
7	**Subtract** line 6 from line 5. If zero or less, enter "-0-"	**7**	$ 4,600
8	**Divide** the amount on line 7 by $3,700 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-Earners/Multiple Jobs 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-Earners/Multiple Jobs Worksheet (See *Two earners or multiple 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. **However,** if you are married filing jointly and wages from the highest paying job are $65,000 or less, do not enter more than "3"	**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 through 9 below to figure 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 2011. For example, divide by 26 if you are paid every two weeks and you complete this form in December 2010. 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

Married Filing Jointly		All Others	
If wages from **LOWEST** paying job are—	Enter on line 2 above	If wages from **LOWEST** paying job are—	Enter on line 2 above
$0 - $5,000 -	0	$0 - $8,000 -	0
5,001 - 12,000 -	1	8,001 - 15,000 -	1
12,001 - 22,000 -	2	15,001 - 25,000 -	2
22,001 - 25,000 -	3	25,001 - 30,000 -	3
25,001 - 30,000 -	4	30,001 - 40,000 -	4
30,001 - 40,000 -	5	40,001 - 50,000 -	5
40,001 - 48,000 -	6	50,001 - 65,000 -	6
48,001 - 55,000 -	7	65,001 - 80,000 -	7
55,001 - 65,000 -	8	80,001 - 95,000 -	8
65,001 - 72,000 -	9	95,001 -120,000 -	9
72,001 - 85,000 -	10	120,001 and over	10
85,001 - 97,000 -	11		
97,001 -110,000 -	12		
110,001 -120,000 -	13		
120,001 -135,000 -	14		
135,001 and over	15		

Table 2

Married Filing Jointly		All Others	
If wages from **HIGHEST** paying job are—	Enter on line 7 above	If wages from **HIGHEST** paying job are—	Enter on line 7 above
$0 - $65,000	$560	$0 - $35,000	$560
65,001 - 125,000	930	35,001 - 90,000	930
125,001 - 185,000	1,040	90,001 - 165,000	1,040
185,001 - 335,000	1,220	165,001 - 370,000	1,220
335,001 and over	1,300	370,001 and over	1,300

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. Internal Revenue Code sections 3402(f)(2) and 6109 and their regulations require you to provide this information; your employer uses it to determine your federal income tax withholding. 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 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, the District of Columbia, and U.S. commonwealths and possessions for use in administering their tax laws; and to the Department of Health and Human Services for use in the National Directory of New Hires. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The 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.

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 with the first day you are on the job for pay and ending with 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 your employer in writing to 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 your employer in writing to use this method.

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

Aids for Figuring Your Withholding

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.

IRS Withholding Calculator. If you had too much or too little income tax withheld from your pay, the IRS provides a withholding calculator on its website. Go to IRS.gov and click on "Estimate Your Withholding" under "Online Services." It can help you determine the correct amount to be withheld any time during the year.

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

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 withholding 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. Instead, claim the full amount withheld when you file your tax return.

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 withheld incorrectly. If you are not repaid, your Form W-2 will reflect the full amount actually withheld, which you would claim when you file your tax return.

IRS review of your withholding. Whether you are entitled to claim a certain number of allowances or a 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* on page 13.

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 withholding rate (marital status) and maximum number of withholding allowances specified in that letter.

If you later believe that you are entitled to claim exemption from withholding 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 give your employer a new Form W-4 that does not claim complete exemption from withholding and results in more income tax withheld than specified in the lock-in letter. Your employer must then withhold tax based on this new Form W-4.

Additional information is available at IRS.gov. Enter "withholding compliance questions" in the search box.

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 2011 only if both of the following situations apply.

- For 2010 you had a right to a refund of all federal income tax withheld because you had no tax liability.
- For 2011 you expect a refund of all federal income tax withheld because you expect to have no tax liability.

Use Figure 1-B below 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 2011 return,
- Will claim an exemption for a dependent on your 2011 return, or
- Will claim any tax credits on your 2011 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 2010 return. Using Figure 1-B, you find that you can claim exemption from withholding.

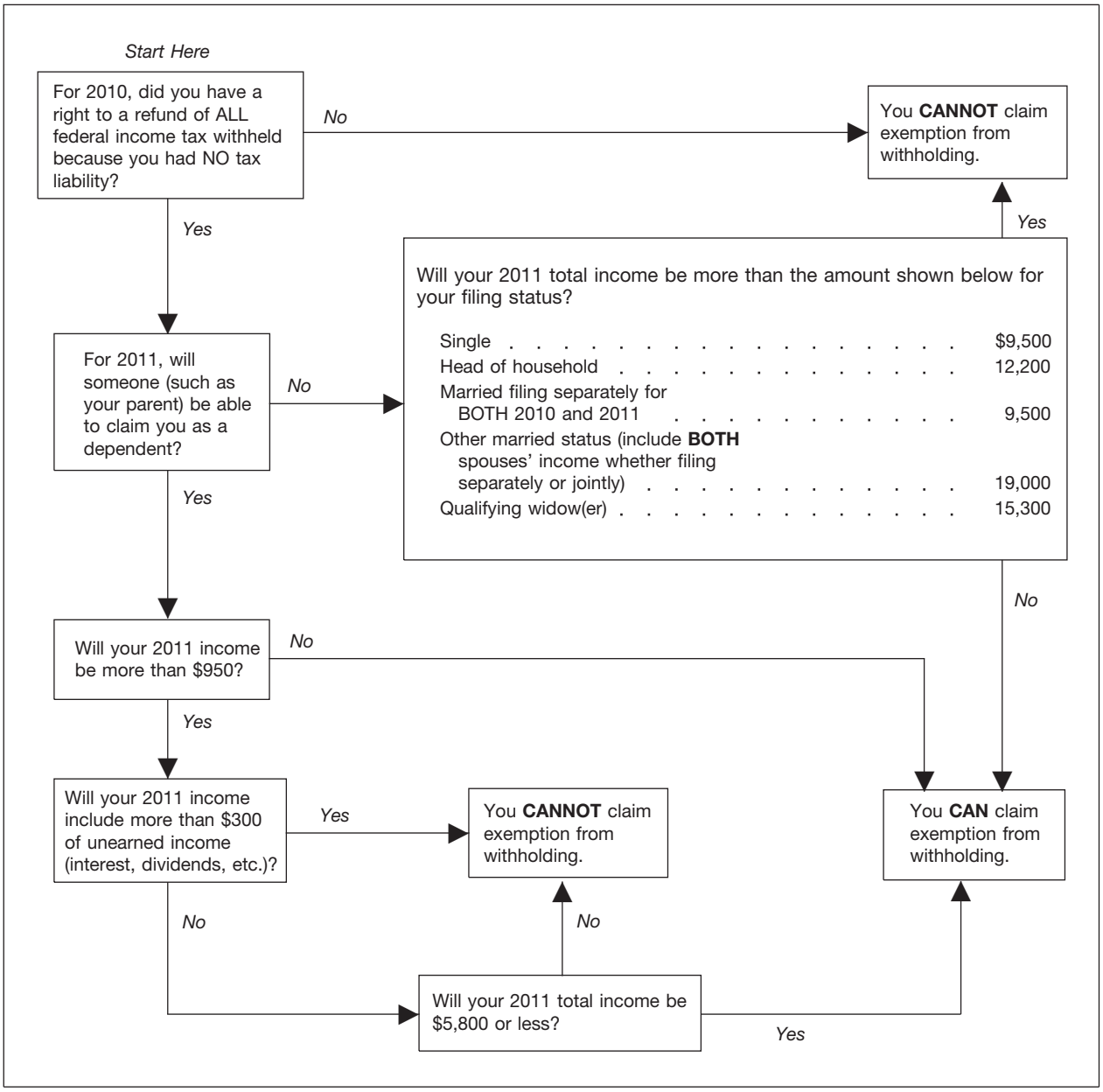
Example 2. The facts are the same as in *Example 1*, except that you also have a savings account and expect to have $350 interest income during the year. Using Figure 1-B, you find that you cannot claim exemption from withholding because your unearned income will be more than $300 and your total income will be more than $950.

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 1-1 or Worksheet 1-2 on page 12 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 2011 return. Instead, see *Itemizing deductions or claiming exemptions or credits*, next.

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, claim exemptions for dependents, or claim tax credits. Instead, see the discussions in this chapter under *Exemption From Withholding*.



Itemizing deductions or claiming exemptions or credits. If you had no tax liability for 2010, and you will:

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

use the 2011 Estimated Tax Worksheet in Form 1040-ES (also see chapter 2), to figure your 2011 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 2011 but you expect to owe income tax for 2012, you must file a new Form W-4 by December 1, 2011.

Your claim of exempt status may be reviewed by the IRS. See *IRS review of your withholding* on page 10.

An exemption is good for only 1 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. However, if these payments are identified separately from regular wages, your employer or other payer of supplemental wages can withhold income tax from these wages at a flat rate.

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

Reimbursements or other expense allowances paid under an accountable plan that are more than your proven expenses are treated as paid under a nonaccountable plan if you do not return the excess payments within a reasonable period of time.

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

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

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

The definition of reasonable period of time depends on the facts and circumstances of your

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

*Use this worksheet only if, for **2010** 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 1-2 instead.*

1. Check the boxes below that apply to you.

65 or older ☐ Blind ☐

2. Check the boxes below that apply to your spouse if you will claim your spouse's exemption on your 2011 return.

65 or older ☐ Blind ☐

3. Add the number of boxes you checked in 1 and 2 above. Enter the result . . . . . _____

You **can** claim exemption from withholding if:

Your filing status is:	and the number on line 3 above is:	and your 2011 total income will be no more than:
Single	1	$10,950
	2	12,400
Head of household	1	$13,650
	2	15,100
Married filing separately for both 2010 and 2011	1	$10,650
	2	11,800
	3	12,950
	4	14,100
Other married status	1	$20,150*
	2	21,300*
	3	22,450*
	4	23,600*
Qualifying widow(er)	1	$16,450
	2	17,600

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

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

Worksheet 1-2. Exemption From Withholding for Dependents Age 65 or Older or Blind

*Use this worksheet only if, for **2011,** you are a dependent and if, for **2010**, 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.** $ 950

3. Compare lines 1 and 2. Enter the **larger** amount . . . . . **3.** _____

4. Limit **4.** 5,800

5. Compare lines 3 and 4. Enter the **smaller** amount . . . . . **5.** _____

6. Enter the appropriate amount from the following table . . . . . **6.** _____

Single	
Either 65 or older or blind	$1,450
Both 65 or older and blind	2,900
Married filing separately	
Either 65 or older or blind	1,150
Both 65 or older and blind	2,300

7. Add lines 5 and 6. Enter the result . . . . . **7.** _____

8. Enter your total expected income . . . . . **8.** _____

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

situation. However, regardless of those facts and circumstances, 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 1 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 or 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 penalty for underpaying your tax.

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 and social security and Medicare taxes (or the equivalent 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 first withholds as much Medicare tax and social security or railroad retirement tax as possible, up to the proper amount, and then withholds 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 Medicare and social security 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 (see chapter 2), 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, Medicare tax, and social security 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.

Although the value of your personal use of an employer-provided car, truck, or other highway motor vehicle is taxable, your employer can choose not to withhold income tax on that amount. 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, 2009, through October 31, 2010, as paid to you in 2010. To determine the total value of benefits paid to you in 2011, your employer will add the value of any benefits paid in November and December of 2010 to the value of any benefits paid in January through October of 2011.

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 income 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* below.

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 tax, either through estimated tax or withholding, or a combination of both, 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 1 year (periodic payments), within 1 year (nonperiodic payments), or as an eligible rollover distribution (ERD). Income tax withholding from an ERD is mandatory. 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*, on page 3, 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 (section 457 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.
- 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* beginning on this page.
- 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 an incorrect social security number, tax will be withheld as if you were single and were claiming no withholding allowances.

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 10% rate on any nonperiodic payments you receive, unless you tell the payer not to withhold.

Use Form W-4P, line 3, to specify that an additional dollar amount be withheld. You also can use Form W-4P, line 1, to choose not to have tax withheld. If you want to revoke a choice not to have tax withheld, see *Choosing Not To Have Income Tax Withheld* beginning on this page.

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 20% rate on any part of an ERD that is distributed rather than rolled over directly to another qualified plan. Withholding on these distributions is mandatory. However, no withholding is required on any part rolled over directly to another plan.

Choosing Not To Have Income Tax Withheld

For payments other than ERDs, 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 choose not to have withholding. This choice will remain in effect until you decide you want withholding and inform the payer. See *Revoking a choice not to have tax withheld* on page 15.

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, or a combination of both, you may have to pay a penalty. See chapter 4.

Payments delivered outside the United States. You generally must have tax withheld from pension or annuity benefits delivered outside 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, enter "Revoked" by the checkbox on line 1 of the form. This will instruct the payer to withhold as if you were married and claiming three allowances. However, you can tell the payer exactly how much to withhold by completing line 2 of the form for periodic payments or line 3 for nonperiodic payments.

Gambling Winnings

Income tax is withheld at a flat 25% 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, including payments made to winners of poker tournaments; 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 generally are 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* on this page. 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, either through withholding or estimated tax, or a combination of both, you may have to pay 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 your 2011 Form 1040, along with all other federal income tax withheld, as shown on Forms W-2 and 1099.

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 below).
- Whether someone else is entitled to any part of the winnings subject to withholding. If so, you must complete Form 5754, Statement by Person(s) Receiving Gambling Winnings, and return it to the payer. The payer will use it to prepare a Form W-2G for each of the winners.

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

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

Backup withholding on gambling winnings. If you have any kind of gambling winnings and do not give the payer your social security number, the payer may have to withhold income tax at a flat 28% rate. This rule also applies to winnings of at least $1,200 from bingo or slot machines or $1,500 from keno, and to certain other gambling winnings of at least $600.

Unemployment Compensation

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

All 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, or a combination of both, you may have to pay a penalty. See chapter 4.

Form 1099-G. If you receive $10 or more in 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, if any.

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 corporation 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.), as amended, or title II of the Disaster Assistance Act of 1988 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, or a combination of both, you may have to pay a penalty. See chapter 4.

More information. For more information about the tax treatment of social security and railroad retirement benefits, get Publication 915, Social Security and Equivalent Railroad Retirement Benefits. Get Publication 225, Farmer's Tax Guide, for information about the tax treatment of commodity credit corporation 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 also may apply to gambling winnings. See *Backup withholding on gambling winnings* under *Gambling Winnings* on page 15.

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 enter 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 28% 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.

- A social security number (SSN).
- An employer identification number (EIN).
- 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 usually can 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 and receive a determination from the IRS to prevent backup withholding from starting or to stop backup withholding once it has begun. Your request 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 an original return if you did not previously file one, or by filing an amended return, 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 1 year, or both.

2.

Estimated Tax for 2011

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 tax, either through withholding or estimated tax, or a combination of both, you may have to pay a penalty. If you do not pay enough by the due date of each payment period (see *When To Pay Estimated Tax* on page 22), you may be charged a penalty even if you are due a refund when you file your tax return. For information on when the penalty applies, see chapter 4.

TIP *It would be helpful for you to have a copy of your 2010 tax return and an estimate of your 2011 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:

Form (and Instructions)

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

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

Worksheets. You may need to use several of the blank worksheets included in this chapter. See Table 2-2 on page 32 to locate what you need.

Who Does Not Have To Pay Estimated Tax

If you receive salaries and wages, you may be able to avoid paying 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 2011 if you meet all three of the following conditions.

- You had no tax liability for 2010.
- You were a U.S. citizen or resident alien for the whole year.
- Your 2010 tax year covered a 12-month period.

You had no tax liability for 2010 if your total tax (defined on page 21 under *Total tax for 2010—line 14b*) was zero or you did not have to file an income tax return.

Who Must Pay Estimated Tax

If you owed additional tax for 2010, you may have to pay estimated tax for 2011.

You can use the following general rule as a guide during the year to see if you will have enough withholding, or should increase your withholding or make estimated tax payments.

General Rule

In most cases, you must pay estimated tax for 2011 if both of the following apply.

1. You expect to owe at least $1,000 in tax for 2011, after subtracting your withholding and refundable credits.
2. You expect your withholding and refundable credits to be less than the smaller of:
   a. 90% of the tax to be shown on your 2011 tax return, or
   b. 100% of the tax shown on your 2010 tax return. Your 2011 tax return must cover all 12 months.

Note. The percentages in (2a) or (2b) above may be different if you are a farmer, fisherman, or higher income taxpayer. See *Special Rules* beginning on page 18.

CAUTION *If the result from using the general rule above suggests that you will not have enough withholding, complete the 2011 Estimated Tax Worksheet on page 20 for a more accurate calculation.*

Figure 2-A (see page 18) takes you through the general rule. You may find this helpful in determining if you must pay estimated tax.

TIP *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 2011, Jane uses Figure 2-A and the following information. She files as head of household and expects no refundable credits in 2011.

Expected adjusted gross income (AGI) for 2011	$82,800
AGI for 2010	$73,700
Total tax on 2010 return (Form 1040, line 60)	$ 9,354
Total 2011 estimated tax (line 13c of the 2011 Estimated Tax Worksheet)	$11,493
Tax expected to be withheld in 2011	$10,450

Jane's answer to Figure 2-A, box 1, is YES; she expects to owe at least $1,000 for 2011 after subtracting her withholding from her expected total tax ($11,493 − $10,450 = $1,043). Her answer to box 2a is YES; she expects her income tax withholding ($10,450) to be at least 90% of the tax to be shown on her 2011 return ($11,493 × 90% = $10,344). Jane does not need to pay estimated tax.

Example 2. The facts are the same as in *Example 1*, except that Jane expects only $9,200 tax to be withheld in 2011. Because that is less than $10,450, her answer to box 2a is NO.

Jane's answer to box 2b is also NO; she does not expect her income tax withholding ($9,200) to be at least 100% of the total tax shown on her 2010 return ($9,354). Jane must increase her withholding or pay estimated tax for 2011.

Example 3. The facts are the same as in *Example 2*, except that the total tax shown on Jane's 2010 return was $9,000. Because she expects to have more than $9,000 withheld in 2011 ($9,200), her answer to box 2b is YES. Jane does not need to pay estimated tax for 2011.

Married Taxpayers

If you qualify to make joint estimated tax payments, apply the rules discussed here to your joint estimated income.

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 that spouse elected to be treated as a resident alien for tax purposes). See *Choosing Resident Alien Status* in Publication 519.

If you do not qualify to make joint estimated tax payments, apply these rules to your separate estimated income.

Making joint or separate estimated tax payments will not affect your choice of filing a joint tax return or separate returns for 2011.

2010 separate returns and 2011 joint return. If you plan to file a joint return with your spouse for 2011, but you filed separate returns for 2010, your 2010 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.

2010 joint return and 2011 separate returns. If you plan to file a separate return for 2011, but you filed a joint return for 2010, your 2010 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 2010 using the same filing status as for 2011. 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 2010 showing taxable income of $48,500 and a tax of $6,441. Of the $48,500 taxable income, $40,100 was Joe's and the rest was Heather's. For 2011, they plan to file married filing separately. Joe figures his share of the tax on the 2010 joint return as follows:

Tax on $40,100 based on separate return	$6,213
Tax on $8,400 based on separate return . .	845
Total	$7,058
Joe's percentage of total ($6,213 ÷ $7,058)	88%
Joe's share of tax on joint return ($6,441 × 88%)	$5,668

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 2010 or 2011 is from farming or fishing, substitute 66⅔% for 90% in (2a) under *General Rule* on the previous page.

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 2010 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 2010, gross income from farming is the total of the following amounts.

- Schedule F (Form 1040), Profit or Loss From Farming, line 11.
- Form 4835, Farm Rental Income and Expenses, line 7.
- Your share of the gross farming income from a partnership, S corporation, estate or trust, from: Schedule K-1 (Form 1065), Box 14, code B; Schedule K-1 (Form 1120S), Box 17, code U; or Schedule K-1 (Form 1041), Box 14, code F.
- Your gains from sales of draft, breeding, dairy, or sporting livestock shown on Form 4797, Sales of Business Property.

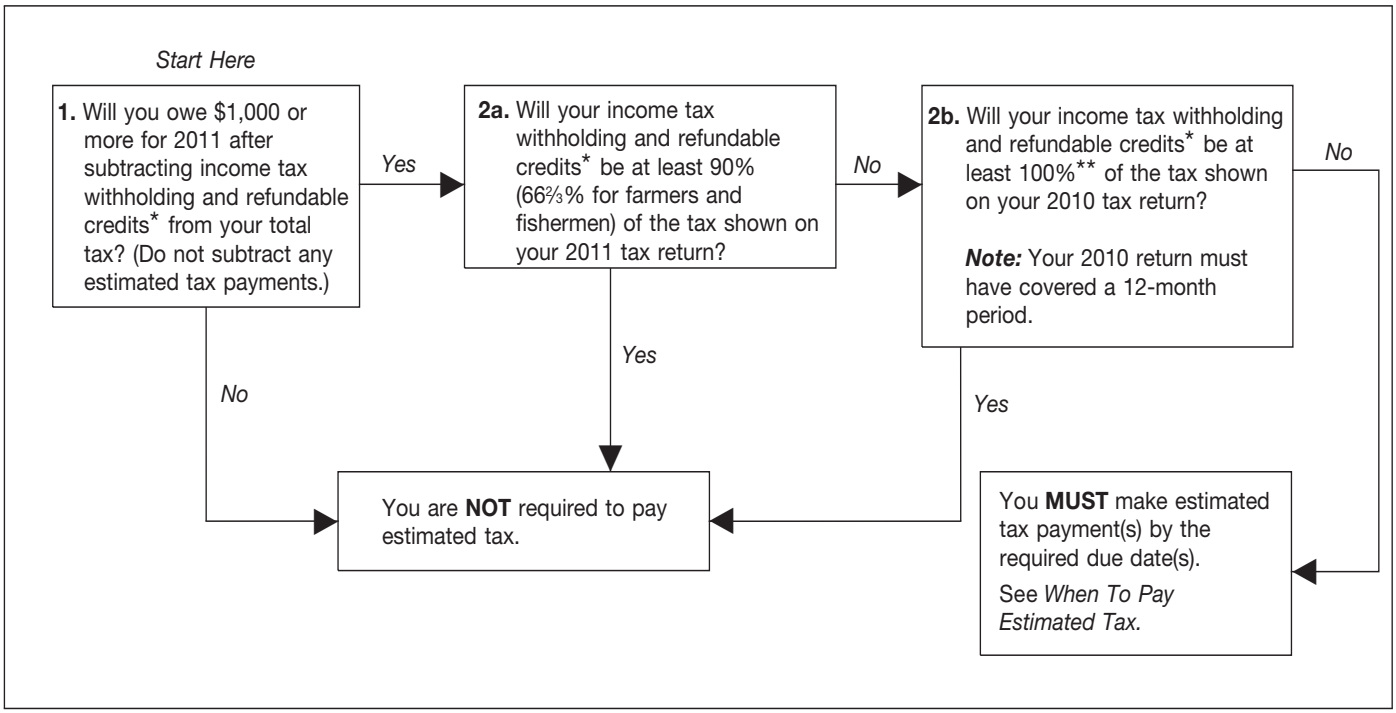
Wages you receive as a farm employee and wages you receive from a farm corporation are not gross income from farming.

