1992

Estimated Tax Practice Guide

American Institute of Certified Public Accountants.Tax Division. Individual Taxation Committee

AICPA

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RE: ESTIMATED TAX PRACTICE GUIDE

Dear Tax Division Member:

As a service to you as a Tax Division member, we are sending the enclosed information package which will alert you to the major issues facing taxpayers who must pay estimated taxes and guide you through the necessary calculations. You should know that the AICPA is working very hard to achieve a legislative or administrative solution to the problems posed by these new estimated tax rules. At this writing, legislation has been proposed in the Senate that would repeal these rules and replace them with a revised prior year's exception that would apply upon the payment of 115% of the prior year's tax. Also, the Treasury Department is exploring with us the possibility of using its administrative authority to ease the burden imposed by the unworkable estimated tax rules.

We hope you will find the enclosed information helpful.

Sincerely,

Donald H. Skadden

Donald H. Skadden
Vice President - Tax

Enclosure

ESTIMATED TAX PRACTICE GUIDE

Tax Division

MAY 1992

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INTRODUCTION

On November 15, 1991, President Bush signed legislation to accelerate estimated tax payments for certain individuals, effective for tax years beginning after 1991. The rules were enacted to help pay for an extension of unemployment benefits.[1]

Generally, all individuals must make estimated tax payments if they have income that is not subject to withholding. The change to the estimated tax payment requirements affects those who are self-employed; retired; have investment income such as interest, dividends and capital gains; or are partners or S corporation shareholders. The new rules also affect small businesses operating as sole proprietorships, partnerships or S corporations, all of which "pass through" income to their owners.

BASIC RULES

Individuals may compute their current year's estimates based on their prior year's tax even though they expect their income to be higher.[2] This method ("Exception 1") is a safe harbor that eliminates underpayment penalties. All individuals may continue to use Exception 1 for the first quarterly estimated tax payment.[3] This method is still available for many other taxpayers for the balance of the year (June, September and January), and should always be the first method considered.

Exception 1 provides individuals with a practical and uncomplicated method for determining their current year's estimated tax payments. However, it also allows individuals to defer tax payments for a year when income increases over the prior year. This was identified as a "loophole" by a Congress desperately seeking revenue to pay for the extension of unemployment benefits.

Exception 1 remains available for the entire year to an individual who:

- (a) did not make any quarterly estimated tax payments (and did not incur an assessment for failure to pay estimated taxes on time) for any of his three prior years,[4] *or*
- (b) does not meet the income tests outlined below, *or*
- (c) had no tax liability in the prior year.[5]

The individuals who do not meet the income tests are those whose **current year's** adjusted gross income (AGI):

- (a) exceeds $75,000 ($37,500 for a married individual filing a separate return); *and*
- (b) increases (after adjustments) by more than $40,000 over the preceding year ($20,000 for married filing separately).[6]

To avoid an estimated tax penalty if Exception 1 cannot be used, total combined withholding and estimated tax payments must equal the *lesser* of

- -- 90% of the current year's tax;[7] *or*
- -- 90% of the tax on income (or modified income) currently received to date (computed on an annualized basis).[8]

Because the estimated tax payments for these individuals are based on **current year's** income (tax), general partners of a partnership, limited partners owning a 10%-or-more interest in a partnership and shareholders with a 10%-or-more interest in an S corporation must obtain periodic income information to determine whether the $75,000 and $40,000 AGI thresholds of each owner have been exceeded and, if so, to compute their current year's estimated tax payments.[9]

Observation: Limited partners and S shareholders owning less than 10% of their companies can use the prior year's income from these entities when calculating the $40,000 AGI threshold and computing their current year's estimates.

The flowchart on page 3 may be used to determine whether taxpayers are subject to the new rules.

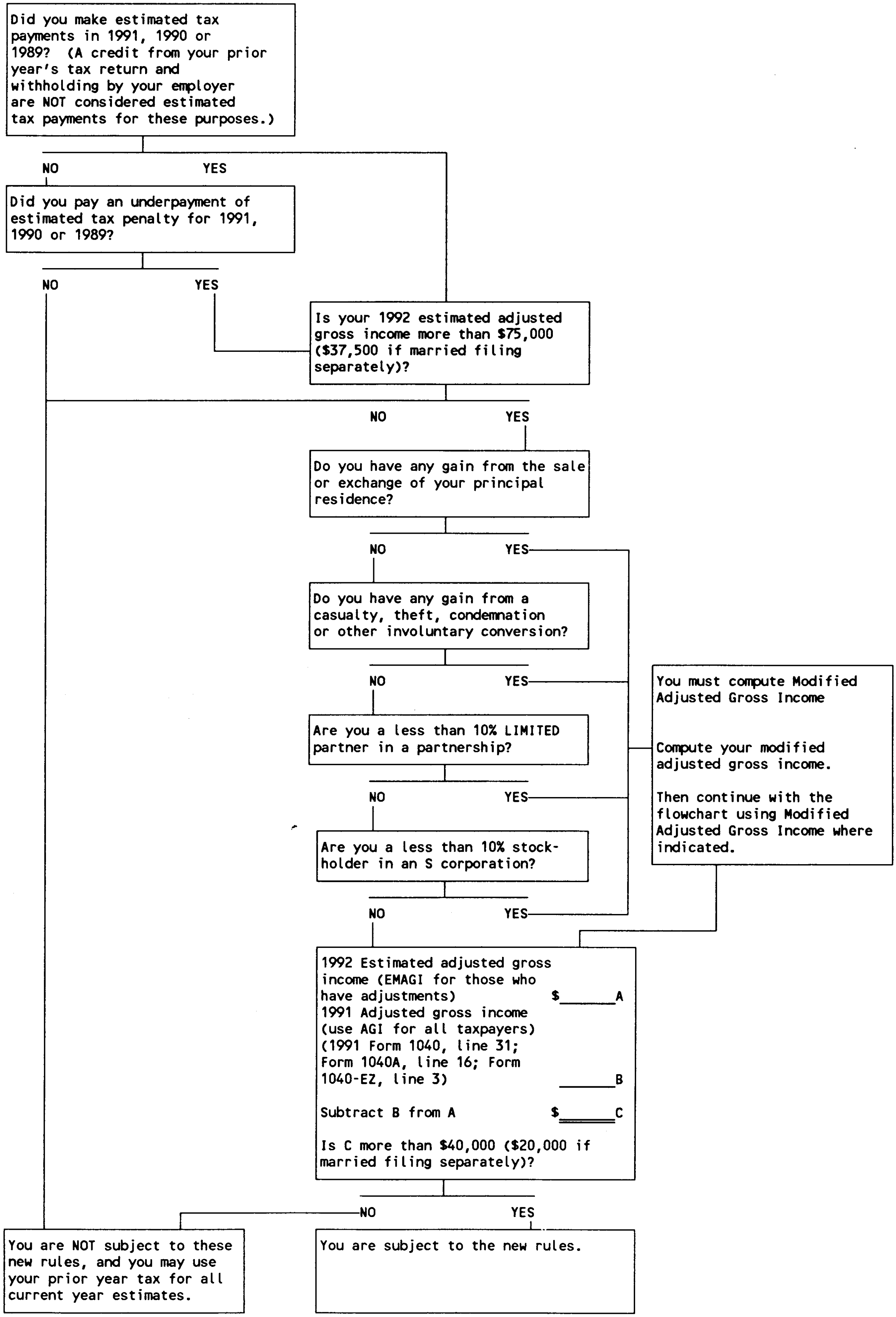
THE STEPS TO TAKE

Obtain a copy of IRS Publication 505 -- *Tax Withholding and Estimated Tax* -- and keep it for reference. The tax practitioner may also refer to various tax planning software packages, many of which incorporate the new rules.

