

Dear Owner-Operator:

Welcome to J. Allen Wallace Business Services (J.A.W.B.S.)! You have chosen the best Owner-Operator Business Management Program available today. Please read the J.A.W.B.S. instruction sheet and **BEGIN SENDING YOUR RECEIPTS AND SETTLEMENT STATEMENTS IMMEDIATELY!!!**

J.A.W.B.S. is a program designed to make our customers some of the most successful owner-operators in the industry. Far more than the typical "tax service", J.A.W.B.S. provides the owner-operator with the business tools necessary to manage their business and maximize profitability.

FINANCIAL TOOLS

J.A.W.B.S. provides the owner-operator with a **Personalized Budget**. J.A.W.B.S. does the owner-operator's **Bookkeeping**. The owner-operator simply mails their unsorted business receipts and settlement statements to J.A.W.B.S. at the end of every month, and we do the rest.

J.A.W.B.S. provides the owner-operator with a comprehensive **Monthly Income Statement**. The owner-operator can compare this monthly profit and loss statement to their budget to see exactly where they are over or under achieving.

TAX COMPLIANCE

All self-employed people (owner-operators) are required to pay quarterly **Estimated Taxes** to the IRS. Unlike most tax services, J.A.W.B.S. bases an owner-operator's estimated taxes on actual current income estimates. J.A.W.B.S. also provides year-end **State** (if necessary) and **Federal Tax Returns**. J.A.W.B.S. includes other non-trucking income and expenses and spouse income when preparing the owner-operator's quarterly estimates and year-end returns. J.A.W.B.S. can also file all state and federal **Corporate Tax Returns** for an additional fee.

CONSULTING

J.A.W.B.S. provides unlimited business consulting to owner operators. From analyzing your business performance to personal tax planning, J.A.W.B.S. takes the time to work with each individual customer. J.A.W.B.S. also provides a wealth of information from quarterly newsletters to online information for its customers.

- We can complete your dependent's return for a modest fee of only \$39
- We are a mail receiving agent, if you need a business address and have your mail forwarded to you, we can assist with that as well, see your consultant for details
- We can also assist with LLC, DBA, or Corporation filings
- We have payroll service and payroll tax filing available for drivers with multiple trucks and drivers on their payroll
- Plus additional services added frequently to assist you in your business as the need arises

The bottom line is that J.A.W.B.S. helps its customers maximize their time and wealth! It's not what you make; it's what you keep after the bills are paid. **BEGIN SENDING YOUR RECEIPTS AND SETTLEMENT STATEMENTS IMMEDIATELY and DRIVE SAFELY!!!**

Sincerely,

J. Allen Wallace Business Services

Client Engagement Letter

The purpose of this letter is to confirm the understanding that the undersigned (Client) has engaged J Allen Wallace d/b/a Express Tax (J.A.W.) to provide Business services. J.A.W. business services include: Budgeting, Bookkeeping, Monthly Income Statements, Quarterly Estimated Tax Vouchers, *State and Federal Tax Preparation and Business consulting.

J.A.W.'s standard fees for providing Business Services will be based on our normal operating procedures. Standard fees will be paid to J.A.W. by the client beginning with the month of engagement. If client's fees have been paid through a Dealer for a specified term, after the expiration of this initial term, the client will be responsible for paying J.A.W.'s standard fees directly. If any additional work is required on Client's behalf, J.A.W. will notify and collect direct from client additional fees as specified in J.A.W.'s current rate schedule. If Client is paying J.A.W. through an arrangement with the company the Client is leased to, through an arrangement with a finance company, through an arrangement with a dealer, or through any other arrangement, J.A.W. has no responsibility for the funds collected until those funds are remitted to J.A.W. J.A.W. will continue to provide Business Services until Client notifies J.A.W. in writing that Client no longer needs J.A.W.'S Business Services. J.A.W. can cancel service at any time for nonpayment of fees. Client will ensure full payment of fees prior to Client receiving final tax returns. If J.A.W.'s service is cancelled, J.A.W. reserves the right to retain any and all funds paid to J.A.W. for signup, setup, marketing expenses, ongoing work relating to Client, enterprise expenses, etc. J.A.W. will use its judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretation of the law and what seem to be other supportable positions. J.A.W. will resolve such questions in Client's favor whenever possible.

Client represents that the information provided to J.A.W. is accurate and complete to the best of Client's knowledge. J.A.W. will review the information and supporting documentation and may ask for additional information for clarification of certain items. For most expenses, the law specifically requires that any deductions must be substantiated by records indicating the amount, time, and place as well as the business purpose of the expense.

Client agrees to allow J.A.W. to gather settlement, tax and any other relevant information from the company for whom the client drives. In addition, Client agrees to allow (a) J.A.W. to share monthly operating statements and any other financial or other relevant data regarding the Client with the company for whom the client drives and the lender that finances Client's equipment and (b) the lender that finances Client's equipment to share information with J.A.W. regarding the equipment payment terms and any other financial or other relevant credit information regarding the equipment and/or inventory financed by such equipment lender.

J.A.W. may at it option for any reason automatically file for an extension on behalf of Client to extend the tax return filing deadline. If Client has not provided all documentation necessary by March 31 for the preceding tax year, J.A.W. will most likely file an extension on behalf of client.

The Client is reminded that the law imposes a penalty if a taxpayer makes a substantial understatement of tax liability. The Client is ultimately responsible for the tax returns and therefore, should review them carefully before signing and filing them.

Should Client's return be selected for examination by any taxing authority, J.A.W. may be able to provide representation for the Client before that authority and prepare any refund claims of protests that may be necessary to obtain a final determination of Client's income tax liability. Client will be billed at J.A.W.'s standard rates, Plus out of pocket expense for these services.

Client agrees that J.A.W.'s liability for damages under this agreement, regardless of the form of action, shall not exceed the total amount paid for services described herein. This shall be Client's exclusive remedy. This engagement letter shall

be governed as to validity, interpretation, construction, effect and in all other respects by the laws and decision of the state of Texas.

J.A.W. will maintain files related to this engagement that we, in our sole professional judgment, determine are necessary for the conduct of this engagement. After the engagement ends, meaning the date of our last bill for services, we will maintain or destroy files in accordance with our then- existing records retention policy. During this period in which we maintain the files, you may request to examine the files and to copy documents in the files. We request that you do so within one year after the engagement ends, after which we may destroy the files in accordance with our records retention policy.

This Agreement constitutes the sole agreement of the parties and supersedes any prior understandings or written or oral agreements between the parties respecting the subject matter of this agreement. No modification of this agreement shall be effective unless in writing and signed by J.A.W. The parties agree that fax signatures are legally binding in accordance with this Agreement.

If any of the provisions of this Agreement are prohibited by or held invalid under applicable laws or regulations of any jurisdiction in which Agreement is sought to be enforced, then that provision shall be considered inapplicable and omitted but shall not invalidate the remaining provisions.

AGREED TO AND ACCEPTED: The foregoing is in accordance with Client's understanding of J.A.W.'s engagement to provide Business Services. By providing information to J.A.W., you accept the terms of our engagement outlined in this letter. J.A.W. appreciates this opportunity to serve you.

By: _____

Client signature

Print Client Name

Date: _____ SSN: _____

By checking this box, I hereby authorize my company to deduct a total of \$15.00 per week from my settlements as payment for J.A.W.

MAILING ADDRESS:

_____ Email Address: _____

Street Address

City

State

Zip

Home Phone _____ Cell Phone _____

Truck ID: _____

Driver Code: _____

Starting a Business and Keeping Records



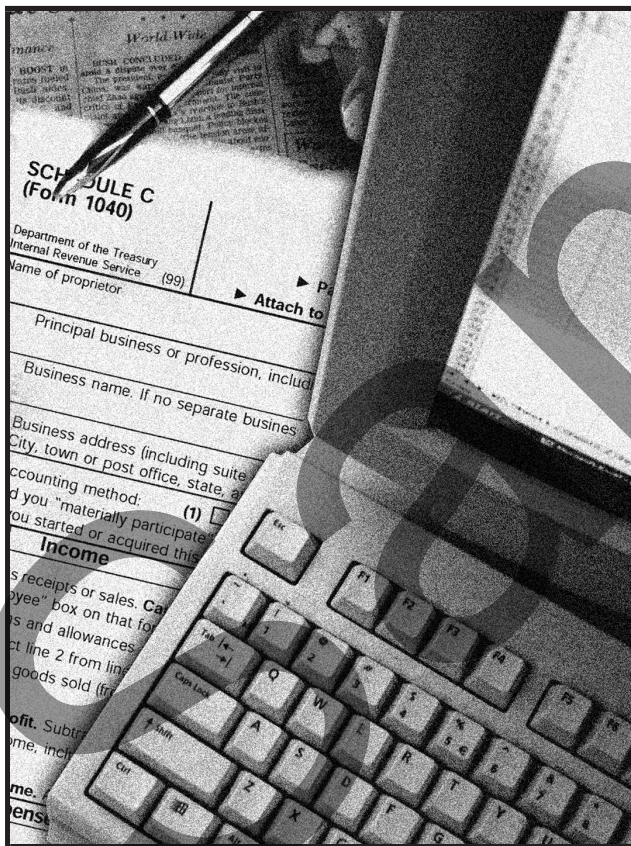
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Internal Revenue Service

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Starting a Business and Keeping Records



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Introduction

This publication provides basic federal tax information for people who are starting a business. It also provides information on keeping records and illustrates a record-keeping system.

Throughout this publication we refer to other IRS publications and forms where you will find more information. In addition, you may want to contact other government agencies, such as the Small Business Administration (SBA). See page 24 to find out how to get more information.

IRS mission. Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

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

You can email us at *taxforms@irs.gov. (The asterisk must be included in the address.) Please put "Publications

Comment” on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

You can write us at the following address:

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

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

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

What New Business Owners Need To Know

As a new business owner, you need to know your federal tax responsibilities. *Table 1*, below, can help you learn what those responsibilities are. Ask yourself each question listed in the table, then see the related discussion to find the answer.

In addition to knowing about federal taxes, you need to make some basic business decisions. Ask yourself:

- What are my financial resources?
- What products and services will I sell?
- How will I market my products and services?
- How will I develop a strategic business plan?
- How will I manage my business on a day-to-day basis?
- How will I recruit employees?

The Small Business Administration (SBA) is a federal agency that can help you answer these types of questions. For information on how to contact the SBA, see page 26.

Forms of Business

The most common forms of business are the sole proprietorship, partnership, and corporation. When beginning a business, you must decide which form of business to use. Legal and tax considerations enter into this decision. Only tax considerations are discussed in this publication.



Your form of business determines which income tax return form you have to file. See Table 2 on page 6 to find out which form you have to file.

Sole proprietorships. A sole proprietorship is an unincorporated business that is owned by one individual. It is the simplest form of business organization to start and maintain. The business has no existence apart from you, the owner. Its liabilities are your personal liabilities. You

Table 1. What New Business Owners Need To Know About Federal Taxes

(Note: This table is intended to help you, as a new business owner, learn what you need to know about your federal tax responsibilities. To use it, ask yourself each question in the left column, then see the related discussion on the page shown in the right column.)

What Must I Know?	Where To Find the Answer
Which form of business will I use?	See <i>Forms of Business</i> on page 3.
Will I need an employer identification number (EIN)?	See <i>Identification Numbers</i> on page 3.
Do I have to start my tax year in January, or may I start it in any other month?	See <i>Tax Year</i> on page 4.
What method can I use to account for my income and expenses?	See <i>Accounting Method</i> on page 5.
What kinds of federal taxes will I have to pay? How should I pay my taxes?	See <i>Business Taxes</i> on page 5.
What must I do if I have employees?	See <i>Employment Taxes</i> on page 6.
Which forms must I file?	See <i>Table 2</i> on page 6 and <i>Information Returns</i> on page 8.
Are there penalties if I do not pay my taxes or file my returns?	See <i>Penalties</i> on page 9.
What business expenses can I deduct on my federal income tax return?	See <i>Business Expenses</i> on page 9.
What records must I keep? How long must I keep them?	See <i>Recordkeeping</i> on page 11.

undertake the risks of the business for all assets owned, whether or not used in the business. You include the income and expenses of the business on your personal tax return.

More information. For more information on sole proprietorships, see Publication 334, *Tax Guide for Small Business*. If you are a farmer, see Publication 225, *Farmer's Tax Guide*.

Partnerships. A partnership is the relationship existing between two or more persons who join to carry on a trade or business. Each person contributes money, property, labor, or skill, and expects to share in the profits and losses of the business.

A partnership must file an annual information return to report the income, deductions, gains, losses, etc., from its operations, but it does not pay income tax. Instead, it "passes through" any profits or losses to its partners. Each partner includes his or her share of the partnership's items on his or her tax return.

More information. For more information on partnerships, see Publication 541, *Partnerships*.

Corporations. In forming a corporation, prospective shareholders exchange money, property, or both, for the corporation's capital stock. A corporation generally takes the same deductions as a sole proprietorship to figure its taxable income. A corporation can also take special deductions.

The profit of a corporation is taxed to the corporation when earned, and then is taxed to the shareholders when distributed as dividends. However, shareholders cannot deduct any loss of the corporation.

More information. For more information on corporations, see Publication 542, *Corporations*.

S corporations. An eligible domestic corporation can avoid double taxation (once to the corporation and again to the shareholders) by electing to be treated as an S corporation. Generally, an S corporation is exempt from federal income tax other than tax on certain capital gains and passive income. On their tax returns, the S corporation's shareholders include their share of the corporation's separately stated items of income, deduction, loss, and credit, and their share of nonseparately stated income or loss.

More information. For more information on S corporations, see the instructions for Form 2553, *Election by a Small Business Corporation*, and Form 1120S, *U.S. Income Tax Return for an S Corporation*.

Limited liability company. A limited liability company (LLC) is an entity formed under state law by filing articles of organization as an LLC. None of the members of an LLC are personally liable for its debts. An LLC may be classified for federal income tax purposes as either a partnership, a corporation, or an entity disregarded as an entity separate from its owner by applying the rules in regulations section 301.7701-3. For more information, see the instructions for Form 8832, *Entity Classification Election*.

Identification Numbers

You must have a taxpayer identification number so the IRS can process your returns. The two most common kinds of taxpayer identification numbers are the social security number (SSN) and the employer identification number (EIN).

- An SSN is issued to individuals by the Social Security Administration (SSA) and is in the following format: 000-00-0000.
- An EIN is issued to individuals (sole proprietors), partnerships, corporations, and other entities by the IRS and is in the following format: 00-0000000.

You must include your taxpayer identification number (SSN or EIN) on all returns and other documents you send to the IRS. You must also furnish your number to other persons who use your identification number on any returns or documents they send to the IRS. This includes returns or documents filed to report the following information.

1. Interest, dividends, royalties, etc., paid to you.
2. Any amount paid to you as a dependent care provider.
3. Certain other amounts paid to you that total \$600 or more for the year.

If you do not furnish your identification number as required, you may be subject to penalties. See *Penalties*, later.

Employer Identification Number (EIN)

EINs are used to identify the tax accounts of employers, certain sole proprietors, corporations, partnerships, estates, trusts, and other entities.

If you don't already have an EIN, you need to get one if you:

1. Have employees,
2. Have a qualified retirement plan,
3. Operate your business as a corporation or partnership, or
4. File returns for:
 - a. Employment taxes, or
 - b. Excise taxes.

Applying for an EIN. You may apply for an EIN:

- Online—Click on the EIN link at www.irs.gov/businesses/small. The EIN is issued immediately once the application information is validated.
- By telephone at 1-800-829-4933 from 7:00 a.m. to 10:00 p.m. in the applicant's local time zone.

- By mailing or faxing Form SS-4, Application for Employer Identification Number.

When to apply. You should apply for an EIN early enough to receive the number by the time you must file a return or statement or make a tax deposit. If you apply by mail, file Form SS-4 at least 4 to 6 weeks before you need an EIN. If you apply by telephone or through the IRS website, you can get an EIN immediately. If you apply by fax, you can get an EIN within 5 business days.

If you do not receive your EIN by the time a return is due, file your return anyway. Write "Applied for" and the date you applied for the number in the space for the EIN. Do not use your social security number as a substitute for an EIN on your tax returns.

More than one EIN. You should have only one EIN. If you have more than one EIN and are not sure which to use, contact the Internal Revenue Service Center where you file your return. Give the numbers you have, the name and address to which each was assigned, and the address of your main place of business. The IRS will tell you which number to use.

More information. For more information about EINs, see Publication 1635, Understanding Your EIN.

Payee's Identification Number

In the operation of a business, you will probably make certain payments you must report on information returns (discussed later under *Information Returns*). The forms used to report these payments must include the payee's identification number.

Employee. If you have employees, you must get an SSN from each of them. Record the name and SSN of each employee exactly as they are shown on the employee's social security card. If the employee's name is not correct as shown on the card, the employee should request a new card from the SSA. This may occur, for example, if the employee's name has changed due to marriage or divorce.

If your employee does not have an SSN, he or she should file Form SS-5, Application for a Social Security Card, with the SSA. This form is available at SSA offices or by calling 1-800-772-1213. It is also available from the SSA website at www.ssa.gov.

Other payee. If you make payments to someone who is not your employee and you must report the payments on an information return, get that person's SSN. If you make reportable payments to an organization, such as a corporation or partnership, you must get its EIN.

To get the payee's SSN or EIN, use Form W-9, Request for Taxpayer Identification Number and Certification. This form is available from IRS offices or by calling 1-800-829-3676. It is also available from the IRS website at www.irs.gov.



If the payee does not provide you with an identification number, you may have to withhold part of the payments as backup withholding. For information on backup withholding, see the Form W-9 instructions and the General Instructions for Forms 1099, 1098, 5498, and W-2G.

Tax Year

You must figure your taxable income and file an income tax return based on an annual accounting period called a tax year. A tax year is usually 12 consecutive months. There are two kinds of tax years.

1. **Calendar tax year.** A calendar tax year is 12 consecutive months beginning January 1 and ending December 31.
2. **Fiscal tax year.** A fiscal tax year is 12 consecutive months ending on the last day of any month except December. A 52-53-week tax year is a fiscal tax year that varies from 52 to 53 weeks but does not have to end on the last day of a month.

If you file your first tax return using the calendar tax year and you later begin business as a sole proprietor, become a partner in a partnership, or become a shareholder in an S corporation, you must continue to use the calendar year unless you get IRS approval to change it or are otherwise allowed to change it without IRS approval.

You must use a calendar tax year if:

- You keep no books.
- You have no annual accounting period.
- Your present tax year does not qualify as a fiscal year.
- You are required to use a calendar year by a provision of the Internal Revenue Code or the Income Tax Regulations.

For more information, see Publication 538, Accounting Periods and Methods.

First-time filer. If you have never filed an income tax return, you adopt either a calendar tax year or a fiscal tax year. You adopt a tax year by filing your first income tax return using that tax year. You have not adopted a tax year if you merely did any of the following.

- Filed an application for an extension of time to file an income tax return.
- Filed an application for an employer identification number.
- Paid estimated taxes for that tax year.

Changing your tax year. Once you have adopted your tax year, you may have to get IRS approval to change it. To get approval, you must file Form 1128, Application To

Adopt, Change, or Retain a Tax Year. You may have to pay a fee. For more information, see Publication 538.