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.

- Schedule C (Form 1040), Profit or Loss From Business, line 7.
- Income for services as an officer or crew member of a vessel while the vessel is engaged in fishing.
- Your share of the gross fishing income from a partnership, S corporation, estate or trust, from: Schedule K-1 (Form 1065), Box 14, code B; Schedule K-1 (Form

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



* Use the refundable credits shown on the 2011 Estimated Tax Worksheet, line 13b.

** 110% if less than two-thirds of your gross income for 2010 and 2011 is from farming or fishing and your 2010 adjusted gross income was more than $150,000 ($75,000 if your filing status for 2011 is married filing a separate return).

1120S), Box 17, code U; or Schedule K-1 (Form 1041), Box 14, code F.

- Certain taxable interest and punitive damage awards received in connection with the Exxon Valdez litigation.
- 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 AGI for 2010 was more than $150,000 ($75,000 if your filing status for 2011 is married filing a separate return), substitute 110% for 100% in (2b) under *General Rule* on page 17.

For 2010, AGI is the amount shown on Form 1040, line 37; Form 1040A, line 21; and Form 1040EZ, line 4.

Note. This rule does not apply to farmers and fishermen.

Aliens

Resident and nonresident aliens also may 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.

See Publication 519 for more information about Form 1040-ES (NR) and withholding (chapter 8) and the substantial presence test (chapter 1).

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 2 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 AGI, taxable income, taxes, deductions, and credits for the year.

When figuring your 2011 estimated tax, it may be helpful to use your income, deductions, and credits for 2010 as a starting point. Use your 2010 federal tax return as a guide. You can use Form 1040-ES to figure your estimated tax. Nonresident aliens use Form 1040-ES (NR) to figure estimated tax.

You must make adjustments both for changes in your own situation and for recent changes in the tax law. For 2011, there are several changes in the law. Some of these changes are discussed under *What's New for 2011* beginning on page 2. For information about these and other changes in the law, visit the IRS website at IRS.gov.

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

2011 Estimated Tax Worksheet

Use the worksheet Figure 2-B on page 20 to help guide you through the information about completing the 2011 Estimated Tax Worksheet. You also will find a blank worksheet on page 33.

Expected AGI—Line 1

Your expected AGI for 2011 (line 1) 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 2011 that, if you had received it in 2010, would have been included on your 2010 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 2011, use Worksheet 2-1 on page 35 to figure the amount of expected taxable benefits you should include on line 1.

Adjustments to income. Be sure to subtract from your expected total income all of the adjustments you expect to take on your 2011 tax return. If you are using your 2010 return as a guide and filed Form 1040, your adjustments for 2010 were on lines 23 through 35, plus any write-in adjustments on line 36. If you filed Form 1040A, your 2010 adjustments were on lines 16 through 19.

Self-employed. If you expect to have income from self-employment, use Worksheet 2-2 on page 36 to figure your expected self-employment tax and your allowable deduction for self-employment tax. Include the amount from line 11 of Worksheet 2-2 in your expected adjustments to income. If you file a joint return and both you and your spouse have net earnings from self-employment, each of you must complete a separate worksheet.

Expected Taxable Income—Lines 2–5

Reduce your expected AGI for 2011 (line 1) by either your expected itemized deductions or your standard deduction and by your exemptions (lines 2 through 5).

Itemized deductions—line 2. If you expect to claim itemized deductions on your 2011 tax return, enter the estimated amount on line 2.

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

Standard deduction—line 2. If you expect to claim the standard deduction on your 2011 tax return, enter the amount on line 2. Use Worksheet 2-3 on page 37 to figure 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 dual-status alien, or
- File 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 AGI, reduce the amount remaining by $3,700 for each exemption you expect to take on your 2011 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.

Expected Taxes and Credits—Lines 6–13c

After you have figured your expected taxable income (line 5), follow the steps below to figure your expected taxes, credits, and total tax for 2011. Most people will have entries for only a few of these steps. However, you should check every step to be sure you do not overlook anything.

Step 1. Figure your expected income tax (line 6). Generally, you will use the 2011 Tax Rate Schedules, found on page 34 or in the instructions to Form 1040-ES, to figure your expected income tax.

Example. If line 5 is $35,000 and your filing status is single, you would use Schedule X of the 2011 Tax Rate Schedules. Your income is over $34,500 but less than $83,600. Subtract $34,500 from $35,000. Multiply $500 ($35,000 − 34,500) by 25% (500 × .25 = $125). Add $125 to $4,750. Enter $4,875 on line 6.

However, see below for situations where you must use a different method to compute your estimated tax.

Tax on child's investment income. You must use a special method to figure tax on the income of the following children who have more than $1,900 of investment income.

1. Children under age 18 at the end of 2011.
2. The following children if their earned income is not more than half their support.
   a. Children age 18 at the end of 2011.
   b. Children who are full-time students over age 18 and under age 24 at the end of 2011.

See Publication 929, Tax Rules for Children and Dependents. Although the ages and dollar

Figure 2-B. **2011 ES Worksheet from the Instructions for 2011 Form 1040-ES**

CAUTION When this worksheet refers you to instructions you can find those instructions in the Instructions for 2011 Form 1040-ES.

2011 Estimated Tax Worksheet

Keep for Your Records

1	Adjusted gross income you expect in 2011 (see instructions)		1	
2	• If you plan to itemize deductions, enter the estimated total of your itemized deductions. • If you do not plan to itemize deductions, enter your standard deduction from page 2.		2	
3	Subtract line 2 from line 1.		3	
4	Exemptions. Multiply $3,700 by the number of personal exemptions.		4	
5	Subtract line 4 from line 3.		5	
6	**Tax.** Figure your tax on the amount on line 5 by using the **2011 Tax Rate Schedules** on page 6. **Caution:** *If you will have qualified dividends or a net capital gain, or expect to exclude or deduct foreign earned income or housing, see chapter 2 of Pub. 505 to figure the tax*		6	
7	Alternative minimum tax from **Form 6251**		7	
8	Add lines 6 and 7. Add to this amount any other taxes you expect to include in the total on Form 1040, line 44		8	
9	Credits (see instructions). **Do not** include any income tax withholding on this line		9	
10	Subtract line 9 from line 8. If zero or less, enter -0-		10	
11	Self-employment tax (see instructions)		11	
12	Other taxes (see instructions)		12	
13a	Add lines 10 through 12		13a	
b	Earned income credit, additional child tax credit, fuel tax credit, refundable American opportunity credit, and refundable credits from **Forms 5405, 8801, 8839,** and **8885**		13b	
c	**Total 2011 estimated tax.** Subtract line 13b from line 13a. If zero or less, enter -0- ▶		13c	
14a	Multiply line 13c by 90% (66⅔% for farmers and fishermen)	14a		
b	Required annual payment based on prior year's tax (see instructions)	14b		
c	**Required annual payment to avoid a penalty.** Enter the **smaller** of line 14a or 14b ▶		14c	
	Caution: *Generally, if you do not prepay (through income tax withholding and estimated tax payments) at least the amount on line 14c, you may owe a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 13c is as accurate as possible. Even if you pay the required annual payment, you may still owe tax when you file your return. If you prefer, you can pay the amount shown on line 13c. For details, see chapter 2 of Pub. 505.*			
15	Income tax withheld and estimated to be withheld during 2011 (including income tax withholding on pensions, annuities, certain deferred income, etc.)		15	
16a	Subtract line 15 from line 14c	16a		
	Is the result zero or less? ☐ **Yes.** Stop here. You are not required to make estimated tax payments. ☐ **No.** Go to line 16b.			
b	Subtract line 15 from line 13c	16b		
	Is the result less than $1,000? ☐ **Yes.** Stop here. You are not required to make estimated tax payments. ☐ **No.** Go to line 17 to figure your required payment.			
17	If the first payment you are required to make is due April 18, 2011, enter ¼ of line 16a (minus any 2010 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.		17	

amounts in the publication may be different in the 2011 revision, this reference will give you basic information for figuring the tax.

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.

Tax on qualified dividends. Generally, the maximum tax rate for qualified dividends is 15% (0% for people whose other income is taxed at the 10% or 15% rate).

Tax on capital gain and qualified dividends. If the amount on line 1 includes a net capital gain or qualified dividends, use Worksheet 2-4 on page 38 to figure your tax.

Tax if excluding foreign earned income or excluding or deducting foreign housing. If you expect to claim the foreign earned income exclusion or the housing exclusion or deduction on Form 2555 or Form 2555-EZ, use Worksheet 2-5 on page 39 to figure your estimated tax.

Step 2. Total your expected taxes (line 8). Include on line 8 the sum of the following.

1. Your tax on line 6.
2. Your expected alternative minimum tax (AMT) on line 7 from Form 6251, line 35, or included on Form 1040A, line 28.
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.
4. Any recapture of education credits.

Step 3. Subtract your expected credits (line 9). If you are using your 2010 return as a guide and filed Form 1040, your total credits for 2010 were shown on line 54. If you filed Form 1040A, your total credits for 2010 were on line 34.

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

Step 4. Add your expected self-employment tax (line 11). You already should have figured your self-employment tax (see *Self-employed* under *Expected AGI—Line 1* on page 19).

Step 5. Add your expected other taxes (line 12).

Other taxes include the following.

1. Additional tax on early distributions from:
   a. An IRA or other qualified retirement plan,
   b. A tax-sheltered annuity, or
   c. A modified endowment contract entered into after June 20, 1988.
2. Household employment taxes 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.
3. Amounts written in on Form 1040 on the line for "total tax" (line 60 on the 2010 Form 1040). But, **do not include** recapture of a federal mortgage subsidy; tax on excess golden parachute payments; look-back interest due under section 167(g) or 460(b) of the Internal Revenue Code; excise tax on insider stock compensation from an expatriated corporation; uncollected social security and Medicare tax or RRTA tax on tips or group-term life insurance; or additional tax on advance payments of health coverage tax credit when not eligible.
4. Repayment of the first-time homebuyer credit. See Form 5405.

Step 6. Subtract your refundable credits (line 13b). These include your expected earned income credit, Form 8812 additional child tax credit, Form 8863 refundable American opportunity credit, Form 4136 fuel tax credit, Form 5405 first-time homebuyer credit, Form 8839 adoption credit, Form 8801 refundable credit for prior year minimum tax, and Form 8885 health coverage tax credit. These are shown on the 2010 Form 1040, lines 64a, 65, 66, 67, 70, and 71 (boxes b, c, and d).

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.

If you filed Form 1040A in 2010, the credits (earned income credit, additional child tax credit, and refundable American opportunity credit) were shown on lines 41a, 42, and 43.

The result of steps 1 through 6 is your total estimated tax for 2011 (line 13c).

Required Annual Payment—Line 14c

On lines 14a through 14c, figure the total amount you must pay for 2011, through withholding and estimated tax payments, to avoid paying a penalty.

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

1. 90% of your total expected tax for 2011, or
2. 100% of the total tax shown on your 2010 return. Your 2010 tax return must cover all 12 months.

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

Higher income taxpayers. If your AGI for 2010 was more than $150,000 ($75,000 if your filing status for 2011 is married filing separately), substitute 110% for 100% in (2) above. This rule does not apply to farmers and fishermen.

For 2010, AGI is the amount shown on Form 1040, line 37; Form 1040A, line 21; and Form 1040EZ, line 4.

Example. Jeremy Martin's total tax on his 2010 return was $42,581, and his expected tax for 2011 is $71,253. His 2010 AGI was $180,000. Because Jeremy had more than $150,000 of AGI in 2010, he figures his required annual payment as follows. He determines that 90% of his expected tax for 2011 is $64,128 (.90 × $71,253). Next, he determines that 110% of the tax shown on his 2010 return is $46,839 (1.10 x $42,581). Finally, he determines that his required annual payment is $46,839, the smaller of the two.

Farmers and fishermen. If at least two-thirds of your gross income for 2010 or 2011 is from farming or fishing, your required annual payment is the smaller of:

1. 66⅔% (.6667) of your total tax for 2011, or
2. 100% of the total tax shown on your 2010 return. (Your 2010 tax return must cover all 12 months.)

For definitions of "gross income from farming" and "gross income from fishing," see *Farmers and Fishermen*, under *Special Rules* discussed on page 18.

Total tax for 2010—line 14b. Your 2010 total tax, if you filed Form 1040, is the amount on line 60 **reduced by** the following.

1. Unreported social security and Medicare tax or RRTA tax from Forms 4137 or 8919 (line 57).
2. The following amounts from Form 5329 included on line 58.
   a. Any tax on excess contributions to IRAs, Archer MSAs, Coverdell education savings accounts, and health savings accounts.
   b. Any tax on excess accumulations in qualified retirement plans.
3. The following write-ins on line 60.
   a. Excise tax on excess golden parachute payments (identified as "EPP").
   b. Excise tax on insider stock compensation from an expatriated corporation (identified as "ISC").
   c. Look-back interest due under section 167(g) (identified as "From Form 8866").
   d. Look-back interest due under section 460(b) (identified as "From Form 8697").
   e. Recapture of federal mortgage subsidy (identified as "FMSR").
   f. Additional tax on advance payments of health coverage tax credit when not eligible (identified as "HCTC").
   g. Uncollected social security and Medicare tax or RRTA tax on tips or group-term life insurance (identified as "UT").
4. Any refundable credit amounts listed on lines 63, 64a, 65, 66, 67, 70, and 71 (boxes b, c, and d).

If you filed Form 1040A, your 2010 total tax is the amount on line 37 reduced by any refundable credits on lines 40, 41a, 42, and 43.

If you filed Form 1040EZ, your 2010 total tax is the amount on line 11 reduced by the amount on lines 8 and 9a.

Total Estimated Tax Payments Needed—Line 16a

Use lines 15 and 16a to figure the total estimated tax you may be required to pay for 2011. Subtract your expected withholding from your required annual payment (line 14c). You usually must pay this difference in four equal installments. See *When To Pay Estimated Tax* and *How To Figure Each Payment* on this page.

You do not have to pay estimated tax if:

- Line 14c minus line 15 is zero or less, or
- Line 13c minus line 15 is less than $1,000.

Withholding—line 15. Your expected withholding for 2011 (line 15) 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 2011 only if your wages from two or more employers are more than $106,800. See *Excess Social Security or Railroad Retirement Tax Withholding* in chapter 3.

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.

If a payment is mailed, the date of the U.S. postmark is considered the date of payment. The payment periods and due dates for estimated tax payments are shown next. For exceptions to the dates listed, see *Saturday, Sunday, holiday rule* below.

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

[1] If your tax year does not begin on January 1, see *Fiscal year taxpayers* on this page.
[2] See *January payment* below.

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 day that is not Saturday, Sunday, or a holiday.

In 2011, April 15 is Friday and a holiday in the District of Columbia; therefore the payment is due Monday, April 18. In 2012, January 15 is a Sunday and Monday is a holiday. The January 15 payment is due by January 17, 2012.

January payment. If you file your 2011 Form 1040 or Form 1040A by January 31, 2012, and pay the rest of the tax you owe, you do not need to make the payment due on January 17, 2012.

Example. Janet Adams does not pay any estimated tax for 2011. She files her 2011 income tax return and pays the balance due shown on her return on January 26, 2012.

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, if required. Any penalty for not making those payments will be figured up to January 26, 2012.

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 income 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 must 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 2-1 shows the dates for making installment payments.

Table 2-1. **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* on this page.

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* below.

Farmers and Fishermen

If at least two-thirds of your gross income for 2010 or 2011 is from farming or fishing, you have only one payment due date for your 2011 estimated tax, January 17, 2012. The due dates for the first three payment periods, discussed under *When To Pay Estimated Tax* on this page, do not apply to you.

If you file your 2011 Form 1040 by March 1, 2012, and pay all the tax you owe at that time, you do not need to make an estimated tax payment.

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.

How To Figure Each Payment

After you have figured your total 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.

CAUTION ***2010 rollovers or conversions to a Roth IRA or account.*** *If you did not elect to include the taxable amount of your 2010 rollover or conversion to a Roth IRA or account in your 2010 income, you must report half the income in 2011 and half in 2012. For estimated tax purposes, the income from the 2010 rollover or conversion that you must report in 2011 and 2012 will be treated as having been received in an equal amount for each quarter of 2011 and 2012.*

Regular Installment Method

If your first estimated tax payment is due April 18, 2011, you can figure your required payment for each period by dividing your annual estimated tax due (line 16a of the 2011 Estimated Tax Worksheet) by 4. Enter this amount on line 17. However, use this method only if your income is basically the same throughout the year.

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* on this page.

Amended estimated tax. If you refigure your estimated tax during the year, or if your first estimated tax payment is due after April 18, 2011, figure your required payment for each remaining payment period using Worksheet 2-9 on page 43.

Example. Early in 2011, Mira Roberts figures that her estimated tax due is $1,800. She makes estimated tax payments on April 18 and June 15 of $450 each ($1,800 ÷ 4).

On July 10, she sells investment property at a gain. Her refigured estimated tax is $4,100. Her required estimated tax payment for the third payment period is $2,175, as shown in her filled-in Worksheet 2-9 below.

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. The penalty is figured separately for each payment period. If you figure your payments using the regular installment method and later refigure your payments because of an increase in income, you may be charged a penalty for underpayment of estimated tax for the period(s) before you changed your payments. To see how you may be able to avoid or reduce this penalty, see *Annualized Income Installment Method (Schedule AI)* in chapter 4.

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 2011 Annualized Estimated Tax Worksheet (Worksheet 2-6) beginning on page 40.

You first must complete the 2011 Estimated Tax Worksheet through line 16b. (See page 33 for a blank worksheet.)

Use the result you figure on line 32 of the 2011 Annualized Estimated Tax Worksheet to make your estimated tax payments and complete your payment vouchers.

See Example 2, beginning on page 28 to see how the worksheet is completed.

Note. If you use the annualized income installment method to figure your estimated tax payments, you must file Form 2210 with your 2011 tax return. See *Annualized Income Installment Method (Schedule AI)* in chapter 4 for more information.

Instructions for the 2011 Annualized Estimated Tax Worksheet (Worksheet 2-6)

Use Figure 2-C, beginning on page 25, to help you follow these instructions. Another worksheet is available for your use on pages 40 and 41.

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 page 25) 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 AGI for the period. This is your gross income for the period, including your share of partnership or S corporation income or loss, minus your adjustments to income for that period. See *Expected AGI—Line 1* on page 19.

2010 rollovers or conversions to Roth IRA or account. If you elected to report half the income in 2011 and half in 2012, treat that income as received in an equal amount for each quarter.

Self-employment income. If you had self-employment income, first complete Section B of this worksheet. Use the amounts on line 46 when figuring your expected AGI to enter in each column of Section A, line 1.

Line 4. Be sure to consider all deduction limits figured on Schedule A (Form 1040), such as reducing your medical expenses by 7.5% of your AGI, or reducing certain miscellaneous deductions by 2% of your AGI. Figure your deduction limits using your expected AGI in the corresponding column of line 1 (2011 Annualized Estimated Tax Worksheet (Worksheet 2-6)).

Line 6. Multiply line 4 by line 5 and enter the result on line 6.

Line 7. If you will not itemize your deductions, use Worksheet 2-3 (see page 37) to figure your standard deduction.

Line 10. Multiply $3,700 by your total expected exemptions and enter the result on line 10.

Line 12. Generally, you will use the 2011 Tax Rate Schedules on page 34 or in the instructions to Form 1040-ES to figure the tax on your annualized income. However, see below for situations where you must use a different method to compute your estimated tax.

Tax on child's investment income. You must use a special method to figure tax on the income of the following children who have more than $1,900 of investment income.

1. Children under age 18 at the end of 2011.
2. The following children if their earned income is not more than half their support.
   a. Children age 18 at the end of 2011.
   b. Children who are full-time students over age 18 and under age 24 at the end of 2011.

See Publication 929.

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.

Tax on qualified dividends. Generally, the maximum tax rate for qualified dividends is 15%

Worksheet 2-9. **Amended Estimated Tax Worksheet—Illustrated**

1. Amended total estimated tax due		**1.**	*$4,100*
2. Multiply line 1 by: 50% (.50) if next payment is due June 15, 2011 75% (.75) if next payment is due September 15, 2011 100% (1.00) if next payment is due January 17, 2012	**2.** *3,075*		
3. Estimated tax payments for all previous periods	**3.** *900*		
4. Next required payment: Subtract line 3 from line 2 and enter the result (but not less than zero) here and on your payment voucher for your next required payment	**4.** *$2,175*		
Note. *If the payment on line 4 is due January 17, 2012,* ***stop here.*** *Otherwise, go to line 5.*			
5. Add lines 3 and 4		**5.**	*3,075*
6. Subtract line 5 from line 1 and enter the result (but not less than zero)		**6.**	*1,025*
7. Each following required payment: If the payment on line 4 is due June 15, 2011, enter one-half of the amount on line 6 here and on the payment vouchers for your payments due September 15, 2011, and January 17, 2012. If the amount on line 4 is due September 15, 2011, enter the full amount on line 6 here and on the payment voucher for your payment due January 17, 2012		**7.**	*$1,025*

(0% for people whose other income is taxed at the 10% or 15% rate).