Observation: Before enduring this process, the practitioner may wish to do a quick cost/benefit analysis of compliance with the rules and discuss the alternatives with the client. Is the time and cost of calculating precise estimated tax payments worthwhile, given the cost of "rough" compliance?[10] The client will have to make the decision. If tax payments are made ratably during the year, and all remaining tax due is paid on April 15, the following "quick formula" will give a general idea of penalty owed for underpayment of estimated tax:

1.	1992 estimated tax liability x 90%.	1.__________
2.	1992 estimated tax payments and withholding.	2.__________
3.	Penalty -- line 1. minus line 2. times .05976 (assumes 9% penalty rate for all of 1992).	3.__________

ARE YOU SUBJECT TO THE NEW RULES?



Here are the steps to take in the estimated tax process:

a. Compute 1991 tax.
b. Compute 1992 expected AGI.
c. Compute 1992 expected tax.
d. Compute 1992 modified expected AGI.
e. Compute 1992 modified tax.
f. Compute 1992 estimated tax worksheet.
g. Complete 1992 estimated tax worksheet limiting use of prior year's tax.
h. Complete 1992 annualized estimated tax worksheet.

a. Compute 1991 tax. Total 1991 tax for estimated tax computation purposes is the amount from 1991 Form 1040 line 53 (or 1991 1040A line 27, or 1991 Form 1040EZ line 7), with a few adjustments if applicable. The adjustments include the earned income credit and FICA taxes on tips. Most taxpayers subject to the new estimated tax rules will not have any adjustments.

If last year's return shows $0 tax liability, then no estimated tax payments are required for 1992.[11]

b. Compute 1992 expected AGI. Total income minus adjustments equals adjusted gross income. For 1992, calculate the expected amounts by adding together all items of expected income and loss which will be reported on the tax return for the year. Do not include tax-exempt income. Then subtract any adjustments such as the expected IRA deduction, one-half of self-employment tax, self-employed health insurance deduction,[12] Keogh/SEP deductions, penalty on early savings withdrawal, and alimony paid. Total expected 1992 AGI is the number to compare to the $75,000 threshold when determining whether the taxpayer can use Exception 1, the "100% of last year's tax" safe harbor.

Observation: At the end of the year, actual AGI, not expected AGI, is the number that will be used in determining whether the taxpayer qualified for Exception 1. Even the best projections, if at the end of the year prove wrong, may not prevent imposition of a penalty.

c. Compute 1992 expected tax. Use the 1992 Estimated Tax Worksheet (Appendix A), lines 1 through 13c to determine 1992 expected tax. Begin on line 1 of the form with expected AGI calculated in item **b.** above.

Note: If the taxpayer <u>knows</u> he is subject to the new rules, then items d. and e., following, may be skipped. However, items d. and e. should be considered when determining the least tax amount due.

d. Compute 1992 modified expected AGI. Modified expected AGI is used to determine whether the new rules apply and to calculate the minimum estimated payments if they do.

1. 1992 expected AGI (item **b.** above) 1.________

2. 1992 taxable gain from sale or exchange of principal residence included in line 1 2.________

3. 1992 taxable gain from casualty, theft or involuntary conversion included in line 1 3.________

4. 1992 income, loss, deductions from partnerships or S corporations included in line 1 where taxpayer is not a general partner (partnerships) and owns less than 10% of capital or profits or stock in the partnership or S corporation. 4.________

5. Subtract lines 2, 3 and 4 from line 1. 5.________

6. For each partnership or S corporation for which an entry was made on line four, enter the amounts from that partnership or S corporation shown on the 1991 individual return. 6.________

7. Add lines 5 and 6. This is modified expected AGI. 7.________

Modified expected AGI is the amount to use in determining whether current year income (1992) increased by more than $40,000 ($20,000 if married filing separate) over prior year's AGI as shown on the 1991 tax return. If modified expected AGI is greater than expected AGI (item **b.**), then expected AGI (item **b.**) can be used. Compare line 7 to 1991 AGI.

e. Compute 1992 modified tax. Compute 1992 modified tax based on modified expected income by the same method used in **c.** above to compute expected tax. The differences between this and step **c.** are that modified expected AGI is the starting point and expected itemized deductions and credits should include 1991 amounts if the amounts are from a pass-through entity for which you make an entry on line 4 of step **d.**. Be sure to recalculate any itemized deduction, exemption phaseouts and personal limitation.

f. Complete the 1992 Estimated Tax Worksheet. Now enough information has been developed to complete the Worksheet, begun in step **c.** above.

g. Complete the 1992 Estimated Tax Worksheet Limiting Use of Prior Year's Tax. This new form, developed by IRS to implement the new rules, is as complicated as its name implies. However, the steps outlined above provide all the necessary amounts for completing the form. A copy of the form and its instructions are in Appendix B.

h. Complete the 1992 Annualized Estimated Tax Worksheet. Annualization is the safest method of calculating required estimated payments for those who are or may be subject to the new rules. Many taxpayers may, however, end up accelerating the payment of estimated taxes for the year when using the annualization method. The 1992 Annualized Estimated Tax Worksheet and instructions are in Appendix C.

COMPLIANCE PROBLEMS AND OTHER OBSERVATIONS

Neither the law nor IRS Publication 505 addresses the difficulties of gathering information on a quarterly basis. Because AGI and modified AGI are annual amounts, not quarterly figures, they do not lend themselves to the quarterly calculations which are now required. To further complicate this, self-employed persons, general partners and S corporation shareholders cannot easily project their income, either on a quarterly or annual basis. Many of these people never did annualized income calculations and never did projections; they based their estimates on the prior year's tax. Some of the problems we anticipate follow:

- The instructions to line 9 of the Estimated Tax Worksheet Limiting Use of Prior Year's Tax (the new worksheet) (Appendix B) say that partnership and S corporation items from 1991 that must be included in modified AGI are treated as accruing ratably during 1992. The statute says that income (other than from a disposition) from limited partnerships and S corporations in which the taxpayers own less than 10% is included in modified AGI using 1991 figures and assuming it is ratable. However, that is not clear in the instruction.

