

Purpose of This Package

Use this package to figure and pay your estimated tax. Estimated tax is the method used to pay tax on income that is not subject to withholding (for example, earnings from self-employment, interest, dividends, rents, alimony, etc.). In addition, if you do not elect voluntary withholding, you should make estimated tax payments on unemployment compensation and the taxable part of your social security benefits. See the 2001 instructions for your tax return for details on income that is taxable.

This package is primarily for first-time filers who are or may be subject to paying estimated tax. This package can also be used if you did not receive or have lost your preprinted 1040-ES package. The estimated tax worksheet on page 4 will help you figure the correct amount to pay. The payment vouchers in this package are for crediting your estimated tax payments to your account correctly if you are paying by check or money order. You may also be able to pay by Electronic Federal Tax Payment System (EFTPS), electronic funds withdrawal (direct debit), or credit card. See pages 4 and 5 for details. Use the **Record of Estimated Tax Payments** on page 6 to keep track of the payments you have made and the number and amount of your remaining payments.

After we receive your first payment voucher from this package (or if you make your first payment by EFTPS, electronic funds withdrawal, or credit card), we will mail you a 1040-ES package with your name, address, and social security number (SSN) preprinted on each payment voucher. Use the preprinted vouchers to make your **remaining** estimated tax payments for the year if you are paying by check or money order. This will speed processing, reduce processing costs, and reduce the chance of errors.

Do not use the vouchers in this package to notify the IRS of a **change of address**. If you have a new address, file **Form 8822**, Change of Address. The IRS will update your record and send you new preprinted payment vouchers.

Who Must Make Estimated Tax Payments

In most cases, you must make estimated tax payments if you expect to owe at least \$1,000 in tax for 2002 (after subtracting your withholding and credits) and you expect your withholding and credits to be less than the **smaller** of:

1. 90% of the tax shown on your 2002 tax return **or**
2. The tax shown on your 2001 tax return (112% 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 2002, more than \$75,000).

However, if you did not file a 2001 tax return or that return did not cover 12 months, item 2 above does not apply.

For this purpose, include household employment taxes (before subtracting advance EIC payments made to your employee(s)) when figuring the tax shown on your tax return if:

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

Exception. You do not have to pay estimated tax if you were a U.S. citizen or resident alien for all of 2001 and you had no tax liability for the full 12-month 2001 tax year.

The estimated tax rules apply to:

- U.S. citizens and residents,
- Residents of Puerto Rico, the Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa, and
- Nonresident aliens (use Form 1040-ES (NR)).

If you also receive salaries and wages, you may be able to avoid having to make estimated tax payments on your other

income by asking your employer to take more tax out of your earnings. To do this, file a new **Form W-4**, Employee's Withholding Allowance Certificate, with your employer.

You can also choose to have Federal income tax withheld on certain government payments. For details, see **Form W-4V**, Voluntary Withholding Request.

Caution: *You may not make joint estimated tax payments if you or your spouse is a nonresident alien, you are separated under a decree of divorce or separate maintenance, or you and your spouse have different tax years.*

Additional Information You May Need

Most of the information you will need can be found in **Pub. 505**, Tax Withholding and Estimated Tax.

Other available information:

- **Pub. 553**, Highlights of 2001 Tax Changes.
- Instructions for the 2001 Form 1040 or 1040A.
- **What's Hot** at www.irs.gov.

For details on how to get forms and publications, see page 7 of the instructions for Form 1040 or 1040A.

If you have tax questions, call 1-800-829-1040 for assistance.

Changes Effective for 2002

Use your 2001 tax return as a guide in figuring your 2002 estimated tax, but be sure to consider the changes noted in this section. For more information on the changes below and other changes that may affect your 2002 estimated tax, see Pub. 553.

Reduced Tax Rates. Most of the tax rates have decreased by $\frac{1}{2}\%$, a new 10% tax rate applies to all filers, and the rate bracket amounts have increased. See the **2002 Tax Rate Schedules** on page 2. The rate reduction credit no longer applies.

Credit for Qualified Retirement Savings Contributions. You may be able to claim a credit of up to \$1,000 for qualified retirement savings contributions (for example, contributions to an IRA or 401(k) plan) if your modified AGI is \$50,000 or less.

Credit for Pension Plan Startup Costs. A general business credit of 50% of the qualified pension plan startup costs of an eligible employer may be allowed. The maximum credit is \$500. An eligible employer is generally one who had 100 or fewer employees in the preceding tax year. See section 45E for more details.

Credit for Employer-Provided Child Care Costs. A general business credit of 25% of the qualified child care facility costs plus 10% of the qualified child care resource and referral costs may be allowed. The maximum credit is \$150,000. See section 45F for more details.

Adoption Credit. The maximum adoption credit has increased to \$10,000 per adopted child. The credit is allowed only if your modified AGI is less than \$190,000.

Certain Credits No Longer Reduce Alternative Minimum Tax (AMT). The credit for child and dependent care expenses, credit for the elderly or the disabled, education credits, mortgage interest credit, and District of Columbia first-time homebuyer credit no longer reduce AMT. However, the child tax credit, adoption credit, and the credit for qualified retirement savings contributions may reduce your AMT.

Student Loan Interest Deduction. The 60-month limit no longer applies. But you cannot take the deduction if your modified AGI is \$65,000 or more (\$130,000 or more if married filing jointly).

Deduction for Qualified Higher Education Expenses. You may be able to deduct up to \$3,000 of qualified higher education expenses paid for yourself, your spouse, or your dependents. But you cannot take the deduction if your modified AGI is more than \$65,000 (\$130,000 if married filing jointly). Also, you cannot claim both the deduction for qualified higher education expenses and a Hope or lifetime learning credit for the same student.