Accounting Method

An accounting method is a set of rules used to determine when and how income and expenses are reported. You choose an accounting method for your business when you file your first income tax return. There are two basic accounting methods.

1. **Cash method.** Under the cash method, you report income in the tax year you receive it. You usually deduct or capitalize expenses in the tax year you pay them.
2. **Accrual method.** Under an accrual method, you generally report income in the tax year you earn it, even though you may receive payment in a later year. You deduct or capitalize expenses in the tax year you incur them, whether or not you pay them that year.

For other methods, see Publication 538.

If you need inventories to show income correctly, you must generally use an accrual method of accounting for purchases and sales. Inventories include goods held for sale in the normal course of business. They also include raw materials and supplies that will physically become a part of merchandise intended for sale. Inventories are explained in Publication 538.

TIP *Certain small business taxpayers can use the cash method of accounting and can also account for inventoriable items as materials and supplies that are not incidental. For more information, see Publication 538.*

You must use the same accounting method to figure your taxable income and to keep your books. Also, you must use an accounting method that clearly shows your income. In general, any accounting method that consistently uses accounting principles suitable for your trade or business clearly shows income. An accounting method clearly shows income only if it treats all items of gross income and expense the same from year to year.

More than one business. When you own more than one business, you can use a different accounting method for each business if the method you use for each clearly shows your income. You must keep a complete and separate set of books and records for each business.

Changing your method of accounting. Once you have set up your accounting method, you must generally get IRS approval before you can change to another method. A change in accounting method not only includes a change in your overall system of accounting, but also a change in the treatment of any material item. For examples of changes that require approval and information on how to get approval for the change, see Publication 538.

Business Taxes

The form of business you operate determines what taxes you must pay and how you pay them. The following are the four general kinds of business taxes.

- Income tax.
- Self-employment tax.
- Employment taxes.
- Excise taxes.

See *Table 2* on page 6 for the forms you file to report these taxes.



You may want to get Publication 509. It has tax calendars that tell you when to file returns and make tax payments.

Income Tax

All businesses except partnerships must file an annual income tax return. Partnerships file an information return. Which form you use depends on how your business is organized. See *Table 2* on page 6 to find out which return you have to file.

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. An employee usually has income tax withheld from his or her pay. If you do not pay your tax through withholding, or do not pay enough tax that way, you might have to pay estimated tax. If you are not required to make estimated tax payments, you may pay any tax due when you file your return.

Estimated tax. Generally, you must pay taxes on income, including self-employment tax (discussed next), by making regular payments of estimated tax during the year.

Sole proprietors, partners, and S corporation shareholders. You generally have to make estimated tax payments if you expect to owe tax of \$1,000 or more when you file your return. Use Form 1040-ES, Estimated Tax for Individuals, to figure and pay your estimated tax. For more information, see Publication 505, Tax Withholding and Estimated Tax.

Corporations. You generally have to make estimated tax payments for your corporation if you expect it to owe tax of \$500 or more when you file its return. Use Form 1120-W, Estimated Tax for Corporations, to figure the estimated tax. You must deposit the payments as explained on page 8 under Depositing Taxes. For more information, see Publication 542.

Self-Employment Tax

Self-employment tax (SE tax) is a social security and Medicare tax primarily for individuals who work for themselves. Your payments of SE tax contribute to your coverage under the social security system. Social security

Table 2. Which Forms Must I File?

IF you are a...	THEN you may be liable for...	Use Form...
Sole proprietor	Income tax	1040 and Schedule C ¹ or C-EZ (Schedule F ¹ for farm business)
	Self-employment tax	1040 and Schedule SE
	Estimated tax	1040-ES
	Employment taxes: <ul style="list-style-type: none"> • Social security and Medicare taxes and income tax withholding • Federal unemployment (FUTA) tax • Depositing employment taxes 	941 (943 for farm employees) 940 8109 ²
	Excise taxes	See <i>Excise Taxes</i>
Partnership	Annual return of income	1065
	Employment taxes	Same as sole proprietor
	Excise taxes	See <i>Excise Taxes</i>
Partner in a partnership (individual)	Income tax	1040 and Schedule E ³
	Self-employment tax	1040 and Schedule SE
	Estimated tax	1040-ES
Corporation or S corporation	Income tax	1120 or 1120-A (corporation) ³ 1120S (S corporation) ³
	Estimated tax	1120-W (corporation only) and 8109 ²
	Employment taxes	Same as sole proprietor
	Excise taxes	See <i>Excise Taxes</i>
S corporation shareholder	Income tax	1040 and Schedule E ³
	Estimated tax	1040-ES

¹ File a separate schedule for each business.

² Do not use if you deposit taxes electronically.

³ Various other schedules may be needed.

coverage provides you with retirement benefits, disability benefits, survivor benefits, and hospital insurance (Medicare) benefits.

You must pay SE tax and file Schedule SE (Form 1040) if either of the following applies.

1. Your net earnings from self-employment were \$400 or more.
2. You had church employee income of \$108.28 or more.

Use Schedule SE (Form 1040) to figure your SE tax. For more information, see Publication 533, Self-Employment Tax.



You can deduct one-half of your SE tax as an adjustment to income on your Form 1040.

The Social Security Administration (SSA) time limit for posting self-employment income. Generally, the SSA will give you credit only for self-employment income reported on a tax return filed within 3 years, 3 months, and 15 days after the tax year you earned the income. If you file your tax return or report a change in your self-employment income after this time limit, the SSA may change its records, but only to remove or reduce the amount. The SSA will not change its records to increase your self-employment income.

Employment Taxes

This section briefly discusses the employment taxes you must pay, the forms you must file to report them, and other forms that must be filed when you have employees.

Employment taxes include the following.

- Social security and Medicare taxes.
- Federal income tax withholding.
- Federal unemployment (FUTA) tax.

If you have employees, you will need to get Publication 15, Circular E, Employer's Tax Guide. If you have agricultural employees, get Publication 51, Circular A, Agricultural Employer's Tax Guide. These publications explain your tax responsibilities as an employer.

If you are not sure whether the people working for you are your employees, see Publication 15-A, Employer's Supplemental Tax Guide. That publication has information to help you determine whether an individual is an employee or an independent contractor. If you classify an employee as an independent contractor, you can be held liable for employment taxes for that worker plus a penalty. An independent contractor is someone who is self-employed. Generally, you do not have to withhold or pay any taxes on payments to an independent contractor.

Federal Income, Social Security, and Medicare Taxes

You generally must withhold federal income tax from your employee's wages. To figure how much federal income tax to withhold from each wage payment, use the employee's Form W-4 (discussed later under *Hiring Employees*) and the methods described in Publication 15.

Social security and Medicare taxes pay for benefits that workers and their families receive under the Federal Insurance Contributions Act (FICA). Social security tax pays for benefits under the old-age, survivors, and disability insurance part of FICA. Medicare tax pays for benefits under the hospital insurance part of FICA. You withhold part of these taxes from your employee's wages and you pay a matching amount yourself. To find out how much social security and Medicare tax to withhold and to pay, see Publication 15.

Which form do I file? Report these taxes on Form 941, Employer's Quarterly Federal Tax Return. (Farm employers use Form 943, Employer's Annual Federal Tax Return for Agricultural Employees.)

Federal Unemployment (FUTA) Tax

The federal unemployment tax is part of the federal and state program under the Federal Unemployment Tax Act (FUTA) that pays unemployment compensation to workers who lose their jobs. You report and pay FUTA tax separately from social security and Medicare taxes and withheld income tax. You pay FUTA tax only from your own funds. Employees do not pay this tax or have it withheld from their pay.

Which form do I file? Report federal unemployment tax on Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return. See Publication 15 to find out if you can use this form.

Hiring Employees

Have the employees you hire fill out Form I-9 and Form W-4. If your employees qualify for and want to receive advanced earned income credit payments, they must give you a completed Form W-5.

Form I-9. You must verify that each new employee is legally eligible to work in the United States. Both you and the employee must complete the U.S. Citizenship and Immigration Services (USCIS) Form I-9, Employment Eligibility Verification. You can get the form from USCIS offices or from the USCIS website at www.uscis.gov. Call the USCIS at 1-800-375-5283 for more information about your responsibilities.

Form W-4. Each employee must fill out Form W-4, Employee's Withholding Allowance Certificate. You will use the filing status and withholding allowances shown on this form to figure the amount of income tax to withhold from your employee's wages, see Publication 15.

Employees claiming more than 10 withholding allowances. An employee who claims more than 10 withholding allowances for wages paid in 2007 can use several methods of withholding. See section 16 of Publication 15.

Form W-5. An eligible employee who has a qualifying child is entitled to receive advance earned income credit (EIC) payments with his or her pay during the year. To get these payments, the employee must give you a properly completed Form W-5, Earned Income Credit Advance Payment Certificate. You are required to make advance EIC payments to employees who give you a completed and signed Form W-5. For more information, see Publication 15.

Form W-2 Wage Reporting

After the calendar year is over, you must furnish copies of Form W-2, Wage and Tax Statement, to each employee to whom you paid wages during the year. You must also send copies to the Social Security Administration. See Information Returns, later, for more information on Form W-2.

Excise Taxes

This section describes the excise taxes you may have to pay and the forms you have to file if you do any of the following.

- Manufacture or sell certain products.
- Operate certain kinds of businesses.
- Use various kinds of equipment, facilities, or products.
- Receive payment for certain services.

For more information on excise taxes, see Publication 510, Excise Taxes for 2006.

Form 720. The federal excise taxes reported on Form 720, Quarterly Federal Excise Tax Return, consist of several broad categories of taxes, including the following.

- Environmental taxes.
- Communications and air transportation taxes.
- Fuel taxes.
- Tax on the first retail sale of heavy trucks, trailers, and tractors.
- Manufacturers taxes on the sale or use of a variety of different articles.

Form 2290. There is a federal excise tax on certain trucks, truck tractors, and buses used on public highways. The tax applies to vehicles having a taxable gross weight of 55,000 pounds or more. Report the tax on Form 2290, Heavy Highway Vehicle Use Tax Return. For more information, see the instructions for Form 2290.

Form 730. If you are in the business of accepting wagers or conducting a wagering pool or lottery, you may be liable for the federal excise tax on wagering. Use Form 730, Monthly Tax Return for Wagers, to figure the tax on the wagers you receive.

Form 11-C. Use Form 11-C, Occupational Tax and Registration Return for Wagering, to register for any wagering activity and to pay the federal occupational tax on wagering.

Depositing Taxes

You generally have to deposit employment taxes, certain excise taxes, corporate income tax, and S corporation taxes before you file your return.

Electronic deposit of taxes. Generally, taxpayers whose total deposits of social security and Medicare taxes and withheld income tax during previous years exceeded certain amounts are required to deposit taxes through the Electronic Federal Tax Payment System (EFTPS).

Starting in January 2004, any business that has a federal tax obligation and requests a new EIN will automatically be enrolled in EFTPS. Through the mail, the business will receive an EFTPS PIN package that contains instructions for activating its EFTPS enrollment.

If a business is not required to use EFTPS, it can make deposits with an authorized financial institution. These deposits must be accompanied by a deposit coupon. See *Deposit coupons*, later.

Taxpayers not required to make deposits by EFTPS may enroll in the system, which will allow tax deposits without coupons, paper checks, or visits to an authorized depository. For more information, see Publication 15.

Making deposits with coupons. Mail or deliver deposits with completed deposit coupons to an authorized financial institution unless you make the deposits electronically, as discussed earlier.

Generally, a mailed deposit will be considered timely if the taxpayer establishes that it was mailed in the United

States at least 2 days before the due date. You may be charged a penalty for not making deposits when due, unless you have reasonable cause. See *Penalties*, later.



To help ensure proper crediting of your account, include the following on your check or money order.

- Your EIN.
- Type of tax.
- Tax period for the payment.

Deposit coupons. Use Form 8109, *Federal Tax Deposit Coupon*, to deposit taxes. On each coupon, you must show the deposit amount, the type of tax, the period for which you are making a deposit, and your telephone number. Use a separate coupon for each tax and period. You must include a coupon with each deposit you make.

If you apply for a new EIN and have a federal tax obligation, you will be mailed one deposit coupon. If you want to order a coupon book, call 1-800-829-4933. You should receive the coupon book within 4 to 6 weeks of ordering.

If you have a deposit due and there is not enough time to obtain a coupon book, you can get a blank coupon (Form 8109-B) by calling 1-800-829-4933.

If you have not received your EIN and must make a deposit, mail your payment with an explanation to the Internal Revenue Service Center where you file your return. Make your check or money order payable to the United States Treasury. On the payment, write your name (exactly as shown on Form SS-4), your address, the kind of tax, the period covered, and the date you applied for an EIN. Do not use Form 8109-B in this situation.

Information Returns

If you make or receive payments in your business, you may have to report them to the IRS on information returns. The IRS compares the payments shown on the information returns with each person's income tax return to see if the payments were included in income. You must give a copy of each information return you are required to file to the recipient or payer. In addition to the forms described below, you may have to use other returns to report certain kinds of payments or transactions. For more details on information returns and when you have to file them, see the General Instructions for Forms 1099, 1098, 5498, and W-2G.

Form 1099-MISC. Use Form 1099-MISC, Miscellaneous Income, to report certain payments you make in your trade or business. These payments include the following items.

- Payments of \$600 or more for services performed for your business by people not treated as your employees, such as subcontractors, attorneys, accountants, or directors.

- Rent payments of \$600 or more, other than rents paid to real estate agents.
- Prizes and awards of \$600 or more that are not for services, such as winnings on TV or radio shows.
- Royalty payments of \$10 or more.
- Payments to certain crew members by operators of fishing boats.

You also use Form 1099-MISC to report your sales of \$5,000 or more of consumer goods to a person for resale anywhere other than in a permanent retail establishment.

Form W-2. You must file Form W-2, Wage and Tax Statement, to report payments to your employees, such as wages, tips, and other compensation, withheld income, social security, and Medicare taxes, and advance earned income credit payments. For more information on what to report on Form W-2, see the Instructions for Forms W-2 and W-3.

Form 8300. You must file Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, if you receive more than \$10,000 in cash in one transaction or two or more related business transactions. Cash includes U.S. and foreign coin and currency. It also includes certain monetary instruments such as cashier's and traveler's checks and money orders. For more information, see Publication 1544, Reporting Cash Payments of Over \$10,000 (Received in a Trade or Business).

- **Failure to file information returns.** A penalty applies if you do not file information returns by the due date, if you do not include all required information, or if you report incorrect information.
- **Failure to furnish correct payee statements.** A penalty applies if you do not furnish a required statement to a payee by the due date, if you do not include all required information, or if you report incorrect information.

Waiver of penalty. These penalties will not apply if you can show that the failures were due to reasonable cause and not willful neglect.

In addition, there is no penalty for failure to include all the required information, or for including incorrect information, on a de minimis number of information returns if you correct the errors by August 1 of the year the returns are due. (To be considered de minimis, the number of returns cannot exceed the greater of 10 or 1/2 of 1% of the total number of returns you are required to file for the year.)

Failure to supply taxpayer identification number. If you do not include your taxpayer identification number (SSN or EIN) or the taxpayer identification number of another person where required on a return, statement, or other document, you may be subject to a penalty of \$50 for each failure. You may also be subject to the \$50 penalty if you do not give your taxpayer identification number to another person when it is required on a return, statement, or other document.

Penalties

The law provides penalties for not filing returns or paying taxes as required. Criminal penalties may be imposed for willful failure to file, tax evasion, or making a false statement.

Failure to file tax returns. If you do not file your tax return by the due date, you may have to pay a penalty. The penalty is based on the tax not paid by the due date. See your tax return instructions for more information about this penalty.

Failure to pay tax. If you do not pay your taxes by the due date, you will have to pay a penalty for each month, or part of a month, that your taxes are not paid. For more information, see your tax return instructions.

Failure to withhold, deposit, or pay taxes. If you do not withhold income, social security, or Medicare taxes from employees, or if you withhold taxes but do not deposit them or pay them to the IRS, you may be subject to a penalty of the unpaid tax, plus interest. You may also be subject to penalties if you deposit the taxes late. For more information, see Publication 15.

Failure to follow information reporting requirements. The following penalties apply if you are required to file information returns. For more information, see the *General Instructions for Forms 1099, 1098, 5498, and W-2G*.

Business Expenses

You can deduct business expenses on your income tax return. These are the current operating costs of running your business. To be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your field of business, trade, or profession. A necessary expense is one that is helpful and appropriate for your business, trade, or profession. An expense does not have to be indispensable to be considered necessary.

The following are brief explanations of some expenses that are of interest to people starting a business. There are many other expenses that you may be able to deduct. See your form instructions and Publication 535, Business Expenses.

Business Start-Up Costs

Business start-up costs are the expenses you incur before you actually begin business operations. Your business start-up costs will depend on the type of business you are starting. They may include costs for advertising, travel, surveys, and training. These costs are generally capital expenses.

You usually recover costs for a particular asset (such as machinery or office equipment) through depreciation (discussed next). You can elect to deduct up to \$5,000 of business start-up costs and \$5,000 of organizational costs

paid or incurred after October 22, 2004. The \$5,000 deduction is reduced by the amount your total start-up or organizational costs exceed \$50,000. Any remaining cost must be amortized.

For more information about amortizing start-up and organizational costs, see chapter 7 in Publication 535.

Depreciation

If property you acquire to use in your business has a useful life that extends substantially beyond the year it is placed in service, you generally cannot deduct the entire cost as a business expense in the year you acquire it. You must spread the cost over more than one tax year and deduct part of it each year. This method of deducting the cost of business property is called depreciation.

Business property you must depreciate includes the following items.

- Office furniture.
- Buildings.
- Machinery and equipment.

You can choose to deduct a limited amount of the cost of certain depreciable property in the year you place the property in service. This deduction is known as the “section 179 deduction.” You can take a special depreciation allowance for certain property you acquire and place in service before January 1, 2005. For more information about depreciation, the section 179 deduction, and the special depreciation allowance, see Publication 946, *How To Depreciate Property*.



Depreciation must be taken in the year it is allowable. Allowable depreciation not taken in a prior year cannot be taken in the current year. If you do not deduct the correct depreciation, you may be able to make a correction by filing Form 1040X, Amended U.S. Individual Income Tax Return, or by changing your accounting method. For more information on how to correct depreciation deductions, see chapter 1 in Publication 946.

Business Use of Your Home

To deduct expenses related to the business use of part of your home, you must meet specific requirements. Even then, your deduction may be limited.

To qualify to claim expenses for business use of your home, you must meet both the following tests.

1. Your use of the business part of your home must be:
 - a. Exclusive (however, see *Exceptions to exclusive use*, later),
 - b. Regular,
 - c. For your trade or business, AND
2. The business part of your home must be one of the following:

- a. Your principal place of business (defined later),
- b. A place where you meet or deal with patients, clients, or customers in the normal course of your trade or business, or
- c. A separate structure (not attached to your home) you use in connection with your trade or business.

Exclusive use. To qualify under the exclusive use test, you must use a specific area of your home only for your trade or business. The area used for business can be a room or other separately identifiable space. The space does not need to be marked off by a permanent partition.

You do not meet the requirements of the exclusive use test if you use the area in question both for business and for personal purposes.

Exceptions to exclusive use. You do not have to meet the exclusive use test if either of the following applies.