  Observation: Items which are treated as adjustments to expected AGI should be treated as accruing ratably over the year, but gains and losses on disposition are treated as occurring on the date they occur.

- The term "accruing ratably" is used in Publication 505 but is not well defined. Should the taxpayer include *one quarter* of 1991 in each period, or five twelfths in period two, eight twelfths in period three and one hundred percent in period four? This could be especially difficult for fiscal year partnerships and S corporations.

  Observation: IRC section 6654(d)(2)(B) seems to indicate Congress' preference for the latter approach (five twelfths, eight twelfths, one hundred percent).

- The new rules include no provision for annualizing income from fiscal-year flow-through entities. For example, say that a taxpayer is the sole shareholder in a May 31, 1992 year-end S corporation. Do the annualization rules currently in place require that the taxpayer's April 15, 1992 estimated payment take into account the S corporation's income from June 1, 1991 through March 31, 1992? And does the taxpayer's June 15, 1992 estimated payment pick up the income from the remaining three months of the S corporation year? If the annualization rules are applied as indicated, does the taxpayer now compute annualized income in Part II of the new worksheet? The income for the second estimated payment would already include an annual amount and would be annualized again.

Observation: The answer appears to be yes, annualization rules require the taxpayer to annualize the twelve months income of the S corporation, thus imposing a great tax burden on the shareholder.

How will the new estimated tax rules alter this procedure? What about taxpayers who are partners or shareholders in multiple pass-through entities, which may have multiple fiscal year-ends? Will all pass-through entities be required to do their tax calculations on a quarterly calendar year basis regardless of whether they use fiscal year-ends?

Observation: These questions remain unanswered by the Service, however all taxpayers will most likely demand some information from all pass-through entities on a periodic basis.

- Various components of tax returns for pass-through entities realistically cannot be computed until year-end, and in many instances small businesses do not have resources to do these calculations more than once a year. Uniform capitalization (section 263A) and LIFO are two examples. Also, depreciation can be computed realistically only at year-end, due to the possible impact of mid-quarter convention and section 179 expense. Other examples include percentage of completion calculations and alternative minimum tax preferences.

  Observation: Cost of compliance does not seem to concern either Congress or the IRS. Despite AICPA recommendations, no simple safe harbors or alternatives were enacted by Congress or established by IRS in designing the forms. Due diligence and reasonable efforts to ascertain all items of income and deductions seem to be required.

- Shareholders in S corporations may shift their weighted-average percentage of ownership during the year. This could mean that a shareholder begins the year with less than 10% ownership and finishes the year with more than 10%, or vice versa. Such ownership shifts could occur from one quarter to the next.

  Observation: This appears to mean that quarterly weighted-average ownership computations must be performed. Apparently a taxpayer is allowed in the second quarter to use last year's number for his S corporation income because he owns 9%, but for his third quarter estimate he must calculate the current year income of the same S corporation because his ownership percentage increased to 11%.

- Partnerships typically allocate income at year-end due to numerous factors. The allocation is dictated by the terms of the partnership agreement, and final amounts are often based on performance which is evaluated at year-end. In addition to the regular base pay, there may be a special allocation based on each partner's productivity, amount of accounts receivable at year-end, and other factors. A safe harbor for partnership income seems appropriate, but none is provided.

Observation: Taxpayers may consider altering their current methods of allocating income, to an easily applied method. An example would be to pre-arrange allocation based on prior year's performance. It appears that all partnership allocations based on income realized during the entire taxable year should be included in the quarter earned, even if actual amounts are not "fixed" until year-end.

■ Taxpayers who are subject to the special rules limiting use of prior year's tax may be subject to a penalty even if they use the IRS' *1992 Estimated Tax Worksheet Limiting Use of Prior Year's Tax.*

Observation: The only way to assure protection from a penalty is to use the Annualized Income Installment Method. This is not clearly stated at the beginning of the explanation of the rules or on the *Worksheet.*

■ There is no *de minimis* rule for situations where the taxpayer did not make estimated tax payments in the prior three years, but did unintentionally incur a small penalty during that time.

Observation: Some would suggest that a single penalty of less than $100 imposed in this situation should not force the taxpayer into these rules. However, no such *de minimis* rule exists.

■ Publication 505, in its definition of "modified adjusted gross income," says (at item 3) that "[the] adjustment does not apply to any gain or loss from the disposition of [the taxpayer's] interest in the partnership or S corporation."

Observation: When calculating 1992 modified expected AGI, use actual income or loss from the disposition, no matter what type of interest is held.

■ The statute provides that a taxpayer who owns a less than 10% interest in a partnership and is a limited partner may use 1991 figures. However, it does not provide that if the taxpayer disposes of the partnership interest, he does not have to include the figures in modified AGI. No consideration is given to allow modified tax to be calculated using zero if these partnerships and S corporations were disposed of in the prior year. For example, a limited partnership interest sold in the prior year and a capital gain on a house sale in the current year could pose a problem because modified AGI may be more than expected AGI since the taxpayer does not <u>expect</u> the gain on the sale of the partnership.

Observation: Publication 505 indicates that the taxpayer who owns a less than 10% interest may choose not to substitute 1991 income for 1992 expected AGI. This election may be on a partnership-by-partnership basis. All adjustments for the same partnership must be treated in the same manner. While the publication uses an example where 1992 income is greater than 1991, lower expected income (or no income) in 1992 may be used by the taxpayer, at the taxpayer's option.

- Computation of taxable income for an installment period cannot always anticipate events occurring in the taxable year after the end of the period which affect the income for the taxable year and for the earlier period. For example, losses realized during the taxable year that are subject to the loss deferral rules of section 1092 may be deferred based on unrealized gain on the last day of the taxable year. Other examples include section 1256 contracts, wash sales, like-kind exchanges and condemnations.

  Observation: If a loss is subsequently deferred under section 1092, the income for the installment period will be understated. Taxpayers would be wise to make a determination based on unrealized gain at the last day of the installment period.

- Circumstances for taxpayers may change drastically during the year. Often expected income will vary greatly from actual income which, after all, is determined with the benefit of hindsight.

  Observation: The taxpayers are allowed to switch between modified AGI and regular AGI on a quarterly basis, using the amount they believe most closely reflects income. In addition, the taxpayer may switch to the annualized income method. Once the taxpayers annualize, however, they may not switch back to an actual income exception in a subsequent quarterly calculation.

- Taxpayers may be confused about how much withholding may be credited to each quarter.

  Observation: Unless elected otherwise, withholding is assumed even over the year and one-fourth of the withholding for the year is attributable to each quarterly installment. If actual withholding is used, include withholding through the payment date (e.g., June 15 for the second payment). Taxpayers cannot switch between actual and apportioned amounts when crediting withholding.

- Will these federal estimated tax rules be adopted by the states?

  Observation: New York State has already adopted similar rules. Look for more states to follow.

TAX SIMPLIFICATION IT'S NOT!