Tax on capital gain or qualified dividends. If the amount on line 1 includes a net capital gain or qualified dividends, use Worksheet 2-7 on page 42 to figure the amount to enter on line 12.

Tax if excluding foreign earned income or excluding or deducting foreign housing. If you expect to claim the foreign earned income exclusion or the housing exclusion or deduction on Form 2555 or Form 2555-EZ, use Worksheet 2-8 on page 43 to figure the amount to enter on line 12.

Line 13. If you file Form 1040, add the tax from Forms 8814, 4972, and 6251 for the period. If you file Form 1040A, add the amount from the Alternative Minimum Tax Worksheet found in the instructions. Also include any recapture of an education credit for each period. You may owe this tax if you claimed an education credit in an earlier year and you received either tax-free educational assistance or a refund of qualifying expenses for the same student after filing your 2010 return.

Use the 2010 forms or worksheets to see if you will owe any of the taxes discussed above. Figure the tax based on your income and deductions during the period shown in the column headings. Multiply this amount by the annualization amounts shown for each column on line 2 of the 2011 Annualized Estimated Tax Worksheet (Worksheet 2-6). Enter the result on line 13 of this worksheet.

Line 15. Include all the nonrefundable credits you expect to claim because of events that will occur during the period. If you are using your 2010 return as a guide and filed Form 1040, your 2010 credits were entered on lines 47 through 53. If you filed Form 1040A, your credits were on lines 29 through 33.

Note. When figuring your credits for each period, annualize any item of income or deduction to figure each credit. For example, if you need to use your AGI to figure a credit, use line 3 of Worksheet 2-6 to figure the credit for each column.

Line 17. Enter your self-employment tax for the period from Section B, line 41.

Line 18. Add your expected other taxes.

Other taxes include the following.

1. Additional tax on early distributions from:
   a. An IRA or other qualified retirement plan,
   b. A tax-sheltered annuity, or
   c. A modified endowment contract entered into after June 20, 1988.
2. Household employment taxes 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.
3. Amounts on Form 1040 written in on the line for "total tax" (line 60 on the 2010 Form 1040). But **do not include** recapture of a federal mortgage subsidy; tax on excess golden parachute payments; look-back interest due under section 167(g) or 460(b) of the Internal Revenue Code; excise tax on insider stock compensation from an expatriated corporation; uncollected social security, Medicare, or RRTA tax on tips or group-term life insurance; or additional tax on advance payments of health coverage tax credit when not eligible.
4. Repayment of the first-time homebuyer credit if the home will cease to be your main home in 2011. See Form 5405 for exceptions.

Line 20. Include all the refundable credits (other than withholding credits) you can claim because of events that occurred during the period. If you are using your 2010 return as a guide and filed Form 1040, include the credits on lines 64a, 65, 66, 67, 70 (boxes b, c, and d), and 71. If you filed Form 1040A, include the credits on lines 41a, 42, and 43. If you filed Form 1040EZ, include line 9a.

Note. When figuring your refundable credits for each period, annualize any item of income or deduction used to figure each credit.

Line 29. If line 28 is smaller than line 25 and you are not certain of the estimate of your 2011 tax, you can avoid a penalty by entering the amount from line 25 on line 29.

Line 31. For each period, include estimated tax payments made and any excess social security and railroad retirement tax.

Also include estimated federal income tax withholding. One-fourth of your estimated withholding is considered withheld on the due date of each payment period. To figure the amount to include on line 31 for each period, multiply your total expected withholding for 2011 by:

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

However, you may choose to include your withholding according to the actual dates on which the amounts will be withheld. For each period, include withholding made from the beginning of the period up to and including the payment due date. 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 Needed—Line 16a* on page 22.

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 21, 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 26, enter one-half of the amount from line 16c of the Form 1040-ES (NR) 2011 Estimated Tax Worksheet in column (b), and one-fourth in columns (c) and (d).
5. On lines 24 and 27, skip column (b).
6. On line 31, if you do not use the actual withholding method, include one-half of your total expected withholding in column (b) and one-fourth 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.

Figure 2-C. **Annualized Income Installment Method**

Worksheet 2-6. **2011 Annualized Estimated Tax Worksheet**

Note. *For instructions, see* Annualized Income Installment Method *beginning on page 23.*

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

Estates and trusts: Use the following ending dates in columns (a) through (d): 2/28/2011, 4/30/2011, 7/31/2011, 11/30/2011.			**(a)** 1/1/11-3/31/11	**(b)** 1/1/11-5/31/11	**(c)** 1/1/11-8/31/11	**(d)** 1/1/11-12/31/11
1	Adjusted gross income (AGI) for each period (see instructions). Estates and trusts, enter your taxable income without your exemption for each period. Self-employed: Complete Section B first	**1**				
2	Annualization amounts. (Estates and trusts, see instructions)	**2**	**4**	**2.4**	**1.5**	**1**
3	Annualized income. Multiply line 1 by line 2	**3**				
4	If you itemize, enter itemized deductions for period shown in the column headings (see instructions). All others, enter -0- and skip to line 7. **Exception:** Estates and trusts, skip to line 9 and enter amount from line 3	**4**				
5	Annualization amounts	**5**	**4**	**2.4**	**1.5**	**1**
6	Multiply line 4 by line 5 (see instructions)	**6**				
7	Standard deduction from Worksheet 2-3	**7**				
8	Enter the **larger** of line 6 or line 7	**8**				
9	Subtract line 8 from line 3	**9**				
10	In each column, multiply $3,700 by your total expected number of exemptions (see instructions). (Estates and trusts, see instructions)	**10**				
11	Subtract line 10 from line 9. If zero or less, enter -0-	**11**				
12	Figure your tax on the amount on line 11 (see instructions)	**12**				
13	For each period, enter any tax from Forms 8814, 4972, and 6251. Also include any recapture of education credits (see instructions)	**13**				
14	Add lines 12 and 13	**14**				
15	Enter nonrefundable credits for each period (see instructions)	**15**				
16	Subtract line 15 from line 14	**16**				
17	Self-employment tax from line 41 of Section B	**17**				
18	Enter other taxes for each period (see instructions)	**18**				
19	Total tax. Add lines 16, 17, and 18	**19**				
20	Enter refundable credits for each period (see instructions for type of credits allowed). **Do not** include any income tax withholding on this line	**20**				
21	Subtract line 20 from line 19. If zero or less, enter -0-	**21**				
22	Applicable percentage	**22**	**22.5%**	**45%**	**67.5%**	**90%**
23	Multiply line 21 by line 22	**23**				
24	***Complete lines 24 through 29 of one column before going to line 24 of the next column.*** Enter the total of the amounts in all previous columns of line 29	**24**				
25	Annualized income installment. Subtract line 24 from line 23. If zero or less, enter -0-	**25**				
26	Enter 25% (.25) of line 14c of the Form 1040-ES Estimated Tax Worksheet in each column	**26**				
27	Subtract line 29 of the previous column from line 28 of that column	**27**				
28	Add lines 26 and 27	**28**				
29	Enter the **smaller** of line 25 or line 28 (see instructions)	**29**				
30	Total required payments for the period. Add lines 24 and 29	**30**				
31	Estimated tax payments made (line 32 of all previous columns) plus tax withholding through the due date for the period (see instructions)	**31**				
32	Estimated tax payment required by the next due date. Subtract line 31 from line 30 and enter the result (but not less than zero) here and on your payment voucher	**32**				

Figure 2-C. **Annualized Income Installment Method** *(Continued)*

Worksheet 2-6. **2011 Annualized Estimated Tax Worksheet** *(Continued)*

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

(Form 1040 filers only)		(a) 1/1/11-3/31/11	(b) 1/1/11-5/31/11	(c) 1/1/11-8/31/11	(d) 1/1/11-12/31/11
33 Net earnings from self-employment for the period (see instructions)	**33**				
34 Prorated social security tax limit	**34**	**$26,700**	**$44,500**	**$71,200**	**$106,800**
35 Enter actual wages for the period subject to social security tax or the 4.2% portion of tier 1 railroad retirement tax. **Exception:** If you file Form 4137 or Form 8919, see instructions	**35**				
36 Subtract line 35 from line 34. If zero or less, enter -0-	**36**				
37 Annualization amounts	**37**	**0.416**	**0.2496**	**0.156**	**0.104**
38 Multiply line 37 by the **smaller** of line 33 or line 36	**38**				
39 Annualization amounts	**39**	**0.116**	**0.0696**	**0.0435**	**0.029**
40 Multiply line 33 by line 39	**40**				
41 Add lines 38 and 40. Enter the result here and on line 17 of Section A	**41**				
42 Multiply line 38 by 59.6% (.596)	**42**				
43 Multiply line 40 by 50% (.50)	**43**				
44 Add lines 42 and 43	**44**				
45 Annualization amounts	**45**	**4**	**2.4**	**1.5**	**1**
46 Deduction for self-employment tax. Divide line 44 by line 45. Enter the result here. Use this result to figure your AGI on line 1	**46**				

How To Pay Estimated Tax

There are five ways to pay estimated tax.

- Credit an overpayment on your 2010 return to your 2011 estimated tax.
- Send in your payment (check or money order) with a payment voucher from Form 1040-ES.
- Pay electronically using the Electronic Federal Tax Payment System (EFTPS).
- Pay by electronic funds withdrawal (EFW) if you are filing Form 1040 electronically.
- Pay by credit or debit card using a pay-by-phone system or the Internet.

Credit an Overpayment

If you show an overpayment of tax after completing your Form 1040 or Form 1040A for 2010, you can apply part or all of it to your estimated tax for 2011. On line 75 of Form 1040, or line 47 of Form 1040A, enter the amount you want credited to your estimated tax rather than refunded. Take the amount you have credited into account when figuring your estimated tax payments. If you timely file your 2010 return, treat the credit as a payment made on April 15, 2011.

If you are a beneficiary of an estate or trust, and the trustee elects to credit 2011 trust payments of estimated tax to you, you can treat the amount credited as paid by you on January 15, 2012.

If you choose to have an overpayment of tax credited to your estimated tax, you cannot have any of that amount refunded to you until you file your tax return for the following year. You also cannot use that overpayment in any other way.

Example. When Kathleen finished filling out her 2010 tax return, she saw that she had overpaid her taxes by $750. Kathleen knew she would owe additional tax in 2011. She credited $600 of the overpayment to her 2011 estimated tax and had the remaining $150 refunded to her.

In September, she amended her 2010 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 2010 overpayment from $750 to $500. Because the $750 had already been applied to her 2011 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 2011 estimated tax to pay this bill.

Pay by Check or Money Order Using the Estimated Tax Payment Voucher

Each payment of estimated tax by check or money order must be accompanied by a payment voucher from Form 1040-ES. If you made estimated tax payments last year and did not use a paid preparer to file your return, you should receive a copy of the 2011 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.

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 did not pay estimated tax last year, get a copy of Form 1040-ES from the IRS (see chapter 5). Follow the instructions in the package to make sure you use the vouchers correctly.

Joint estimated tax payments. If you file a joint return and are making joint estimated tax payments, 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. Send a clear and concise written statement to the Internal Revenue Service Center where you filed your last return and provide all of the following information.

- 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.

Pay Electronically

For information on paying your estimated taxes electronically, including by credit or debit card, go to *www.irs.gov/e-pay*.

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 2011, Anne and Larry Jones figure their estimated tax payments for the year. They expect to receive the following income during 2011.

Larry's salary	$39,900
State tax refund (they itemized deductions in 2010)	600
Anne's net profit from self-employment	40,100
Net rental income	6,205
Interest income	2,784
Total	$89,589

They also use the following expected items to figure their 2011 estimated tax.

Adjustment to income for IRA contributions	$ 1,000
Itemized deductions	17,825
Deduction for exemptions ($3,700 × 2)	7,400
Withholding	3,972

The Joneses plan to file a joint return. They use the 2011 Estimated Tax Worksheet included in Form 1040-ES to figure their estimated tax payments. See their filled-in worksheet (Figure 2-D) on page 29.

Expected AGI. Anne can claim an income tax deduction for part of her self-employment tax as an adjustment to income. So before the Joneses figure their expected AGI, they figure Anne's expected self-employment tax. See their filled-in Worksheet 2-2 on this page.

On line 11 of their 2011 Estimated Tax Worksheet, the Joneses enter $4,925 self-employment tax. They subtract their allowable deduction, $2,832, and their $1,000 adjustment for IRA contributions from their $89,589 total income to find their expected AGI, $85,757. They enter that amount on line 1 of the worksheet.

Expected taxable income. The Joneses use Worksheet 2-3 (see page 37) to figure their standard deduction, $11,600. This is smaller than their expected itemized deductions, so they enter $17,825 on line 2 of the worksheet. They subtract the amount on line 2 from the amount on line 1 and enter the result, $67,932, on line 3. They enter their deduction for exemptions, $7,400, on line 4. After subtracting this amount, their expected taxable income on line 5 is $60,532.

Expected taxes and credits. The Joneses use the 2011 Tax Rate Schedule Y-1 on page 34 to figure their expected income tax, and enter $8,230 on line 6 of the worksheet. They do not expect to owe any other taxes that would be entered on lines 7 or 12. They do not have any other credits that would be entered on lines 9 or 13b.

The Joneses' total estimated tax on line 13c, after adding Anne's self-employment tax from line 11, is $13,155.

Estimated tax. The Joneses multiply their total estimated tax by 90% and enter $11,840 on line 14a of the worksheet. They enter their 2010 tax, $13,123, on line 14b. Their required annual payment on line 14c is the smaller amount, $11,840.

They enter Larry's expected withholding, $3,972, on line 15 and subtract it from their required annual payment. Their estimated tax on line 16a is $7,868.

After completing lines 16a and 16b, the Joneses find they are required to pay estimated tax.

This is because their estimated withholding (line 15) is:

- Less than their "required annual payment to avoid a penalty" (line 14c), and
- Not within $1,000 of their "total 2011 estimated tax" (line 13c).

Required estimated tax payment. The Joneses must pay their first estimated tax payment by April 18, 2011. They enter one-fourth of their estimated tax (line 16a), $2,296, on line 17 of the worksheet and on their Form 1040-ES payment voucher that shows "Due April 18, 2011." 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 $2,296 estimated tax by June 15 and September 15, 2011, and January 17, 2012.

Worksheet 2-2. **2011 Estimated Tax Worksheet—Lines 1 and 11 Expected Self-Employment Tax and Deduction —Illustrated (Anne Jones)**

1. a.	Enter your expected income and profits subject to self-employment tax*	**1a.**	*$40,100*		
b.	If you will have farm income and also receive social security retirement or disability benefits, enter your expected Conservation Reserve Program payments that will be included on Schedule F (Form 1040) or listed on Schedule K-1 (Form 1065)	**1b.**			
2.	Subtract line 1b from line 1a	**2.**	*40,100*		
3.	Multiply line 2 by 92.35% (.9235). If less than $400, **do not** complete this worksheet; you will not owe self-employment tax on your expected net earnings from self-employment	**3.**	*37,032*		
4.	Multiply line 3 by 2.9% (.029)			**4.**	*1,074*
5.	Maximum income subject to social security tax	**5.**	**$106,800**		
6.	Enter your expected wages (if subject to social security tax or the 4.2% portion of tier 1 railroad retirement tax)	**6.**	*-0-*		
7.	Subtract line 6 from line 5 **Note.** *If line 7 is zero or less, enter -0- on line 9 and skip to line 10.*	**7.**	*106,800*		
8.	Enter the **smaller** of line 3 or line 7	**8.**	*37,032*		
9.	Multiply line 8 by 10.4% (.104)			**9.**	*3,851*
10.	Add line 4 and line 9. Enter the result here and on line 11 of your 2011 Estimated Tax Worksheet (or line 17 of the Annualized Estimated Tax Worksheet (Worksheet 2-6))			**10.**	*$ 4,925*
11.	Multiply line 4 by 50% (.50)	**11.**	*537*		
12.	Multiply line 9 by 59.6% (.596)	**12.**	*2,295*		
13.	Add lines 11 and 12. This is your expected deduction for self-employment tax on Form 1040, line 27. Subtract this amount when figuring your expected AGI on line 1 of your 2011 Estimated Tax Worksheet (or Annualized Estimated Tax Worksheet (Worksheet 2-6))	**13.**	*$ 2,832*		

*Your net profit from self-employment is found on Schedule C, line 31; Schedule C-EZ, line 3; Schedule F, line 36; Schedule K-1 (Form 1065), box 14, code A; and Schedule K-1 (Form 1065-B), box 9, code J1.

Example 2—Annualized Income Installment Method

The facts are the same as in *Example 1—Regular Installment Method* on the previous page, except that the Joneses do not expect to receive their income evenly throughout the year. Anne expects to receive the largest portion of her self-employment income during the last few months of the year, and the Joneses' rental income is from a vacation home rented only from May to mid-October.

After completing their 2011 Estimated Tax Worksheet, the Joneses decide to use the annualized income installment method to see if they can pay less than $2,296 estimated tax for one or more payment periods. They complete the 2011 Annualized Estimated Tax Worksheet (Worksheet 2-6) in this chapter. See their filled-in worksheet (Figure 2-E) on pages 30 and 31.

First Period

On April 1, 2011, 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	$ 9,975
State tax refund	600
Anne's net profit from self-employment	3,000
Net rental income	-0-
Interest income	696
Total	$14,271

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

Adjustment to income for IRA contributions	$ 150
Itemized deductions	2,375
Withholding	993

Annualized AGI. Before the Joneses figure their AGI 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 33 of Section B, they enter $2,771, which is Anne's net profit from self-employment for the period ($3,000 x .9235). The prorated social security tax limit is preprinted on line 34. She has no social security wages, so they enter zero on line 35, and $26,700 on line 36. Anne's annualized social security tax on line 38 is $1,153 ($2,771 × .416). Her annualized Medicare tax on line 40 is $321 ($2,771 × .116). Her total annualized self-employment tax on line 41 is $1,474. They enter that amount on line 17 of Section A.

The Joneses figure their adjustment to income for Anne's self-employment tax on lines 42 through 46 (Section B). That amount is $212 ($848 ÷ 4). They subtract that amount and their $150 IRA contributions from their $14,271 total income and enter their AGI for the period, $13,909, on line 1 of Section A. They multiply that amount by 4 and enter their annualized AGI, $55,636, on line 3.

Annualized taxable income. The Joneses figure their annualized itemized deductions ($2,375 × 4) on lines 4 through 6 of Section A. Because the result is smaller than their standard deduction, they enter their $11,600 standard deduction on line 8. After subtracting that amount and their $7,400 deduction for exemptions, the Joneses' annualized taxable income on line 11 is $36,636.

Annualized taxes and credits. The Joneses use the 2011 Tax Rate Schedule Y-1 on page 34 to figure their annualized income tax, $4,645, which they enter on line 12 of Section A.

They use their 2010 tax return to see what credits may be included on line 15. These are nonrefundable credits on lines 47 through 53 of Form 1040 or lines 29 through 33 if you filed Form 1040A. They have no credits listed in this section of their tax return and do not think they will have any in 2011, so they leave line 15 blank.

They have no other taxes for the period that would be entered on line 18, so they leave that line blank and enter $6,119 ($4,645 + $1,474) on line 19.

Next, the Joneses look at refundable credits on line 20. The credits on the 2010 Form 1040 that will be available in 2011 are those on lines 64a, 65, 66, 67, and 70, and on Forms 8801, 8839, and 8885. They do not anticipate any refundable credits, so they leave that line blank and enter $6,119 on line 21.

Required estimated tax payment. The Joneses' annualized income installment on lines 23 and 25 of Section A is $1,377 ($6,119 × 22.5%). On lines 26 and 28 they enter $2,960, one-fourth of their $11,840 required annual payment (line 14c of their 2011 Estimated Tax Worksheet). Because their annualized income installment ($1,377) is smaller, they enter that amount on lines 29 and 30.

Larry's total expected withholding for the year is $3,972. The Joneses can treat 3 months of that amount ($3,972 ÷ 12 = $331 × 3 months = $993) as paid on April 18, or they can use Larry's actual withholding for the period. The Joneses enter $993 on line 30.

On line 31, the Joneses' required estimated tax payment for the period under the annualized income installment method is $384 ($1,377 – $993). They will send in an estimated tax payment of $384 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	$16,625	$26,600	$39,900
State tax refund	600	600	600
Anne's net profit from self-employment	6,000	16,000	40,100
Net rental income	365	4,745	6,205
Interest income	1,160	1,856	2,784
Total	$24,750	$49,801	$89,589

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	4,750	9,250	17,825
Withholding	1,655	2,648	3,972

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. 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 must file Form 2210 with their tax return for 2011.