1. You use part of your home for the storage of inventory or product samples.
2. You use part of your home as a daycare facility.

For an explanation of these exceptions, see Publication 587, *Business Use of Your Home (Including Use by Day-care Providers)*.

Principal place of business. Your home office will qualify as your principal place of business for deducting expenses for its use if you meet the following requirements.

- You use it exclusively and regularly for administrative or management activities of your trade or business.
- You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

Alternatively, if you use your home exclusively and regularly for your business, but your home office does not qualify as your principal place of business based on the previous rules, you determine your principal place of business based on the following factors.

- The relative importance of the activities performed at each location.
- If the relative importance factor does not determine your principal place of business, the time spent at each location.

If, after considering your business locations, your home cannot be identified as your principal place of business, you cannot deduct home office expenses. However, for other ways to qualify to deduct home office expenses, see Publication 587.

Which form do I file? If you file Schedule C (Form 1040), use Form 8829, *Expenses for Business Use of Your Home*, to figure your deduction. If you file Schedule F (Form 1040) or you are a partner, you can use the worksheet in Publication 587.

More information. For more information about business use of your home, see Publication 587.

Car and Truck Expenses

If you use your car or truck in your business, you can deduct the costs of operating and maintaining it. You generally can deduct either your actual expenses or the standard mileage rate.

Actual expenses. If you deduct actual expenses, you can deduct the cost of the following items:

Depreciation	Lease payments	Registration
Garage rent	Licenses	Repairs
Gas	Oil	Tires
Insurance	Parking fees	Tolls

If you use your vehicle for both business and personal purposes, you must divide your expenses between business and personal use. You can divide your expenses based on the miles driven for each purpose.

Example. You are the sole proprietor of a flower shop. You drove your van 20,000 miles during the year. 16,000 miles were for delivering flowers to customers and 4,000 miles were for personal use. You can claim only 80% ($16,000 \div 20,000$) of the cost of operating your van as a business expense.

Standard mileage rate. Instead of figuring actual expenses, you may be able to use the standard mileage rate to figure the deductible costs of operating your car, van, pickup, or panel truck for business purposes. You can use the standard mileage rate for a vehicle you own or lease. The standard mileage rate is a specified amount of money you can deduct for each business mile you drive. It is announced annually by the IRS. To figure your deduction, multiply your business miles by the standard mileage rate for the year.



Generally, if you use the standard mileage rate, you cannot deduct your actual expenses. However, you may be able to deduct business-related parking fees, tolls, interest on your car loan, and certain state and local taxes.

Choosing the standard mileage rate. If you want to use the standard mileage rate for a car you own, you must choose to use it in the first year the car is available for use in your business. In later years, you can choose to use either the standard mileage rate or actual expenses.

If you use the standard mileage rate for a car you lease, you must choose to use it for the entire lease period (including renewals).

Additional information. For more information about the rules for claiming car and truck expenses, see Publication 463, Travel, Entertainment, Gift, and Car Expenses.

Recordkeeping

This part explains why you must keep records, what kinds of records you must keep, and how to keep them. It also explains how long you must keep your records for federal tax purposes. A sample recordkeeping system is illustrated at the end of this part.

Why Keep Records?

Everyone in business must keep records. Good records will help you do the following.

Monitor the progress of your business. You need good records to monitor the progress of your business. Records can show whether your business is improving, which items are selling, or what changes you need to make. Good records can increase the likelihood of business success.

Prepare your financial statements. You need good records to prepare accurate financial statements. These include income (profit and loss) statements and balance sheets. These statements can help you in dealing with your bank or creditors and help you manage your business.

- An income statement shows the income and expenses of the business for a given period of time.
- A balance sheet shows the assets, liabilities, and your equity in the business on a given date.

Identify source of receipts. You will receive money or property from many sources. Your records can identify the source of your receipts. You need this information to separate business from nonbusiness receipts and taxable from nontaxable income.

Keep track of deductible expenses. You may forget expenses when you prepare your tax return unless you record them when they occur.

Prepare your tax returns. You need good records to prepare your tax returns. These records must support the income, expenses, and credits you report. Generally, these are the same records you use to monitor your business and prepare your financial statements.

Support items reported on tax returns. You must keep your business records available at all times for inspection by the IRS. If the IRS examines any of your tax returns, you may be asked to explain the items reported. A complete set of records will speed up the examination.

Kinds of Records To Keep

Except in a few cases, the law does not require any specific kind of records. You can choose any recordkeeping system suited to your business that clearly shows your income and expenses.

The business you are in affects the type of records you need to keep for federal tax purposes. You should set up your recordkeeping system using an accounting method

that clearly shows your income for your tax year. See *Accounting Method*, earlier. If you are in more than one business, you should keep a complete and separate set of records for each business. A corporation should keep minutes of board of directors' meetings.

Your recordkeeping system should include a summary of your business transactions. This summary is ordinarily made in your books (for example, accounting journals and ledgers). Your books must show your gross income, as well as your deductions and credits. For most small businesses, the business checkbook (discussed later) is the main source for entries in the business books. In addition, you must keep supporting documents, explained next.

Supporting Documents

Purchases, sales, payroll, and other transactions you have in your business generate supporting documents. Supporting documents include sales slips, paid bills, invoices, receipts, deposit slips, and canceled checks. These documents contain information you need to record in your books.

It is important to keep these documents because they support the entries in your books and on your tax return. Keep them in an orderly fashion and in a safe place. For instance, organize them by year and type of income or expense.

Gross receipts. Gross receipts are the income you receive from your business. You should keep supporting documents that show the amounts and sources of your gross receipts. Documents that show gross receipts include the following.

- Cash register tapes.
- Bank deposit slips.
- Receipt books.
- Invoices.
- Credit card charge slips.
- Forms 1099-MISC.

Purchases. Purchases are the items you buy and resell to customers. If you are a manufacturer or producer, this includes the cost of all raw materials or parts purchased for manufacture into finished products. Your supporting documents should show the amount paid and that the amount was for purchases. Documents for purchases include the following.

- Canceled checks.
- Cash register tape receipts.
- Credit card sales slips.
- Invoices.

These records will help you determine the value of your inventory at the end of the year. See Publication 538 for information on methods for valuing inventory.

Expenses. Expenses are the costs you incur (other than purchases) to carry on your business. Your supporting documents should show the amount paid and that the amount was for a business expense. Documents for expenses include the following.

- Canceled checks.
- Cash register tapes.
- Account statements.
- Credit card sales slips.
- Invoices.
- Petty cash slips for small cash payments.



A petty cash fund allows you to make small payments without having to write checks for small amounts. Each time you make a payment from this fund, you should make out a petty cash slip and attach it to your receipt as proof of payment.

Travel, transportation, entertainment, and gift expenses. Specific recordkeeping rules apply to these expenses. For more information, see Publication 463.

Employment taxes. There are specific employment tax records you must keep. For a list, see Publication 15.

Assets. Assets are the property, such as machinery and furniture you own and use in your business. You must keep records to verify certain information about your business assets. You need records to figure the annual depreciation and the gain or loss when you sell the assets. Your records should show the following information.

- When and how you acquired the asset.
- Purchase price.
- Cost of any improvements.
- Section 179 deduction taken.
- Deductions taken for depreciation.
- Deductions taken for casualty losses, such as losses resulting from fires or storms.
- How you used the asset.
- When and how you disposed of the asset.
- Selling price.
- Expenses of sale.

The following documents may show this information.

- Purchase and sales invoices.
- Real estate closing statements.
- Canceled checks.

What if I don't have a canceled check? If you do not have a canceled check, you may be able to prove payment

with certain financial account statements prepared by financial institutions. These include account statements prepared for the financial institution by a third party. These account statements must be highly legible. The following table lists acceptable account statements.

IF payment is by...	THEN the statement must show the...
Check	<ul style="list-style-type: none"> • Check number. • Amount. • Payee's name. • Date the check amount was posted to the account by the financial institution.
Electronic funds transfer	<ul style="list-style-type: none"> • Amount transferred. • Payee's name. • Date the transfer was posted to the account by the financial institution.
Credit card	<ul style="list-style-type: none"> • Amount charged. • Payee's name. • Transaction date.



Proof of payment of an amount, by itself, does not establish you are entitled to a tax deduction. You should also keep other documents, such as credit card sales slips and invoices, to show that you also incurred the cost.

Recording Business Transactions

A good recordkeeping system includes a summary of your business transactions. (Your business transactions are shown on the supporting documents just discussed.) Business transactions are ordinarily summarized in books called journals and ledgers. You can buy them at your local stationery or office supply store.

A journal is a book where you record each business transaction shown on your supporting documents. You may have to keep separate journals for transactions that occur frequently.

A ledger is a book that contains the totals from all of your journals. It is organized into different accounts.

Whether you keep journals and ledgers and how you keep them depends on the type of business you are in. For example, a recordkeeping system for a small business might include the following items.

- Business checkbook.
- Daily summary of cash receipts.
- Monthly summary of cash receipts.
- Check disbursements journal.
- Depreciation worksheet.
- Employee compensation record.

The business checkbook is explained next. The other items are illustrated later under *Sample Record System*.



The system you use to record business transactions will be more effective if you follow good recordkeeping practices. For example, record expenses when they occur, and identify the source of recorded receipts. Generally, it is best to record transactions on a daily basis.

Business checkbook. One of the first things you should do when you start a business is open a business checking account. You should keep your business account separate from your personal checking account.

The business checkbook is your basic source of information for recording your business expenses. You should deposit all daily receipts in your business checking account. You should check your account for errors by reconciling it. See *Reconciling the checking account*, later.

Consider using a checkbook that allows enough space to identify the source of deposits as business income, personal funds, or loans. You should also note on the deposit slip the source of the deposit and keep copies of all slips.

You should make all payments by check to document business expenses. Write checks payable to yourself only when making withdrawals from your business for personal use. Avoid writing checks payable to cash. If you must write a check for cash to pay a business expense, include the receipt for the cash payment in your records. If you cannot get a receipt for a cash payment, you should make an adequate explanation in your records at the time of payment.



Use the business account for business purposes only. Indicate the source of deposits and the type of expense in the checkbook.

Reconciling the checking account. When you receive your bank statement, make sure the statement, your checkbook, and your books agree. The statement balance may not agree with the balance in your checkbook and books if the statement:

- Includes bank charges you did not enter in your books and subtract from your checkbook balance, or
- Does not include deposits made after the statement date or checks that did not clear your account before the statement date.

By reconciling your checking account, you will:

- Verify how much money you have in the account,
- Make sure that your checkbook and books reflect all bank charges and the correct balance in the checking account, and
- Correct any errors in your bank statement, checkbook, and books.



You should reconcile your checking account each month.

Before you reconcile your monthly bank statement, check your own figures. Begin with the balance shown in your checkbook at the end of the previous month. To this balance, add the total cash deposited during the month and subtract the total cash disbursements.

After checking your figures, the result should agree with your checkbook balance at the end of the month. If the result does not agree, you may have made an error in recording a check or deposit. You can find the error by doing the following.

1. Adding the amounts on your check stubs and comparing that total with the total in the "amount of check" column in your check disbursements journal. If the totals do not agree, check the individual amounts to see if an error was made in your check stub record or in the related entry in your check disbursements journal.
2. Adding the deposit amounts in your checkbook. Compare that total with the monthly total in your cash receipt book, if you have one. If the totals do not agree, check the individual amounts to find any errors.

If your checkbook and journal entries still disagree, then refigure the running balance in your checkbook to make sure additions and subtractions are correct.

When your checkbook balance agrees with the balance figured from the journal entries, you may begin reconciling your checkbook with the bank statement. Many banks print a reconciliation worksheet on the back of the statement.

To reconcile your account, follow these steps.

1. Compare the deposits listed on the bank statement with the deposits shown in your checkbook. Note all differences in the dollar amounts.
2. Compare each canceled check, including both check number and dollar amount, with the entry in your checkbook. Note all differences in the dollar amounts. Mark the check number in the checkbook as having cleared the bank. After accounting for all checks returned by the bank, those not marked in your checkbook are your outstanding checks.
3. Prepare a bank reconciliation. One is illustrated later under *Sample Record System*.
4. Update your checkbook and journals for items shown on the reconciliation as not recorded (such as service charges) or recorded incorrectly.

At this point, the adjusted bank statement balance should equal your adjusted checkbook balance. If you still have differences, check the previous steps to find the errors.

Bookkeeping System

You must decide whether to use a single-entry or a double-entry bookkeeping system. The single-entry system of bookkeeping is the simplest to maintain, but it may not be suitable for everyone. You may find the double-entry system better because it has built-in checks and balances to assure accuracy and control.

Single-entry. A single-entry system is based on the income statement (profit or loss statement). It can be a simple and practical system if you are starting a small business. The system records the flow of income and expenses through the use of:

1. A daily summary of cash receipts, and
2. Monthly summaries of cash receipts and disbursements.

Double-entry. A double-entry bookkeeping system uses journals and ledgers. Transactions are first entered in a journal and then posted to ledger accounts. These accounts show income, expenses, assets (property a business owns), liabilities (debts of a business), and net worth (excess of assets over liabilities). You close income and expense accounts at the end of each tax year. You keep asset, liability, and net worth accounts open on a permanent basis.

In the double-entry system, each account has a left side for debits and a right side for credits. It is self-balancing because you record every transaction as a debit entry in one account and as a credit entry in another.

Under this system, the total debits must equal the total credits after you post the journal entries to the ledger accounts. If the amounts do not balance, you have made an error and you must find and correct it.

An example of a journal entry exhibiting a payment of rent in October is shown next.

General Journal

Date	Description of Entry	Debit	Credit
Oct. 5	Rent expense	780.00	
	Cash		780.00

Computerized System

There are computer software packages you can use for recordkeeping. They can be purchased in many retail stores. These packages are very helpful and relatively easy to use; they require very little knowledge of bookkeeping and accounting.

If you use a computerized system, you must be able to produce sufficient legible records to support and verify entries made on your return and determine your correct tax liability. To meet this qualification, the machine-sensible records must reconcile with your books and return. These records must provide enough detail to identify the underlying source documents.

You must also keep all machine-sensible records and a complete description of the computerized portion of your recordkeeping system. This documentation must be sufficiently detailed to show all of the following items.

- Functions being performed as the data flows through the system.
- Controls used to ensure accurate and reliable processing.
- Controls used to prevent the unauthorized addition, alteration, or deletion of retained records.
- Charts of accounts and detailed account descriptions.

See Revenue Procedure 98-25 in Cumulative Bulletin 1998-1 for more information.

Microfilm

Microfilm and microfiche reproductions of general books of accounts, such as cash books, journals, voucher registers, and ledgers, are accepted for recordkeeping purposes if they comply with Revenue Procedure 81-46 in Cumulative Bulletin 1981-2.

Electronic Storage System

Records maintained in an electronic storage system are accepted for recordkeeping purposes if the system complies with Revenue Procedure 97-22 in Cumulative Bulletin 1997-1.

An electronic storage system is one that either images hardcopy (paper) books and records or transfers computerized books and records to an electronic storage media, such as an optical disk.

Table 3. **Period of Limitations**

IF you...	THEN the period is...
1. Owe additional tax and situations (2), (3), and (4), below, do not apply to you	3 years
2. Do not report income that you should report and it is more than 25% of the gross income shown on the return	6 years
3. File a fraudulent return	Not limited
4. Do not file a return	Not limited
5. File a claim for credit or refund after you filed your return	Later of: 3 years or 2 years after tax was paid
6. File a claim for a loss from worthless securities or a bad debt deduction	7 years

How Long To Keep Records

You must keep your records as long as they may be needed for the administration of any provision of the Internal Revenue Code. Generally, this means you must keep records that support an item of income or deduction on a return until the period of limitations for that return runs out.

The period of limitations is the period of time in which you can amend your return to claim a credit or refund, or the IRS can assess additional tax. *Table 3* below contains the periods of limitations that apply to income tax returns. Unless otherwise stated, the years refer to the period after the return was filed. Returns filed before the due date are treated as filed on the due date.



Keep copies of your filed tax returns. They help in preparing future tax returns and making computations if you file an amended return.

Employment taxes. If you have employees, you must keep all employment tax records for at least 4 years after the date the tax becomes due or is paid, whichever is later. For more information about recordkeeping for employment taxes, see Publication 15.

Assets. Keep records relating to property until the period of limitations expires for the year in which you dispose of the property in a taxable disposition. You must keep these records to figure any depreciation, amortization, or depletion deduction, and to figure your basis for computing gain or loss when you sell or otherwise dispose of the property.

Generally, if you received property in a nontaxable exchange, your basis in that property is the same as the basis of the property you gave up, increased by any money you paid. You must keep the records on the old property, as well as on the new property, until the period of limitations expires for the year in which you dispose of the new property in a taxable disposition.

Records for nontax purposes. When your records are no longer needed for tax purposes, do not discard them until you check to see if you have to keep them longer for other purposes. For example, your insurance company or creditors may require you to keep them longer than the IRS does.

Sample Record System

This example illustrates a single-entry system used by Henry Brown, who is the sole proprietor of a small automobile body shop. Henry uses part-time help, has no inventory of items held for sale, and uses the cash method of accounting.

These sample records should not be viewed as a recommendation of how to keep your records. They are intended only to show how one business keeps its records.

1. Daily Summary of Cash Receipts (Page 18)

This summary is a record of cash sales for the day. It accounts for cash at the end of the day over the amount in the Change and Petty Cash Fund at the beginning of the day.

Henry takes the cash sales entry from his cash register tape. If he had no cash register, he would simply total his cash sale slips and any other cash received that day.

He carries the total receipts shown in this summary for January 3 (\$267.80), including cash sales (\$263.60) and sales tax (\$4.20), to the *Monthly Summary of Cash Receipts*.

Petty cash fund. Henry uses a petty cash fund to make small payments without having to write checks for small amounts. Each time he makes a payment from this fund, he makes out a petty cash slip and attaches it to his receipt as proof of payment. He sets up a fixed amount (\$50) in his petty cash fund. The total of the unspent petty cash and the amounts on the petty cash slips should equal the fixed amount of the fund. When the totals on the petty cash slips approach the fixed amount, he brings the cash in the fund back to the fixed amount by writing a check to "Petty Cash" for the total of the outstanding slips. (See the *Check Disbursements Journal* entry for check number 92.) This restores the fund to its fixed amount of \$50. He then summarizes the slips and enters them in the proper columns in the monthly check disbursements journal.

2. Monthly Summary of Cash Receipts (Page 19)

This shows the income activity for the month. Henry carries the total monthly net sales shown in this summary for January (\$4,865.05) to his *Annual Summary*.

To figure total monthly net sales, Henry reduces the total monthly receipts by the sales tax imposed on his customers and turned over to the state. He cannot take a deduction for sales tax turned over to the state because he only collected the tax. He does not include the tax in his income.

3. Check Disbursements Journal (Pages 20 and 21)

Henry enters checks drawn on the business checking account in the *Check Disbursements Journal* each day. All

checks are prenumbered and each check number is listed and accounted for in the column provided in the journal.

Frequent expenses have their own headings across the sheet. He enters in a separate column expenses that require comparatively numerous or large payments each month, such as materials, gross payroll, and rent. Under the *General Accounts* column, he enters small expenses that normally have only one or two monthly payments, such as licenses and postage.