The new law can make compliance with quarterly estimated tax requirements extremely complicated and burdensome, especially for sole proprietorships and many partnerships and S corporations.[13]

Full adherence to the new law by individuals generally will require these pass-through entities to determine net income as of May 31, August 31 and December 31 of each year for their owners' estimated tax obligations using the same adjustments and computations required at year-end. These entities will have to determine net income within a few days of those dates to enable their owners to make timely estimated tax calculations and payments on June 15, September 15 and January 15. Partnerships and S corporations will have to undertake this additional interim work even if there is only one individual general partner or one more-than-10% limited partner or S corporation shareholder. There may be many situations in which the penalty for underpaying estimated taxes is less than the cost of the additional work required.

Example 1: Husband *H* and wife *W* file joint returns for 1991 and 1992. *H* is a general partner of a partnership, with his share of the earnings approximating $90,000 a year. *W* is an employee earning approximately $50,000 a year. *H* and *W* have made quarterly estimated tax payments for years because of his partnership earnings. Taking advantage of the old law, *H* and *W* postponed the sale of unimproved real estate from December 1991 to January 1992. The gain on the sale was $100,000.

Under the old law, *H* and *W* would have been able to base their 1992 quarterly estimated tax payments on their 1991 tax, without the $100,000 gain, because the sale did not occur until 1992. Payment of the $28,000 capital gains tax would not be due until April 15, 1993. Simply by postponing the sale until 1992, *H* and *W* would have use of the money without interest for 15 1/2 months. Under the new law, the $100,000 gain will significantly affect the 1992 estimated tax payments. Because *H* is a general partner in a partnership, *H* and *W* must base their June 15, 1992 quarterly estimate on the income earned by *H*'s partnership through May 31, 1992, rather than on last year's income, even if *H*'s income from his partnership has not increased by more than $40,000.

Example 2: Individual *A* is the owner of a large catering business operating as a sole proprietorship. His income is substantial, but unpredictable from year to year. Food and supplies are *A*'s largest cost and are purchased in bulk, stored and used as needed. *A* determines his food and supply cost for the year by taking a physical inventory of what is on hand at the end of each year, a process that usually takes a full day with the help of several employees. *A* has 10 vans, a few of which are usually traded in each year. *A*'s accountant determines depreciation on the vans when preparing *A*'s tax return, usually in March.

Since *A*'s annual AGI is more than $75,000 and can increase by more than $40,000 unexpectedly, *A* will have to determine, or make fairly accurate estimates of, his net income within 15 days after May 31, August 31 and December 31 to assure himself that he will not be subject to an underpayment of estimated tax penalty for the year.

Example 3: ABC is a law partnership with a sizeable litigation department, accustomed to fluctuations in income each year. It files its tax return using the cash method. Although the partnership prepares fairly accurate monthly and quarterly statements of accrual and cash basis net income, it is not until December when it can most accurately project its net income for the year. Based on that projection, at the end of December it distributes bonuses to associates and support staff. *ABC* also awards bonuses to partners, determined in February of the following year, based on annual performance under a formula point system. Accordingly, it is not until after February of the following year that a partner is able to accurately determine his income for the preceding year.

Example 4: *X* company is a family-owned S corporation engaged in the commercial construction business. Individual *M* is the only shareholder owning more than 10% of the outstanding stock. *X* computes its income using the percentage of completion method for its long-term contracts. Because *M*'s AGI is more than $75,000 and often increases by more than $40,000 over the preceding year, beginning this year *X* will have to determine its net income as of May 31, August 31 and December 31, within 15 days thereafter, in order for *M* to make accurate and timely estimated tax payments. That will require *X* to evaluate the costs and revenues on all its long-term contracts several times during the year, instead of the one time it has conducted such a complete review in the past.

Examples 2, 3 and 4 demonstrate a huge dilemma faced by small businesses and their owners. Considering the additional time and cost involved in making more frequent determinations of net income, some may continue to base current year's quarterly estimates on last year's tax. Even if the individual underestimates annual income by as much as $100,000, the federal tax on $100,000 would be $31,000 and the underpayment penalty on that amount, at the current rate of 9%, assuming taxable income of $200,000, and assuming income is earned evenly throughout the year, would be approximately $1,600. Taxpayers with higher taxable incomes may actually have smaller penalties on the same $100,000 underestimate of income.

CONCLUSION

Despite the potential use of Exception 1 to defer the payment of tax, there are practical compliance reasons why that method of determining quarterly estimated tax payments has been part of the pay-as-you-go tax system since its inception in 1943. The AICPA and other concerned groups have offered the Treasury and Congress other alternatives for accelerating estimated tax payments of individuals while retaining the prior year's tax exception. One proposed alternative, for example, is to require individuals with AGI in the prior year over a certain amount (e.g., $75,000) to base their current year's estimate on more than 100%

of their prior year's tax (e.g., 115%). At the present time, practitioners and their clients can only hope that Congress will soon realize the complexity and burden created by the new law for both individual taxpayers and the IRS and replace it with a more workable method.

Notes

1. P.L. 102-164, 102d Cong., 1st Sess. (1991).

2. Internal Revenue Code section (sec.) 6654(d)(1)(B)(ii).

3. Sec. 6654(d)(1)(C)(iii), added by Section 403 of P.L. 102-164. Taxpayers using this exception must "catch up" any additional first-quarter liability with the second payment, due in June.

4. Sec. 6654(d)(1)(C)(ii)(III). Be careful, assessments on 1991 failures to pay estimated tax may be imposed at some later date.

5. Sec. 6654(e)(2).

6. Sec. 6654(d)(1)(C)(ii)(I) and (II).

7. Sec. 6654(d)(1)(C)(i).

8. Sec. 6654(d)(1)(C)(iv).

9. Sec. 6654(d)(1)(E)(ii).

10. See, for example, Lorin D. Luchs, "New Rules for Estimated Tax Payments," The Tax Adviser, April, 1992, p. 203.

11. Sec. 6654(e)(2).

12. This deduction is scheduled to expire June 30, 1992. Congress may or may not extend the life of this provision. As of this writing, certain proposals in Congress would allow 100% deduction of health insurance for self-employeds.

13. Certain estates and trusts are also affected by the new law (Sec. 6654(l)). The problems fiduciaries and beneficiaries of estates and trusts will have in complying with the new estimated tax rules are beyond the scope of this guide.