Figure 2-D. **Regular Installment Method – Illustrated Example 1 (Anne and Larry Jones)**

2011 Estimated Tax Worksheet

Keep for Your Records

1	Adjusted gross income you expect in 2011 (see instructions)			1	85,757
2	• If you plan to itemize deductions, enter the estimated total of your itemized deductions. • If you do not plan to itemize deductions, enter your standard deduction from page 2.			2	17,825
3	Subtract line 2 from line 1.			3	67,932
4	Exemptions. Multiply $3,700 by the number of personal exemptions.			4	7,400
5	Subtract line 4 from line 3.			5	60,532
6	**Tax.** Figure your tax on the amount on line 5 by using the **2011 Tax Rate Schedules** on page 6. **Caution:** *If you will have qualified dividends or a net capital gain, or expect to exclude or deduct foreign earned income or housing, see chapter 2 of Pub. 505 to figure the tax*			6	8,230
7	Alternative minimum tax from **Form 6251**			7	
8	Add lines 6 and 7. Add to this amount any other taxes you expect to include in the total on Form 1040, line 44			8	8,230
9	Credits (see instructions). **Do not** include any income tax withholding on this line			9	
10	Subtract line 9 from line 8. If zero or less, enter -0-			10	8,230
11	Self-employment tax (see instructions)			11	4,925
12	Other taxes (see instructions)			12	
13a	Add lines 10 through 12			13a	13,155
b	Earned income credit, additional child tax credit, fuel tax credit, refundable American opportunity credit, and refundable credits from **Forms 5405, 8801, 8839,** and **8885**			13b	
c	**Total 2011 estimated tax.** Subtract line 13b from line 13a. If zero or less, enter -0- ►			13c	13,155
14a	Multiply line 13c by 90% (66⅔% for farmers and fishermen)	14a	11,840		
b	Required annual payment based on prior year's tax (see instructions)	14b	13,123		
c	**Required annual payment to avoid a penalty.** Enter the **smaller** of line 14a or 14b ►			14c	11,840
	Caution: *Generally, if you do not prepay (through income tax withholding and estimated tax payments) at least the amount on line 14c, you may owe a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 13c is as accurate as possible. Even if you pay the required annual payment, you may still owe tax when you file your return. If you prefer, you can pay the amount shown on line 13c. For details, see chapter 2 of Pub. 505.*				
15	Income tax withheld and estimated to be withheld during 2011 (including income tax withholding on pensions, annuities, certain deferred income, etc.)			15	3,972
16a	Subtract line 15 from line 14c Is the result zero or less? ☐ **Yes.** Stop here. You are not required to make estimated tax payments. ☑ **No.** Go to line 16b.	16a	7,868		
b	Subtract line 15 from line 13c Is the result less than $1,000? ☐ **Yes.** Stop here. You are not required to make estimated tax payments. ☑ **No.** Go to line 17 to figure your required payment.	16b	9,183		
17	If the first payment you are required to make is due April 18, 2011, enter ¼ of line 16a (minus any 2010 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.			17	2,296

Figure 2-E. Annualized Income Installment Method—Illustrated Example 2 (Anne and Larry Jones)

Worksheet 2-6. 2011 Annualized Estimated Tax Worksheet

Note. *For instructions, see* Annualized Income Installment Method *beginning on page 23.*

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

Estates and trusts: Use the following ending dates in columns (a) through (d): 2/28/2011, 4/30/2011, 7/31/2011, 11/30/2011.		(a) 1/1/11-3/31/11	(b) 1/1/11-5/31/11	(c) 1/1/11-8/31/11	(d) 1/1/11-12/31/11
1 Adjusted gross income (AGI) for each period (see instructions). Estates and trusts, enter your taxable income without your exemption for each period. Self-employed: Complete Section B first	**1**	13,909	24,076	48,271	85,756
2 Annualization amounts. (Estates and trusts, see instructions)	**2**	**4**	**2.4**	**1.5**	**1**
3 Annualized income. Multiply line 1 by line 2	**3**	55,636	57,782	72,407	85,756
4 If you itemize, enter itemized deductions for period shown in the column headings (see instructions). All others, enter -0- and skip to line 7. **Exception:** Estates and trusts, skip to line 9 and enter amount from line 3	**4**	2,375	4,750	9,250	17,825
5 Annualization amounts	**5**	**4**	**2.4**	**1.5**	**1**
6 Multiply line 4 by line 5 (see instructions)	**6**	9,500	11,400	13,875	17,825
7 Standard deduction from Worksheet 2-3	**7**	11,600	11,600	11,600	11,600
8 Enter the **larger** of line 6 or line 7	**8**	11,600	11,600	13,875	17,825
9 Subtract line 8 from line 3	**9**	44,036	46,182	58,532	67,931
10 In each column, multiply $3,700 by your total expected number of exemptions (see instructions). (Estates and trusts, see instructions)	**10**	7,400	7,400	7,400	7,400
11 Subtract line 10 from line 9. If zero or less, enter -0-	**11**	36,636	38,782	51,132	60,531
12 Figure your tax on the amount on line 11 (see instructions)	**12**	4,645	4,967	6,820	8,230
13 For each period, enter any tax from Forms 8814, 4972, and 6251. Also include any recapture of education credits (see instructions)	**13**				
14 Add lines 12 and 13	**14**	4,645	4,967	6,820	8,230
15 Enter nonrefundable credits for each period (see instructions)	**15**				
16 Subtract line 15 from line 14	**16**	4,645	4,967	6,820	8,230
17 Self-employment tax from line 41 of Section B	**17**	1,474	1,796	2,948	4,925
18 Enter other taxes for each period (see instructions)	**18**				
19 Total tax. Add lines 16, 17, and 18	**19**	6,119	6,736	9,768	13,155
20 Enter refundable credits for each period (see instructions for type of credits allowed). **Do not** include any income tax withholding on this line	**20**				
21 Subtract line 20 from line 19. If zero or less, enter -0-	**21**	6,119	6,736	9,768	13,155
22 Applicable percentage	**22**	**22.5%**	**45%**	**67.5%**	**90%**
23 Multiply line 21 by line 22	**23**	1,377	3,031	6,593	11,840
Complete lines 24 through 29 of one column before going to line 24 of the next column. **24** Enter the total of the amounts in all previous columns of line 29	**24**		1,377	3,031	6,593
25 Annualized income installment. Subtract line 24 from line 23. If zero or less, enter -0-	**25**	1,377	1,654	3,562	5,247
26 Enter 25% (.25) of line 14c of the Form 1040-ES Estimated Tax Worksheet in each column	**26**	2,960	2,960	2,960	2,960
27 Subtract line 29 of the previous column from line 28 of that column	**27**		1,583	2,889	2,287
28 Add lines 26 and 27	**28**	2,960	4,543	5,849	5,247
29 Enter the **smaller** of line 25 or line 28 (see instructions)	**29**	1,377	1,654	3,562	5,247
30 Total required payments for the period. Add lines 24 and 29	**30**	1,377	3,031	6,522	11,840
31 Estimated tax payments made (line 32 of all previous columns) plus tax withholding through the due date for the period (see instructions)	**31**	993	2,039	4,024	7,846
32 Estimated tax payment required by the next due date. Subtract line 31 from line 30 and enter the result (but not less than zero) here and on your payment voucher	**32**	384	992	2,498	3,994

Figure 2-E. **Annualized Income Installment Method—Illustrated Example 2 (Anne and Larry Jones)** *(Continued)*

Worksheet 2-6. **2011 Annualized Estimated Tax Worksheet** *(Continued)*

Section B (For Figuring Your Annualized Estimated Self-Employment Tax)—Complete each column after end of period shown.					
(Form 1040 filers only)		**(a)** 1/1/11-3/31/11	**(b)** 1/1/11-5/31/11	**(c)** 1/1/11-8/31/11	**(d)** 1/1/11-12/31/11
33 Net earnings from self-employment for the period (see instructions)	**33**	2,771	5,541	14,776	37,032
34 Prorated social security tax limit	**34**	**$26,700**	**$44,500**	**$71,200**	**$106,800**
35 Enter actual wages for the period subject to social security tax or the 4.2% portion of tier 1 railroad retirement tax. **Exception:** If you file Form 4137 or Form 8919, see instructions	**35**	0	0	0	0
36 Subtract line 35 from line 34. If zero or less, enter -0-	**36**	26,700	44,500	71,200	106,800
37 Annualization amounts	**37**	**0.416**	**0.2496**	**0.156**	**0.104**
38 Multiply line 37 by the **smaller** of line 33 or line 36	**38**	1,153	1,383	2,305	3,851
39 Annualization amounts	**39**	**0.116**	**0.0696**	**0.0435**	**0.029**
40 Multiply line 33 by line 39	**40**	321	386	643	1,074
41 Add lines 38 and 40. Enter the result here and on line 17 of Section A	**41**	1,474	1,769	2,948	4,925
42 Multiply line 38 by 59.6% (.596)	**42**	687	824	1,374	2,295
43 Multiply line 40 by 50% (.50)	**43**	161	193	322	537
44 Add lines 42 and 43	**44**	848	1,017	1,696	2,832
45 Annualization amounts	**45**	**4**	**2.4**	**1.5**	**1**
46 Deduction for self-employment tax. Divide line 44 by line 45. Enter the result here. Use this result to figure your AGI on line 1	**46**	212	424	1,131	2,832

Worksheets for Chapter 2

Table 2-2. **Where To Find Worksheets**

Use the following worksheets and tables to figure your correct estimated tax.

IF you need...	THEN use...	ON page...
the 2011 Estimated Tax Worksheet (ES Worksheet)		20, 33
2011 Tax Rate Schedules		34
to estimate your taxable social security and railroad retirement benefits—line 1 of ES Worksheet (or Annualized ES Worksheet (Worksheet 2-6))	Worksheet 2-1	35
to estimate your self-employment (SE) tax and your deduction for SE tax—lines 1 and 11 of ES Worksheet (lines 1 and 17 of Annualized ES Worksheet (Worksheet 2-6))	Worksheet 2-2	36
to determine your standard deduction—line 2 of ES Worksheet (line 7 of Annualized ES Worksheet (Worksheet 2-6))	Worksheet 2-3	37
to estimate your income tax if line 1 of your ES Worksheet includes a net capital gain or qualified dividends—line 6 of ES Worksheet	Worksheet 2-4	38
to estimate your income tax if you expect to claim a foreign earned income exclusion or foreign housing exclusion or deduction on Form 2555 or Form 2555-EZ—line 6 of ES Worksheet	Worksheet 2-5	39
the 2011 Annualized Estimated Tax Worksheet (Annualized ES Worksheet)	Worksheet 2-6	40–41
to estimate your income tax if line 1 of your Annualized ES Worksheet includes a net capital gain or qualified dividends—line 12 of Annualized ES Worksheet	Worksheet 2-7	42
to estimate your income tax if you expect to claim a foreign earned income exclusion or foreign housing exclusion or deduction on Form 2555 or Form 2555-EZ—line 12 of Annualized ES Worksheet	Worksheet 2-8	43
to refigure (amend) your estimated tax during the year	Worksheet 2-9	43

2011 ES Worksheet from the Instructions for 2011 Form 1040-ES

CAUTION When this worksheet refers you to instructions you can find those instructions in the Instructions for 2011 Form 1040-ES.

2011 Estimated Tax Worksheet

Keep for Your Records

1	Adjusted gross income you expect in 2011 (see instructions)		1	
2	• If you plan to itemize deductions, enter the estimated total of your itemized deductions. • If you do not plan to itemize deductions, enter your standard deduction from page 2.		2	
3	Subtract line 2 from line 1.		3	
4	Exemptions. Multiply $3,700 by the number of personal exemptions.		4	
5	Subtract line 4 from line 3.		5	
6	**Tax.** Figure your tax on the amount on line 5 by using the **2011 Tax Rate Schedules** on page 6. **Caution:** *If you will have qualified dividends or a net capital gain, or expect to exclude or deduct foreign earned income or housing, see chapter 2 of Pub. 505 to figure the tax*		6	
7	Alternative minimum tax from **Form 6251**		7	
8	Add lines 6 and 7. Add to this amount any other taxes you expect to include in the total on Form 1040, line 44		8	
9	Credits (see instructions). **Do not** include any income tax withholding on this line		9	
10	Subtract line 9 from line 8. If zero or less, enter -0-		10	
11	Self-employment tax (see instructions)		11	
12	Other taxes (see instructions)		12	
13a	Add lines 10 through 12		13a	
b	Earned income credit, additional child tax credit, fuel tax credit, refundable American opportunity credit, and refundable credits from **Forms 5405, 8801, 8839,** and **8885**		13b	
c	**Total 2011 estimated tax.** Subtract line 13b from line 13a. If zero or less, enter -0- ▶		13c	
14a	Multiply line 13c by 90% (66⅔% for farmers and fishermen)	14a		
b	Required annual payment based on prior year's tax (see instructions)	14b		
c	**Required annual payment to avoid a penalty.** Enter the **smaller** of line 14a or 14b ▶		14c	
	Caution: *Generally, if you do not prepay (through income tax withholding and estimated tax payments) at least the amount on line 14c, you may owe a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 13c is as accurate as possible. Even if you pay the required annual payment, you may still owe tax when you file your return. If you prefer, you can pay the amount shown on line 13c. For details, see chapter 2 of Pub. 505.*			
15	Income tax withheld and estimated to be withheld during 2011 (including income tax withholding on pensions, annuities, certain deferred income, etc.)		15	
16a	Subtract line 15 from line 14c	16a		
	Is the result zero or less? ☐ **Yes.** Stop here. You are not required to make estimated tax payments. ☐ **No.** Go to line 16b.			
b	Subtract line 15 from line 13c	16b		
	Is the result less than $1,000? ☐ **Yes.** Stop here. You are not required to make estimated tax payments. ☐ **No.** Go to line 17 to figure your required payment.			
17	If the first payment you are required to make is due April 18, 2011, enter ¼ of line 16a (minus any 2010 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.		17	

2011 Tax Rate Schedules

Caution. *Do not use these Tax Rate Schedules to figure your 2010 taxes. Use them only to figure your 2011 estimated taxes.*

Schedule X—Use if your **2011** filing status is **Single**

If line 5 is: *Over—*	*But not over—*	**The tax is:**	*of the amount over—*
$0	$8,500	**10%**	**$0**
8,500	34,500	**$850.00 + 15%**	**8,500**
34,500	83,600	**4,750.00 + 25%**	**34,500**
83,600	174,400	**17,025.00 + 28%**	**83,600**
174,400	379,150	**42,449.00 + 33%**	**174,400**
379,150	- - - - - -	**110,016.50 + 35%**	**379,150**

Schedule Z—Use if your **2011** filing status is **Head of household**

If line 5 is: *Over—*	*But not over—*	**The tax is:**	*of the amount over—*
$0	$12,150	**10%**	**$0**
12,150	46,250	**$1,215.00 + 15%**	**12,150**
46,250	119,400	**6,330.00 + 25%**	**46,250**
119,400	193,350	**24,617.50 + 28%**	**119,400**
193,350	379,150	**45,323.50 + 33%**	**193,350**
379,150	- - - - - -	**106,637.50 + 35%**	**379,150**

Schedule Y-1—Use if your **2011** filing status is **Married filing jointly** or **Qualifying widow(er)**

If line 5 is: *Over—*	*But not over—*	**The tax is:**	*of the amount over—*
$0	$17,000	**10%**	**$0**
17,000	69,000	**$1,700.00 + 15%**	**17,000**
69,000	139,350	**9,500.00 + 25%**	**69,000**
139,350	212,300	**27,087.50 + 28%**	**139,350**
212,300	379,150	**47,513.50 + 33%**	**212,300**
379,150	- - - - - -	**102,574.00 + 35%**	**379,150**

Schedule Y-2—Use if your **2011** filing status is **Married filing separately**

If line 5 is: *Over—*	*But not over—*	**The tax is:**	*of the amount over—*
$0	$8,500	**10%**	**$0**
8,500	34,500	**$850.00 + 15%**	**8,500**
34,500	69,675	**4,750.00 + 25%**	**34,500**
69,675	106,150	**13,543.75 + 28%**	**69,675**
106,150	189,575	**23,756.75 + 33%**	**106,150**
189,575	- - - - - -	**51,287.00 + 35%**	**189,575**

Worksheet 2-1. **2011 Estimated Tax Worksheet—Line 1**
Estimated Taxable Social Security and Railroad Retirement Benefits

Note. If you are using this worksheet to estimate your taxable social security or railroad retirement benefits for Worksheet 2-6, 2011 Annualized Estimated Tax Worksheet, multiply the expected amount of benefits for each period by the annualization amount on line 2 for the same period before entering it on line 1 below.

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.	Enter (as a positive amount) the total of any expected exclusions or deductions for: • U.S. savings bond interest used for higher education expenses (Form 8815) • Employer-provided adoption benefits (Form 8839) • Foreign earned income or housing (Form 2555 or 2555-EZ) • Income by bona fide residents of American Samoa (Form 4563) or Puerto Rico	**5.** _____
6.	Add lines 2, 3, 4, and 5	**6.** _____
7.	Enter your expected adjustments to income. **Do not** include any student loan interest deduction, tuition and fees deduction, or domestic production activities deduction	**7.** _____
8.	Subtract line 7 from line 6. If zero or less, **stop** here. **Do not** include any social security or railroad retirement benefits in the amount on line 1 of your 2011 Estimated Tax Worksheet (or Annualized Estimated Tax Worksheet (Worksheet 2-6))	**8.** _____
9.	Enter $25,000 ($32,000 if you expect to file married filing jointly; $0 if you expect to file married filing separately and expect to live with your spouse at any time during the year)	**9.** _____
10.	Subtract line 9 from line 8. If zero or less, **stop** here. **Do not** include any social security or railroad retirement benefits in the amount on line 1 of your 2011 Estimated Tax Worksheet (or Annualized Estimated Tax Worksheet (Worksheet 2-6))	**10.** _____
11.	Enter $9,000 ($12,000 if you expect to file married filing jointly; $0 if you expect to file married filing separately and expect to live with your spouse at any time during the year)	**11.** _____
12.	Subtract line 11 from line 10. If zero or less, enter -0-	**12.** _____
13.	Enter the **smaller** of line 10 or line 11	**13.** _____
14.	Enter one-half of line 13	**14.** _____
15.	Enter the **smaller** of line 2 or line 14	**15.** _____
16.	Multiply line 12 by 85% (.85). If line 12 is zero, enter -0-	**16.** _____
17.	Add lines 15 and 16	**17.** _____
18.	Multiply line 1 by 85% (.85)	**18.** _____
19.	Enter the **smaller** of line 17 or line 18	**19.** _____
20.	**Expected taxable social security and railroad retirement benefits for the period.** Divide line 19 by the annualization amount on line 2 for the same period and enter here. Include this amount in the total on line 1 of your 2011 Estimated Tax Worksheet (or Annualized Estimated Tax Worksheet (Worksheet 2-6))	**20.** _____

Worksheet 2-2. **2011 Estimated Tax Worksheet—Lines 1 and 11**
Estimated Self-Employment Tax and Deduction Worksheet

1.	**a.** Enter your expected income and profits subject to self-employment tax*	**1a.**			.
	b. If you will have farm income and also receive social security retirement or disability benefits, enter your expected Conservation Reserve Program payments that will be included on Schedule F (Form 1040) or listed on Schedule K-1 (Form 1065)	**1b.**			
2.	Subtract line 1b from line 1a	**2.**			
3.	Multiply line 2 by 92.35% (.9235). If less than $400, **do not** complete this worksheet; you will not owe self-employment tax on your expected net earnings from self-employment	**3.**			
4.	Multiply line 3 by 2.9% (.029)			**4.**	
5.	Maximum income subject to social security tax	**5.**	**$106,800**		
6.	Enter your expected wages (if subject to social security tax or the 4.2% portion of tier 1 railroad retirement tax)	**6.**			
7.	Subtract line 6 from line 5 **Note.** *If line 7 is zero or less, enter -0- on line 9 and skip to line 10.*	**7.**			
8.	Enter the **smaller** of line 3 or line 7	**8.**			
9.	Multiply line 8 by 10.4% (.104)			**9.**	
10.	Add line 4 and line 9. Enter the result here and on line 11 of your 2011 Estimated Tax Worksheet (or line 17 of the Annualized Estimated Tax Worksheet (Worksheet 2-6))			**10.**	
11.	Multiply line 4 by 50% (.50)	**11.**			
12.	Multiply line 9 by 59.6% (.596)	**12.**			
13.	Add lines 11 and 12. This is your expected deduction for self-employment tax on Form 1040, line 27. Subtract this amount when figuring your expected AGI on line 1 of your 2011 Estimated Tax Worksheet (or Annualized Estimated Tax Worksheet (Worksheet 2-6))	**13.**			

*Your net profit from self-employment is found on Schedule C, line 31; Schedule F, line 36; Schedule K-1 (Form 1065), box 14, code A; and Schedule K-1 (Form 1065-B), box 9, code J1.

Worksheet 2-3. **2011 Estimated Tax Worksheet—Line 2**
Standard Deduction Worksheet

Caution. Do not complete this worksheet if you expect your spouse to itemize on a separate return or you expect to be a dual-status alien. In either case, your standard deduction will be zero.

1. Enter the amount shown below for your filing status.
- Single or married filing separately—$5,800
- Married filing jointly or Qualifying widow(er)—$11,600
- Head of household—$8,500 . . . . . **1.** _____

2. Can you (or your spouse if filing jointly) be claimed as a dependent on someone else's return?
☐ **No.** Skip line 3; enter the amount from line 1 on line 4.
☐ **Yes.** Go to line 3.

3. Is your **earned income*** more than $650?
☐ **Yes.** Add $300 to your earned income. Enter the total.
☐ **No.** Enter $950 . . . . . **3.** _____

4. Enter the **smaller** of line 1 or line 3 . . . . . **4.** _____

5. Were you (or your spouse if filing jointly) born before January 2, 1947, or blind?
☐ **No.** Go to line 6.
☐ **Yes.** Check if:
a. **You** were ☐ Born before January 2, 1947 ☐ Blind
b. **Your spouse** was ☐ Born before January 2, 1947 ☐ Blind
c. **Total boxes checked in 5a and 5b** ☐

▶ Multiply $1,150 ($1,450 if single or head of household) by the number in the box on line 5c . . . . . **5.** _____

6. Standard deduction. Add lines 4 and 5. Enter the result here and on line 2 of your 2011 Estimated Tax Worksheet (or line 7 of your 2011 Annualized Estimated Tax Worksheet (Worksheet 2-6)) . . . . . **6.** _____

* **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. Reduce your earned income by your allowed deduction for self-employment tax (Worksheet 2-2, line 13).