Henry does not pay personal or nonbusiness expenses by checks drawn on the business account. If he did, he would record them in the journal, even though he could not deduct them as business expenses.

Henry carries the January total of expenses for materials (\$1,083.50) to the *Annual Summary*. Similarly, he enters the monthly total of expenses for telephone, truck/auto, etc., in the appropriate columns of that summary.

4. Employee Compensation Record (Page 22)

This record shows the following information.

- The number of hours Henry's employee worked in a pay period.
- The employee's total pay for the period.
- The deductions Henry withheld in figuring the employee's net pay.
- The monthly gross payroll.

Henry carries the January gross payroll (\$520) to the *Annual Summary*.

5. Annual Summary (Page 22)

This annual summary of monthly cash receipts and expense totals provides the final amounts to enter on Henry's tax return. He figures the cash receipts total from the total of monthly cash receipts shown in the *Monthly Summary of Cash Receipts*. He figures the expense totals from the totals of monthly expense items shown in the *Check Disbursements Journal*. As in the journal, he keeps each major expense in a separate column.

Henry carries the cash receipts total shown in the annual summary (\$47,440.95) to Part I of Schedule C (not illustrated). He carries the total for materials (\$10,001.00) to Part II of Schedule C.



A business that keeps materials and supplies on hand generally must complete the inventory lines in Part III of Schedule C. However, there are no inventories of materials and supplies in this example. Henry buys parts and supplies on a per-job basis; he does not keep them on hand.

Henry enters annual totals for interest, rent, taxes, and wages on the appropriate lines in Part II of Schedule C. The total for taxes and licenses includes the employer's

share of social security and Medicare taxes, and the business license fee. He enters the total of other annual business expenses on the "Other expenses" line of Schedule C.

6. Depreciation Worksheet (Page 22)

This worksheet shows the information used in figuring the depreciation allowed on assets used in Henry's business. Henry figures the depreciation using the modified accelerated cost recovery system (MACRS). He purchased and placed in service several used assets that do not qualify for the section 179 deduction or the special depreciation allowance. Depreciation, the section 179 deduction, and the special depreciation allowance are discussed in Publication 946. Henry uses the information in the worksheet to complete Form 4562, *Depreciation and Amortization* (not illustrated).

7. Bank Reconciliation (Page 23)

Henry reconciles his checkbook with his bank statement and prepares a bank reconciliation for January as follows.

1. Henry begins by entering his bank statement balance.
2. Henry compares the deposits listed on the bank statement with deposits shown in his checkbook.

Two deposits shown in his checkbook— \$701.33 and \$516.08—were not on his bank statement. He enters these two amounts on the bank reconciliation. He adds them to the bank statement balance of \$1,458.12 to arrive at a subtotal of \$2,675.53.

3. After comparing each canceled check with his checkbook, Henry found four outstanding checks totaling \$526.50. He subtracts this amount from the subtotal in (2). The result of \$2,149.03 is the adjusted bank statement balance.
4. Henry enters his checkbook balance on the bank reconciliation.
5. Henry discovered that he mistakenly entered a deposit of \$600.40 in his checkbook as \$594.40. He adds the difference (\$6.00) to the checkbook balance of \$2,153.03. There was a \$10.00 bank service charge on his bank statement that he subtracts from the checkbook balance. The result is the adjusted checkbook balance of \$2,149.03. This equals his adjusted bank statement balance computed in (3).

The only book adjustment Henry needs to make is to the *Check Disbursements Journal* for the \$10 bank service charge. He does not need to adjust the *Monthly Summary of Cash Receipts* because he correctly entered the January 8 deposit of \$600.40 in that record.

1. Daily Summary of Cash Receipts

Date January 3, 20 —

Cash sales	263.60
Sales tax	4.20
TOTAL RECEIPTS	267.80

Cash on hand

Cash in register (including unspent petty cash)

Coins	23.75
Bills	143.00
Checks	134.05
TOTAL CASH IN REGISTER	300.80
Add: Petty cash slips	17.00
TOTAL CASH	317.80

Less: Change and petty cash

Petty cash slips	17.00
Coins and bills	33.00
(unspent petty cash)	
TOTAL CHANGE AND PETTY CASH FUND	50.00
TOTAL CASH RECEIPTS	267.80

2. Monthly Summary of Cash Receipts

Year 20— Month January

Day	Net Sales	Sales Tax	Daily Receipts	Deposit
3	263.60	4.20	267.80	
4	212.00	3.39	215.39	
5	194.40	3.10	197.50	680.69
6	222.40	3.54	225.94	
7	231.15	3.68	234.83	
8	137.50	2.13	139.63	600.40
10	187.90	2.99	190.89	
11	207.56	3.31	210.87	401.76
12	128.95	2.05	131.00	
13	231.40	3.77	235.17	
14	201.28	3.21	204.49	
15	88.01	1.40	89.41	660.07
17	210.95	3.36	214.31	
18	221.80	3.53	225.33	439.64
19	225.15	3.59	228.74	
20	221.93	3.52	225.45	
21	133.53	2.13	135.66	589.85
22	130.84	2.08	132.92	
24	216.37	3.45	219.82	352.74
25	220.05	3.50	223.55	
26	197.80	3.15	200.95	
27	272.49	4.34	276.83	701.33
28	150.64	2.40	153.04	
29	224.05	3.56	227.61	
31	133.30	2.13	135.43	516.08
TOTALS	4,865.05	77.51	4,942.56	4,942.56

3. Check Disbursements Journal

Year 20— Month January

Day	Paid To	Check #	Amount of Check	Materials	Gross Payroll	Federal Withheld Income Tax	FICA Social Security Reserve	FICA Medicare Reserve
3	Dale Advertising	74	85.00					
4	City Treasurer	75	35.00					
4	Auto Parts, Inc.	76	203.00	203.00				
4	John E. Marks	77	214.11		260.00	(20.00)	(16.12)	(3.77)
6	Henry Brown	78	250.00					
6	Mike's Deli	79	36.00					
6	Joe's Service Station	80	74.50	29.50				
6	ABC Auto Paint	81	137.50	137.50				
7	Henry Brown	82	225.00					
14	Telephone Co.	83	27.00					
15	National Bank (Tax Deposit)	84	119.56			40.00	32.24	7.54
18	National Bank	85	90.09					
18	Auto Parts, Inc.	86	472.00	472.00				
18	Henry Brown	87	275.00					
18	John E. Marks	88	214.11		260.00	(20.00)	(16.12)	(3.77)
21	Electric Co.	89	175.30					
21	M.B. Ignition	90	66.70	66.70				
21	Baker's Fender Co.	91	9.80	9.80				
21	Petty Cash	92	17.00	15.00				
21	Henry Brown	93	225.00					
25	Baker's Fender Co.	94	150.00	150.00				
25	Enterprise Properties	95	300.00					
25	State Treasurer	96	12.00					
25	State Treasurer	97	65.00					
			3,478.67	1,083.50	520.00	-0-	-0-	-0-
	Bank service charge		10.00					
TOTALS			3,488.67	1,083.50	520.00	-0-	-0-	-0-

3. Check Disbursements Journal (Continued)

State Withheld Income Tax	Employer's FICA Tax	Electric	Interest	Rent	Telephone	Truck/ Auto	Drawing	General Accounts	
								Advertising	85.00
								License	35.00
(6.00)									
							250.00		
								Holiday Party	36.00
						45.00			
							225.00		
					27.00				
	39.78								
			18.09					Loan	72.00
							275.00		
(6.00)									
		175.30							
								Postage	2.00
							225.00		
				300.00					
12.00									
								Sales Tax	65.00
-0-	39.78	175.30	18.09	300.00	27.00	45.00	975.00		295.00
									10.00
-0-	39.78	175.30	18.09	300.00	27.00	45.00	975.00		305.00

4. Employee Compensation Record

Name John E. Marks Full Time Soc. Sec. No. 567-00-8901
 Address 1 Elm St., Anytown, NJ 07101 Part Time Date of Birth 12-21-65
 Phone 555-6075 No. of Exemptions 1 / single

Pay Period Ending	Date Paid	Hours Worked		Earnings			Deductions				Net Pay						
		S	M	T	W	T	F	S	Total Regular Hours	Overtime		Regular Rate	Overtime Rate	Total	Social Security	Medicare	Federal Income Tax
1 - 1	1 - 4	5	5	5	5	5	5	40		\$6.50	.	\$260.00	\$16.12	\$3.77	\$20.00	\$6.00	\$214.11
1 - 15	1 - 18	4	4	4	4	4	2	40		\$6.50	.	\$260.00	\$16.12	\$3.77	\$20.00	\$6.00	\$214.11
								80		.	.	\$520.00	\$32.24	\$7.54	\$40.00	\$12.00	\$428.22
QUARTERLY TOTALS										.	.	\$1,262.40	\$78.23	\$18.31	\$100.00	\$30.00	\$1,035.86

5. Annual Summary

Month	Cash Receipts	Materials/Supplies	Gross Payroll	FICA Taxes	Bank Charges	Electric	Interest	Insurance	Rent	Telephones	Truck/Auto	Advertising	Office Expenses	Taxes/Licenses	Misc.
January	\$4,865.05	\$1,083.50	\$520.00	\$39.78	\$10.00	\$175.30	\$18.09	.	\$300.00	\$27.00	\$45.00	\$85.00	\$36.00	\$100.00	\$2.00
February	3,478.32	874.93	235.40	17.68	7.50	153.10	18.09	210.00	300.00	21.50	28.50	.	.	.	.
March	3,942.00	724.90	507.00	38.08	11.25	145.81	18.09	.	300.00	32.10	51.30	.	.	.	.
December	3,656.52	609.23	520.00	39.78	10.00	169.00	18.09	.	300.00	23.13	37.62	.	4.00	.	71.91
TOTALS	\$47,440.95	\$10,001.00	\$5,434.00	\$408.09	\$92.30	\$1,642.37	\$217.08	\$420.00	\$3,600.00	\$324.09	\$571.46	\$85.00	\$40.00	\$218.00	\$344.00

6. Depreciation Worksheet

Description of Property	Date Placed in Service	Cost or Other Basis	Business/Investment Use %	Section 179 Deduction and Special Allowance	Depreciation Prior Years	Basis for Depreciation	Method/Convention	Recovery Period	Rate or Table %	Depreciation Deduction
Used Equipment—Transmission Jack	1 - 3	3,000	100%	—	—	3,000	200 DB/HY	7	14.29%	\$429
Used Pickup Truck	1 - 3	8,000	100%	—	—	8,000	200 DB/HY	5	20%	1,600
Used Heavy Duty Tow Truck	1 - 3	30,000	100%	—	—	30,000	200 DB/HY	5	20%	6,000
Used Equipment—Engine Hoist	1 - 3	4,000	100%	—	—	4,000	200 DB/HY	7	14.29%	572
										\$8,601

7. Bank Reconciliation as of

Date January 31, 20 —

Closing balance shown on bank statement

Add deposits not credited:

. . . 1/28

. . . 1/31

TOTAL DEPOSITS NOT CREDITED

Subtotal

Subtract outstanding checks:

No. . . . 90

. . . . 91

. . . . 94

. . . . 95

TOTAL OUTSTANDING CHECKS

Adjusted balance per bank statement

Balance shown in checkbook

Add: Deposit of \$600.40 for
1/8 entered as
\$594.40 (difference)

Subtract: Bank service charge

Adjusted checkbook balance

How To Get More Information

This section describes the help the IRS and other federal agencies offer to taxpayers who operate their own businesses.

Internal Revenue Service

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. The Taxpayer Advocate Service is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.

You can contact the Taxpayer Advocate Service by calling toll-free 1-877-777-4778 or TTY/TTD 1-800-829-4059 to see if you are eligible for assistance. You can also call or write to your local taxpayer advocate, whose phone number and address are listed in your local telephone directory and in Publication 1546, The Taxpayer Advocate Service of the IRS - How To Get Help With Unresolved Tax Problems. You can file Form 911, Application for Taxpayer Assistance Order, or ask an IRS employee to complete it on your behalf. For more information, visit www.irs.gov/advocate.

Low income tax clinics (LITCs). LITCs are independent organizations that provide low income taxpayers with representation in federal tax controversies with the IRS for free or for a nominal charge. The clinics also provide tax education and outreach for taxpayers with limited English proficiency or who speak English as a second language. Publication 4134, Low Income Taxpayer Clinic List, provides information on clinics in your area. It is available at www.irs.gov or at your local IRS office.

Small business workshops. Small business workshops are designed to help the small business owner understand and fulfill their federal tax responsibilities. Workshops are sponsored and presented by IRS partners who are federal tax specialists. Workshop topics vary from a general overview of taxes to more specific topics such as recordkeeping and retirement plans. Although most are free, some workshops have fees associated with them. Any fees charged for a workshop are paid to the sponsoring organization, not the IRS.

For more information, visit www.irs.gov/businesses/small.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains a list of free tax publications and describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



Internet. You can access the IRS website 24 hours a day, 7 days a week, at www.irs.gov 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 refund. Click on *Where's My Refund*. Wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our withholding calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustment 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 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to 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're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to www.irs.gov/local-contacts or look in the phone book under *United States Government, Internal Revenue Service*.



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

National Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8903



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

- A CD that is released twice so you have the latest products. The first release ships in January and the final release ships in March.
- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Bonus: Historical Tax Products DVD - Ships with the final release.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.

Buy the CD from National Technical Information Service (NTIS) at www.irs.gov/cdorders for \$25 (no handling fee) or call 1-877-CDFORMS (1-877-233-6767) toll free to buy the CD for \$25 (plus a \$5 handling fee). Price is subject to change.



CD for small businesses. Publication 3207 is a must for every small business owner or any taxpayer about to start a business. The CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes.
- Tax Map: an electronic research tool and finding aid.
- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.
- A site map of the CD to help you navigate the pages of the CD with ease.
- An interactive "Teens in Biz" module that gives practical tips for teens about starting their own business, creating a business plan, and filing taxes.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting www.irs.gov/smallbiz.

Small Business Administration

The Small Business Administration (SBA) offers training and educational programs, counseling services, financial programs, and contract assistance for small business owners. The SBA also has publications and videos on a variety of business topics. The following briefly describes assistance provided by the SBA.

Small Business Development Centers (SBDCs). SBDCs provide counseling, training, and technical services to current and prospective small business owners who cannot afford the services of a private consultant. Help is available when beginning, improving, or expanding a small business.

Business Information Centers (BICs). BICs offer a small business reference library, management video tapes, and computer technology to help plan a business. BICs also offer one-on-one assistance. Individuals who are in business or are interested in starting a business can use BICs as often as they wish at no charge.

Service Corps of Retired Executives (SCORE). SCORE provides small business counseling and training to current and prospective small business owners. SCORE is made up of current and former business people who offer their expertise and knowledge to help people start, manage, and expand a small business. SCORE also offers a variety of small business workshops.



Internet. You can visit the SBA website at www.sba.gov. While visiting the SBA website, you can find a variety of information of interest to small business owners.



Phone. Call the SBA Answer Desk at 1-800-UASK-SBA (1-800-827-5722) for general information about programs available to assist small business owners.



Walk-in. You can walk in to a Small Business Development Center or Business Information Center to request assistance with your small business. To find the location nearest you, access the SBA on the Internet or call the SBA Answer Desk.

Other Federal Agencies

Other federal agencies also publish publications and pamphlets to assist small businesses. Most of these are available from the Superintendent of Documents at the Government Printing Office. You can get information and order these publications and pamphlets in several ways.



Internet. You can visit the GPO website at www.access.gpo.gov.



Mail. Write to the GPO at the following address.

Superintendent of Documents
U.S. Government Printing Office
P.O. Box 371954
Pittsburgh, PA 15250-7954



Phone. Call the GPO toll-free at 1-866-512-1800 or at 202-512-1800 from the Washington, DC area.



A		730	8	Publications (See Tax help)
Accounting method:		8109	8	
Accrual method	5	8300	9	
Cash method	5	8829	10	
Assistance (See Tax help)		I-9	7	
B		SS-4	4	
Business:		W-2	7, 9	
Expenses	9	W-4	7	
Start-up costs	9	W-5	7	
Use of car	11	W-9	4	
Use of home	10	FUTA tax	7	
C		H		
Car and truck expenses	11	Help (See Tax help)		
Corporation	3	Help from Small Business		
D		Administration	26	
Depositing taxes	8	I		
Depreciation	10	Identification numbers	3	
E		Income tax	5, 7	
Employer identification number		Information returns	8	
(EIN)	3	Inventories	5	
Employment taxes:		IRS mission	1	
Defined	6	L		
Records to keep	12	Limited liability company	3	
Estimated tax	5	M		
Excise taxes	7	Medicare tax	7	
F		More information (See Tax help)		
Form:		O		
1099-MISC	8	Office in home	10	
11-C	8	P		
1128	4	Partnership	3	
2290	8	Penalties	9	
720	8	R		
G		Recordkeeping	11	
H		Records, how long to keep	15	
I		S		
J		S corporation	3	
K		Self-employment tax	5	
L		Small Business		
M		Administration	26	
N		Social security tax	7	
O		Sole proprietorship	2	
P		Start-up costs	9	
Q		Suggestions for publication	1	
R		T		
S		Tax help	24	
T		Tax question	2	
U		Tax year	4	
V		Taxes:		
W		Employment	6	
X		Estimated	5	
Y		Excise	7	
Z		How to deposit	8	
		Income	5	
		Self-employment	5	
		Unemployment (FUTA)	7	
		Taxpayer Advocate	24	
		TTY/TDD information	24	
		U		
		Unemployment (FUTA) tax	7	

Estimated Taxes

Sample

2.

Estimated Tax for 2009

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 24), you may be charged a penalty even if you are due a refund when you file your tax return. For information on when the penalty applies, see chapter 4.

TIP *It would be helpful for you to keep a copy of your 2008 tax return and an estimate of your 2009 income nearby while reading this chapter.*

Topics

This chapter discusses:

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

Useful Items

You may want to see:

Publication

- 553** Highlights of 2008 Tax Changes

Form (and Instructions)

- 1040-ES** Estimated Tax for Individuals

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

Worksheets. You may need to use several of the blank worksheets included in this chapter. See Table 2-2 on page 34 to locate what you need.

Who Does Not Have To Pay Estimated Tax

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

Estimated tax not required. You do not have to pay estimated tax for 2009 if you meet all three of the following conditions.

- You had no tax liability for 2008.
- You were a U.S. citizen or resident alien for the whole year.
- Your 2008 tax year covered a 12-month period.

You had no tax liability for 2008 if your total tax (defined on page 24 under *Total tax for 2008—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 2008, you may have to pay estimated tax for 2009.

General Rule

You must pay estimated tax for 2009 if both of the following apply.

1. You expect to owe at least \$1,000 in tax for 2009, after subtracting your withholding and credits.
2. You expect your withholding and credits to be less than the smaller of:
 - a. 90% of the tax to be shown on your 2009 tax return, or
 - b. 100% of the tax shown on your 2008 tax return. Your 2008 tax return must cover all 12 months.

Note. These percentages may be different if you are an eligible small business, farmer, fisherman, or higher income taxpayer. See *Special Rules* beginning on page 20.

You may find Figure 2-A on page 20 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 2009, Jane, who files as head of household, uses Figure 2-A and the following information.