1992 Estimated Tax Worksheet (keep for your records)

1	Enter amount of adjusted gross income you expect in 1992	1	
2	• If you plan to itemize deductions, enter the estimated total of your itemized deductions. **Caution:** If line 1 above is over $105,250 ($52,625 if married filing separately), your deduction may be reduced. See Pub. 505 for details. • If you do not plan to itemize deductions, see **Standard Deduction for 1992** on page 2, and enter your standard deduction here.	2	
3	Subtract line 2 from line 1	3	
4	Exemptions. Multiply $2,300 by the number of personal exemptions. If you can be claimed as a dependent on another person's 1992 return, your personal exemption is not allowed. **Caution:** If line 1 above is over $157,900 ($131,550 if head of household; $105,250 if single; $78,950 if married filing separately), get Pub. 505 to figure the amount to enter	4	
5	Subtract line 4 from line 3	5	
6	**Tax.** Figure your tax on the amount on line 5 by using the 1992 Tax Rate Schedules on page 2. DO NOT use the Tax Table or the Tax Rate Schedules in the 1991 Form 1040 or Form 1040A instructions. **Caution:** If you have a net capital gain and line 5 is over $86,500 ($74,150 if head of household; $51,900 if single; $43,250 if married filing separately), get Pub. 505 to figure the tax	6	
7	Additional taxes (see line 7 instructions)	7	
8	Add lines 6 and 7	8	
9	Credits (see line 9 instructions). Do not include any income tax withholding on this line	9	
10	Subtract line 9 from line 8. Enter the result, but not less than zero	10	
11	Self-employment tax. Estimate of 1992 net earnings from self-employment $.................; if **$55,500 or less,** multiply the amount by .153; if **more than $55,500,** see line 11 instructions for the amount to enter. **Caution:** If you also have wages subject to social security or Medicare tax, get Pub. 505 to figure the amount to enter	11	
12	Other taxes (see line 12 instructions)	12	
13a	Add lines 10 through 12	13a	
b	Earned income credit and credit from **Form 4136**	13b	
c	Subtract line 13b from line 13a. Enter the result, but not less than zero. **THIS IS YOUR TOTAL 1992 ESTIMATED TAX** ▶	13c	
14a	Multiply line 13c by 90% (66⅔% for farmers and fishermen) — 14a		
b	Enter 100% of the tax shown on your 1991 tax return — 14b **Caution:** If 14b is **smaller** than 14a **and** line 1 above is over $75,000 ($37,500 if married filing separately), stop here and see **Limit on Use of Prior Year's Tax** on page 1 before continuing.		
c	Enter the **smaller** of line 14a or 14b. **THIS IS YOUR REQUIRED ANNUAL PAYMENT** ▶ **Caution:** Generally, if you do not prepay 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. If you prefer, you may pay 100% of your 1992 estimated tax (line 13c). For more details, get Pub. 505.	14c	
15	Income tax withheld and estimated to be withheld during 1992 (including income tax withholding on pensions, annuities, certain deferred income, etc.)	15	
16	Subtract line 15 from line 14c. (**Note:** *If line 13c minus line 15 is less than $500, you do not have to make estimated tax payments.*) If you are applying an overpayment from 1991 to 1992 estimated tax, see **How To Complete and Use the Payment-Voucher** on page 4	16	
17	If the first payment you are required to make is due April 15, 1992, enter ¼ of line 16 (minus any 1991 overpayment that you are applying to this installment) here and on your payment-voucher(s)	17	

To Figure Your Estimated Tax Use

- The 1992 Estimated Tax Worksheet on page 3
- The instructions below for the worksheet on page 3
- The 1992 Tax Rate Schedules on this page
- Your 1991 tax return as a guide

See the 1991 Instructions for Form 1040 or 1040A for information on figuring your income, deductions, and credits, including the taxable amount of social security benefits.

To amend or correct your estimated tax, see Amending Estimated Tax Payments on page 4.

Instructions for Worksheet on Page 3

Line 7—Additional Taxes. Enter the additional taxes from **Form 4970,** Tax on Accumulation Distribution of Trusts, or **Form 4972,** Tax on Lump-Sum Distributions.

Line 9—Credits. See the 1991 Form 1040, lines 41 through 45, or Form 1040A, lines 24a and 24b, and the related instructions.

Line 11—Self-Employment Tax. If you and your spouse make joint estimated tax payments and you both have self-employment income, figure the self-employment tax separately. Enter the total on line 11. When figuring your estimate of 1992 net earnings from self-employment, be sure to use only 92.35% of your total net profit from self-employment.

If your estimate of 1992 net earnings from self-employment is more than $55,500 but less than $130,200, multiply the amount in excess of $55,500 by .029. Add $8,491.50 to the result and enter the total on line 11. If your estimate of 1992 net earnings from self-employment is $130,200 or more, enter $10,657.80 on line 11.

Line 12—Other Taxes. Enter any other taxes, such as tax on early distributions (Form 5329, Part II, only), and alternative minimum tax. Do not include any recapture of Federal mortgage subsidy. For details, see page 26 of the 1991 Instructions for Form 1040. You do not have to include social security and Medicare tax on tip income not reported to your employer or uncollected employee social security and Medicare or RRTA tax on tips or group-term life insurance.

1992 Tax Rate Schedules

Caution: *Do not use these Tax Rate Schedules to figure your 1991 taxes. Use only to figure your 1992 estimated taxes.*

Single—Schedule X

If line 5 is: Over—	But not over—	The tax is:	of the amount over—
$0	$21,450	.........15%	$0
21,450	51,900	$3,217.50 + 28%	21,450
51,900	....	11,743.50 + 31%	51,900

Head of household—Schedule Z

If line 5 is: Over—	But not over—	The tax is:	of the amount over—
$0	$28,750	.........15%	$0
28,750	74,150	$4,312.50 + 28%	28,750
74,150	....	17,024.50 + 31%	74,150

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

If line 5 is: Over—	But not over—	The tax is:	of the amount over—
$0	$35,800	.........15%	$0
35,800	86,500	$5,370.00 + 28%	35,800
86,500	....	19,566.00 + 31%	86,500

Married filing separately—Schedule Y-2

If line 5 is: Over—	But not over—	The tax is:	of the amount over—
$0	$17,900	.........15%	$0
17,900	43,250	$2,685.00 + 28%	17,900
43,250	....	9,783.00 + 31%	43,250

1992 Estimated Tax Worksheet Limiting Use of Prior Year's Tax

(*Caution:* First read the instructions on page 19.)

Part I — Regular Computation.	(a) 1st installment	(b) 2nd installment	(c) 3rd installment	(d) 4th installment
1. Divide line 14b of the 1992 Estimated Tax Worksheet by four (4) and enter the result in each column.				
2. In each column, enter 22.5% of your 1992 modified expected tax (see instructions).				
3. Enter the larger of line 1 or line 2.				
4. Divide line 14a of the 1992 Estimated Tax Worksheet by four (4) and enter the result in each column.				
5. Enter the smaller of line 3 or line 4. If **both** line 2 and line 4 are larger than line 1, go to line 6. Otherwise, skip lines 6-19 and enter these amounts on line 20 below (or on line 22 of the **1992 Annualized Estimated Tax Worksheet**, if applicable).				
6. Enter the amount from column (a), line 7.				
7. Subtract line 1 from line 5.				
8. In column (a), enter the amount from line 1. In column (b), add lines 5 and 6 and enter the result. In columns (c) and (d), enter the amount from line 5. If you are using Part II below, go to line 9. Otherwise, skip Part II and enter these amounts on line 20 below (or on line 22 of the **1992 Annualized Estimated Tax Worksheet**, if applicable).				