Worksheet 2-4. **2011 Estimated Tax Worksheet—Line 6**
Qualified Dividends and Capital Gain Tax Worksheet

1. Enter the amount from the appropriate worksheet. • Line 5 of your 2010 Estimated Tax Worksheet • Line 3 of Worksheet 2-5 (use if you will exclude or deduct foreign earned income or housing)			**1.**	
2. Enter your qualified dividends expected for 2011[1]	**2.**			
3. Enter your net capital gain expected for 2011[1]	**3.**			
4. Add lines 2 and 3		**4.**		
5. Enter your 28% rate gain or loss expected for 2011[2]	**5.**			
6. Enter your unrecaptured section 1250 gain expected for 2011	**6.**			
7. Add lines 5 and 6	**7.**			
8. Enter the **smaller** 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 **smaller** of line 1 or $69,000 ($34,500 if single or married filing separately, or $46,250 if head of household)	**11.**			
12. Enter the **smaller** of line 10 or line 11	**12.**			
13. Subtract line 4 from line 1. If zero or less, enter -0-	**13.**			
14. Enter the **larger** of line 12 or line 13 **Note.** *If line 11 and line 12 are the same, skip line 15 and go to line 16.*			**14.**	
15. Subtract line 12 from line 11 **Note.** *If lines 1 and 11 are the same, skip lines 16 through 28 and go to line 29.*			**15.**	
16. Enter the **smaller** of line 1 or line 9		**16.**		
17. Enter the amount from line 15. If line 15 is blank, enter -0-		**17.**		
18. Subtract line 17 from line 16. If zero or less, enter -0-			**18.**	
19. Multiply line 18 by 15% (.15) **Note.** *If line 6 is zero or blank, skip lines 20 through 25 and go to line 26.*				**19.**
20. Enter the **smaller** of line 3 or line 6		**20.**		
21. Add lines 4 and 14	**21.**			
22. Enter the amount from line 1 above	**22.**			
23. Subtract line 22 from line 21. If zero or less, enter -0-		**23.**		
24. Subtract line 23 from line 20. If zero or less, enter -0-			**24.**	
25. Multiply line 24 by 25% (.25) **Note.** *If line 5 is zero or blank, skip lines 26 through 28 and go to line 29.*				**25.**
26. Add lines 14, 15, 18, and 24			**26.**	
27. Subtract line 26 from line 1			**27.**	
28. Multiply line 27 by 28% (.28)				**28.**
29. Figure the tax on the amount on line 14 from the 2011 Tax Rate Schedules				**29.**
30. Add lines 19, 25, 28, and 29				**30.**
31. Figure the tax on the amount on line 1 from the 2011 Tax Rate Schedules				**31.**
32. Tax on all taxable income (including capital gains and qualified dividends). Enter the **smaller** of line 30 or line 31 here and on line 6 of the 2011 Estimated Tax Worksheet (or line 4 of Worksheet 2-5)				**32.**

[1] 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.

[2] 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 2-5. **2011 Estimated Tax Worksheet—Line 6**
Foreign Earned Income Tax Worksheet

Before you begin: If line 5 of your 2011 Estimated Tax Worksheet is zero, do not complete this worksheet.

1.	Enter the amount from line 5 of your 2011 Estimated Tax Worksheet	**1.** _____
2.	Enter the total foreign earned income and housing amount you (and your spouse if filing jointly) expect to exclude or deduct in 2011 on Form 2555 or Form 2555-EZ	**2.** _____
3.	Add lines 1 and 2	**3.** _____
4.	**Tax on the amount on line 3.** Use the 2011 Tax Rate Schedules or Worksheet 2-4,* as appropriate	**4.** _____
5.	**Tax on the amount on line 2.** Use the 2011 Tax Rate Schedules	**5.** _____
6.	Subtract line 5 from line 4. Enter the result here and on line 6 of your 2011 Estimated Tax Worksheet. If zero or less, enter -0-	**6.** _____

**If using Worksheet 2-4 (Qualified Dividends and Capital Gain Tax Worksheet), enter the amount from line 3 above on line 1 of Worksheet 2-4. Complete Worksheet 2-4 through line 9. Next, determine if you have a capital gain excess.*

Figuring capital gain excess. To find out if you have a capital gain excess, subtract line 5 of your 2011 Estimated Tax Worksheet from line 9 of Worksheet 2-4. If the result is more than zero, that amount is your capital gain excess.

No capital gain excess. If you do not have a capital gain excess, complete the rest of Worksheet 2-4 according to its instructions. Then complete lines 5 and 6 above.

Capital gain excess. If you have a capital gain excess, complete a second Worksheet 2-4 as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above.

Make these modifications only for purposes of filling out Worksheet 2-5 above.

a. Reduce (but not below zero) the amount you otherwise would enter on line 3 of Worksheet 2-4 by your capital gain excess.

b. Reduce (but not below zero) the amount you otherwise would enter on line 2 of Worksheet 2-4 by any of your capital gain excess not used in (a) above.

c. Reduce (but not below zero) the amount you otherwise would enter on line 5 of Worksheet 2-4 by your capital gain excess.

d. Reduce (but not below zero) the amount you otherwise would enter on line 6 of Worksheet 2-4 by your capital gain excess.

Worksheet 2-6 **2011 Annualized Estimated Tax Worksheet**

Note. *For instructions, see* Annualized Income Installment Method *beginning on page 23*

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

Estates and trusts: Use the following ending dates in columns (a) through (d): 2/28/2011, 4/30/2011, 7/31/2011, 11/30/2011.			**(a)** 1/1/11-3/31/11	**(b)** 1/1/11-5/31/11	**(c)** 1/1/11-8/31/11	**(d)** 1/1/11-12/31/11
1	Adjusted gross income (AGI) for each period (see instructions). Estates and trusts, enter your taxable income without your exemption for each period. Self-employed: Complete Section B first	**1**				
2	Annualization amounts. (Estates and trusts, see instructions)	**2**	**4**	**2.4**	**1.5**	**1**
3	Annualized income. Multiply line 1 by line 2	**3**				
4	If you itemize, enter itemized deductions for period shown in the column headings (see instructions). All others, enter -0- and skip to line 7. **Exception:** Estates and trusts, skip to line 9 and enter amount from line 3	**4**				
5	Annualization amounts	**5**	**4**	**2.4**	**1.5**	**1**
6	Multiply line 4 by line 5 (see instructions)	**6**				
7	Standard deduction from Worksheet 2-3	**7**				
8	Enter the **larger** of line 6 or line 7	**8**				
9	Subtract line 8 from line 3	**9**				
10	In each column, multiply $3,700 by your total expected number of exemptions (see instructions). (Estates and trusts, see instructions)	**10**				
11	Subtract line 10 from line 9. If zero or less, enter -0-	**11**				
12	Figure your tax on the amount on line 11 (see instructions)	**12**				
13	For each period, enter any tax from Forms 8814, 4972, and 6251. Also include any recapture of education credits (see instructions)	**13**				
14	Add lines 12 and 13	**14**				
15	Enter nonrefundable credits for each period (see instructions)	**15**				
16	Subtract line 15 from line 14	**16**				
17	Self-employment tax from line 41 of Section B	**17**				
18	Enter other taxes for each period (see instructions)	**18**				
19	Total tax. Add lines 16, 17, and 18	**18**				
20	Enter refundable credits for each period (see instructions for type of credits allowed). **Do not** include any income tax withholding on this line	**20**				
21	Subtract line 20 from line 19. If zero or less, enter -0-	**21**				
22	Applicable percentage	**22**	**22.5%**	**45%**	**67.5%**	**90%**
23	Multiply line 21 by line 22	**23**				
	Complete lines 24 through 29 of one column before going to line 24 of the next column.					
24	Enter the total of the amounts in all previous columns of line 29	**24**				
25	Annualized income installment. Subtract line 24 from line 23. If zero or less, enter -0-	**25**				
26	Enter 25% (.25) of line 14c of the Form 1040-ES Estimated Tax Worksheet in each column	**26**				
27	Subtract line 29 of the previous column from line 28 of that column	**27**				
28	Add lines 26 and 27	**28**				
29	Enter the **smaller** of line 25 or line 28 (see instructions)	**29**				
30	Total required payments for the period. Add lines 24 and 29	**30**				
31	Estimated tax payments made (line 32 of all previous columns) plus tax withholding through the due date for the period (see instructions)	**31**				
32	Estimated tax payment required by the next due date. Subtract line 31 from line 30 and enter the result (but not less than zero) here and on your payment voucher	**32**				

Worksheet 2-6. **2011 Annualized Estimated Tax Worksheet** *(Continued)*

Section B (For Figuring Your Annualized Estimated Self-Employment Tax)—Complete each column after end of period shown.					
(Form 1040 filers only)		**(a)** 1/1/11-3/31/11	**(b)** 1/1/11-5/31/11	**(c)** 1/1/11-8/31/11	**(d)** 1/1/11-12/31/11
33 Net earnings from self-employment for the period (see instructions)	**33**				
34 Prorated social security tax limit	**34**	**$26,700**	**$44,500**	**$71,200**	**$106,800**
35 Enter actual wages for the period subject to social security tax or the 4.2% portion of the tier 1 railroad retirement tax. **Exception:** If you file Form 4137 or Form 8919, see instructions	**35**				
36 Subtract line 35 from line 34. If zero or less, enter -0-	**36**				
37 Annualization amounts	**37**	**0.416**	**0.2496**	**0.156**	**0.104**
38 Multiply line 37 by the **smaller** of line 33 or line 36	**38**				
39 Annualization amounts	**39**	**0.116**	**0.0696**	**0.0435**	**0.029**
40 Multiply line 33 by line 39	**40**				
41 Add lines 38 and 40. Enter the result here and on line 17 of Section A	**41**				
42 Multiply line 38 by 59.6% (.596)	**42**				
43 Multiply line 40 by 50% (.50)	**43**				
44 Add lines 42 and 43	**44**				
45 Annualization amounts	**45**	**4**	**2.4**	**1.5**	**1**
46 Deduction for self-employment tax. Divide line 44 by line 45. Enter the result here. Use this result to figure your AGI on line 1	**46**				

Worksheet 2-7. **2011 Annualized Estimated Tax Worksheet—Line 12 Qualified Dividends and Capital Gain Tax Worksheet**

Note. To figure the annualized entries for lines 2, 3, 5, and 6 below, multiply the expected amount for the period by the annualization amount on line 2 of Worksheet 2-6 for the same period.

1. Enter the amount from the appropriate worksheet.
- Line 11 of your 2011 Annualized Estimated Tax Worksheet (Worksheet 2-6)
- Line 3 of Worksheet 2-8 (use if you will exclude or deduct foreign earned income or housing) **1.** _____

2. Enter your annualized qualified dividends expected for 2011[1] . . . . . **2.** _____

3. Enter your annualized net capital gain expected for 2011[1] . . . . . **3.** _____

4. Add lines 2 and 3 . . . . . **4.** _____

5. Enter your annualized 28% rate gain or loss expected for 2011[2] . . . . . **5.** _____

6. Enter your annualized unrecaptured section 1250 gain expected for 2011 . . . . . **6.** _____

7. Add lines 5 and 6 . . . . . **7.** _____

8. Enter the **smaller** 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 **smaller** of line 1 or $69,000 ($34,500 if single or married filing separately, or $46,250 if head of household) . . . . . **11.** _____

12. Enter the **smaller** of line 10 or line 11 . . . . . **12.** _____

13. Subtract line 4 from line 1. If zero or less, enter -0- . . . . . **13.** _____

14. Enter the **larger** of line 12 or line 13 . . . . . **14.** _____
Note. *If line 11 and line 12 are the same, skip line 15 and go to line 16.*

15. Subtract line 12 from line 11 . . . . . **15.** _____
Note. *If lines 1 and 11 are the same, skip lines 16 through 28 and go to line 29.*

16. Enter the **smaller** of line 1 or line 9 . . . . . **16.** _____

17. Enter the amount from line 15. If line 15 is blank, enter -0- . . . . . **17.** _____

18. Subtract line 17 from line 16. If zero or less, enter -0- . . . . . **18.** _____

19. Multiply line 18 by 15% (.15) . . . . . **19.** _____
Note. *If line 6 is zero or blank, skip lines 20 through 25 and go to line 26.*

20. Enter the **smaller** of line 3 or line 6 . . . . . **20.** _____

21. Add lines 4 and 14 . . . . . **21.** _____

22. Enter the amount from line 1 above . . . . . **22.** _____

23. Subtract line 22 from line 21. If zero or less, enter -0- . . . . . **23.** _____

24. Subtract line 23 from line 20. If zero or less, enter -0- . . . . . **24.** _____

25. Multiply line 24 by 25% (.25) . . . . . **25.** _____
Note. *If line 5 is zero or blank, skip lines 26 through 28 and go to line 29.*

26. Add lines 14, 15, 18, and 24 . . . . . **26.** _____

27. Subtract line 26 from line 1 . . . . . **27.** _____

28. Multiply line 27 by 28% (.28) . . . . . **28.** _____

29. Figure the tax on the amount on line 14 from the 2011 Tax Rate Schedules . . . . . **29.** _____

30. Add lines 19, 25, 28, and 29 . . . . . **30.** _____

31. Figure the tax on the amount on line 1 from the 2011 Tax Rate Schedules . . . . . **31.** _____

32. **Tax on all taxable income (including capital gains and qualified dividends).** Enter the **smaller** of line 30 or line 31 here and on line 12 of the appropriate column of the 2011 Annualized Estimated Tax Worksheet (or line 4 of Worksheet 2-8) . . . . . **32.** _____

[1] 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.

[2] 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 2-8. **2011 Annualized Estimated Tax Worksheet—Line 12 Foreign Earned Income Tax Worksheet**

Before you begin: If line 11 of Worksheet 2-6 (2011 Annualized Estimated Tax Worksheet) is zero for the period, do not complete this worksheet.

1. Enter the amount from line 11 of your 2011 Annualized Estimated Tax Worksheet for the period . . . . . **1.** _____

2. Enter the annualized amount* of foreign earned income and housing amount you (and your spouse if filing jointly) expect to exclude or deduct for the period on Form 2555 or Form 2555-EZ . . . . . **2.** _____

3. Add lines 1 and 2 . . . . . **3.** _____

4. Tax on the amount on line 3. Use the 2011 Tax Rate Schedules or Worksheet 2-7,** as appropriate . . **4.** _____

5. Tax on the amount on line 2. Use the 2011 Tax Rate Schedules . . . . . **5.** _____

6. Subtract line 5 from line 4. Enter the result here and on line 12 of your 2011 Annualized Estimated Tax Worksheet (Worksheet 2-6). If zero or less, enter -0- . . . . . **6.** _____

** To figure the annualized amount for line 2, multiply the expected exclusion for the period by the annualization amount on line 2 of Worksheet 2-6 for the same period.*

***If using Worksheet 2-7 (Qualified Dividends and Capital Gain Tax Worksheet), enter the amount from line 3 above on line 1 of Worksheet 2-7. Complete Worksheet 2-7 through line 9. Next, determine if you have a capital gain excess.*

Figuring capital gain excess. To find out if you have a capital gain excess for the appropriate period, subtract line 11 of Worksheet 2-6 from line 9 of Worksheet 2-7. If the result is more than zero, that amount is your capital gain excess.

No capital gain excess. If you do not have a capital gain excess, complete the rest of Worksheet 2-7 according to its instructions. Then complete lines 5 and 6 above.

Capital gain excess. If you have a capital gain excess, complete a second Worksheet 2-7 as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above.

Make these modifications only for purposes of filling out Worksheet 2-8 above.

a. Reduce (but not below zero) the amount you otherwise would enter on line 3 of Worksheet 2-7 by your capital gain excess.

b. Reduce (but not below zero) the amount you otherwise would enter on line 2 of Worksheet 2-7 by any of your capital gain excess not used in (a) above.

c. Reduce (but not below zero) the amount you otherwise would enter on line 5 of Worksheet 2-7 by your capital gain excess.

d. Reduce (but not below zero) the amount you otherwise would enter on line 6 of Worksheet 2-7 by your capital gain excess.

Worksheet 2-9. **Amended Estimated Tax Worksheet**

1. Amended total estimated tax due . . . . . **1.** _____

2. Multiply line 1 by:
50% (.50) if next payment is due June 15, 2011
75% (.75) if next payment is due September 15, 2011
100% (1.00) if next payment is due January 17, 2012 . . . . . **2.** _____

3. Estimated tax payments made for all previous periods . . . . . **3.** _____

4. Next required payment: Subtract line 3 from line 2 and enter the result (but not less than zero) here and on your payment voucher for your next required payment . . . . . **4.** _____

Note. *If the payment on line 4 is due January 17, 2012,* ***stop here.*** *Otherwise, go to line 5.*

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. Each following required payment: If the payment on line 4 is due June 15, 2011, enter one-half of the amount on line 6 here and on the payment vouchers for your payments due September 15, 2011, and January 17, 2012. If the amount on line 4 is due September 15, 2011, enter the full amount on line 6 here and on the payment voucher for your payment due January 17, 2012 . . . . . **7.** _____

3.

Credit for Withholding and Estimated Tax for 2010

Introduction

When you file your 2010 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 2010. These credits are subtracted from your total tax. Because these credits are refundable, 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 2010, you generally should be sent a statement by January 31, 2011, 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.

Form W-2

Your employer is required to provide or send Form W-2 to you no later than January 31, 2011. You should receive a separate Form W-2 from each employer you worked for.

If you stopped working before the end of 2010, your employer could have given you your Form W-2 at any time after you stopped working. However, your employer must provide or send it to you by January 31, 2011.

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, contact your employer or payer to request a copy. If you still do not get the form by February 15, the IRS can help you by requesting the form from your employer. The phone number for the IRS is listed in chapter 5. You will be asked for the following information.

- Your name, address, city and state, zip code, and social security number.
- Your employer's name, address, city, state, zip code, and the employer's identification number (if known).
- An estimate of the wages you earned, the federal income tax withheld, and the period you worked for that employer. The estimate should be based on year-to-date information from your final pay stub or leave-and-earnings statement, if possible.

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. Total the federal income tax withheld (shown in box 2 of all Forms W-2 received) and enter that amount on:

- Line 61, if you file Form 1040;
- Line 38, if you file Form 1040A; or
- Line 7, if you file Form 1040EZ.

In addition, Form W-2 is used to report any taxable sick pay you received and any income tax withheld from your sick pay. Your sick pay may be combined with other wages in one Form W-2 or you may receive a separate Form W-2 for sick pay.

Always file Copy B of Form W-2 with your income tax return.

Form W-2G

If you had gambling winnings in 2010, 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 61 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 on line 28. However, you cannot deduct more than the gambling winnings you report on Form 1040, line 21.

File Form W-2G with your income tax return only if it shows any federal income tax withheld in box 2.

The 1099 Series

Most forms in the 1099 series are not filed with your return. In general, these forms should be furnished to you by January 31, 2011. Unless instructed to file any of these forms with your return, keep them for your records.

There are several different forms in this series, including:

- Form 1099-B, Proceeds From Broker and Barter Exchange Transactions;
- Form 1099-C, Cancellation of Debt;
- Form 1099-DIV, Dividends and Distributions;
- Form 1099-G, Certain Government Payments;
- Form 1099-INT, Interest Income;
- Form 1099-MISC, Miscellaneous Income;
- Form 1099-OID, Original Issue Discount;
- Form 1099-PATR, Taxable Distributions Received From Cooperatives;
- Form 1099-Q, Payments From Qualified Education Programs (Under Sections 529 and 530);
- 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.

Reporting your withholding. Report on your tax return all federal income tax withholding shown in box 4 of a Form 1099, box 6 of Form SSA-1099, and box 10 of Form RRB-1099. Include the amount withheld in the total on line 61 of Form 1040, line 38 of Form 1040A, or line 7 of Form 1040EZ.

Form 1099-R. Attach Form 1099-R to your return if federal income tax withholding is shown in box 4. Do not attach any other Form 1099.

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 have an "X" in the "CORRECTED" box at the top of the form. A special form, Form W-2c, Corrected Wage and Tax Statement, is used to correct a Form W-2.

In certain situations, you will receive two forms in place of the original incorrect form. This will happen when your taxpayer identification number is wrong or missing, your name and address are wrong, or you received the wrong type of form (for example, a Form 1099-DIV instead of a Form 1099-INT). One new form you receive will be the same incorrect form or have the same incorrect information, but all money amounts will be zero. This form will have an "X" in the "CORRECTED" box at the top of the form. The second new form should have all the correct information, prepared as though it is the original (the "CORRECTED" box will not be checked).

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, report the income and take credit for any

income tax withheld by filing Form 1040X, Amended U.S. Individual Income Tax Return.

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 each must 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 (FY)

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 (CY) ending within 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 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, 2010. In January 2010, he received a Form W-2 that showed that his wages for 2009 were $31,200 and that his income tax withheld was $2,912. His records show that he had received $15,000 of the wages by June 30, 2009, and $16,200 from July 1 through December 31, 2009. See Table 3-1 below.

On his return for the fiscal year ending June 30, 2010, Miles will report the $16,200 he was paid in July through December of 2009, plus the $18,850 he was paid during the rest of the fiscal year, January 1, 2010, through June 30, 2010. However, he takes credit for all $2,912 that was withheld during 2009.

On his return for the fiscal year ending June 30, 2009, he reported the $15,000 he was paid in January through June 2009, but took no credit for the tax withheld during that time. On his return for the fiscal year ending June 30, 2011, he will take the credit for any tax withheld during 2010 but not for any tax withheld during 2011.

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 income.