Expected adjusted gross income (AGI)	
for 2009	\$82,800
AGI for 2008	\$73,700
Tax shown on 2008 return	\$ 9,744
Tax expected to be shown on 2009 return	\$11,640
Tax expected to be withheld in 2009	\$10,500

Jane's answer to the chart's first question is YES; she expects to owe at least \$1,000 for 2009 after subtracting her withholding from her expected tax (\$11,640 – \$10,500 = \$1,140). Her answer to the chart's second question is also YES; she expects her income tax withholding (\$10,500) to be at least 90% of the tax to be shown on her 2009 return (\$11,640 × 90% = \$10,476). Jane does not need to pay estimated tax.

Example 2. The facts are the same as in *Example 1*, except that Jane expects only \$8,500 tax to be withheld in 2009. Because that is less than \$10,476, her answer to the chart's second question is NO.

Jane's answer to the chart's third question is also NO; she does not expect her income tax withholding (\$8,500) to be at least 100% of the tax shown on her 2008 return (\$9,744). Jane must pay estimated tax for 2009.

Example 3. The facts are the same as in *Example 2*, except that the tax shown on Jane's 2008 return was \$8,000. Because she expects to have more than \$8,000 withheld in 2009 (\$8,500), her answer to the chart's third question is YES. Jane does not need to pay estimated tax for 2009.

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). 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 2009.

2008 separate returns and 2009 joint return. If you plan to file a joint return with your spouse for 2009, but you filed separate returns for 2008, your 2008 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.

2008 joint return and 2009 separate returns. If you plan to file a separate return for 2009, but you filed a joint return for 2008, your 2008 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 2008 using the same filing status as

for 2009. Then multiply the tax on the joint return by the following fraction.

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

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

Example. Joe and Heather filed a joint return for 2008 showing taxable income of \$48,500 and a tax of \$6,476. Of the \$48,500 taxable income, \$40,100 was Joe's and the rest was Heather's. For 2009, they plan to file married filing separately. Joe figures his share of the tax on the 2008 joint return as follows:

Tax on \$40,100 based on separate return	\$6,375
Tax on \$8,400 based on separate return . . .	863
Total	<u>\$7,238</u>
Joe's percentage of total (\$6,375 ÷ \$7,238)	88%
Joe's share of tax on joint return (\$6,476 × 88%)	<u>\$5,699</u>

Special Rules

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

Eligible Small Businesses

If you have an eligible small business, substitute 90% for 100% in (2b) under *General Rule* on the previous page.

You have an eligible small business if you satisfy the following.

- You certify that more than 50% of your gross income in 2008 was income from a small business.
- The average number of employees for the 2008 calendar year was less than 500.
- Your AGI for 2008 was less than \$500,000 (\$250,000 if you are married filing separate returns in 2009).

Farmers and Fishermen

If at least two-thirds of your gross income for 2008 or 2009 is from farming or fishing, substitute 66% 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 2008 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 2008, 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 T; 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.

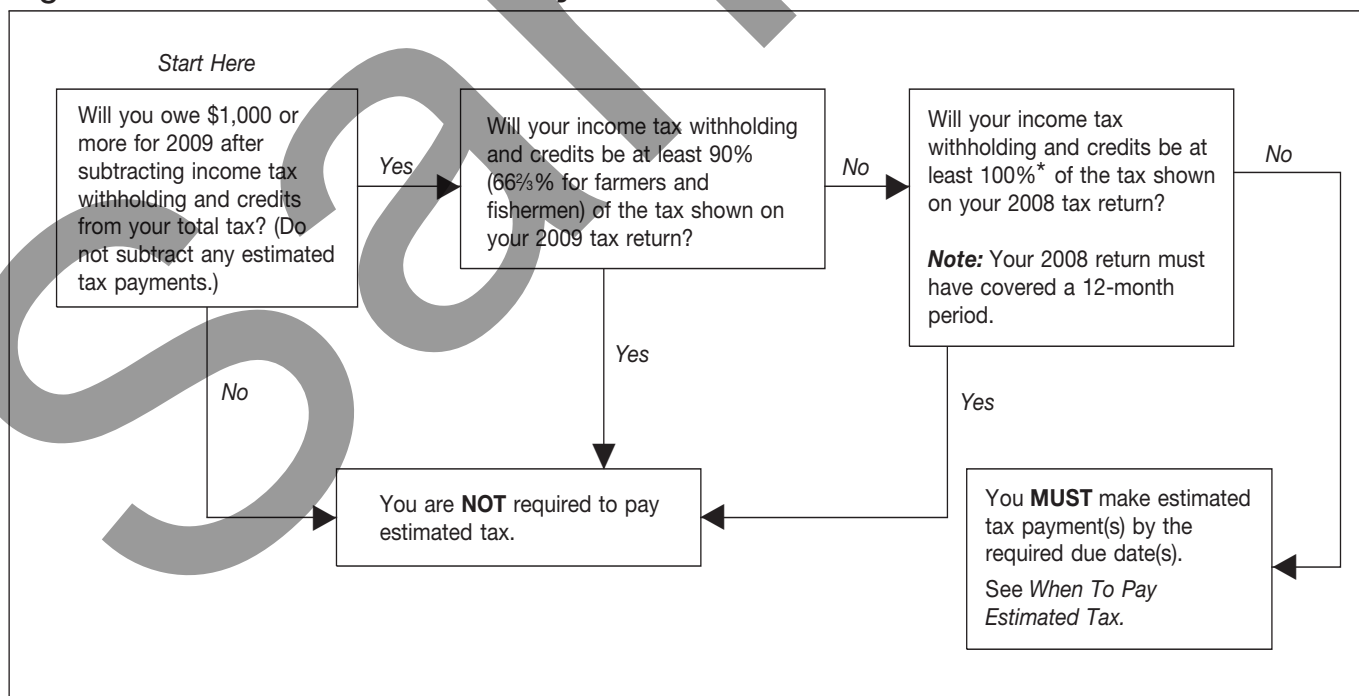
Wages you receive as a farm employee and wages you receive from a farm corporation are not gross income from farming.

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.

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



* 110% if less than two-thirds of your gross income for 2008 and 2009 is from farming or fishing and your 2008 adjusted gross income was more than \$150,000 (\$75,000 if your filing status for 2009 is married filing a separate return); 90% if you certify that more than 50% of your gross income in 2008 was income from your small business that had an average of fewer than 500 employees in 2008, and your 2008 AGI was less than \$500,000 (\$250,00 if married filing separate returns in 2009).

- 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 1120S), Box 17, code T; or Schedule K-1 (Form 1041), Box 14, code F.
- Certain 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 2008 was more than \$150,000 (\$75,000 if your filing status for 2009 is married filing a separate return), substitute 110% for 100% in (2b) under *General Rule* on page 19.

For 2008, 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 two years after the decedent's death.

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

How To Figure Estimated Tax

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

When figuring your 2009 estimated tax, it may be helpful to use your income, deductions, and credits for 2008 as a starting point. Use your 2008 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 2009, there are several changes in the law. Some of these changes are discussed under *What's New for 2009* beginning on page 2. For information about these and other changes in the law, get Publication 553 or visit the IRS website at www.irs.gov.

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

2009 Estimated Tax Worksheet

Use the worksheet (Figure 2-B) on page 22 to help guide you through the information about completing the 2009 Estimated Tax Worksheet. You also will find a blank worksheet on page 35.

Expected AGI—Line 1

Your expected AGI for 2009 (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 2009 that, if you had received it in 2008, would have been included on your 2008 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 2009, use Worksheet 2-1 on page 36 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 2009 tax return. If you are using your 2008 return as a guide and filed Form 1040, your adjustments for 2008 were on lines 23–35, plus any write-in adjustments on line 36. If you filed Form 1040A, your 2008 adjustments were on lines 16–19.



Self-employed. If you expect to have income from self-employment, use Worksheet 2-2 on page 37 to figure your expected self-employment tax and your deduction for one-half of your 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 2009 (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 2009 tax return, enter the estimated amount on line 2.

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



Phaseout of itemized deductions.

For 2009, your total itemized deductions may be reduced if your AGI is more than \$166,800 (\$83,400 if married filing separately). If you expect your AGI to be more than that amount, use Worksheet 2-4 on page 39 to figure the amount to enter on line 2.

Standard deduction—line 2. If you expect to claim the standard deduction on your 2009 tax return, enter the amount on line 2. Use Worksheet 2-3 on page 38 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 \$3,650 for each exemption you expect to take on your 2009 tax return. If another person (such as your parent) can claim an exemption for you on his or her tax return, you cannot claim your own personal exemption. This is true even if the other person will not claim your exemption or the exemption will be reduced or eliminated under the phaseout rule.



Reduction of personal exemption amount.

For 2009, your deduction for personal exemptions is reduced if your AGI is larger than the AGI shown below for your filing status.

Single	\$166,800
Married filing jointly or qualifying widow(er)	\$250,200
Married filing separately	\$125,100
Head of household	\$208,500

If you expect your AGI to be more than that amount, use Worksheet 2-5 on page 39 to figure the amount to enter on line 4.

However, if in 2009 you housed individuals displaced by a Midwestern disaster, read the

Figure 2-B. Page 4 of the Instructions for 2009 Form 1040-ES



The 2009 Estimated Tax Worksheet is found on page 4 of the instructions for Form 1040-ES. When this worksheet refers you to instructions (for example, "see instructions below") or to specific page numbers, you can find the information on pages 1-7 of the instructions for 2009 Form 1040-ES.

2009 Estimated Tax Worksheet

Keep for Your Records



1	Adjusted gross income you expect in 2009 (see instructions below)	1	
2	<ul style="list-style-type: none"> If you plan to itemize deductions, enter the estimated total of your itemized deductions. 	2	
	<ul style="list-style-type: none"> Caution: If line 1 above is over \$166,800 (\$83,400 if married filing separately), your deduction may be reduced. See Pub. 505 for details. 		
	<ul style="list-style-type: none"> If you do not plan to itemize deductions, enter your standard deduction from page 1 or Pub. 505, Worksheet 2-3. 		
3	Subtract line 2 from line 1	3	
4	Exemptions. Multiply \$3,650 by the number of personal exemptions. Caution: See Pub. 505 to figure the amount to enter if line 1 above is over: \$250,200 if married filing jointly or qualifying widow(er); \$208,500 if head of household; \$166,800 if single; or \$125,100 if married filing separately	4	
5	Subtract line 4 from line 3	5	
6	Tax. Figure your tax on the amount on line 5 by using the 2009 Tax Rate Schedules on page 5. Caution: If you will have qualified dividends or a net capital gain, or expect to claim the foreign earned income exclusion or housing exclusion, see 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, or Form 1040A, line 28	8	
9	Credits (see instructions below). 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 below). Estimate of 2009 net earnings from self-employment \$.....; if \$106,800 or less , multiply the amount by 15.3%; if more than \$106,800 , multiply the amount by 2.9%, add \$13,243.20 to the result, and enter the total. Caution: If you also have wages subject to social security tax or the 6.2% portion of tier 1 Railroad Retirement tax, see Pub. 505 to figure the amount to enter	11	
12	Other taxes (see instructions below)	12	
13a	Add lines 10 through 12	13a	
	b Earned income credit, additional child tax credit, and credits from Forms 4136, 5405, 8801 (line 27), and 8885	13b	
	c Total 2009 estimated tax. Subtract line 13b from line 13a. If zero or less, enter -0- ▶	13c	
14a	Multiply line 13c by 90% (66% % for farmers and fishermen)	14a	
	b Enter the tax shown on your 2008 tax return (110% of that amount if you are not a farmer or fisherman and the adjusted gross income shown on that return is more than \$150,000 or, if married filing separately for 2009, more than \$75,000)	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 Pub. 505.		
15	Income tax withheld and estimated to be withheld during 2009 (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?		
	<input type="checkbox"/> Yes. Stop here. You are not required to make estimated tax payments.		
	<input type="checkbox"/> No. Go to line 16b.		
	b Subtract line 15 from line 13c	16b	
	Is the result less than \$1,000?		
	<input type="checkbox"/> Yes. Stop here. You are not required to make estimated tax payments.		
	<input type="checkbox"/> No. Go to line 17 to figure your required payment.		
17	If the first payment you are required to make is due April 15, 2009, enter ¼ of line 16a (minus any 2008 overpayment that you are applying to this installment) here, and on your estimated tax payment voucher(s) if you are paying by check or money order. (Note: Household employers, see instructions below.)	17	

following section and complete Worksheet 2-6 on page 40 before entering an amount on line 4.



Taxpayers housing individuals displaced by a Midwestern disaster.

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

- The person displaced lived in your main home for at least 60 consecutive days that ended in 2009.
- You did not receive any rent or other amount from any source for providing the housing.
- The main home of the person displaced was in a Midwestern disaster area on the applicable disaster date for that county.
- The person displaced was not your spouse or dependent.

- You did not claim an additional exemption amount in 2008 for the same individual.
- You did not claim the maximum exemption amount of \$2,000 in 2008.

Use Worksheet 2-6 on page 40 to figure the additional exemption amount. For more information, see Publication 4492-B.

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 2009. 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 2009 Tax Rate Schedules, found on page 40 or in the instructions to Form 1040-ES, to figure your expected income tax. 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 2009.
2. The following children if their earned income is not more than half their support.
 - a. Children age 18 at the end of 2009.
 - b. Children who are full-time students over age 18 and under age 24 at the end of 2009.


See Publication 929, Tax Rules for Children and Dependents. Although the ages and dollar amounts in the publication will be different in the 2009 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 2-7 on page 41 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 2-8 on page 42 to figure your estimated tax.

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

1. Your tax on line 6;
2. Your expected alternative minimum tax (AMT) from Form 6251 (or included on Form 1040A, line 28) on line 7;
3. Your expected additional taxes from Form 8814, Parents' Election To Report Child's Interest and Dividends, and Form 4972,

Tax on Lump-Sum Distributions (line 44, boxes a and b, of the 2008 Form 1040); and

4. Any recapture of education credits.

Step 3. Subtract your expected credits (line 9). If you are using your 2008 return as a guide and filed Form 1040, your total credits for 2008 were shown on line 55. If you filed Form 1040A, your total credits for 2008 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 21).

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

Other taxes include:

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. Advance earned income credit payments;
3. Household employment taxes (before subtracting advance EIC payments made to your employee(s)) if:
 - a. You will have federal income tax withheld from wages, pensions, annuities, gambling winnings, or other income, or
 - b. You would be required to make estimated tax payments even if you did not include household employment taxes when figuring your estimated tax; and
4. Amounts written in on Form 1040 on the line for "total tax" (line 61 on the 2008 Form 1040). But, do not include tax on recapture of a federal mortgage subsidy, tax on 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, or uncollected employee social security, Medicare, or RRTA tax on tips or group-term life insurance.
5. Repayment of the first-time homebuyer credit if the home will cease to be your main home in 2009. See Form 5405 for exceptions.

If you filed a 2008 Form 1040A, your only other tax was any advance earned income credit payments on line 36.

Step 6. Subtract your refundable credits (line 13b). These include your expected earned income credit, additional child tax credit, Form 4136 fuel tax credit, Form 5405 first-time homebuyer credit, Form 8801 (line 30) refundable credit for prior year minimum tax, Form 8885 health coverage tax credit, Making Work Pay credit (see Worksheet 2-9 on page 43), and Form 8863 refundable Hope education credit. These are shown on the 2008 Form 1040, lines

64a, 66, 68b, 68c, 68d, and 69, if they were 2008 refundable credits.

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

The earned income credit is shown on the 2008 Form 1040A, line 40a, and the additional child tax credit is shown on line 41.

The result of steps 1 through 6 is your total estimated tax for 2009 (line 13c).

Required Annual Payment— Line 14c

On lines 14a through 14c, figure the total amount you must pay for 2009, 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 2009, or
2. 100% of the total tax shown on your 2008 return. Your 2008 tax return must cover all 12 months.

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

Small businesses. If more than 50% of your gross income from 2008 was income from a small business and your AGI in 2008 was less than \$500,000 (\$250,000 if you are married filing separate returns in 2009), substitute 90% for 100% in (2) above. Your business is a small business if it had an average of fewer than 500 employees in 2008.

Higher income taxpayers. If your AGI for 2008 was more than \$150,000 (\$75,000 if your filing status for 2009 is married filing separately), substitute 110% for 100% in (2) above. This rule does not apply to farmers and fishermen.

For 2008, 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 2008 return was \$42,581, and his expected tax for 2009 is \$71,253. His 2008 AGI was \$180,000. Because Jeremy had more than \$150,000 of AGI in 2008, he figures his required annual payment as follows. He determines that 90% of his expected tax for 2009 is \$64,128 (.90 × \$71,253). Next, he determines that 110% of the tax shown on his 2008 return is \$46,839 (1.10 × \$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 2008 or 2009 is from farming or fishing, your required annual payment is the smaller of:

1. 66⅔% (.6667) of your total tax for 2009, or
2. 100% of the total tax shown on your 2008 return. (Your 2008 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* beginning on page 20.

Total tax for 2008—line 14b. Your 2008 total tax on Form 1040 is the amount on line 61 reduced by the following.

1. The amounts on lines 58, 64a, 66, and 69.
2. The following amounts from Form 5329 included on line 59.
 - 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 amounts included on line 61.
 - a. Recapture of a federal mortgage subsidy.
 - b. Tax on golden parachute payments.
 - c. Look-back interest due under section 167(g) or 460(b) of the Internal Revenue Code.
 - d. Excise tax on insider stock compensation from an expatriated corporation.
 - e. Uncollected employee social security, Medicare, or railroad retirement tax on tips or group-term life insurance.
4. Any credit from Form 4136, Form 8801, or Form 8885 included on line 68.

On the 2008 Form 1040A, it is the amount on line 37 reduced by the amount on lines 40a and 41. On the 2008 Form 1040EZ, it is the amount on line 11 reduced by the amount on line 8a.

Total Estimated Tax Payments Needed—Line 16a

Use lines 15 and 16a to figure the total estimated tax you must pay for 2009. 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* on this page and *How To Figure Each Payment* on page 25.

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 2009 (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 2009 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. The payment periods and due dates for estimated tax payments are shown next.

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* below.
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 business day.

January payment. If you file your 2009 Form 1040 or Form 1040A by February 1, 2010, and pay the rest of the tax you owe, you do not need to make the payment due on January 15, 2010.

Example. Janet Adams does not pay any estimated tax for 2009. She files her 2009 income tax return and pays the balance due shown on her return on January 26, 2010.

Janet's estimated tax for the fourth payment period is considered to have been paid on time. However, she may owe a penalty for not making the first three estimated tax payments. Any penalty for not making those payments will be figured up to January 26, 2010.

Fiscal year taxpayers. If your tax year does not start on January 1, your payment due dates are:

1. The 15th day of the 4th month of your fiscal year,
2. The 15th day of the 6th month of your fiscal year,
3. The 15th day of the 9th month of your fiscal year, and
4. The 15th day of the 1st month after the end of your fiscal year.

You do not have to make the last payment listed above if you file your income tax return by the last day of the first month after the end of your fiscal year and pay all the tax you owe with your return.

When To Start

You do not have to make estimated tax payments until you have income on which you will owe the tax. If you have income subject to estimated tax during the first payment period, you must make your first payment by the due date for the first payment period. You can pay all your

estimated tax at that time, or you can pay it in installments. If you choose to pay in installments, make your first payment by the due date for the first payment period. Make your remaining installment payments by the due dates for the later periods.