Part II — Optional Computation. Complete each column after the end of the period shown (see instructions).

Estates and trusts: Use the following ending dates in each column — 2/29, 4/30, 7/31, 11/30.	(a) 1/1/92–3/31/92	(b) 1/1/92–5/31/92	(c) 1/1/92–8/31/92	(d) 1/1/92–12/31/92
9. Enter your modified AGI for each period shown above line 9 (see instructions).				
10. Annualization amounts. (Estates and trusts, **do not** use the amounts shown to right. Instead, use 3, 1.71429, and 1.09091.)		2.4	1.5	1.0
11. **Annualized modified AGI**. Multiply line 9 by line 10.				
12. Enter your 1991 AGI, as shown on your return, in each column.				
13. Subtract line 12 from line 11. If less than zero, enter -0-.				
14. Enter your AGI for each period shown above line 9 (see instructions).				
15. **Annualized AGI**. Multiply line 14 by line 10.				
16. In column (a), enter the amount from line 1. In columns (b)–(d), enter the amount from line 5 **if**: • Line 13 is more than $40,000 (more than $20,000 if married filing separately), **and** • Line 15 is more than $75,000 (more than $37,500 if married filing separately). Otherwise, enter the amount from line 1.				
17. Subtract line 16 from line 5.				
18. If you entered -0- on line 17, add the amounts on line 17 of all preceding columns. From the result, subtract the total of the amounts on line 18 of all preceding columns and enter the result. Otherwise, enter -0-.				
19. Add lines 16 and 18. Enter here and on line 20 below (or on line 22 of the **1992 Annualized Estimated Tax Worksheet**, if applicable).				

Part III — Required Estimated Tax Payments.	(a) 1st installment	(b) 2nd installment	(c) 3rd installment	(d) 4th installment
20. Enter the amount from line 5, line 8, or line 19, whichever applies.				
21. Income tax withheld or expected to be withheld (see instructions).				
22. **Required estimated tax payment**. Subtract line 21 from line 20.				

Tax Withholding and Estimated Tax

Instructions for worksheet. Complete all four columns of the worksheet, regardless of when you must make your first estimated tax payment. (See *When to Start* under *When to Pay Estimated Tax*, earlier.)

Use Part I of the worksheet to figure a tentative amount for each installment. If you want to, you can use this tentative amount to figure your required estimated tax payment in Part III. However, you may be able to lower one or more installments by choosing to use Part II of the worksheet or the 1992 Annualized Estimated Tax Worksheet. (See *Annualized Income Installment Method*, later.)

Use the optional Part II only if you completed lines 6-8 of the worksheet. Part II may let you base one or more installments on the amount of your 1991 tax rather than on 90% of your expected 1992 tax or modified tax. You will be able to do this if, for the period from the beginning of the tax year through the end of the installment period, your annualized AGI does not exceed $75,000 ($37,500 if you are married filing separately) *or* your annualized modified AGI does not exceed your 1991 AGI by more than $40,000 (more than $20,000 if you are married filing separately).

Use Part III to figure your required estimated tax payments, unless you choose to use the 1992 Annualized Estimated Tax Worksheet.

If you refigure your estimated tax during the year, complete all columns again, including those for past installment periods. Total the refigured amounts of your required estimated tax payments (line 22) through the next payment due, subtract the estimated tax you previously paid (including any 1991 overpayment you applied), and pay any balance by the next payment due date. (Or if you choose to use the 1992 Annualized Estimated Tax Worksheet, enter on line 22 of that worksheet the refigured amounts from line 5, 8, or 19 of this worksheet.)

Line 2. Figure your 1992 modified expected tax, as explained earlier. (See *Limit on use of prior year's tax* under *Required Annual Payment*, earlier.) Multiply the result by 22.5% to find the amount to enter on line 2 of each column.

Line 9. Figure the amount to enter on this line after you figure your AGI amount on line 14. Modify the amount from line 14 as explained earlier in the definition of modified AGI. (See *Limit on use of prior year's tax* under *Required Annual Payment*, earlier.) Partnership and S corporation items from 1991 that must be included in your modified AGI are treated as accruing ratably during 1992.

Line 14. For help in figuring your AGI for the period, use the instructions for line 1 of the 1992 Annualized Estimated Tax Worksheet under *Annualized Income Installment Method*, later. (But do not use modified AGI on this line.) You also will need to complete Section B of that worksheet if you received self-employment income during the period.

Line 21. Divide your expected withholding for 1992 by four and enter the result in each column, unless you choose to use the actual withholding method. Under this method, you enter the amount withheld or expected to be withheld for 1992 through April 15 in column (a), after April 15 through June 15 in column (b), after June 15 through September 15 in column (c), and after September 15 in column (d). (***Note:*** If line 13c of the 1992 Estimated Tax Worksheet exceeds the total of the amounts on this line by less than $500, you are not required to make estimated tax payments.)

Your expected withholding includes the income tax you expect to be withheld from all sources (wages, pensions and annuities, etc.). It also includes excess social security, Medicare, and railroad retirement tax you expect to be withheld from your wages. (An excess usually will be withheld if you have two or more employers during 1992 who pay you a total of more than $55,500.)

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 this worksheet are modified as follows:

1) Skip column (a).
2) On line 1, enter one-half of the amount from line 15b of the Form 1040-ES(NR) 1992 Estimated Tax Worksheet in column (b) and one-fourth in columns (c) and (d).
3) In column (b) of line 2, enter 45% of your modified expected 1992 tax.
4) On line 4, enter one-half of the amount from line 16a of the Form 1040-ES(NR) 1992 Estimated Tax Worksheet in column (b) and one-fourth in columns (c) and (d).
5) In columns (b)-(d) of line 21, enter one-third of your expected withholding for 1992, unless you choose to use the actual withholding method. Under this method, in column (b) enter the amount withheld or expected to be withheld for 1992 through June 15, 1992. (***Note:*** If line 15 of the Form 1040-ES(NR) 1992 Estimated Tax Worksheet exceeds the total of the amounts on this line by less than $500, you are not required to make estimated tax payments.)