Table 3-1. **Example for Fiscal Year Ending June 30, 2010—Miles Hanson**

	Form W-2		Miles' records		Tax return for FY ending 6/30/2009[1]		Tax return for FY ending 6/30/2010	
Date	**Wages**	**With-holding**	**Wages**	**With-holding**	**Wages**	**With-holding**	**Wages**	**With-holding**
CY 2009[2]	$31,200	$2,912						
1/1/2009 – 6/30/2009			$15,000	$1,400	$15,000			
7/1/2009 – 12/31/2009			16,200	1,512			$16,200	$2,912
CY 2010	$37,700	$4,004[3]						
1/1/2010 – 6/30/2010			$18,850	$2,002			$18,850	
7/1/2010 – 12/31/2010			18,850[4]	2,002				

[1] Miles' tax return for FY ending 6/30/2009 also included his wages for 7/1 – 12/31/2008 and the withholding shown on his 2008 Form W-2.
[2] Calendar year (January 1 – December 31).
[3] Withholding shown on 2010 Form W-2 ($4,004) will be included in Miles' tax return for FY ending 6/30/2011, the fiscal year in which calendar year 2010 ends.
[4] Wages for 7/1 – 12/31/2010 ($18,850) will be included in Miles' tax return for FY ending 6/30/2011, the fiscal year in which the wages were received.

Example. Emily Smith's records show that she received income in November 2010 and February 2011 from which there was backup withholding ($100 and $50, respectively). Emily takes credit for the entire $150 of backup withholding on her tax return for the fiscal year ending September 30, 2011.

Estimated Tax

Take credit for all your estimated tax payments for 2010 on line 62 of Form 1040 or line 39 of Form 1040A. Include any overpayment from 2009 that you had credited to your 2010 estimated tax. You must use Form 1040 or Form 1040A if you paid estimated tax. You cannot file Form 1040EZ.

If you were a beneficiary of an estate or trust, you should receive a Schedule K-1 (Form 1041), Beneficiary's Share of Income, Deductions, Credits, etc., from the fiduciary. If you have estimated taxes credited to you from the estate or trust (from Schedule K-1 (Form 1041), box 13, code A), you must report the estimated taxes on Schedule E (Form 1040). On the dotted line next to the entry space for line 37 of Schedule E (Form 1040), enter "ES payment claimed" and the amount. However, do not include this amount in the total on line 37. Instead, enter the amount on Form 1040, line 62. This estimated tax payment for 2010 is treated as being made by you on January 15, 2011.

Name changed. If you changed your name, and you made estimated tax payments using your former 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
- The social security number under which you made the payments.

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

Be sure to report the change to your local Social Security Administration office before filing your 2011 tax return. This prevents delays in processing your return and issuing refunds. It also safeguards your future social security benefits. For more information, call the Social Security Administration at 1-800-772-1213.

Separate Returns

If you and your spouse made separate estimated tax payments for 2010 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 2010.

Example. James and Evelyn Brown made joint estimated tax payments for 2010 totaling $3,000. They file separate 2010 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 2010 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 2010. 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 at the top of page 1 of Form 1040 or Form 1040A. If you divorced and remarried in 2010, enter your present spouse's SSN in that space. Enter your former spouse's SSN, followed by "DIV," under *Payments* to the left of Form 1040, line 62, or in the blank space to the left of Form 1040A, line 39.

Excess Social Security or Railroad Retirement Tax Withholding

Most employers must withhold social security tax from your wages. In some cases, however, the federal government and state and local governments 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 2010, too much social security tax or tier 1 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 3-2 shows the maximum amount that should have been withheld for any of these taxes for 2010. Figure the excess withholding on the appropriate worksheet on page 47.

Table 3-2. **Maximum Social Security and RRTA Withholding for 2010**

Type of tax	Maximum wages subject to tax	Tax rate	Maximum tax to be withheld
Social security	$106,800	6.2%	$6,621.60
Tier 1 RRTA	$106,800	6.2%	$6,621.60
Tier 2 RRTA	$79,200	3.9%	$3,088.80

Joint returns. If you are filing a joint return, you and your spouse must figure any excess social security or tier 1 RRTA separately.

Note. All wages are subject to Medicare tax withholding.

Employer's error. If you had only one employer and he or she withheld too much social security or tier 1 RRTA tax, ask the employer to refund the excess amount to you. If the employer refuses to refund the overcollection, ask for a statement indicating the amount of the overcollection to support your claim. 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 2010, figure the excess social security withholding on Worksheet 3-1 on the next page.

Note. If you worked for both a railroad employer and a nonrailroad employer, use Worksheet 3-2 on the 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 69.

If you file Form 1040A, include the excess in the total on line 44. 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 2010, Tom Martin earned $62,000 working for Company A and $47,200 working for Company B. Company A withheld $3,844 for social security tax. Company B withheld $2,926.40 for social security tax. Because he worked for two employers and earned more than $106,800, he had too much social security tax withheld. Tom figures his credit of $148.80, as shown on the illustrated Worksheet 3-1 below.

Worksheets for Railroad Employees

If you worked for a railroad during 2010, figure your excess withholding on Worksheet 3-2 and 3-3, as appropriate, on the next page.

Where to claim credit for excess tier 1 RRTA withholding. If you file Form 1040, enter the excess on line 69.

If you file Form 1040A, include the excess in the total on line 44. 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 Forms W-2.

See Worksheet 3-3 (on the next page) and the Instructions for Form 843, line 3, for more details.

Worksheet 3-1. **Excess Social Security—Nonrailroad Employees —Illustrated (Tom Martin)**

1. Add all social security tax withheld (but not more than $6,621.60 for each employer). This tax should be shown in box 4 of your Forms W-2. Enter the total here	**1.**	*$6,770.40*
2. Enter any uncollected social security tax on tips or group-term life insurance included in the total on Form 1040, line 60, identified by "UT"	**2.**	*-0-*
3. Add lines 1 and 2. If $6,621.60 or less, **stop** here. You cannot claim the credit	**3.**	*6,770.40*
4. Social security limit	**4.**	**$6,621.60**
5. Excess. Subtract line 4 from line 3	**5.**	*$148.80*

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

1. Add all social security tax withheld (but not more than $6,621.60 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 60, identified by "UT"	**2.**	
3. Add lines 1 and 2. If $6,621,60 or less, **stop** here. You cannot claim the credit	**3.**	
4. Social security limit	**4.**	**$6,621.60**
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 $6,621.60 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 60, identified by "UT"	**2.**	
3. Add lines 1 and 2. If $6,621.60 or less, **stop** here. You cannot claim the credit	**3.**	
4. Social security and tier 1 RRTA tax limit	**4.**	**$6,621.60**
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 $3,088.80 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 60, identified by "UT"	**2.**	
3. Add lines 1 and 2. If $3,088.80 or less, **stop** here. You cannot claim the credit.	**3.**	
4. Tier 2 RRTA tax limit	**4.**	**$3,088.80**
5. Excess. Subtract line 4 from line 3.	**5.**	

4.

Underpayment Penalty for 2010

What's New

You should consider the items in this section when figuring any underpayment penalty for 2010.

Penalty rate. The penalty for underpayment of 2010 estimated tax is figured at the annual rate of 4% for the number of days the underpayment remained unpaid from April 16, 2010, through April 15, 2011.

Decreased estimated tax payments for qualified individuals with small businesses. This special rule has expired for tax years beginning after December 31, 2009.

Change in figuring the estimated tax penalty when you use the regular method. The penalty is now figured using the Worksheet for Form 2210, Part IV, Section B—Figure the Penalty, which is in the instructions for Form 2210. In both the instructions and this publication, it will be referred to as the Penalty Worksheet.

Introduction

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

TIP *You may understand this chapter better if you can refer to copies of your latest federal income tax returns.*

No penalty. Generally, you will not have to pay a penalty for 2010 if any of the following apply.

- The total of your withholding and timely estimated tax payments was at least as much as your 2009 tax. (See *Special rules for certain individuals* on this page for higher income taxpayers and farmers and fishermen.)
- The tax balance due on your 2010 return is no more than 10% of your total 2010 tax, and you paid all required estimated tax payments on time.
- Your total 2010 tax (defined on page 49) minus your withholding is less than $1,000.
- You did not have a tax liability for 2009.
- You did not have any withholding taxes and your current year tax (less any household employment taxes) is less than $1,000.

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.

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 income as paid on the dates actually withheld.

However, if these situations do not apply to you, and you think you can lower or eliminate your penalty, complete Form 2210 or Form 2210-F and attach it to your return. See *Form 2210* on page 49.

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 the 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 2010 if the total of your withholding and timely estimated tax payments did not equal at least the smaller of:

1. 90% of your 2010 tax, or
2. 100% of your 2009 tax. (Your 2009 tax return must cover a 12-month period.)

Your 2010 tax, for this purpose, is defined under *Total tax for 2010* on page 49.

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

Farmers and fishermen. If at least two-thirds of your gross income for 2009 or 2010 is from farming or fishing, substitute 66⅔% for 90% in (1) above.

See *Farmers and Fishermen* on page 53.

Higher income taxpayers. If your AGI for 2009 was more than $150,000 ($75,000 if your 2010 filing status is married filing a separate return), substitute 110% for 100% in (2) under *General Rule* on this page. This rule does not apply to farmers or fishermen.

For 2009, AGI is the amount shown on Form 1040, line 37; Form 1040A, line 21; and Form 1040EZ, line 4.

Penalty figured separately for each period. Because the penalty is figured separately for each payment period, you may owe a penalty for an earlier payment period even if you later paid enough to make up the underpayment. This is true even if you are due a refund when you file your income tax return.

Example. You did not make estimated tax payments for 2010 because you thought you had enough tax withheld from your wages. Early in January 2011, you made an estimate of your total 2010 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, 2011. However, you may owe a penalty through January 10, 2011, 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 2010 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 2010 tax, or
2. 25% of your 2009 tax. (Your 2009 tax return must cover a 12-month period.)

Minimum required for higher income taxpayers. If you are subject to the rule for higher income taxpayers, discussed above, substitute 27.5% for 25% in (2) under *General Rule* on this page.

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. If a payment is mailed, the date of the U.S. postmark is considered the date of payment.

Estate or trust payments of estimated tax. If you have estimated taxes credited to you from an estate or trust (Schedule K-1 (Form 1041), box 13, code A), treat the payment as made by you on January 15, 2011.

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.

2009 separate returns and 2010 joint return. If you file a joint return with your spouse for 2010, but you filed separate returns for 2009, your 2009 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.

2009 joint return and 2010 separate returns. If you file a separate return for 2010, but you filed a joint return with your spouse for 2009, your 2009 tax is your share of the tax on the joint return. You are filing a separate return if you file 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 2009 using the same filing status as for 2010. 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 2009 showing taxable income of $49,000 and a tax of $6,519. Of the $49,000 taxable income, $41,000 was Lisa's and the rest was Paul's. For 2010, they file married filing separately. Lisa figures her share of the tax on the 2009 joint return as follows.

2009 tax on $41,000 based on a separate return	$ 6,444
2009 tax on $8,000 based on a separate return	803
Total	$ 7,247
Lisa's percentage of total tax ($6,444 ÷ $ 7,247)	88.92%
Lisa's part of tax on joint return ($6,519 × 88.92%)	$ 5,797

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 the form and the Penalty Worksheet in the Instructions for Form 2210. If you use Form 2210, you cannot file Form 1040EZ.

On Form 1040, enter the amount of your penalty on line 77. If you owe tax on line 76, add the penalty to your tax due and show your total payment on line 76. If you are due a refund, subtract the penalty from the overpayment and enter the result on line 73.

On Form 1040A, enter the amount of your penalty on line 49. If you owe tax on line 48, add the penalty to your tax due and show your total payment on line 48. If you are due a refund, subtract the penalty from the overpayment and enter the result on line 45.

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* on page 54.
- You use the annualized income installment method. See the explanation of this method under Annualized Income Installment Method (Schedule AI) beginning on page 52.
- You use your actual withholding for each payment period for estimated tax purposes. See *Actual withholding method* under *Figuring Your Underpayment (Part IV, Section A)* on page 51.
- You base any of your required installments on the tax shown on your 2009 return and you filed or are filing a joint return for either 2009 or 2010, but not for both years.

Exceptions

Generally, you do not have to pay an underpayment penalty if either:

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

Total tax for 2010. For 2010, your total tax on Form 1040 is the amount on line 60 **reduced by** the following.

1. Unreported social security and Medicare tax or RRTA tax from Forms 4137 or 8919 (line 57).
2. Any tax included on line 58 for excess contributions to IRAs, Archer MSAs, Coverdell education savings accounts, and health savings accounts, or any tax on excess accumulations in qualified retirement plans.
3. The following write-ins on line 60:
   a. Uncollected social security and Medicare tax or RRTA tax on tips or group-term life insurance (identified as "UT"),
   b. Tax on excess golden parachute payments (identified as "EPP"),
   c. Excise tax on insider stock compensation from an expatriated corporation (identified as "ISC"),
   d. Look-back interest due under section 167(g) (identified as "From Form 8866"),
   e. Look-back interest due under section 460(b) (identified as "From Form 8697"),
   f. Recapture of federal mortgage subsidy (identified as "FMSR"), and
   g. Additional tax on advance payments of health coverage tax credit when not eligible (identified as "HCTC").
4. Any refundable credit amounts listed on lines 63, 64a, 65, 66, 67, and 70, and credits from Forms 8801, 8839, and 8885 included on line 71.

If you filed Form 1040A, your 2010 total tax is the amount on line 37 reduced by any refundable credits on lines 40, 41a, 42, and 43.

If you filed Form 1040EZ, your 2010 total tax is the amount on line 11 reduced by the amount on lines 8 and 9a.

Paid through withholding. For 2010, the amount you paid through withholding on Form 1040 is the amount on line 61 plus any excess social security or tier 1 RRTA tax withholding on line 69. Add to that any write-in amount on line 72 identified as "Form 8689." On Form 1040A, the amount you paid through withholding is the amount on line 38 plus any excess social security or tier 1 RRTA tax withholding included on line 44. 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 2009 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 a few months during 2009. He earned $6,700 in wages before he was laid off, and he received $3,400 in unemployment compensation afterwards. He had no other income. Even though he had gross income of $7,700 ($2,400 of unemployment compensation was excluded from income in 2009), 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 ($9,350 for 2009). He filed a return only to have his withheld income tax refunded to him.

In 2010, Ray began regular work as an independent contractor. Ray made no estimated tax payments in 2010. Even though he did owe tax at the end of the year, Ray does not owe the underpayment penalty for 2010 because he had no tax liability in 2009.

Total tax for 2009. For 2009, your total tax on Form 1040 is the amount on line 60 **reduced by** the following.

1. Unreported social security and Medicare tax or RRTA tax from Forms 4137 or 8919 (line 57).
2. Any tax included on line 58 for excess contributions to IRAs, Archer MSAs, Coverdell education savings accounts, and health savings accounts, or any tax on excess accumulations in qualified retirement plans.
3. The following write-ins on line 60:
   a. Uncollected social security and Medicare tax or RRTA tax on tips or

group-term life insurance (identified as "UT"),

b. Tax on excess golden parachute payments (identified as "EPP"),

c. Excise tax on insider stock compensation from an expatriated corporation (identified as "ISC"),

d. Look-back interest due under section 167(g) (identified as "From Form 8866"),

e. Look-back interest due under section 460(b) (identified as "From Form 8697"),

f. Recapture of federal mortgage subsidy (identified as "FMSR"), and

g. Additional tax on advance payments of health coverage tax credit when not eligible (identified as "HCTC").

4. Any refundable credit amounts listed on lines 63, 64a, 65, 66, and 67, and credits from Forms 4136, 8801, and 8885 included on line 70.

If you filed Form 1040A, your 2009 total tax is the amount on line 37 reduced by any refundable credits on lines 40, 41a, 42, and 43.

If you filed Form 1040EZ, your 2009 total tax is the amount on line 11 reduced by the amount on lines 8 and 9a.

Note. If you are a household employer, include your household employment taxes (prior to subtracting advanced EIC payments made to your employee(s)) only if you had federal income tax withheld from your income and would be required to make estimated tax payments even if the household employment taxes were not included.

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 tax return to whole dollars, you can round on Form 2210.

Example. The tax on Ivy Fields' 2009 return was $12,400. Her AGI was not more than $150,000. The tax on her 2010 return (Form 1040, line 55) is $13,044. Line 56 (self-employment tax) is $8,902. Her only refundable credit is the making work pay credit ($400). Her 2010 total tax is $21,546.

For 2010, Ivy had $1,600 income tax withheld and made four equal estimated tax payments ($1,000 each). 90% of her 2010 tax is $19,391. Because she paid less than her 2009 tax ($12,400) and less than 90% of her 2010 tax ($19,391), 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 taxes when she files her tax return.

Ivy's required annual payment is $12,400 (100% of 2009 tax) because that is smaller than 90% of her 2010 tax.

Figure 4-A on page 55 shows page 1 of Ivy's filled-in Form 2210. Her required annual payment of $12,400 is shown on line 9.

Different 2009 filing status. If you file a separate return for 2010, but you filed a joint return with your spouse for 2009, see *2009 joint return and 2010 separate returns* on page 49 to figure the amount to enter as your 2009 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 smaller penalty.

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

- You made no estimated tax payments for 2010 (it does not matter whether you had income tax withholding).
- You paid the same amount of estimated tax on each of the four payment due dates.

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

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. However, 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 apply.

- You made any estimated tax payments late.
- You checked box C or D in Part II of Form 2210.
- You are filing Form 1040NR or 1040NR-EZ and you did not receive wages as an employee subject to U.S. income tax withholding.

CAUTION *If you use the short method, you cannot use the annualized income installment method to figure your underpayment for each payment period. Also, you cannot use your actual withholding during each period to figure your payments for each period. These methods, which may give you a smaller penalty amount, are explained on page 51 under* Figuring Your Underpayment (Part IV, Section A).

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 (line 10). Then figure the penalty you would owe if the underpayment remained unpaid through April 15, 2011. 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 2010 return and paid the tax balance on March 31, 2011, you do not owe the penalty for the 15-day period from April 1 through April 15. Therefore, you would figure the amount to enter on line 16 using 15 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 77 of Form 1040 or line 49 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 on this page. Ivy paid her estimated tax payments in four installments of $1,000 each on the dates it was due ($4,000 total).

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 (see Figure 4-A *(Continued)* on page 56) and leaves Part IV (not shown) blank.

Ivy figures her $6,800 total underpayment for the year (line 14) by subtracting the total of her withholding and estimated tax payments ($5,600) from her $12,400 required annual payment (line 10). The maximum penalty on her underpayment (line 15) is $162 ($6,800 × .02383).

Ivy plans to file her return and pay her $15,946 tax balance on March 31, 2011, 15 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.

$$\$6{,}800 \times 15 \times .00008 = \$8$$

Ivy subtracts the $8 from the $162 maximum penalty and enters the result, $154, on Form 2210, line 17, and on Form 1040, line 77. She adds $154 to her $15,946 tax balance and enters the result, $16,100, on line 76 of her Form 1040. Ivy files her return on March 31 and encloses a check for $16,100. Because Ivy did not check any of the boxes in Part II, she does not attach Form 2210 to her tax return.

Regular Method for Figuring the Penalty (Part IV)

You can use the regular method in Part IV of Form 2210 to figure your penalty for underpayment of estimated tax if you paid one or more

estimated tax payments earlier than the due date.

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 after 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.

Under the regular method, figure your underpayment for each payment period in Section A, then figure your penalty using the Penalty Worksheet in the Instructions for Form 2210. Enter the results on line 27 of Section B.

Figuring Your Underpayment (Part IV, Section A)

Figure your underpayment of estimated tax for each payment period in Section A following the line-by-line instructions. Complete lines 20 through 26 of the first column before going to line 20 of the next column.

Required installments—line 18. Your required payment for each payment period (line 18) is usually one-fourth of your required annual payment (Part I, line 9). This method—the regular method—is the one to use if you received your income evenly throughout the year.

However, if you did not receive your income evenly throughout the year, you may be able to lower or eliminate your penalty by figuring your underpayment using the annualized income installment method. First complete Schedule AI (Form 2210), then enter the amounts from line 25 of that schedule on line 18 of Form 2210, Part IV. See Annualized Income Installment Method (Schedule AI) on page 52.

Payments made—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 Form 2210 instructions for line 19.

If you file Form 1040, your withholding is the amount on line 61, plus any excess social security or tier 1 RRTA tax withholding on line 69. If you file Form 1040A, your withholding is the amount on line 38 plus any excess social security or tier 1 RRTA tax withholding included in line 44.

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. This includes any excess social security and tier 1 RRTA tax withheld.

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 using the regular method (Part IV) and file it with your return.

Example—regular method. Ben and Sally Brown's 2010 tax after credits is $6,871 (Form 1040, line 55). Ben owes self-employment tax of $1,413. Their 2009 AGI was less than $150,000. They do not owe any other taxes. Their only credit is the making work pay credit of $800. Their 2009 tax was $8,116. Go to Figure 4-B on page 57 to see Ben and Sally's completed Form 2210, Part I.

Ben's employer withheld $1,220 income tax and Sally's withheld $364 during 2010 ($1,584 total withholding). They paid no estimated tax for either the first or second period, but they paid $950 each on September 15, 2010, and January 15, 2011, for the third and fourth periods. Because the total of their withholding and estimated tax payments, $3,484 ($1,584 + $950 + $950), was less than both 90% of their 2010 tax (90% x $7,484 = $6,736) and 100% of their 2009 tax ($8,116), they owe a penalty for underpayment of estimated tax. They decide to figure the penalty on Form 2210 and pay it with their $4,400 tax balance ($7,484 - $3,484) when they file their tax return on April 18, 2011.

Their required annual payment (Part I, line 9) is $6,736. Because their income and withholding were distributed evenly throughout the year, they enter one-fourth of their required annual payment, $1,684, in each column of line 18 (go to Figure 4-B *(Continued)* on page 58). On line 19, they enter one-fourth of their withholding, $396, in the first two columns and $1,346 ($396 withholding (WH) + $950 estimated tax payment (EST)) in the last two columns.