No income subject to estimated tax during first period. If you do not have income subject to estimated tax until a later payment period, you 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 below 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* on page 25.

Farmers and Fishermen

If at least two-thirds of your gross income for 2008 or 2009 is from farming or fishing, you have only one payment due date for your 2009 estimated tax, January 15, 2010. 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 2009 Form 1040 by March 1, 2010, and pay all the tax you owe, 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.

Regular Installment Method

If your first estimated tax payment is due April 15, 2009, you can figure your required payment for each period by dividing your annual estimated tax due (line 16a of the 2009 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.

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

Change in estimated tax. After you make an estimated tax payment, changes in your income, adjustments, deductions, credits, or exemptions may make it necessary for you to refigure your estimated tax. Pay the unpaid balance of your amended estimated tax by the next payment due date after the change or in installments by that date and the due dates for the remaining payment periods.

If you do not receive your income evenly throughout the year, your required estimated tax payments may not be the same for each period. See *Annualized Income Installment Method* 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 15, 2009, figure your required payment for each remaining payment period using Worksheet 2-16 on page 48.

Example. Early in 2009, Mira Roberts figures that her estimated tax due is \$1,800. She makes estimated tax payments on April 15 and June 15 of \$450 each ($\$1,800 \div 4$).

On July 10, she sells investment property at a gain. Her refigured estimated tax is \$4,100. Her required estimated tax payment for the third payment period is \$2,175, as shown in her filled-in Worksheet 2-16 on this page.

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

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

Annualized Income Installment Method

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

The annualized income installment method annualizes your tax at the end of each period based on a reasonable estimate of your income, deductions, and other items relating to events that occurred from the beginning of the tax year through the end of the period. To see whether you can pay less for any period, complete the

2009 Annualized Estimated Tax Worksheet (Worksheet 2-10) beginning on page 44.



You first must complete the 2009 Estimated Tax Worksheet through line 16b. (See page 35 for a blank worksheet.)

Use the result you figure on line 28 of the 2009 Annualized Estimated Tax Worksheet to make your estimated tax payments and complete your payment vouchers.

See *Example 2*, beginning on page 30, 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 2009 tax return. See *Annualized Income Installment Method (Schedule AI)* in chapter 4 for more information.

Instructions for the 2009 Annualized Estimated Tax Worksheet (Worksheet 2-10)



Use Figure 2-C beginning on page 27 to help you follow these instructions. Another worksheet is available for your use on pages 44 and 45.

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 27) 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, including your share of partnership or S corporation income or loss, for the period, minus your adjustments to income for that period. See *Expected AGI—Line 1* on page 21.

Self-employment income. If you had self-employment income, first complete Section B of this worksheet. Use the amounts on line 39 when figuring the 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 (2009 Annualized Estimated Tax Worksheet (Worksheet 2-10)).

Line 6. Multiply line 4 by line 5 and enter the result on line 6, unless line 3 is more than \$166,800 (\$83,400 if married filing separately). In that case, use Worksheet 2-11 on page 45 to figure the amount to enter on line 6. Complete Worksheet 2-11 for each period, as necessary.

Line 7. If you will not itemize your deductions, use Worksheet 2-3 (see page 38) to figure your standard deduction.

Worksheet 2-16. Amended Estimated Tax Worksheet—Illustrated

1. Amended total estimated tax due	1. <u>\$4,100</u>
2. Multiply line 1 by:	
50% (.50) if next payment is due June 15, 2009	
75% (.75) if next payment is due September 15, 2009	
100% (1.00) if next payment is due January 15, 2010	2. <u>3,075</u>
3. Estimated tax payments for all previous periods	3. <u>900</u>
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. <u>\$2,175</u>
Note. If the payment on line 4 is due January 15, 2010, stop here. Otherwise, go to line 5.	
5. Add lines 3 and 4.	5. <u>3,075</u>
6. Subtract line 5 from line 1 and enter the result (but not less than zero)	6. <u>1,025</u>
7. Each following required payment: If the payment on line 4 is due June 15, 2009, enter one-half of the amount on line 6 here and on the payment vouchers for your payments due September 15, 2009, and January 15, 2010. If the amount on line 4 is due September 15, 2009, enter the full amount on line 6 here and on the payment voucher for your payment due January 15, 2010	7. <u>\$1,025</u>

Line 10. Multiply \$3,650 by your total expected exemptions and enter the result on line 10, unless line 3 is more than the amount shown below for your filing status.

Single	\$166,800
Married filing jointly or qualifying widow(er)	\$250,200
Married filing separately	\$125,100
Head of household	\$208,500

In that case, use Worksheet 2-12 on page 46 to figure the amount to enter on line 10. However, if in 2009 you provide housing to individuals displaced by a Midwestern disaster, see *Taxpayers housing individuals displaced by a Midwestern disaster* on page 22. Then complete Worksheet 2-6 on page 40 before entering an amount on line 10 of your 2009 Annualized Estimated Tax Worksheet (Worksheet 2-10).

Line 12. Generally, you will use the 2009 Tax Rate Schedules on page 40 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 2009.
2. The following children if their earned income is not more than half their support.
 - a. Children age 18 at the end of 2009.
 - b. Children who are full-time students over age 18 and under age 24 at the end of 2009.

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% (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 2-13 on page 47 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 2-14 on page 48 to figure the amount to enter on line 12.

Line 13. Enter your self-employment tax for the period from Section B, line 37.

Line 14. Add your expected other taxes.
Other taxes include:

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. Advance earned income credit payments;
3. Household employment taxes (before subtracting advance EIC payments made to your employee(s)) if:

- a. You will have federal income tax withheld from wages, pensions, annuities, gambling winnings, or other income, or
- b. You would be required to make estimated tax payments even if you did not include household employment taxes when figuring your estimated tax; and

4. Amounts written in on Form 1040 on the line for "total tax" (line 61 on the 2008 Form 1040). But do not include tax on recapture of a federal mortgage subsidy, tax on 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, or uncollected employee social security, Medicare, or RRTA tax on tips or group-term life insurance.

5. Repayment of the first-time homebuyer credit if the home will cease to be your main home in 2009. See Form 5405 for exceptions.

6. Tax from Form 4972.

7. Tax from Form 8814.

8. Tax from recapture of an education credit.

9. Use Form 6251 to see if you also owe the alternative minimum tax (AMT). Figure alternative minimum taxable income 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 2009 Annualized Estimated Tax Worksheet (Worksheet 2-10). Include any AMT owed in the amount on line 14 of this worksheet.

Line 16. Include all the credits (other than withholding credits) you can claim because of events that occurred during the period. If you are using your 2008 return as a guide and filed Form 1040, your 2008 credits included the total credits on line 55, and the credits shown on lines 64a, 66, 68 (boxes b, c, and d), and 69. If you filed Form 1040A, your 2008 credits included the credits on lines 34, 40a, and 41.

Increase your credits for the Making Work Pay credit. Use Worksheet 2-15 on page 49 to figure this credit.

Line 25. If line 24 is smaller than line 21 and you are not certain of the estimate of your 2009 tax, you can avoid a penalty by entering the amount from line 21 on line 25.

Line 27. 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 27 for each period, multiply your total expected withholding for 2009 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 24.

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

1. Skip column (a).
2. On line 1, enter your income for the period that is effectively connected with a U.S. trade or business.
3. On line 17, increase your entry by the amount determined by multiplying your income for the period that is not effectively connected with a U.S. trade or business by the following.
 - a. 72% for column (b).
 - b. 45% for column (c).
 - c. 30% for column (d).

However, if you can use a treaty rate lower than 30%, use the percentages determined by multiplying your treaty rate by 2.4, 1.5, and 1, respectively.

4. On line 22, enter one-half of the amount from line 16c of the Form 1040-ES (NR) 2009 Estimated Tax Worksheet in column (b), and one-fourth in columns (c) and (d).
5. On lines 20 and 23, skip column (b).
6. On line 27, if you do not use the actual withholding method, include one-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.

Figure 2-C. Worksheet for Annualized Income Installment Method

Worksheet 2-10. 2009 Annualized Estimated Tax Worksheet

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

Estates and trusts: Use the following ending dates in columns (a)–(d):
2/28/2009, 4/30/2009, 7/31/2009, 11/30/2009.

	(a) 1/1/09–3/31/09	(b) 1/1/09–5/31/09	(c) 1/1/09–8/31/09	(d) 1/1/09–12/31/09
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				
2 Annualization amounts. (Estates and trusts, see instructions)	4	2.4	1.5	1
3 Annualized income. Multiply line 1 by line 2				
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				
5 Annualization amounts	4	2.4	1.5	1
6 Multiply line 4 by line 5 (see instructions and Worksheet 2-11 if line 3 is more than \$83,400)				
7 Standard deduction from Worksheet 2-3				
8 Enter the larger of line 6 or line 7				
9 Subtract line 8 from line 3				
10 In each column, multiply \$3,650 by your total expected number of exemptions (see instructions and Worksheet 2-12 if line 3 is more than \$125,100 or you expect to house individuals displaced by a Midwestern disaster). (Estates and trusts, see instructions)				
11 Subtract line 10 from line 9. If zero or less, enter -0-				
12 Figure your tax on the amount on line 11 (see instructions)				
13 Self-employment tax from line 37 of Section B				
14 Enter other taxes for each payment period (see instructions)				
15 Total tax. Add lines 12, 13, and 14				
16 Enter credits for each period (see instructions for type of credits allowed). Do not include any income tax withholding on this line				
17 Subtract line 16 from line 15. If zero or less, enter -0-				
18 Applicable percentage	22.5%	45%	67.5%	90%
19 Multiply line 17 by line 18				
20 Enter the total of the amounts in all previous columns of line 25.				
21 Annualized income installment. Subtract line 20 from line 19. If zero or less, enter -0-				
22 Enter 25% (.25) of line 14c of the Form 1040-ES Estimated Tax Worksheet in each column.				
23 Subtract line 25 of the previous column from line 24 of that column				
24 Add lines 22 and 23				
25 Enter the smaller of line 21 or line 24 (see instructions)				
26 Total required payments for the period. Add lines 20 and 25				
27 Estimated tax payments made (line 28 of all previous columns) plus tax withholding through the due date for the period				
28 Estimated tax payment required by the next due date. Subtract line 27 from line 26 and enter the result (but not less than zero) here and on your payment voucher				

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

Worksheet 2-10. 2009 Annualized Estimated Tax Worksheet

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

(For 1040 filers only)		(a)	(b)	(c)	(d)
		1/1/09–3/31/09	1/1/09–5/31/09	1/1/09–8/31/09	1/1/09–12/31/09
29	Net earnings from self-employment for the period				
30	Prorated social security tax limit	\$26,700	\$44,500	\$71,200	\$106,800
31	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				
32	Subtract line 31 from line 30. If zero or less, enter -0-				
33	Annualization amounts	0.496	0.2976	0.186	0.124
34	Multiply line 33 by the smaller of line 29 or line 32.				
35	Annualization amounts	0.116	0.0696	0.0435	0.029
36	Multiply line 29 by line 35				
37	Add lines 34 and 36. Enter the result here and on line 13 of Section A				
38	Annualization amounts	8	4.8	3	2
39	Deduction for one-half of self-employment tax. Divide line 37 by line 38. Enter the result here. Use this result to figure your AGI on line 1				

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

How To Pay Estimated Tax

There are five ways to pay estimated tax.

- Credit an overpayment on your 2008 return to your 2009 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 if you are filing Form 1040 or Form 1040A electronically.
- Pay by credit 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 2008, you can apply part or all of it to your estimated tax for 2009. On line 74 of Form 1040, or line 46 of Form 1040A, enter the amount you want credited to your estimated tax rather than refunded. Take the amount you have credited into account when figuring your estimated tax payments. If you timely file your 2008 return, treat the credit as a payment made on April 15, 2009.

If you are a beneficiary of an estate or trust, and the trustee elects to credit 2009 trust payments of estimated tax to you, you can treat the amount credited as paid by you on January 15, 2010.

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 2008 tax return, she saw that she had overpaid her taxes by \$750. Kathleen knew she would owe additional tax in 2009. She credited \$600 of the overpayment to her 2009 estimated tax and had the remaining \$150 refunded to her.

In September, she amended her 2008 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 2008 overpayment from \$750 to \$500. Because the \$750 had already been applied to her 2009 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 2009 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, you should receive a copy of the 2009 Form 1040-ES in the mail unless you used a paid tax preparer. It will have payment vouchers preprinted with your name, address, and social security number. Using the preprinted vouchers will speed processing, reduce the chance of error, and help save processing costs.

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

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



Do not use the address shown in the Form 1040 or Form 1040A instructions.

If you file a joint return and 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 by Electronic Federal Tax Payment System (EFTPS)

EFTPS is a free tax payment system where you input your tax payment information electronically, online or by phone. Through EFTPS, you can schedule one-time or recurring payments for withdrawal from your checking or savings account up to 365 days in advance. You also can modify or cancel payments up to 2 business days before the scheduled withdrawal date. To use EFTPS, you must enroll. Enroll online at www.eftps.gov or call 1-800-555-4477 (for business accounts) or 1-800-316-6541 (for individual accounts) to receive an enrollment form and instructions by mail. TTY/TDD help is available

by calling 1-800-733-4829. Call 1-800-244-4829 for Spanish.

Pay by Electronic Funds Withdrawal (EFW)

If you electronically file your 2008 tax return, you can use EFW to make up to four (4) 2009 estimated tax payments. This is a free option. The payments can be withdrawn from either a checking or savings account. At the same time you file your return, you can schedule estimated tax payments for any or all of the following dates: April 15, 2009, June 15, 2009, September 15, 2009, and January 15, 2010.

Check with your tax return preparer or tax preparation software for details. Your scheduled payments will be acknowledged when you file your tax return.

Payments scheduled through EFW can be cancelled up to 8 p.m. Eastern time, 2 business days before the scheduled payment date, by contacting the U.S. Treasury Financial Agent at 1-888-353-4537.

Pay by Credit Card

You can use your American Express® Card, Discover® Card, MasterCard® card, or Visa® card to make estimated tax payments. Call toll-free or visit the website of either service provider listed below and follow the instructions. A convenience fee will be charged by the service provider based on the amount you are paying. Fees may vary between providers. You will be told what the fee is during the transaction and you will have the option to either continue or cancel the transaction. You also can find out what the fee will be by calling the provider's toll-free automated customer service number or visiting the provider's website shown below.

Official Payments Corporation
1-800-2PAY-TAXSM (1-800-272-9829)
1-877-754-4413 (Customer Service)
www.officialpayments.com

Link2Gov Corporation
1-888-PAY-1040SM (1-888-729-1040)
1-888-658-5465 (Customer Service)
www.PAY1040.com

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 2009, Anne and Larry Jones figure their estimated tax payments for the year. They expect to receive the following income during 2009.

Larry's salary	.....	\$39,900
State tax refund (they itemized deductions in 2008)	.....	600
Anne's net profit from self-employment	.....	40,100
Net rental income	.....	2,784
Interest income	.....	<u>6,205</u>
Total	.....	\$89,589

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

Adjustment to income for IRA contributions	.....	\$ 1,000
Itemized deductions	.....	11,825
Deduction for exemptions (\$3,650 × 2)	.....	7,300
2008 total tax	.....	<u>14,347</u>

Making Work Pay credit	.....	800
Withholding	.....	<u>3,372</u>

The Joneses plan to file a joint return. They use the 2009 Estimated Tax Worksheet included in Form 1040-ES to figure their estimated tax payments. See their filled-in worksheet (Figure 2-D) on page 31.

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

On line 11 of their 2009 Estimated Tax Worksheet, the Joneses enter \$37,032 on the dotted line and \$5,666 in the blank. They subtract one-half of that amount, \$2,833, and their \$1,000 adjustment for IRA contributions from their \$89,589 total income to find their expected AGI, \$85,756. They enter that amount on line 1 of the worksheet.

Expected taxable income. The Joneses figure their standard deduction, \$11,400, in Worksheet 2-3. They cannot increase their standard deduction for the other allowed expenses. This is smaller than their expected itemized deductions, so they enter \$11,825 on line 2 of the worksheet. They subtract the amount on line 2 from the amount on line 1 and enter the result, \$73,931, on line 3. They enter their deduction for exemptions, \$7,300, on line 4. After subtracting

Worksheet 2-2. 2009 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. <u>\$40,100</u>
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. <u>40,100</u>
3. Multiply line 2 by 92.35% (.9235)	3. <u>37,032</u>
4. Multiply line 3 by 2.9% (.029)	4. <u>1,074</u>
5. Social security tax maximum income	5. <u>\$106,800</u>
6. Enter your expected wages (if subject to social security tax or the 6.2% portion of tier 1 railroad retirement tax)	6. <u>-0-</u>
7. Subtract line 6 from line 5	7. <u>106,800</u>
Note. If line 7 is zero or less, enter -0- on line 9 and skip to line 10.	
8. Enter the smaller of line 3 or line 7	8. <u>37,032</u>
9. Multiply line 8 by 12.4% (.124)	9. <u>4,592</u>
10. Add line 4 and line 9. Enter the result here and on line 11 of your 2009 Estimated Tax Worksheet (or line 13 of the Annualized ES Worksheet (Worksheet 2-10))	10. <u>\$ 5,666</u>
11. Multiply line 10 by 50% (.50). This is your expected deduction for one-half of your self-employment tax. Subtract this amount when figuring your expected AGI on line 1 of your 2009 Estimated Tax Worksheet (or Annualized Estimated Tax Worksheet (Worksheet 2-10)) ..	11. <u>\$ 2,833</u>

*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.

this amount, their expected taxable income on line 5 is \$66,631.

Expected taxes and credits. The Joneses use the 2009 Tax Rate Schedule Y-1 on page 40 to figure their expected income tax, and enter \$9,160 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 use Worksheet 2-9 on page 43 to figure their Making Work Pay credit of \$800. They do not have any other credits that would be entered on lines 9 or 13b, so they leave line 9 blank and enter \$800 on line 13b.

The Joneses' total estimated tax on line 13c, after adding Anne's self-employment tax from line 11, is \$14,026 (\$14,826 – \$800).

Estimated tax. The Joneses multiply their total estimated tax by 90% and enter \$12,623 on line 14a of the worksheet. They enter their 2008 tax on line 14b. Their required annual payment on line 14c is the smaller amount, \$12,623.

They enter Larry's expected withholding, \$3,372, on line 15 and subtract it from their required annual payment. Their estimated tax on line 16a is \$9,251.

They are required to pay estimated tax 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 2009 estimated tax" (line 13c).

Required estimated tax payment. The Joneses must pay their first estimated tax payment by April 15, 2009. They enter one-fourth of their estimated tax (line 16a), \$2,313, on line 17 of the worksheet and on their Form 1040-ES payment voucher that shows "Due April 15, 2009." 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 \$2,313 estimated tax by June 15 and September 15, 2009, and January 15, 2010.

Example 2—Annualized Income Installment Method

The facts are the same as in *Example 1—Regular Installment Method*, 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 in the summer months.

After completing their 2009 Estimated Tax Worksheet, the Joneses decide to use the annualized income installment method to see if they can pay less than \$2,313 estimated tax for one or more payment periods. They complete the 2009 Annualized Estimated Tax Worksheet (Worksheet 2-10) in this chapter. See their filled-in worksheet (Figure 2-E) on pages 32 and 33.