1992 Annualized Estimated Tax Worksheet

(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 each column—2/29, 4/30, 7/31, 11/30.*		1/1/92 to 3/31/92	1/1/92 to 5/31/92	1/1/92 to 8/31/92	1/1/92 to 12/31/92
1 Adjusted gross income for the period. (***Caution:*** *See instructions.*)	1				
2 Annualization amounts. (Estates and trusts, **do not** use the amounts shown to right. Instead, use 6, 3, 1.71429, and 1.09091.)	2	4	2.4	1.5	1
3 Multiply line 1 by line 2.	3				
4 Itemized deductions for period. If you do not expect to itemize, skip to line 6 and enter zero.	4				
5 Annualization amounts. (Estates and trusts, **do not** use the amounts shown to right. Instead, use 6, 3, 1.71429, and 1.09091.)	5	4	2.4	1.5	1
6 Multiply line 4 by line 5. (***Caution:*** See instructions.)	6				
7 Standard deduction from 1992 tables.	7				
8 Enter the larger of line 6 or line 7.	8				
9 Subtract line 8 from line 3.	9				
10 Multiply $2,300 by your total expected exemptions. (***Caution:*** See instructions.)	10				
11 Subtract line 10 from line 9.	11				
12 Tax on the amount on line 11 from the 1992 Tax Rate Schedules.	12				
13 Self-employment tax from line 40 of Section B.	13				
14 Other taxes for the period.	14				
15 Add lines 12, 13, and 14.	15				
16 Credits for the period.	16				
17 Total tax. Subtract line 16 from line 15. (If less than zero, enter zero.)	17				
18 Applicable percentage.	18	22.5%	45%	67.5%	90%
19 Multiply line 17 by line 18.	19				
20 Add amounts on line 26a of all preceding columns.	20				
21 Annualized income installment. Subtract line 20 from line 19. (If less than zero, enter zero.)	21				
22 Divide line 14c of the Form 1040-ES Estimated Tax Worksheet by 4. (If you filled out the *1992 Estimated Tax Worksheet Limiting Use of Prior Year's Tax*, enter the amount from line 5, 8, or 19 of the worksheet, whichever applies.)	22				
23 Enter amount from line 25 of preceding column.	23				
24 Add lines 22 and 23.	24				
25 If line 24 is more than line 21, subtract line 21 from line 24. Otherwise, enter zero.	25				
26a Enter the smaller of line 21 or line 24. (***Caution:*** *See instructions.*)	26a				
b Total required payments for the period. Add lines 20 and 26a.	26b				
c Withholding and estimated tax payments through the due date for the period.	26c				
d Estimated tax payment required by the next due date. Subtract line 26c from line 26b and enter the result (but not less than zero).	26d				

1992 Annualized Estimated Tax Worksheet (continued from previous page)

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

			1/1/92 to 3/31/92	1/1/92 to 5/31/92	1/1/92 to 8/31/92	1/1/92 to 12/31/92
27a	Multiply your income and profits subject to self-employment tax by 92.35% (.9235) and enter the result.	27a				
b	Annualization amounts.	27b	4	2.4	1.5	1
c	Multiply line 27a by line 27b.	27c				
28	Social security tax maximum income.	28	$55,500	$55,500	$55,500	$55,500
29	Social security wages and tips for the period.	29				
30	Annualization amounts.	30	4	2.4	1.5	1
31	Multiply line 29 by line 30.	31				
32	Subtract line 31 from line 28. If zero or less, enter -0-.	32				
33	Multiply the smaller of line 27c or line 32 by .124.	33				
34	Medicare tax maximum income.	34	$130,200	$130,200	$130,200	$130,200
35	Medicare wages and tips for the period.	35				
36	Annualization amounts.	36	4	2.4	1.5	1
37	Multiply line 35 by line 36.	37				
38	Subtract line 37 from line 34. If zero or less, enter -0-.	38				
39	Multiply the smaller of line 27c or line 38 by .029.	39				
40	Add lines 33 and 39. Enter the result here and on line 13 of Section A.	40				

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.

To see if you can pay less for any period, complete the blank *1992 Annualized Estimated Tax Worksheet* at the end of this chapter. The worksheet annualizes your tax at the end of each period based on a reasonable estimate of your income, deductions, and other items relating to events that occurred since the beginning of the tax year through the end of the period. See the example under *Annualized Income Installment Method* at the end of this chapter for an illustration of the worksheet.

Note. If you use the annualized income installment method to figure your estimated tax payments, you ***must*** file Form 2210 with your 1992 tax return. See *Annualized Income Installment Method* in Chapter 4 for more information.

Instructions For Worksheet

After the end of each payment period, complete the worksheet column for the period from the beginning of the tax year through the end of that payment period to figure how much estimated tax to pay by the payment due date.

Line 1. Figure your total income for the period, minus your adjustments to income for the period. (See *Expected Adjusted Gross Income* under *How to Figure Estimated Tax*, earlier.) Include your share of partnership or S corporation income or loss items for the period.

If you received self-employment income, first complete Section B and enter your self-employment tax for each period on line 13 of Section A. To figure your adjustment to income for each period, divide the amount on line 13 of Section A by:

8 for the first period,

4.8 for the second period,

3 for the third period, or

2 for the fourth period.

2/18/92]

Election to use modified AGI. Each period, you can choose to use your modified AGI for the period on line 1. (See *Limit on use of prior year's tax* under *Required Annual Payment*, earlier, to see how to figure modified AGI.) You can make this choice ***only*** if you made an estimated tax payment for 1991, 1990, or 1989, ***or*** you were charged a penalty for not paying estimated tax for any of those years, ***and*** you satisfy ***three other conditions.***

You satisfy the ***first condition*** if your AGI for the period is more than:

$18,750 for the first period ($9,375 if married filing separately),

$31,250 for the second period ($15,625 if married filing separately),

$50,000 for the third period ($25,000 if married filing separately), or

$75,000 for the fourth period ($37,500 if married filing separately).

To see whether you satisfy the ***second condition***, complete the following worksheet for each period.

1. Enter your modified AGI for the period .... ______
2. Enter your 1991 AGI as shown on your return .... ______
3. Annualization amounts. Enter:
   4 for the first period,
   2.4 for the second period,
   1.5 for the third period, or
   1 for the fourth period
   (Estates and trusts use 6, 3, 1.71429, and 1.09091.) .... ______
4. Divide line 2 by line 3 .... ______
5. Subtract line 4 from line 1 .... ______

You satisfy the second condition if the amount on line 5 above is more than:

$10,000 for the first period ($5,000 if married filing separately),

$16,667 for the second period ($8,333 if married filing separately),

$26,667 for the third period ($13,333 if married filing separately), or

$40,000 for the fourth period ($20,000 if married filing separately).

To see whether you satisfy the ***third condition,*** complete at least Part I of the 1992 Estimated Tax Worksheet Limiting Use of Prior Year's Tax. You satisfy the third condition only if the amount on line 2 of the worksheet is more than the amount on line 1. Also, if you use your modified AGI, enter the amount from line 5, 8, or 19 of the 1992 Estimated Tax Worksheet Limiting Use of Prior Year's Tax on line 22 of this worksheet. See *Special Rules Limiting Use of Prior Year's Tax* under *Regular Installment Method*, earlier.

Line 4. If you elected to use your modified AGI on line 1, use the amount of your 1991 itemized deductions (rather than the 1992 amounts) from partnerships in which you are not a general partner and own less than a 10% capital or profits interest and from S corporations in which you own less than 10% of the stock (by vote or value).

Line 6. Multiply line 4 by line 5 and enter the result on line 6, unless line 3 is more than $105,250 ($52,625 if married filing separately). In that case, use the following worksheet to figure the amount to enter on line 6.