They have an underpayment (line 25) for each payment period.

Worksheet for Form 2210, Part IV, Section B—Figuring Your Penalty

Figure the amount of your penalty for Section B using the Penalty Worksheet in the Form 2210 instructions. The penalty is imposed on each underpayment shown in Section A, line 25, for the number of days that it remained unpaid.

For 2010, there are two rate periods—the 4% rate is in effect from April 16, 2010, through December 31, 2010, and the 3% rate is in effect from January 1, 2011, through April 15, 2011. Use the Penalty Worksheet to figure the penalty and enter the result in Section B, line 27 of Form 2210.

Payments. Before completing the Penalty Worksheet, it may be helpful to make a list of the payments you made and income tax withheld 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, 2010. You can use the table 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.

If you mail your estimated tax payments, use the date of the U.S. postmark as the date of payment.

Line 1b. Apply the payments listed to underpayment balance in the first column until it is fully paid. Apply payments in the order made.

Example 1. In the previous example for Ben and Sally Brown (see *Example—regular method* under *Figuring Your Underpayment (Part IV, Section A)* on this page), they determined that they had an underpayment for all four payment periods. See their completed Section A in Figure 4-B *(Continued)* on page 58.

Their $1,584 withholding (WH) is considered paid in four equal installments of $396, one on each payment due date. Therefore, they must make estimated tax payments (EST) of $1,288 ($1,684 required installment - $396 WH) each period. However, they made only two estimated tax payments—$950 on September 15, 2010, and $950 on January 15, 2011. They plan to file their return and pay their balance due on April 18, 2011. Ben and Sally are considered to have made the following payments for tax year 2010.

Payment Amount	Payment Date
$396 WH	4/15/10
$396 WH	6/15/10
$396 WH	9/15/10
$950 EST	9/15/10
$396 WH	1/15/11
$950 EST	1/15/11

TIP *When completing line 1b of the worksheet combine all payments made on the same date to reduce your computations.*

Ben entered the underpayment amount from line 25 of Form 2210 on line 1a of their Penalty Worksheet for each column. On line 1b, column (a) he entered "6/15/10 – 396" and "9/15 – 892." Their combined payment for 9/15/10 was $1,346 ($396 WH + $950 EST). They used $892 of the 9/15 payment to fully pay the underpayment on line 1a, column (a). He entered "9/15/10 – 454" (the remainder of their September payment) and "1/15/11 – 1,230" from January to fully pay the underpayment in column (b). Ben entered their remaining payment "1/15/11 – 116" on line 1b in column (c).

Figuring the penalty. If an underpayment was paid in two or more payments on different dates, you must figure the penalty separately for each payment. On line 3 of the Penalty Worksheet enter the number of days between the due date (line 2) and the date of each payment on line 1b. On line 4 figure the penalty for the amount of each payment applied on line 1b or the amount remaining unpaid. If no payments are applied, figure the penalty on the amount on line 1a.

Aid for counting days. Table 4-1 (see page 53) provides a simple method for counting the number of days 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 September 1 (139), the payment was 78 (139 – 61) days late.

Example 2. Continuing from the previous example for Ben and Sally Brown (see *Example 1* under *Line 1b* on page 51), they figure their penalty. First, they complete lines 3 and 4 for Rate Period 1, which runs from April 16, 2010, to December 31, 2010.

Penalty for first payment period (April 15, 2010)—column (a). Line 1b of their Penalty Worksheet shows "6/15/2010 – 396" and "9/15/10 – 892." $396 remained unpaid 61 days (April 16 through June 15, 2010) and $892 remained unpaid 153 days (April 16 through September 15, 2010). On line 3, column (a), they enter "61" and "153," along with the date of each payment.

Next, on line 4, they figure the penalty separately for each underpayment amount, $2.65 ($396 × (61 ÷ 365) × .04) and $14.96 ($892 × (153 ÷ 365) × .04). See their completed Penalty Worksheet on page 59.

Penalty for second payment period (June 15, 2010)—column (b). Line 1b for column (b) shows "9/15/10 – 454" and "1/15/11 – 1,230." $454 remained unpaid until September 15 (92 days). The remaining underpayment of $1,230 was paid January 15. The number of days from June 15 until the end of Rate Period 1 (December 31) is 199. They enter "92" and "199" on line 3, column (b), and figure the penalty separately for each underpayment amount. The remaining 15 days that the $1,230 remained unpaid are part of Rate Period 2 and are entered on line 6, column (b).

Penalty for third payment period (September 15, 2010)—column (c). The $1,684 underpayment on line 1a, column (c), remained fully underpaid until the remaining $116 of the January 15 payment was applied. As in the second payment period, Rate Period 1 ends December 31 (107 days). The remaining 15 days for the $116 payment are entered under Rate Period 2.

There were no remaining payments to apply. The balance of $1,568 ($1,684 – $116) remained unpaid until 4/15/11 (107 days in Rate Period 1 and 105 days in Rate Period 2) (**Note.** The Browns actually filed and paid their balance due on 4/18/11, but because that is the next business day after the holiday on 4/15/11, the payment is considered to be paid on April 15.) They enter "107" and "107" on line 3, column (c), and "15" and "105" on line 6, column (c). They figure the penalty separately for each underpayment amount on lines 4 and 7.

Penalty for fourth payment period (January 15, 2011)—column (d). Since all payments have been applied, the entire amount remained unpaid 90 days (January 16 through April 15, 2011). They enter that number on line 6, column (d), and figure the penalty for the $1,684 underpayment, entering it on line 7, column (d).

Total penalty. Ben and Sally's total penalty for 2010 on line 8 is $96.41, the total of all amounts on lines 4 and 7 in all columns. See their completed Penalty Worksheet on page 59.

Ben and Sally enter that amount on Form 2210, line 27, and on line 77 of their Form 1040. They also add $96.41 to their $4,000 tax balance and enter the $4,096.41 total on line 76. They file their return on April 18 and include a check for $4,096.41. They keep their completed Form 2210 for their records.

Annualized Income Installment Method (Schedule AI)

If you did not receive your income evenly throughout the year (for example, your income from a shop you operated at a marina 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 (Part IV, 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 Form 2210, Schedule AI (see Figure 4-C on page 60 for an example). Schedule AI annualizes your tax at the end of each payment period based on your income, deductions, and other items relating to events that occurred from 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. Also, you 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 the 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 1 through March 31.
- Period (b) includes items for January 1 through May 31.
- Period (c) includes items for January 1 through August 31.
- Period (d) includes items for the entire year.

Example. Laura Maple files as head of household with three exemptions. Her 2010 total tax (Form 1040, line 60) is $4,730, the total of her $2,384 income tax and $2,346 self-employment tax. Laura also has two refundable credits, making work pay ($400) and earned income credit (EIC) ($113). Her current year's tax is $4,217 ($4,730 – $513 refundable credits). She does not owe any other taxes. Her 2009 AGI was less than $150,000. Her 2009 tax was $4,100. Her required annual payment on Form 2210, Part I, line 9, is $3,795 (the smaller of her $4,100 tax for 2009 or 90% of her $4,217 tax after refundable credits for 2010).

Laura's employer withheld $756 income tax during 2010. Laura made no estimated tax payments for the first, second or third periods, but she paid $100 on January 15, 2011, for the fourth period.

Laura 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, Laura completes Schedule AI before starting Part IV. Figure 4-C, on pages 60 though 62, shows Laura's filled-in Schedule AI, Part IV, and Penalty Worksheet.

Laura's wages during 2010 were $24,396 ($2,033 per month). Her net earnings from a business she started during the year was $16,600 (Schedule SE, line 2), received as follows. Laura did not have a self-employed health insurance deduction.

April through May	$ 1,000
June through August	2,500
September through December	13,100

Self-employment tax and deduction. Before Laura can figure her AGI for each period (Schedule AI, line 1), she must figure her deduction for self-employment tax for each period. To do this, she first completes Schedule AI, Part II (see Figure 4-C on page 60).

Laura had no self-employment income for the first period, so she leaves the lines in that column blank. Her self-employment income was $1,000 for the second period, $3,500 ($1,000 + $2,500) for the third period, and $16,600 ($3,500 + $13,100) 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.

Laura figures the deduction for one-half of the 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.

Line 1—AGI. Laura figures the amounts to enter on Schedule AI, line 1, as follows.

Column (a)—1/1/10 to 3/31/10:	
$2,033 per month × 3 months	$ 6,099
Column (b)—1/1/10 to 5/31/10:	
$2,033 per month × 5 months	$10,165
Plus: Self-employment income through 5/31/10	+ 1,000
Less: Self-employment tax deduction ($339 ÷ 4.8)	– 71
	$11,094
Column (c)—1/1/10 to 8/31/10:	
$2,033 per month × 8 months	$16,264
Plus: Self-employment income through 8/31/10	+ 3,500
Less: Self-employment tax deduction ($742 ÷ 3)	– 247
	$19,517

***Column (d)*—**1/1/10 to 12/31/10:

$2,033 per month × 12 months	$24,396
Plus: Self-employment income through 12/31/10	+16,600
Less: Self-employment tax deduction ($2,346 ÷ 2)	− 1,173
	$39,823

Line 4—Itemized deductions. Laura had $9,000 in itemized deductions for 2010—$50 per month withheld for state and local taxes, $550 per month for mortgage interest, and $150 per month in charitable contributions—for a total of $750 each month. She divided them by period in the following manner.

- 1st period: $2,250 ($750 × 3 months).
- 2nd period: $3,750 ($750 × 5 months).
- 3rd period: $6,000 ($750 × 8 months).
- 4th period: $9,000 ($750 × 12 months).

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

Now that Laura 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, Part IV, line 18. Laura figures her EIC on Schedule AI, line 16, for each period using her annualized earned income (Schedule AI, line 3) for that period. Figure 4-C on page 60 shows her completed Parts I and II of Schedule AI.

Underpayment. Laura then figures her underpayment in Part IV, Section A (see Figure 4-C *(Continued)* on page 61). She finds that she overpaid her estimated tax for the first three payment periods, but underpaid her estimated tax for the last payment period. She used the Penalty Worksheet (see Figure 4-C *(Continued)* on page 62) to figure her penalty of $21.74. She enters that amount on line 27 of Form 2210 and Line 77 of her Form 1040. She also adds $21.74 to her total tax balance and enters the $3,382.74 total on line 76. She files her return on April 15 and includes a check for $3,382.74. 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 2010 estimated tax will not apply if you file your return and pay all the tax due by March 1, 2011. If you are a fiscal year taxpayer, the penalty will not apply if you file your return

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).*

	Tax Year 2010												
Day of Month	**2010 April**	**2010 May**	**2010 June**	**2010 July**	**2010 Aug.**	**2010 Sept.**	**2010 Oct.**	**2010 Nov.**	**2010 Dec.**	**2011 Jan.**	**2011 Feb.**	**2011 Mar.**	**2011 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	

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 2010 estimated tax will be figured from one payment due date, January 15, 2011.
3. The underpayment penalty for 2010 is figured on the difference between the amount of 2010 withholding plus estimated tax paid by the due date and the smaller of:
   a. 66⅔% (rather than 90%) of your 2010 tax, or
   b. 100% of the tax shown on your 2009 return.

Even if these special rules apply to you, you will not owe the penalty if you meet either of the two conditions discussed on page 49 under *Exceptions*.

See *Who Must Pay Estimated Tax* in chapter 2 for the definition of 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 a box in Part I. However, if none of the boxes apply to you and you owe a penalty, you do not need to attach Form 2210-F. Enter the amount from line 16 on Form 1040 line 77 and add the penalty to any balance due on your return or subtract it from your refund. Keep your filled-in Form 2210-F for your records.

TIP *If none of the boxes on Form 2210-F apply to you and you owe a penalty, 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 2009 or 2010 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, complete Form 2210 as follows.

1. Check box A or B in Part II.
   a. If you checked box A, complete only page 1 of Form 2210.
   b. If you checked box B:
      i. Complete line 1 through line 16 (or lines 1 through 9 and 18 through 27 if you use the regular method) without regard to the waiver.
      ii. Enter the amount you want waived in parentheses on the dotted line next to line 17 (line 27 for the regular method).
      iii. Subtract this amount from the total penalty you figured without regard to the waiver. Enter the result on line 17 (line 27 for the regular method).
2. 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.
3. 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.
4. 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. See special procedures that apply for federally declared disasters later on this page.

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 A in Part I.
2. Complete line 1 through line 15 without regard to the waiver.
3. Enter the amount you want waived in parentheses on the dotted line next to line 16.
4. Subtract this amount from the total penalty you figured without regard to the waiver. Enter the result on line 16.
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 retirement or disability, attach documentation that shows your retirement date (and your age on that date) or the date you became disabled.
7. 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.

Federally declared disaster. Certain estimated tax payment deadlines for taxpayers who reside or have a business in a federally declared disaster area are postponed for a period during and after the disaster. During the processing of your tax return, the IRS automatically identifies taxpayers located in a covered disaster area (by county or parish) and applies the appropriate penalty relief. **Do not** file Form 2210 or 2210-F if your underpayment was due to a federally declared disaster. If you still owe a penalty after the automatic waiver is applied, we will send you a bill.

Individuals, estates, and trusts not in a covered disaster area but whose books, records, or tax professionals' offices are in a covered area are also entitled to relief. Also eligible are relief workers affiliated with a recognized government or charitable organization assisting in the relief activities in a covered disaster area. If you meet either of these eligibility requirements, you must call the IRS disaster hotline at 1-866-562-5227 and identify yourself as eligible for this relief.

Details on the applicable disaster postponement period can be found at IRS.gov. Enter "disaster relief" in the search box, then select "Tax Relief in Disaster Situations." Select the federally declared disaster that affected you.

Figure 4-A. **Short Method—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

2010

Attachment Sequence No. **06**

Name(s) shown on tax return: Ivy Fields

Identifying number: 222-00-2222

Do You Have To File Form 2210?

Complete lines 1 through 7 below. Is line 7 less than $1,000?
- **Yes** → **Do not file Form 2210.** You do not owe a penalty.
- **No** ↓

Complete lines 8 and 9 below. Is line 6 equal to or more than line 9?
- **Yes** → You do not owe a penalty. **Do not file Form 2210** (but if box **E** in Part II applies, you must file page 1 of Form 2210).
- **No** ↓

You may owe a penalty. Does any box in Part II below apply?
- **Yes** → You **must** file Form 2210. Does box **B, C,** or **D** in Part II apply?
  - **Yes** → You must figure your penalty.
  - **No** ↓ You are **not** required to figure your penalty because the IRS will figure it and send you a bill for any unpaid amount. If you want to figure it, you may use Part III or Part IV as a worksheet and enter your penalty amount on your tax return, but **file only page 1 of Form 2210.**
- **No** ↓ **Do not file Form 2210.** You are not required to figure your penalty because the IRS will figure it and send you a bill for any unpaid amount. If you want to figure it, you may use Part III or Part IV as a worksheet and enter your penalty amount on your tax return, but **do not file Form 2210.**

Part I Required Annual Payment

1	Enter your 2010 tax after credits from Form 1040, line 55 (see instructions if not filing Form 1040)	1	13,044
2	Other taxes, including self-employment tax (see page 2 of the instructions)	2	8,902
3	Refundable credits. Enter the total of your making work pay credit, earned income credit, additional child tax credit, American opportunity credit (Form 8863, line 14), first-time homebuyer credit (Form 5405, line 10), credit for federal tax paid on fuels, adoption credit, refundable credit for prior year minimum tax (Form 8801, line 27), and health coverage tax credit	3	(400)
4	Current year tax. Combine lines 1, 2, and 3. If less than $1,000, **stop;** you do not owe a penalty. **Do not** file Form 2210	4	21,546
5	Multiply line 4 by 90% (.90) — 5: 19,391		
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, **stop**; you do not owe a penalty. **Do not** file Form 2210	7	19,946
8	Maximum required annual payment based on prior year's tax (see page 3 of the instructions)	8	12,400
9	**Required annual payment.** Enter the **smaller** of line 5 or line 8	9	12,400

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 box **A** or **E** applies (but not **B, C,** or **D**) 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 income 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 2009 or 2010, 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** (2010)

Figure 4-A. **Short Method—Illustrated (Ivy Fields)** *(Continued)*

Part III Short Method

Can You Use the 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 the same amount of estimated tax on each of the four payment due dates.

Must You Use the Regular Method?

You must use the regular method (Part IV) instead of the short method if:

- You made any estimated tax payments late,
- You checked box **C** or **D** in Part II, **or**
- You are filing Form 1040NR or 1040NR-EZ and you did not receive wages as an employee subject to U.S. income tax withholding.

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

10	Enter the amount from Form 2210, line 9			**10**	12,400
11	Enter the amount, if any, from Form 2210, line 6	**11**	1,600		
12	Enter the total amount, if any, of estimated tax payments you made (see page 3 of the instructions)	**12**	4,000		
13	Add lines 11 and 12			**13**	5,600
14	**Total underpayment for year.** Subtract line 13 from line 10. If zero or less, **stop**; you do not owe a penalty. **Do not file Form 2210 unless you checked box E in Part II**			**14**	6,800
15	Multiply line 14 by .02383			**15**	162
16	• If the amount on line 14 was paid **on or after** 4/15/11, enter -0-. • If the amount on line 14 was paid **before** 4/15/11, make the following computation to find the amount to enter on line 16. Amount on line 14 × Number of days paid before 4/15/11 × .00008			**16**	8
17	**Penalty.** Subtract line 16 from line 15. Enter the result here and on Form 1040, line 77; Form 1040A, line 49; Form 1040NR, line 73; Form 1040NR-EZ, line 26; or Form 1041, line 26. **Do not file Form 2210 unless you checked a box in Part II** ▶			**17**	154

Form **2210** (2010)

Figure 4-B. **Regular Method—Illustrated (Ben and Sally Brown)**

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

2010

Attachment Sequence No. **06**

Name(s) shown on tax return: Ben and Sally Brown

Identifying number: 333-00-3333

Do You Have To File Form 2210?

Complete lines 1 through 7 below. Is line 7 less than $1,000?
- **Yes** → **Do not file Form 2210.** You do not owe a penalty.
- **No** ↓

Complete lines 8 and 9 below. Is line 6 equal to or more than line 9?
- **Yes** → You do not owe a penalty. **Do not file Form 2210** (but if box **E** in Part II applies, you must file page 1 of Form 2210).
- **No** ↓

You may owe a penalty. Does any box in Part II below apply?
- **Yes** → You **must** file Form 2210. Does box **B, C,** or **D** in Part II apply?
  - **Yes** → You must figure your penalty.
  - **No** ↓ You are **not** required to figure your penalty because the IRS will figure it and send you a bill for any unpaid amount. If you want to figure it, you may use Part III or Part IV as a worksheet and enter your penalty amount on your tax return, but **file only page 1 of Form 2210.**
- **No** ↓ **Do not file Form 2210.** You are not required to figure your penalty because the IRS will figure it and send you a bill for any unpaid amount. If you want to figure it, you may use Part III or Part IV as a worksheet and enter your penalty amount on your tax return, but **do not file Form 2210.**

Part I Required Annual Payment

1	Enter your 2010 tax after credits from Form 1040, line 55 (see instructions if not filing Form 1040)		1	6,871
2	Other taxes, including self-employment tax (see page 2 of the instructions)		2	1,413
3	Refundable credits. Enter the total of your making work pay credit, earned income credit, additional child tax credit, American opportunity credit (Form 8863, line 14), first-time homebuyer credit (Form 5405, line 10), credit for federal tax paid on fuels, adoption credit, refundable credit for prior year minimum tax (Form 8801, line 27), and health coverage tax credit		3	(800)
4	Current year tax. Combine lines 1, 2, and 3. If less than $1,000, **stop;** you do not owe a penalty. **Do not** file Form 2210		4	7,484
5	Multiply line 4 by 90% (.90)	5 6,736		
6	Withholding taxes. **Do not** include estimated tax payments (see page 3 of the instructions)		6	1,584
7	Subtract line 6 from line 4. If less than $1,000, **stop**; you do not owe a penalty. **Do not** file Form 2210		7	5,900
8	Maximum required annual payment based on prior year's tax (see page 3 of the instructions)		8	8,116
9	**Required annual payment.** Enter the **smaller** of line 5 or line 8		9	6,736

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 box **A** or **E** applies (but not **B, C,** or **D**) 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 income 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 2009 or 2010, 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** (2010)

Figure 4-B. **Regular Method—Illustrated (Ben and Sally 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) 4/15/10	**(b)** 6/15/10	**(c)** 9/15/10	**(d)** 1/15/11
18 **Required installments.** If box C in Part II applies, enter the amounts from Schedule AI, line 25. Otherwise, enter 25% (.25) of line 9, Form 2210, in each column	**18**	1,684	1,684	1,684	1,684
19 Estimated tax paid and tax withheld (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. **Do not file Form 2210 unless you checked a box in Part II**	**19**	396	396	1,346	1,346
Complete lines 20 through 26 of one column before going to line 20 of the next column.					
20 Enter the amount, if any, from line 26 in the previous column	**20**				
21 Add lines 19 and 20	**21**		396	1,346	1,346
22 Add the amounts on lines 24 and 25 in the previous column	**22**		1,288	2,576	2,914
23 Subtract line 22 from line 21. If zero or less, enter -0-. For column (a) only, enter the amount from line 19	**23**	396	0	0	0
24 If line 23 is zero, subtract line 21 from line 22. Otherwise, enter -0-	**24**		892	1,230	
25 **Underpayment.** If line 18 is equal to or more than line 23, subtract line 23 from line 18. Then go to line 20 of the next column. Otherwise, go to line 26 ▶	**25**	1,288	1,684	1,684	1,684
26 Overpayment. If line 23 is more than line 18, subtract line 18 from line 23. Then go to line 20 of the next column	**26**				

Section B—Figure the Penalty (Use the Worksheet for Form 2210, Part IV, Section B—Figure the Penalty on page 4 of the instructions to figure your penalty.)