First Period

On April 1, 2009, 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	990
Total	\$14,565

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

Adjustment to income for IRA contributions	\$ 150
Itemized deductions	1,375
Making Work Pay credit	800
Withholding	843

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 29 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 30. She has no social security wages, so they enter zero on line 31, and \$26,700 on line 32. Anne's annualized social security tax on line 34 is \$1,374 (\$2,771 x .496). Her annualized Medicare tax on line 36 is \$321 (\$2,771 x .116). Her total annualized self-employment tax on line 37 is \$1,695. They enter that amount on line 13 of Section A.

The Joneses figure their adjustment to income for Anne's self-employment tax on lines 38 and 39 (Section B). That amount is \$212 (\$1,695 ÷ 8). They subtract that amount and their \$150 IRA contributions from their \$14,565 total income and enter their AGI for the period, \$14,203, on line 1 of Section A. They multiply that amount by 4 and enter their annualized AGI, \$56,812, on line 3.

Annualized taxable income. The Joneses figure their annualized itemized deductions (\$1,375 x 4) on lines 4 through 6 of Section A. Because the result is smaller than their standard deduction, they enter their \$11,400 standard deduction on line 8. After subtracting that amount and their \$7,300 deduction for exemptions, the Joneses' annualized taxable income on line 11 is \$38,112.

Annualized taxes and credits. The Joneses use the 2009 Tax Rate Schedule Y-1 on page 40 to figure their annualized income tax, \$4,882, which they enter on line 12 of Section A.

They have no other taxes for the period that would be entered on line 14, so they leave that line blank and enter \$6,577 (\$4,882 + \$1,695) on line 15.

They use Worksheet 2-15 on page 49 to figure their Making Work Pay credit of \$800. They have no other credits for the period that

would be entered on line 16, so they enter \$800 on line 16. After subtracting their Making Work Pay credit from their total tax, the Joneses' 2009 estimated tax for the period is \$5,777 (\$6,577 – \$800). They enter \$5,777 on line 17.

Required estimated tax payment. The Joneses' annualized income installment on lines 19 and 21 of Section A is \$1,300 (\$5,777 x 22.5%). On lines 22 and 24 they enter \$3,156, one-fourth of their \$12,623 required annual payment (line 14c of their 2009 Estimated Tax Worksheet). Because \$1,300 is smaller, they enter that amount on lines 25 and 26.

Larry's total expected withholding for the year is \$3,372. The Joneses can treat one-fourth of that amount, \$843, as paid on April 15, or they can use Larry's actual withholding for the period. The Joneses enter \$843 on line 27.

On line 28, the Joneses' required estimated tax payment for the period under the annualized income installment method is \$457 (\$1,300 – \$843). They will send in an estimated tax payment of \$457 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	696	2,784	2,784
Interest income	1,575	3,250	6,205
Total	\$25,496	\$49,234	\$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	3,120	7,250	11,825
Making Work Pay credit	800	800	800
Withholding	843	843	843

For the second period, as for the first, the annualized income installment method allows the Joneses to pay less than their required payment under the regular installment method of figuring estimated tax payments. They make up the difference in the third and fourth periods when their income is higher.

Because the Joneses are using the annualized income installment method, they must file Form 2210 with their tax return for 2009.

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

2009 Estimated Tax Worksheet

Keep for Your Records



1	Adjusted gross income you expect in 2009 (see instructions below)	1	85,756
2	<ul style="list-style-type: none"> If you plan to itemize deductions, enter the estimated total of your itemized deductions. <p>Caution: If line 1 above is over \$166,800 (\$83,400 if married filing separately), your deduction may be reduced. See Pub. 505 for details.</p> <ul style="list-style-type: none"> If you do not plan to itemize deductions, enter your standard deduction from page 1 or Pub. 505, Worksheet 2-3. 	2	11,825
3	Subtract line 2 from line 1	3	73,931
4	Exemptions. Multiply \$3,650 by the number of personal exemptions. Caution: See Pub. 505 to figure the amount to enter if line 1 above is over: \$250,200 if married filing jointly or qualifying widow(er); \$208,500 if head of household; \$166,800 if single; or \$125,100 if married filing separately	4	7,300
5	Subtract line 4 from line 3	5	66,631
6	Tax. Figure your tax on the amount on line 5 by using the 2009 Tax Rate Schedules on page 5. Caution: If you will have qualified dividends or a net capital gain, or expect to claim the foreign earned income exclusion or housing exclusion, see Pub. 505 to figure the tax	6	9,160
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, or Form 1040A, line 28	8	9,160
9	Credits (see instructions below). 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	9,160
11	Self-employment tax (see instructions below). Estimate of 2009 net earnings from self-employment \$ <u>37,032</u> ; if \$106,800 or less , multiply the amount by 15.3%; if more than \$106,800 , multiply the amount by 2.9%, add \$13,243.20 to the result, and enter the total. Caution: If you also have wages subject to social security tax or the 6.2% portion of tier 1 Railroad Retirement tax, see Pub. 505 to figure the amount to enter	11	5,666
12	Other taxes (see instructions below)	12	
13a	Add lines 10 through 12	13a	14,826
b	Earned income credit, additional child tax credit, and credits from Forms 4136, 5405, 8801 (line 27), and 8885	13b	800
c	Total 2009 estimated tax. Subtract line 13b from line 13a. If zero or less, enter -0-	13c	14,026
14a	Multiply line 13c by 90% (66⅔% for farmers and fishermen)	14a	12,623
b	Enter the tax shown on your 2008 tax return (110% of that amount if you are not a farmer or fisherman and the adjusted gross income shown on that return is more than \$150,000 or, if married filing separately for 2009, more than \$75,000)	14b	14,347
c	Required annual payment to avoid a penalty. Enter the smaller of line 14a or 14b	14c	12,623
15	Income tax withheld and estimated to be withheld during 2009 (including income tax withholding on pensions, annuities, certain deferred income, etc.)	15	3,372
16a	Subtract line 15 from line 14c	16a	9,251
	Is the result zero or less? <input type="checkbox"/> Yes. Stop here. You are not required to make estimated tax payments. <input checked="" type="checkbox"/> No. Go to line 16b.		
b	Subtract line 15 from line 13c	16b	10,654
	Is the result less than \$1,000? <input type="checkbox"/> Yes. Stop here. You are not required to make estimated tax payments. <input checked="" type="checkbox"/> No. Go to line 17 to figure your required payment.		
17	If the first payment you are required to make is due April 15, 2009, enter ¼ of line 16a (minus any 2008 overpayment that you are applying to this installment) here, and on your estimated tax payment voucher(s) if you are paying by check or money order. (Note: Household employers, see instructions below.)	17	2,313

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

Worksheet 2-10. **2009 Annualized Estimated Tax Worksheet**

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

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

Estates and trusts: Use the following ending dates in columns (a)–(d):
2/28/2009, 4/30/2009, 7/31/2009, 11/30/2009

		(a) 1/1/09–3/31/09	(b) 1/1/09–5/31/09	(c) 1/1/09–8/31/09	(d) 1/1/09–12/31/09
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	14,203	24,822	47,704	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	56,812	59,573	71,556	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	1,375	3,120	7,250	11,825
5 Annualization amounts	5	4	2.4	1.5	1
6 Multiply line 4 by line 5 (see instructions and Worksheet 2-11 if line 3 is more than \$83,400)	6	5,500	7,488	10,875	11,825
7 Standard deduction from Worksheet 2-3	7	11,400	11,400	11,400	11,400
8 Enter the larger of line 6 or line 7	8	11,400	11,400	11,400	11,825
9 Subtract line 8 from line 3	9	45,412	48,173	60,156	73,931
10 In each column, multiply \$3,650 by your total expected number of exemptions (see instructions and Worksheet 2-12 if line 3 is more than \$125,100 or you expect to house individuals displaced by a Midwestern disaster). (Estates and trusts, see instructions)	10	7,300	7,300	7,300	7,300
11 Subtract line 10 from line 9. If zero or less, enter -0-	11	38,112	40,873	52,856	66,631
12 Figure your tax on the amount on line 11 (see instructions)	12	4,882	5,296	7,093	9,160
13 Self-employment tax from line 37 of Section B	13	1,695	2,035	3,391	5,666
14 Enter other taxes for each payment period (see instructions)	14				
15 Total tax. Add lines 12, 13, and 14	15	6,577	7,331	10,484	14,826
16 Enter credits for each period (see instructions for type of credits allowed). Do not include any income tax withholding on this line	16	800	800	800	800
17 Subtract line 16 from line 15. If zero or less, enter -0-	17	5,777	6,531	9,684	14,026
18 Applicable percentage	18	22.5%	45%	67.5%	90%
19 Multiply line 17 by line 18	19	1,300	2,939	6,537	12,623
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		1,300	2,939	6,537
21 Annualized income installment. Subtract line 20 from line 19. If zero or less, enter -0-	21	1,300	1,639	3,598	6,086
22 Enter 25% (.25) of line 14c of the Form 1040-ES Estimated Tax Worksheet in each column	22	3,156	3,156	3,156	3,156
23 Subtract line 25 of the previous column from line 24 of that column	23		1,856	3,373	2,931
24 Add lines 22 and 23	24	3,156	5,012	6,529	6,087
25 Enter the smaller of line 21 or line 24 (see instructions)	25	1,300	1,639	3,598	6,086
26 Total required payments for the period. Add lines 20 and 25	26	1,300	2,939	6,537	12,623
27 Estimated tax payments made (line 28 of all previous columns) plus tax withholding through the due date for the period	27	843	2,143	3,782	7,380
28 Estimated tax payment required by the next due date. Subtract line 27 from line 26 and enter the result (but not less than zero) here and on your payment voucher	28	457	796	2,755	5,243

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

Worksheet 2-10. **2009 Annualized Estimated Tax Worksheet**

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

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

(Form 1040 filers only)		(a) 1/1/09–3/31/09	(b) 1/1/09–5/31/09	(c) 1/1/09–8/31/09	(d) 1/1/09–12/31/09
29	Net earnings from self-employment for the period	2,771	5,541	14,776	37,032
30	Prorated social security tax limit	\$26,700	\$44,500	\$71,200	\$106,800
31	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	0	0	0	0
32	Subtract line 31 from line 30. If zero or less, enter -0-	26,700	44,500	71,200	106,800
33	Annualization amounts	0.496	0.2976	0.186	0.124
34	Multiply line 33 by the smaller of line 29 or line 32.	1,374	1,649	2,748	4,592
35	Annualization amounts	0.116	0.0696	0.0435	0.029
36	Multiply line 29 by line 35	321	386	645	1,074
37	Add lines 34 and 36. Enter the result here and on line 13 of Section A	1,695	2,035	3,391	5,666
38	Annualization amounts	8	4.8	3	2
39	Deduction for one-half of self-employment tax. Divide line 37 by line 38. Enter the result here. Use this result to figure your AGI on line 1	212	424	1,130	2,833

Sample

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 2009 Estimated Tax Worksheet (ES Worksheet)		22, 35
to estimate your taxable social security and railroad retirement benefits—line 1 of ES Worksheet (or Annualized ES Worksheet (Worksheet 2-10))	Worksheet 2-1	36
to estimate your self-employment (SE) tax and your deduction for one-half of your SE tax—lines 1 and 11 of ES Worksheet (lines 1 and 13 of Annualized ES Worksheet (Worksheet 2-10))	Worksheet 2-2	37
to estimate your standard deduction—line 2 of ES Worksheet (line 7 of Annualized ES Worksheet (Worksheet 2-10))	Worksheet 2-3	38
to reduce your itemized deductions because your estimated AGI is more than \$166,800 (\$83,400 if married filing separately)—line 2 of ES Worksheet	Worksheet 2-4	39
to reduce your exemption amount because your estimated AGI is more than \$125,100—line 4 of ES Worksheet	Worksheet 2-5	39
to estimate your additional exemption amount if you house individuals displaced by a Midwestern disaster—line 4 of ES Worksheet (line 10 of Annualized ES Worksheet (Worksheet 2-10))	Worksheet 2-6	40
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 2-7	41
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 2-8	42
to estimate your Making Work Pay credit—line 13b of ES Worksheet	Worksheet 2-9	43
the 2009 Annualized Estimated Tax Worksheet (Annualized ES Worksheet)	Worksheet 2-10	44–45
to reduce your itemized deductions because your estimated annualized AGI is more than \$166,800 (\$83,400 if married filing separately)—line 6 of Annualized ES Worksheet	Worksheet 2-11	45
to reduce your exemption amount because your estimated annualized AGI is more than \$125,100—line 10 of Annualized ES Worksheet	Worksheet 2-12	46
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 2-13	47
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 2-14	48
to estimate your Making Work Pay credit—line 16 of Annualized ES Worksheet	Worksheet 2-15	49
to refigure (amend) your estimated tax during the year	Worksheet 2-16	48
2009 Tax Rate Schedules		40

Page 4 of the Instructions for 2009 Form 1040-ES



The 2009 Estimated Tax Worksheet is found on page 4 of the instructions for Form 1040-ES. When this worksheet refers you to instructions (for example, "see instructions below") or to specific page numbers, you can find the information on pages 1-7 of the instructions for 2009 Form 1040-ES.

2009 Estimated Tax Worksheet

Keep for Your Records



1	Adjusted gross income you expect in 2009 (see instructions below)		1
2	<ul style="list-style-type: none"> If you plan to itemize deductions, enter the estimated total of your itemized deductions. <p>Caution: If line 1 above is over \$166,800 (\$83,400 if married filing separately), your deduction may be reduced. See Pub. 505 for details.</p> <ul style="list-style-type: none"> If you do not plan to itemize deductions, enter your standard deduction from page 1 or Pub. 505, Worksheet 2-3. 		2
3	Subtract line 2 from line 1		3
4	Exemptions. Multiply \$3,650 by the number of personal exemptions. Caution: See Pub. 505 to figure the amount to enter if line 1 above is over: \$250,200 if married filing jointly or qualifying widow(er); \$208,500 if head of household; \$166,800 if single; or \$125,100 if married filing separately		4
5	Subtract line 4 from line 3		5
6	Tax. Figure your tax on the amount on line 5 by using the 2009 Tax Rate Schedules on page 5. Caution: If you will have qualified dividends or a net capital gain, or expect to claim the foreign earned income exclusion or housing exclusion, see 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, or Form 1040A, line 28		8
9	Credits (see instructions below). 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 below). Estimate of 2009 net earnings from self-employment \$ _____; if \$106,800 or less , multiply the amount by 15.3%; if more than \$106,800 , multiply the amount by 2.9%, add \$13,243.20 to the result, and enter the total. Caution: If you also have wages subject to social security tax or the 6.2% portion of tier 1 Railroad Retirement tax, see Pub. 505 to figure the amount to enter		11
12	Other taxes (see instructions below)		12
13a	Add lines 10 through 12		13a
	b Earned income credit, additional child tax credit, and credits from Forms 4136, 5405, 8801 (line 27), and 8885		13b
	c Total 2009 estimated tax. Subtract line 13b from line 13a. If zero or less, enter -0-		13c
14a	Multiply line 13c by 90% (66% for farmers and fishermen)	14a	
	b Enter the tax shown on your 2008 tax return (110% of that amount if you are not a farmer or fisherman and the adjusted gross income shown on that return is more than \$150,000 or, if married filing separately for 2009, more than \$75,000)	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 Pub. 505.		
15	Income tax withheld and estimated to be withheld during 2009 (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?		
	<input type="checkbox"/> Yes. Stop here. You are not required to make estimated tax payments.		
	<input type="checkbox"/> No. Go to line 16b.		
	b Subtract line 15 from line 13c	16b	
	Is the result less than \$1,000?		
	<input type="checkbox"/> Yes. Stop here. You are not required to make estimated tax payments.		
	<input type="checkbox"/> No. Go to line 17 to figure your required payment.		
17	If the first payment you are required to make is due April 15, 2009, enter 1/4 of line 16a (minus any 2008 overpayment that you are applying to this installment) here, and on your estimated tax payment voucher(s) if you are paying by check or money order. (Note: Household employers, see instructions below.)		17

Worksheet 2-1. **2009 Estimated Tax Worksheet—Line 1**
Estimated Taxable Social Security and Railroad Retirement Benefits

1. Enter your expected social security and railroad retirement benefits . . .	1. _____	2. _____
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 the total of any exclusions or adjustments for:		
• Qualified U.S. savings bond interest		
• Adoption benefits		
• Foreign earned income or housing		
• Income of bona fide residents of American Samoa 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 2009 Estimated Tax Worksheet (or Annualized ES Worksheet (Worksheet 2-10))		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 2009 Estimated Tax Worksheet (or Annualized ES Worksheet (Worksheet 2-10))		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. Expected taxable social security and railroad retirement benefits. Enter the smaller of line 17 or line 18. Include this amount in the total on line 1 of your 2009 Estimated Tax Worksheet (or Annualized ES Worksheet (Worksheet 2-10))		19. _____

Worksheet 2-2. **2009 Estimated Tax Worksheet—Lines 1 and 11**
Estimated Self-Employment Tax and Deduction

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)	3. _____
4. Multiply line 3 by 2.9% (.029)	4. _____
5. Social security tax maximum income	5. \$106,800
6. Enter your expected wages (if subject to social security tax or the 6.2% portion of tier 1 railroad retirement tax)	6. _____
7. Subtract line 6 from line 5	7. _____
Note. If line 7 is zero or less, enter -0- on line 9 and skip to line 10.	
8. Enter the smaller of line 3 or line 7	8. _____
9. Multiply line 8 by 12.4% (.124)	9. _____
10. Add line 4 and line 9. Enter the result here and on line 11 of your 2009 Estimated Tax Worksheet (or line 13 of the Annualized ES Worksheet (Worksheet 2-10))	10. _____
11. Multiply line 10 by 50% (.50). This is your expected deduction for one-half of your self-employment tax. Subtract this amount when figuring your expected AGI on line 1 of your 2009 Estimated Tax Worksheet (or Annualized ES Worksheet (Worksheet 2-10))	11. _____

*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.

Sample

Worksheet 2-3. **2009 Estimated Tax Worksheet—Line 2
Standard Deduction Worksheet**

1. Enter the amount shown below for your filing status.

- Single or married filing separately—\$5,700
- Married filing jointly or Qualifying widow(er)—\$11,400
- Head of household—\$8,350 1. _____

2. Can you (or your spouse if filing jointly) be claimed as a dependent?
 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, 1945, or blind?
 No. Go to line 6.
 Yes. Check if:
 a. **You were** Born before January 2, 1945 Blind
 b. **Your spouse was** Born before January 2, 1945 Blind
 c. **Total boxes checked in 5a and 5b**
 ▶ Multiply \$1,100 (\$1,400 if single or head of household) by the number in the box on line 5c 5. _____

Before you continue:
 If you will have deductions for net disaster losses, real estate taxes, or taxes on the purchase of a qualified motor vehicle, complete lines 6–10k as appropriate. If not, skip to line 11.