1. Enter the amount from line 4 of Section A .... ______
2. Enter the amount included in line 1 for medical and dental expenses, investment interest, casualty or theft losses, and gambling losses .... ______
3. Subtract line 2 from line 1 .... ______

4. Enter the number from line 5 of Section A .... ______
5. Multiply the amount on line 1 by the number on line 4 .... ______

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

6. Multiply the amount on line 3 by the number on line 4 ....
7. Multiply the amount on line 6 by .80 .... ______
8. Enter the amount from line 3 of Section A .... ______
9. Enter $105,250 ($52,625 if married filing separately) .... ______
10. Subtract line 9 from line 9 .... ______
11. Multiply the amount on line 10 by .03 .... ______
12. Enter the smaller of line 7 or line 11 .... ______
13. Subtract line 12 from line 5. Enter the result here and on line 6 of Section A .... ______

Line 7. See the 1992 Standard Deduction Tables at the end of this publication. Find your standard deduction in the appropriate table.

Line 10. Multiply $2,300 by your total expected exemptions, unless line 3 is more than the amount shown for your filing status in the following table.

Single	$105,250
Married filing jointly or qualifying widow(er)	$157,900
Married filing separately	$ 78,950
Head of household	$131,550

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

1. Enter the amount from line 3 of Section A ______
2. Enter the amount shown for your filing status from the above table .... ______
3. Subtract line 2 from line 1 .... ______
4. Divide the amount on line 3 by $2,500 ($1,250 if married filing separately). If the result is not a whole number, increase it to the next whole number .... ______
5. Multiply the number on line 4 by .02. Enter the result as a decimal, but not more than 1 .... ______
6. Multiply $2,300 by your total expected exemptions .... ______
7. Multiply the amount on line 6 by the decimal on line 5 .... ______
8. Subtract line 7 from line 6. Enter the result here and on line 10 of Section A .... ______

Line 12. Use the 1992 Tax Rate Schedules at the end of this publication or in the instructions to Form 1040-ES to figure your annualized income tax. For the special method that must be used to figure tax on the income of a child under 14 who has more than $1,200 ($1,100 for 1991) investment income, see *Tax on Investment Income of Child Under 14* in Publication 929, *Tax Rules for Children and Dependents.*

Use the following worksheet to figure the amount to enter on line 12 if the amount on line 1 includes a ***net capital gain*** (net long-term capital gain in excess of net short-term capital loss), and line 11 is more than:

$51,900, if single,

$86,500, if married filing jointly or qualifying widow(er),

$43,250, if married filing separately, or

$74,150, if head of household.

1. Enter the amount from line 11 of Section A .... ______
2. Multiply the net capital gain included in line 1 of Section A by the number on line 2 of Section A .... ______
3. Subtract line 2 from line 1 .... ______
4. Enter:
   $51,900 if single
   $86,500 if married filing jointly or qualifying widow(er)
   $43,250 if married filing separately
   $74,150 if head of household .... ______
5. Enter the larger of line 3 or line 4 .... ______
6. Subtract line 5 from line 1 .... ______
7. Figure the tax on the amount on line 5 using the 1992 Tax Rate Schedules, and enter the result .... ______
8. Multiply the amount on line 6 by .28 .... ______
9. Add line 7 and line 8. Enter the result here and on line 12 of Section A .... ______

Line 13. Use Section B to figure your annualized self-employment tax.

Line 14. Include all the taxes you will owe (other than income tax and self-employment tax) because of events that occurred during the period. These include the taxes shown on lines 39, 48, 49 (other than from Form 8828), and 51 of the 1991 Form 1040, plus advance earned income credit payments on line 52 and any write-in amounts on line 53 (other than uncollected social security, Medicare, or railroad retirement tax). On the 1991 Form 1040A, include as "other tax" any advance earned income credit payments on line 26. If you elected to use your modified AGI on line 1, figure your other taxes using the amount of your 1991 items that affected those taxes (rather than the 1992 amounts) from partnerships in which you are not a general partner and own less than a 10% capital or profits interest and from S corporations in which you own less than 10% of the stock (by vote or value).

Line 16. Include all the credits (other than withholding credits) you can claim because of events that occurred during the period. On the 1991 Form 1040, these include the credit on line 56, the credit from Form 4136 included on line 59, and the credits that are included in the total on line 45. (But see *Expiring tax items* in the discussion of *Important Changes for 1992* at the beginning of this publication.) On the 1991 Form 1040A, these are the credits on lines 24a, 24b, and 28c.

If you elected to use your modified AGI on line 1, use the amount of your 1991 credits (rather than your 1992 credits) from partnerships in which you are not a general partner and own less than a 10% capital or profits interest and from S corporations in which you own less than 10% of the stock (by vote or value).

Line 26a. If line 24 is smaller than line 21 and line 22 is based on an estimate of your 1992 tax, the amount of which is not certain, to avoid a penalty you may want to enter on this line the amount from line 21.

Line 26c. Include all estimated tax payments and withholding through the payment due date for the period.

Your withholding is considered paid in four equal installments, one on the due date of each payment period. To figure the amount to include on line 26c for each period, multiply your total expected withholding for 1992 by:

25% (.25) for the first period,

50% (.50) for the second period,

75% (.75) for the third period, or

100% (1.00) for the fourth period.

You may choose to include your actual withholding through the due date for each period on line 26c. 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* under *How to Figure Estimated Tax,* earlier.

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

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 the first column.
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:

   72% for the second column,

   45% for the third column, and

   30% for the fourth column.

   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, instead of the above percentages.
4) On line 22, if you do not use the 1992 Estimated Tax Worksheet Limiting Use of Prior Year's Tax, enter one-half of the amount from line 16c of the Form 1040-ES(NR) 1992 Estimated Tax Worksheet in the second column, and one-fourth in the third and fourth columns.
5) On line 26c, if you do not use the actual withholding method, include one-third of your total expected withholding in the second column and two-thirds in the third and fourth columns.

Sample Letter to Clients

Dear Client:

Late in 1991, Congress changed the rules for federal estimated tax payments. The new rules may or may not affect you, depending on a number of factors. We would like to help you understand the new rules and decide what impact they may have on you.

If you can answer "no" to any of these questions, then we need to go no further -- the rules do not affect you this year.

1. Did you make any estimated tax payments in 1991, 1990 or 1989 (or pay a penalty for underpayment of estimated tax during those years)?

2. Will your 1992 adjusted gross income be more than $75,000 ($37,500 if filing separately)?

3. Will your 1992 adjusted gross income (not including gain from sale of residence, casualty, theft or involuntary conversion) be at least $40,000 greater than 1991 adjusted gross income?

If you answered "yes" or "not sure," then the rules may affect you. Failure to comply will result in imposition of a penalty next year when you file your 1992 tax return. The new rules, which apply to estimated tax payments due on or after June 15, 1992, restrict the use of prior year's safe harbor for estimated payments. If you think the rules may apply to you, and you would like some assistance in calculating your estimated tax payments, please contact our office.

Sincerely,

CPA firm

NOTES