27 **Penalty.** Enter the total penalty from line 8 of the Worksheet for Form 2210, Part IV, Section B—Figure the Penalty. Also include this amount on Form 1040, line 77; Form 1040A, line 49; Form 1040NR, line 73; Form 1040NR-EZ, line 26; or Form 1041, line 26. **Do not file Form 2210 unless you checked a box in Part II** ▶	**27**	96.41

Figure 4-B. **Regular Method—Illustrated (Ben and Sally Brown)** *(Continued)*

Worksheet for Form 2210, Part IV, Section B—Figure the Penalty

Keep for Your Records

Complete Rate Period 1 of each column before going to the next column; then go to Rate Period 2 in the same manner. If multiple estimated tax payments are applied to the underpayment amount in a column of line 1a, you will need to make more than one computation for that column.

		Payment Due Dates			
		(a) 4/15/10	(b) 6/15/10	(c) 9/15/10	(d) 1/15/11
1a Enter your underpayment from Part IV, Section A, line 25	**1a**	1,288	1,684	1,684	1,684
1b Date and amount of each payment applied to the underpayment in the same column. Do not enter more than the underpayment amount on line 1a for each column (see instructions). **Note.** Your payments are applied to an underpayment balance on an earlier installment until the underpayment is fully paid.	**1b**	6/15 396 9/15 892	9/15 454 1/15 1,230	1/15 116	
Rate Period 1: April 16, 2010—December 31, 2010					
2 Computation starting dates for this period	**2**	4/15/10	6/15/10	9/15/10	
3 Number of days **from** the date on line 2 to the date the amount on line 1a was paid **or** 12/31/10, whichever is earlier	**3**	Days: 6/15 61 / 9/15 153	Days: 9/15 92 / 1/15 199	Days: 1/15 107 / 4/15 107	
4 Underpayment on line 1a x Number of days on line 3 / 365 x .04	**4**	2.65 / $ 14.96	4.58 / $ 26.82	1.36 / $ 18.39	
Rate Period 2: January 1, 2011—April 15, 2011					
5 Computation starting dates for this period	**5**	12/31/10	12/31/10	12/31/10	1/15/11
6 Number of days **from** the date on line 5 to the date the amount on line 1a was paid **or** 4/15/11, whichever is earlier	**6**	Days:	Days: / 15	Days: 15 / 105	Days: 90
7 Underpayment on line 1a x Number of days on line 6 / 365 x .03	**7**	$	$ 1.52	0.14 / $ 13.53	$ 12.46
8 **Penalty.** Add all amounts on lines 4 and 7 in all columns. Enter the total here and on line 27 of Part IV, Section B . . . . . ▶	**8**				$ 96.41

Figure 4-C. **Annualized Income Installment Method—Illustrated (Laura Maple)**

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

Estates and trusts, **do not** use the period ending dates shown to the right. Instead, use the following: 2/28/10, 4/30/10, 7/31/10, and 11/30/10.		(a) 1/1/10–3/31/10	(b) 1/1/10–5/31/10	(c) 1/1/10–8/31/10	(d) 1/1/10–12/31/10
Part I **Annualized Income Installments**					
1 Enter your adjusted gross income for each period (see instructions). (Estates and trusts, enter your taxable income without your exemption for each period.)	**1**	6,099	11,094	19,517	39,823
2 Annualization amounts. (Estates and trusts, see instructions)	**2**	4	2.4	1.5	1
3 Annualized income. Multiply line 1 by line 2	**3**	24,396	26,626	29,276	39,823
4 If you itemize, enter itemized deductions for the period shown in each column. All others enter -0-, and skip to line 7. **Exception:** Estates and trusts, skip to line 9 and enter amount from line 3	**4**	2,250	3,750	6,000	9,000
5 Annualization amounts	**5**	4	2.4	1.5	1
6 Multiply line 4 by line 5	**6**	9,000	9,000	9,000	9,000
7 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-. **Exception:** Indian students and business apprentices, see instructions.)	**7**	8,400	8,400	8,400	8,400
8 Enter the **larger** of line 6 or line 7	**8**	9,000	9,000	9,000	9,000
9 Subtract line 8 from line 3	**9**	15,396	17,626	20,726	30,823
10 In each column, multiply $3,650 by the total number of exemptions claimed. (Estates, trusts, and Form 1040NR or 1040NR-EZ filers, see instructions.)	**10**	10,950	10,950	10,950	10,950
11 Subtract line 10 from line 9. If zero or less, enter -0-	**11**	4,446	6,676	9,326	19,873
12 Figure your tax on the amount on line 11 (see instructions)	**12**	443	668	933	2,384
13 Self-employment tax from line 34 (complete Part II below)	**13**		339	742	2,346
14 Enter other taxes for each payment period (see instructions)	**14**				
15 Total tax. Add lines 12, 13, and 14	**15**	443	1,007	1,675	4,730
16 For each period, enter the same type of credits as allowed on Form 2210, Part I, lines 1 and 3 (see instructions)	**16**	EIC 3,367 MWP 400 3,767	EIC 2,893 MWP 400 3,293	EIC 2,335 MWP 400 2,735	EIC 113 MWP 400 513
17 Subtract line 16 from line 15. If zero or less, enter -0-	**17**	0	0	0	4,217
18 Applicable percentage	**18**	22.5%	45%	67.5%	90%
19 Multiply line 17 by line 18	**19**	0	0	0	3,795
Complete lines 20–25 of one column before going to line 20 of the next column.					
20 Enter the total of the amounts in all previous columns of line 25	**20**		0	0	0
21 Subtract line 20 from line 19. If zero or less, enter -0-	**21**	0	0	0	3,795
22 Enter 25% (.25) of line 9 on page 1 of Form 2210 in each column	**22**	952	952	952	952
23 Subtract line 25 of the previous column from line 24 of that column	**23**		952	1,904	2,856
24 Add lines 22 and 23	**24**	952	1,904	2,856	3,808
25 Enter the **smaller** of line 21 or line 24 here and on Form 2210, Part IV, line 18 ▶	**25**	0	0	0	3,795
Part II **Annualized Self-Employment Tax** (Form 1040 and Form 1040NR filers only)					
26 Net earnings from self-employment for the period (see instructions)	**26**		924	3,232	15,330
27 Prorated social security tax limit	**27**	$26,700	$44,500	$71,200	$106,800
28 Enter actual wages for the period subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax. **Exception:** If you filed Form 4137 or Form 8919, see instructions	**28**		10,165	16,264	24,396
29 Subtract line 28 from line 27. If zero or less, enter -0-	**29**		34,334	54,936	82,404
30 Annualization amounts	**30**	0.496	0.2976	0.186	0.124
31 Multiply line 30 by the **smaller** of line 26 or line 29	**31**		275	601	1,901
32 Annualization amounts	**32**	0.116	0.0696	0.0435	0.029
33 Multiply line 26 by line 32	**33**		64	141	445
34 Add lines 31 and 33. Enter here and on line 13 above ▶	**34**		339	742	2,346

Figure 4-C. **Annualized Income Installment Method—Illustrated (Laura Maple)** *(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) 4/15/10	**(b)** 6/15/10	**(c)** 9/15/10	**(d)** 1/15/11
18 **Required installments.** If box C in Part II applies, enter the amounts from Schedule AI, line 25. Otherwise, enter 25% (.25) of line 9, Form 2210, in each column	**18**	0	0	0	3,795
19 Estimated tax paid and tax withheld (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. **Do not file Form 2210 unless you checked a box in Part II**	**19**	189	189	189	1/15 100 289
Complete lines 20 through 26 of one column before going to line 20 of the next column.					
20 Enter the amount, if any, from line 26 in the previous column	**20**		189	378	567
21 Add lines 19 and 20	**21**		378	567	856
22 Add the amounts on lines 24 and 25 in the previous column	**22**		0	0	0
23 Subtract line 22 from line 21. If zero or less, enter -0-. For column (a) only, enter the amount from line 19	**23**	189	378	567	856
24 If line 23 is zero, subtract line 21 from line 22. Otherwise, enter -0-	**24**		0	0	
25 **Underpayment.** If line 18 is equal to or more than line 23, subtract line 23 from line 18. Then go to line 20 of the next column. Otherwise, go to line 26 ▶	**25**				2,939
26 Overpayment. If line 23 is more than line 18, subtract line 18 from line 23. Then go to line 20 of the next column	**26**	189	378	567	

Section B—Figure the Penalty (Use the Worksheet for Form 2210, Part IV, Section B—Figure the Penalty on page 4 of the instructions to figure your penalty.)

27 **Penalty.** Enter the total penalty from line 8 of the Worksheet for Form 2210, Part IV, Section B—Figure the Penalty. Also include this amount on Form 1040, line 77; Form 1040A, line 49; Form 1040NR, line 73; Form 1040NR-EZ, line 26; or Form 1041, line 26. **Do not file Form 2210 unless you checked a box in Part II** ▶	**27**	21.74

Figure 4-C. **Annualized Income Installment Method—Illustrated (Laura Maple)** *(Continued)*

Worksheet for Form 2210, Part IV, Section B—Figure the Penalty

Keep for Your Records

Complete Rate Period 1 of each column before going to the next column; then go to Rate Period 2 in the same manner. If multiple estimated tax payments are applied to the underpayment amount in a column of line 1a, you will need to make more than one computation for that column.

		Payment Due Dates			
		(a) 4/15/10	(b) 6/15/10	(c) 9/15/10	(d) 1/15/11
1a Enter your underpayment from Part IV, Section A, line 25	**1a**				2,939
1b Date and amount of each payment applied to the underpayment in the same column. Do not enter more than the underpayment amount on line 1a for each column (see instructions). **Note.** Your payments are applied to an underpayment balance on an earlier installment until the underpayment is fully paid.	**1b**				1/15 289
Rate Period 1: April 16, 2010—December 31, 2010					
2 Computation starting dates for this period	**2**	4/15/10	6/15/10	9/15/10	
3 Number of days **from** the date on line 2 to the date the amount on line 1a was paid **or** 12/31/10, whichever is earlier	**3**	*Days:*	*Days:*	*Days:*	
4 Underpayment on line 1a x Number of days on line 3 / 365 x .04	**4**	$	$	$	
Rate Period 2: January 1, 2011—April 15, 2011					
5 Computation starting dates for this period	**5**	12/31/10	12/31/10	12/31/10	1/15/11
6 Number of days **from** the date on line 5 to the date the amount on line 1a was paid **or** 4/15/11, whichever is earlier	**6**	*Days:*	*Days:*	*Days:*	*Days:* 90
7 Underpayment on line 1a x Number of days on line 6 / 365 x .03	**7**	$	$	$	$ 21.74
8 **Penalty.** Add all amounts on lines 4 and 7 in all columns. Enter the total here and on line 27 of Part IV, Section B . . . . . ▶	**8**				$ 21.74

Worksheet 4-1. **2010 Form 2210, Schedule AI—Line 12**
Qualified Dividends and Capital Gain Tax Worksheet

Note. To figure the annualized entries for lines 2, 3, and 5 below, multiply the expected amount for the period by the annualization amount on line 2 of Schedule AI for the same period.

1. Enter line 11 of your Schedule AI, or line 3 from Worksheet 4-2 . . . . . **1.** _____

2. Enter your annualized qualified dividends for the period . . . . . **2.** _____

3. Are you filing Schedule D?

☐ **Yes.** Enter the **smaller** of your annualized amount from line 15 or line 16 of Schedule D. If either line 15 or line 16 is blank or a loss, enter -0-.

☐ **No.** Enter your annualized capital gain distributions from Form 1040, line 13

3. _____

4. Add lines 2 and 3 . . . . . **4.** _____

5. If you are claiming investment interest expense on Form 4952, enter your annualized amount from line 4g of that form. Otherwise, enter -0- . . . . . **5.** _____

6. Subtract line 5 from line 4. If zero or less, enter -0- . . . . . **6.** _____

7. Subtract line 6 from line 1. If zero or less, enter -0- . . . . . **7.** _____

8. Enter:
$34,000 if single or married filing separately,
$68,000 if married filing jointly or qualifying widow(er),
$45,550 if head of household.

8. _____

9. Enter the **smaller** of line 1 or line 8 . . . . . **9.** _____

10. Enter the **smaller** of line 7 or line 9 . . . . . **10.** _____

11. Subtract line 10 from line 9. This amount is taxed at 0% . . . . . **11.** _____

12. Enter the **smaller** of line 1 or line 6 . . . . . **12.** _____

13. Enter the amount from line 11 . . . . . **13.** _____

14. Subtract line 13 from line 12 . . . . . **14.** _____

15. Multiply line 14 by 15% (.15) . . . . . **15.** _____

16. Figure the tax on the amount on line 7. If the amount on line 7 is less than $100,000, use the Tax Table in the 2010 Form 1040 instructions to figure this tax. If the amount on line 7 is $100,000 or more, use the Tax Computation Worksheet in the 2010 Form 1040 instructions . . . . . **16.** _____

17. Add lines 15 and 16 . . . . . **17.** _____

18. Figure the tax on the amount on line 1. If the amount on line 1 is less than $100,000, use the Tax Table in the Form 1040 instructions to figure this tax. If the amount on line 1 is $100,000 or more, use the Tax Computation Worksheet in the 2010 Form 1040 instructions . . . . . **18.** _____

19. **Tax on all taxable income.** Enter the **smaller** of line 17 or line 18. Also enter this amount on line 12 of Schedule AI in the appropriate column. However, if you are using this worksheet to figure the tax on the amount on line 3 of Worksheet 4-2, enter the amount from line 19 on Worksheet 4-2, line 4 . . . **19.** _____

Worksheet 4-2. **2010 Form 2210, Schedule AI—Line 12 Foreign Earned Income Tax Worksheet**

Before you begin: If Schedule AI, line 11, is zero for the period, do not complete this worksheet.

1. Enter the amount from line 11 of Schedule AI for the period . . . . . **1.** _____

2. Enter the annualized amount* of foreign earned income and housing amount excluded or deducted (from Form 2555, lines 45 and 50, or Form 2555-EZ, line 18) in figuring the amount entered for the period on line 1 of Schedule AI . . . . . **2.** _____

3. Add lines 1 and 2 . . . . . **3.** _____

4. Tax on the amount on line 3. Use the Tax Table, Tax Computation Worksheet, Form 8615,** Qualified Dividends and Capital Gain Worksheet,*** or Schedule D Tax Worksheet,*** whichever applies. See the 2010 Instructions for Form 1040, line 44, to find out which tax computation method to use. (**Note.** You do not have to use the same method for each period on Schedule AI.) . . . . . **4.** _____

5. Tax on the amount on line 2. If the amount on line 2 is less than $100,000, use the Tax Table in the 2010 Form 1040 instructions to figure this tax. If the amount on line 7 is $100,000 or more, use the Tax Computation Worksheet in the 2010 Form 1040 instructions . . . . . **5.** _____

6. Subtract line 5 from line 4. Enter the result here and on line 12 of Schedule AI. If zero or less, enter -0- . . . . . **6.** _____

* To figure the annualized amount for line 2, multiply the exclusion or deduction for the period by the annualization amount on line 2 of Schedule AI for the same period.

*** If you use Form 8615 to figure the tax on line 4 above, enter the amount from line 3 above on line 4 of Form 8615. If the child's parent files Form 2555 or 2555-EZ, enter the amounts from lines 3 and 4 of the parent's Foreign Earned Income Tax Worksheet on lines 6 and 10, respectively, of Form 8615. Complete the rest of Form 8615 according to its instructions. Then complete lines 5 and 6 above.*

*** Enter the amount from line 3 above on line 1 of the Qualified Dividends and Capital Gain Tax Worksheet (or Worksheet 4-1 in this chapter) or the Schedule D Tax Worksheet, whichever worksheet you use to figure the tax on line 4 above. Complete that worksheet through line 6 (line 10 if you use the Schedule D Tax Worksheet). Next, determine if you have a capital gain excess.

Figuring capital gain excess. To find out if you have a capital gain excess for the appropriate period, subtract line 11 of Schedule AI from line 6 of Worksheet 4-1 or your Qualified Dividends and Capital Gain Tax Worksheet (line 10 of your Schedule D Tax Worksheet). If the result is more than zero, that amount is your capital gain excess.

No capital gain excess. If you do not have a capital gain excess, complete the rest of Worksheet 4-1, Qualified Dividends and Capital Gain Tax Worksheet, or the Schedule D Tax Worksheet according to the worksheet's instructions. Then complete lines 5 and 6 above.

Capital gain excess. If you have a capital gain excess, complete a second Worksheet 4-1, Qualified Dividends and Capital Gain Tax Worksheet, or Schedule D Tax Worksheet (whichever applies) as instructed above but in its entirety and with the following additional modifications. Then complete lines 5 and 6 above.

Make the modifications below only for purposes of filling out Worksheet 4-2 above.

a. Reduce (but not below zero) the amount you otherwise would enter on line 3 of your Worksheet 4-1, line 3 of your Qualified Dividends and Capital Gain Tax Worksheet, or line 9 of your Schedule D Tax Worksheet by your capital gain excess.

b. Reduce (but not below zero) the amount you otherwise would enter on line 2 of your Worksheet 4-1, line 2 of your Qualified Dividends and Capital Gain Tax Worksheet, or line 6 of your Schedule D Tax Worksheet by any of your capital gain excess not used in (a) above.

c. Reduce (but not below zero) the amount on your Schedule D (Form 1040), line 18, by your capital gain excess.

d. Include your capital gain excess as a loss on line 16 of your Unrecaptured Section 1250 Gain Worksheet in the 2010 Instructions for Schedule D (Form 1040).

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. The Taxpayer Advocate Service (TAS) is an independent organization within the IRS. We help taxpayers who are experiencing economic harm, such as not being able to provide necessities like housing, transportation, or food; taxpayers who are seeking help in resolving tax problems with the IRS; and those who believe that an IRS system or procedure is not working as it should. Here are seven things every taxpayer should know about TAS:

- The Taxpayer Advocate Service is your voice at the IRS.
- Our service is free, confidential, and tailored to meet your needs.
- You may be eligible for our help if you have tried to resolve your tax problem through normal IRS channels and have gotten nowhere, or you believe an IRS procedure just isn't working as it should.
- We help taxpayers whose problems are causing financial difficulty or significant cost, including the cost of professional representation. This includes businesses as well as individuals.
- Our employees know the IRS and how to navigate it. If you qualify for our help, we'll assign your case to an advocate who will listen to your problem, help you understand what needs to be done to resolve it, and stay with you every step of the way until your problem is resolved.
- We have at least one local taxpayer advocate in every state, the District of Columbia, and Puerto Rico. You can call your local advocate, whose number is in your phone book, in Pub. 1546, Taxpayer Advocate Service—Your Voice at the IRS, and on our website at www.irs.gov/advocate. You can also call our toll-free line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.
- You can learn about your rights and responsibilities as a taxpayer by visiting our online tax toolkit at www.taxtoolkit.irs.gov. You can get updates on hot tax topics by visiting our YouTube channel at www.youtube.com/tasnta and our Facebook page at www.facebook.com/YourVoiceAtIRS, or by following our tweets at www.twitter.com/YourVoiceAtIRS.

Low Income Taxpayer Clinics (LITCs). The Low Income Taxpayer Clinic program serves individuals who have a problem with the IRS and whose income is below a certain level. LITCs are independent from the IRS. Most LITCs can provide representation before the IRS or in court on audits, tax collection disputes, and other issues for free or a small fee. If an individual's native language is not English, some clinics can provide multilingual information about taxpayer rights and responsibilities. For more information, see Publication 4134, Low Income Taxpayer Clinic List. This publication is available at IRS.gov, by calling 1-800-TAX-FORM (1-800-829-3676), or at your local IRS office.

Free tax services. Publication 910, IRS Guide to Free Tax Services, is your guide to IRS services and resources. Learn about free tax information from the IRS, including publications, services, and education and assistance programs. The publication also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on the telephone. The majority of the information and services listed in this publication are available to you free of charge. If there is a fee associated with a resource or service, it is listed in the publication.

Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.

Free help with your return. Free help in preparing your return is available nationwide from IRS-trained volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-income taxpayers and the Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 and older with their tax returns. Many VITA sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. To find the nearest VITA or TCE site, call 1-800-829-1040.

As part of the TCE program, AARP offers the Tax-Aide counseling program. To find the nearest AARP Tax-Aide site, call 1-888-227-7669 or visit AARP's website at www.aarp.org/money/taxaide.

For more information on these programs, go to IRS.gov and enter keyword "VITA" in the upper right-hand corner.

Internet. You can access the IRS website at IRS.gov 24 hours a day, 7 days a week 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 2010 refund. Go to IRS.gov and click on *Where's My Refund*. Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2010 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, including talking tax forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- Use the online Internal Revenue Code, regulations, or other official guidance.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed by using our Alternative Minimum Tax (AMT) Assistant.
- 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-TAX-FORM (1-800-829-3676) to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* To check the status of your 2010 refund, call 1-800-829-1954 or 1-800-829-4477 (automated refund information 24 hours a day, 7 days a week). Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2010 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund. If you check the status of your refund and are not given the date it will be issued, please wait until the next week before checking back.
- *Other refund information.* To check the status of a prior-year refund or amended return refund, call 1-800-829-1040.

Evaluating the quality of our telephone services. To ensure 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 listen in on or record random telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD 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 are 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—just walk in. 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. If you have an ongoing, complex tax account problem or a special need, such as a disability, an appointment can be requested. All other issues will be handled without an appointment. To find the number of your local office, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.

Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613

DVD for tax products. You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
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- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Internal Revenue Code—Title 26 of the U.S. Code.
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- Two releases during the year.
  – The first release will ship the beginning of January 2011.
  – The final release will ship the beginning of March 2011.

Purchase the DVD from National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for $30 (no handling fee) or call 1-877-233-6767 toll free to buy the DVD for $30 (plus a $6 handling fee).

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

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