6. Enter any **net disaster loss** you expect to claim on Form 4684, line 18a. 6. _____

7. Enter the state and local **real estate taxes** you expect to pay in 2009 that would be deductible on Schedule A, line 6, if you were itemizing your deductions. Do not include foreign real estate taxes 7. _____

8. Enter \$500 (\$1,000 if married filing jointly) 8. _____

9. Enter the **smaller** of line 7 or line 8. 9. _____

10. a. Enter the total of the state or local sales or excise taxes you expect to pay in 2009 for the purchase of a **qualified motor vehicle**** 10a. _____
 b. Enter the purchase price of the qualified motor vehicle 10b. _____
 c. Is the amount in line 10b more than \$49,500?
 No. Skip this line and enter the amount from line 10a on line 10d.
 Yes. Divide \$49,500 by the amount on line 10b. Enter the result as a decimal (rounded to at least three places) 10c. _____
 d. Multiply line 10a by line 10c 10d. _____
 e. Enter the amount from line 1 of your 2009 Estimated Tax Worksheet (or Worksheet 2-10) 10e. _____
 f. Enter the total of any expected:
 • Exclusion of income from Puerto Rico, and
 • Amounts from Form 2555, lines 45 and 50; Form 2555-EZ, line 18; and Form 4563, line 15 10f. _____
 g. Add lines 10e and 10f 10g. _____
 h. Is the amount on line 10g more than \$125,000 (\$250,000 if married filing jointly)?
 No. Skip lines 10h and 10i, enter -0- on line 10j, and go to line 10k.
 Yes. Subtract \$125,000 (\$250,000 if married filing jointly) from line 10g 10h. _____
 i. Divide line 10h by \$10,000. Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000 10i. _____
 j. Multiply line 10d by line 10i 10j. _____
 k. **Sales and excise taxes on qualified motor vehicle purchases.** Subtract line 10j from line 10d. Enter the result here 10k. _____

11. **Standard deduction.** Add lines 4, 5, 6, 9, and 10k. Enter the result here and on line 2 of your 2009 Estimated Tax Worksheet (or line 7 of your 2009 Annualized Estimated Tax Worksheet (Worksheet 2-10)) 11. _____

* **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 it by one-half your self-employment tax.
 ** **Qualified motor vehicle** includes certain new cars or light trucks, motorcycles, or motor homes that you purchase. For details, see Publication 553.

Worksheet 2-4. **2009 Estimated Tax Worksheet—Line 2
Phaseout of Itemized Deductions**

1. Enter the estimated total of your itemized deductions (after applying any limits, such as the 7.5%-of-AGI limit on medical expenses)	1. _____
2. Enter the amount included in line 1 for medical and dental expenses, investment interest, casualty or theft losses, and gambling losses (after applying the same limits used in line 1)	2. _____
3. Subtract line 2 from line 1	3. _____
Note. If line 3 is zero or less, your deduction is not limited. Stop here and enter line 1 of this worksheet on line 2 of your 2009 Estimated Tax Worksheet.	
4. Multiply line 3 by 80% (.80)	4. _____
5. Enter the amount from line 1 of the 2009 Estimated Tax Worksheet	5. _____
6. Enter \$166,800 (\$83,400 if married filing separately)	6. _____
7. Subtract line 6 from line 5	7. _____
Note. If line 7 is zero or less, your deduction is not limited. Stop here and enter line 1 of this worksheet on line 2 of your 2009 Estimated Tax Worksheet.	
8. Multiply line 7 by 3% (.03). Enter the result as a decimal	8. _____
9. Enter the smaller of line 4 or line 8	9. _____
10. Divide line 9 by 1.5	10. _____
11. Subtract line 10 from line 9	11. _____
12. Total itemized deductions. Subtract line 11 from line 1. Enter the result here and on line 2 of your 2009 Estimated Tax Worksheet	12. _____

Worksheet 2-5. **2009 Estimated Tax Worksheet—Line 4
Reduction of Exemption Amount**

1. Multiply \$3,650 by the number of exemptions you plan to claim	1. _____
2. Enter the amount from line 1 of your 2009 Estimated Tax Worksheet	2. _____
3. Enter the amount shown below for your filing status. Single—\$166,800 Married filing jointly or qualifying widow(er)—\$250,200 Married filing separately—\$125,100 Head of household—\$208,500	3. _____
4. Subtract line 3 from line 2	4. _____
5. Is line 4 more than \$122,500 (\$61,250 if married filing separately)? <input type="checkbox"/> Yes. Multiply \$2,433 by the number of exemptions you plan to claim and enter the result here and on line 4 of your 2009 Estimated Tax Worksheet. Do not complete the rest of this worksheet. <input type="checkbox"/> No. Divide line 4 by \$2,500 (\$1,250 if married filing separately). If the result is not a whole number, increase it to the next higher whole number (for example, increase 0.0004 to 1)	5. _____
6. Multiply line 5 by 2% (.02). Enter the result as a decimal	6. _____
7. Multiply line 1 by line 6	7. _____
8. Divide line 7 by 3.0	8. _____
9. Deduction for exemptions. Subtract line 8 from line 1. Enter the result here and on line 4 of your 2009 Estimated Tax Worksheet. Caution. If you expect to house individuals displaced by a Midwestern disaster, enter the result on line 5 of Worksheet 2-6 and not on your 2009 Estimated Tax Worksheet	9. _____

Worksheet 2-6. **2009 Estimated Tax Worksheet—Line 4**
Additional Exemption Amount for Taxpayers Housing Midwestern Displaced Individuals

1. Maximum additional exemption amount. Enter \$2,000 (\$1,000 if married filing separately) 1. _____

2. Did you file Form 8914 in 2008?
 Yes. Enter the additional exemption amount claimed in 2008 from Form 8914, line 2.
 No. Enter -0- 2. _____

3. Subtract line 2 from line 1. This is the maximum additional exemption amount you can claim in 2009 . . . 3. _____

4. Multiply \$500 by the total number of displaced individuals that you housed in 2009. **Do not** enter more than the amount shown on line 3 4. _____

5. Enter the previously computed exemption amount (see *Exemptions—line 4* on page 21; Worksheet 2-5, line 9; or Worksheet 2-12, line 9) 5. _____

6. **Additional deduction for exemptions.** Add lines 4 and 5. Enter the result here and on line 4 of your 2009 Estimated Tax Worksheet (line 10 of your 2009 Annualized Estimated Tax Worksheet (Worksheet 2-10)) 6. _____

2009 Tax Rate Schedules

Caution. Do not use these Tax Rate Schedules to figure your 2008 taxes. Use them only to figure your 2009 estimated taxes.

Schedule X—Use if your 2009 filing status is Single				Schedule Z—Use if your 2009 filing status is Head of household			
If line 5 is:	But not over—	The tax is:	of the amount over—	If line 5 is:	But not over—	The tax is:	of the amount over—
Over—				Over—			
\$0	\$8,350	10%	\$0	\$0	\$11,950	10%	\$0
8,350	33,950	\$835.00 + 15%	8,350	11,950	45,500	\$1,195.00 + 15%	11,950
33,950	82,250	4,675.00 + 25%	33,950	45,500	117,450	6,227.50 + 25%	45,500
82,250	171,550	16,750.00 + 28%	82,250	117,450	190,200	24,215.00 + 28%	117,450
171,550	372,950	41,754.00 + 33%	171,550	190,200	372,950	44,585.00 + 33%	190,200
372,950	-----	108,216.00 + 35%	372,950	372,950	-----	104,892.50 + 35%	372,950

Schedule Y-1—Use if your 2009 filing status is Married filing jointly or Qualifying widow(er)				Schedule Y-2—Use if your 2009 filing status is Married filing separately			
If line 5 is:	But not over—	The tax is:	of the amount over—	If line 5 is:	But not over—	The tax is:	of the amount over—
Over—				Over—			
\$0	\$16,700	10%	\$0	\$0	\$8,350	10%	\$0
16,700	67,900	\$1,670.00 + 15%	16,700	8,350	33,950	\$835.00 + 15%	8,350
67,900	137,050	9,350.00 + 25%	67,900	33,950	68,525	4,675.00 + 25%	33,950
137,050	208,850	26,637.50 + 28%	137,050	68,525	104,425	13,318.75 + 28%	68,525
208,850	372,950	46,741.50 + 33%	208,850	104,425	186,475	23,370.75 + 33%	104,425
372,950	-----	100,894.50 + 35%	372,950	186,475	-----	50,447.25 + 35%	186,475

Frequently Asked Questions

FREQUENTLY ASKED QUESTIONS

PREPARATION RELATED QUESTIONS:

I've always done my own taxes but I heard it's better to have an accountant do them. Why is that?

A professional tax preparer can maximize your tax savings. An accountant can also act as a "buffer" between you and the IRS. As a matter of experience, the IRS tends to be much harder on taxpayers than they are on taxpayer representatives. Which brings up the question of the dreaded - and much to be avoided - IRS audit. Just like other taxpayers, truckers can claim every legitimate deduction but, at the same time, they need to be aware of deductions that will draw attention to or "red flag" their tax return. Even if it is legitimate, some deductions may not be worth taking because of the attention they may draw to the return.

What information is needed to prepare my income taxes?

We get many requests from clients as to what is needed for us to prepare their income tax returns aside from their business income and expenses. They are referring basically to items that are usually received in the mail which we will list below. Most tax preparers have an income tax organizer which lists everything that is needed for the preparation of an income tax return. The items that hold most people up are the end of the year statements. Listed below are the items that should have been mailed no later than January 31. If you have not received them and have allowed for adequate mailing time, you should contact your employers or financial institutions to find out where they are or to request duplicates.

1. W-2's
2. 1099's from all of your employers, i.e. people that you have hauled for, brokers, motor carriers and your independent businesses.
3. 1099's or end of year statements from banks for interest and dividend income, brokers for stock information, mutual funds, 401K and IRA distributions, and mortgage interest statements.
4. Schedule K1 if you are involved in any partnerships.
5. W-2P or 1099R for pension and annuity income.
6. 1099's and year end statements for unemployment compensation, social security income and state tax refund.
7. Contracts for the purchase and sale of equipment.
8. Escrow statements for the purchase and sale of property.
9. Confirmations from charities for donations in excess of \$250.

In general, you must have receipts and back up information for everything that appears on your tax returns.

DEDUCTION RELATED QUESTIONS:

I sold my truck last year for \$35,000. It cost me \$60,000. Do I have a loss of \$25,000?

No, you do not have a loss of \$25,000. When you sell an asset such as a truck, you must compute its adjusted basis. You then compare its adjusted basis to the sale price and that will determine your gain or loss. Let's say you bought the

truck for \$60,000 but over a few years you took \$40,000 in depreciation. You then take \$60,000 minus \$40,000 taken in depreciation which leaves \$20,000 as your adjusted basis. Now, assume you sold the truck for \$30,000. You take the sale price of \$30,000 and subtract the \$20,000 adjusted basis and that leaves a \$10,000 gain. If you traded the truck in on a new one instead of selling it, you must reduce the basis of the truck by the gain. The gain on a trade-in is not reported on your tax return. There are advantages and disadvantages relative to sales versus trade-ins.

I had a large amount of income this year compared to last year. Can I average the two years together?

Income averaging is no longer available. It was repealed by the Tax Reform Act of 1986.

Is it true you can deduct the cost for a quit smoking program?

The IRS does allow the cost of a doctor prescribed stop-smoking program to be a valid medical expense. This deduction does not include over the counter remedies such as the patch or nicotine gum. If you have paid for such a program prescribed by your doctor, you can consider amending the return for the year in which you paid and taking the deduction. Check with your tax advisor to see if this is a viable way to go for your case. Remember, medical expenses are deductible only when they exceed 7.5 percent of adjusted gross income (AGI).

What kind of property can be depreciated for tax purposes?

The kinds of property that can be depreciated include machinery, equipment, buildings, vehicles, computers, fax machine, copy machine and furniture used in a trade or business or to produce income.

May I deduct my home improvements and repairs to my home?

No. Home improvements add to the value of your home, prolong its useful life, or adapt it to new uses. You add the cost of improvements to the basis of your property. Examples of improvements include putting a recreation room in your unfinished basement, adding another bathroom, or bedroom, putting up a fence, putting in new plumbing or wiring, putting on a new roof, or paving your driveway. Repairs maintain your home in good condition. They do not add to its value or prolong its life, and you do not add their cost to the basis of your property. Some examples of repairs include repainting your house inside or out, and fixing gutters or floors.

Do I pay taxes when I sell my equipment?

Yes. If you acquire an asset for \$50,000 and you have depreciated \$40,000 worth, your tax basis in that property is \$10,000 – the \$50,000 cost less \$40,000 depreciation taken. If you were to sell that equipment for \$25,000, you would have a gain of \$15,000. (Example – cost of equipment to be sold was \$50,000 less depreciation taken of \$40,000 leaves a tax basis of \$10,000. The selling price of \$25,000 less the tax basis of \$10,000 leaves a \$15,000 gain.) The gain is ordinary income, not capital gain. If you traded in the old equipment instead of selling it, there would be no gain to report on your tax return, but the depreciation available on your new equipment would be \$15,000 less.

How can I justify my cash payments to my lumpers?

You need to maintain a book such as a daytimer, entering name, address and social security number of the person you have made the payments to. If that particular person earns \$600 or more from you, then you have to issue a 1099 at the end of the year. If you are working for a household mover who has agencies for lumpers nationwide, then you should be able to get receipts when you pay those people.

I am a company driver. What is deductible when I'm on the road?

While self-employed individuals can generally deduct any expenses incurred to earn their income, company drivers are limited to non-reimbursed expenses required by their employer. You are entitled to per diem for overnights and motel expenses. A good rule to follow for deductions would be any expenses incurred that are necessary or required in the performance of your job and/or operation of the truck but are not reimbursed by your company, such as uniforms, gloves, logbooks, maps, cell phone, CB, tools, Windex, paper towels, showers, etc. Remember, as a company driver, these deductions are only available if you itemize and are not available if you take the standard deduction.

Can I take a home office deduction?

To qualify for the home office deduction, the home office must be your principle place of business. You must use the home office regularly and exclusively for administration and management of your business. And, you may not have any other fixed location where you regularly conduct administration and management activities of the business.

Can I deduct deadhead miles?

No you cannot. There is a big misconception concerning deadhead miles. There are many truckers who think that the income lost as a result of deadhead miles is a deductible item. That is not the case. Only the cost to operate the truck, i.e. fuel, insurance, repairs, and maintenance covering those deadhead miles are deductible.

What is the per diem rate?

The per diem rate for meals in 2008 is 80% of \$52 per day.

The per diem rate for meals in 2007 is 75% of \$52 per day.

The per diem rate for meals in 2006 was 75% of \$52 per day.

The per diem rate for meals in 2005 was 70% of \$41 per day.

The per diem rate for meals in 2004 was 70% of \$41 per day.

Should I contribute to a non-deductible Roth IRA or a regular IRA which is deductible?

As you know, April 15 is the deadline to make your IRA contribution. Most taxpayers are not sure whether they should make a contribution to an IRA which is deductible and pay the taxes when a distribution is made, or make a non-deductible contribution to a Roth IRA and be able to take qualified distribution which is not taxable. Additionally, the earnings from a Roth IRA are non-taxable. It is our feeling that if you are in a 15% tax bracket, it would make sense to put the money in a Roth IRA where you can compound the earnings and get the money out tax free upon proper qualifying distributions. The potential earnings would far outweigh the tax savings of a deductible IRA. If you are in a higher tax bracket, you may need to do further analysis before deciding on a regular or Roth IRA. Your age is also a determining factor. If you are going to be in an IRA well over 5 years, it is probably more beneficial to put the money in a Roth IRA providing you are investing in stocks or mutual funds. If you are older and are going to qualify for a distribution in a few years and you are in a higher tax bracket, it may be beneficial for you to put the money in a regular deductible IRA.

FILING RELATED QUESTIONS:**What if I can't file my taxes by April 15?**

If you cannot file by April 15th, you may get an automatic 4 month extension, Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return to eliminate a late filing penalty. However, this is not an extension of time for paying any tax due.

There will still be penalties and interest for late payments. You must pay any tax due at the time the extension is filed.

I have already filed my return and now I have received another Form W-2. What can I do?

If you find that you did not report some income, you claimed deductions or credits you should not have claimed, you failed to claim some deductions or credits you are entitled to, or you should have used a different filing status, you should file an amended return. The form you use to correct the Form 1040, Form 1040A, or Form 1040EZ that you have already filed is Form 1040X, *Amended U.S. Individual Income Tax Return*.

I forgot to mail my Form W-2, schedules or forms with my tax return. What should I do?

Wait until the Internal Revenue Service requests the Form W-2, schedules or forms. The request will be made in writing within six weeks from the date you mailed the return.

Should I mail my tax return by regular mail?

The IRS will accept as proof of timely mailing a certified or registered mail receipt from the United States Postal Service or a receipt from an IRS-approved express delivery service. It is always advisable to send tax returns certified mail, return receipt requested. According to the IRS, this is the only proof you can count on to prove you mailed the return on time.

I just completed my tax return and found that I owe the IRS money. What should I do?

You should file the return even if you cannot pay the entire amount of taxes that you owe. By paying something, you can reduce the amount of interest and penalties that you will owe.

Can I ask to make installment payments on the amount that I owe?

Yes. But before requesting an installment agreement, you should consider less costly alternatives such as a bank loan.

I am unable to pay delinquent taxes. Will the IRS accept an offer in compromise?

The IRS accepts an offer in compromise to settle unpaid accounts for less than the amount owed when doubt exists that the liability can be collected in full and your offer reasonably reflects the potential collection amount. The IRS will not seriously consider an offer that does not at least equal the total amount of the equity shown on the taxpayer's financial statements.

I still haven't received my tax refund. What should I do?

If you haven't received your tax refund and it has been over six weeks, you can call the IRS at 800-829-4477. Make sure you have a copy of your return on hand when you call because you will need your social security number, filing status, and exact dollar amount of the refund. If the IRS never received the return, file another copy. There will be no penalty since you are getting money back. If the refund is lost, write the IRS Service Center where you filed your return with all the details. If you still need help, contact the Service Center's Problems Resolution Officer.

AUDIT RELATED QUESTIONS:

I am being audited and the IRS wants to interview me. What do I do?

If the IRS, during the course of an audit or other proceeding or inquiry, requests to interview you, you can't be interviewed alone if you have a representative without your consent.

What does an IRS agent look for when they visit your home or place of

business?

It isn't a good idea to let a revenue agent visit your home during an audit. An agent who knows what he is doing will hear and see things that could influence additional tax to impose. Expensive cars in your garage or luxury items in your home can trigger an investigation as to how the expenses are dealt with. Casual conversation by others can lead to tax issues otherwise not in question.

I got audited and the IRS wants me to sign a "settlement or closing" agreement. What should I do?

Before signing a settlement with the IRS, be sure you are satisfied with it. You'll be bound by it even if the IRS gives others in the same situation a better deal. If you handled the audit yourself, you might want a CPA or other tax professional to review it.

How long do I need to keep certain records?

Records such as receipts, canceled checks, and other documents that prove an item of income or a deduction appearing on your return should be kept until the statute of limitations expires for that return. Usually this is three years from the date the return was due or filed, or two years from the date the tax was paid, whichever is later. There is no period of limitations when a return is false or fraudulent or when no return is filed. You should keep some records indefinitely, such as property records, since you may need them to prove the amount of gain or loss if the property is sold. If you are an employer, you must keep all your employment tax records for at least four years after the tax is due or paid, whichever is later.