

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 2003 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, or credit card. See page 3 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 2004 (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 2004 tax return or
2. The tax shown on your 2003 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 2004, more than \$75,000).

However, if you did not file a 2003 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 2003 and you had no tax liability for the full 12-month 2003 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 from certain government payments. For details, see **Form W-4V**, Voluntary Withholding Request.



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 2003 Tax Changes.
- Instructions for the 2003 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. For TTY/TDD help, call 1-800-829-4059.

Changes Effective for 2004

Use your 2003 tax return as a guide in figuring your 2004 estimated tax, but be sure to consider the following changes. For more information on these changes and other changes that may affect your 2004 estimated tax, see **Pub. 553**.

IRA deduction allowed to more people covered by retirement plans. You may be able to take an IRA deduction if you were covered by a retirement plan and your 2004 modified adjusted gross income (AGI) is less than \$55,000 (\$75,000 if married filing jointly or qualifying widow(er)).

Tuition and fees deduction expanded. You may be able to take a deduction of up to \$4,000 if your 2004 AGI is not more than \$65,000 (\$130,000 if married filing jointly) or a deduction of up to \$2,000 if your 2004 AGI is not more than \$80,000 (\$160,000 if married filing jointly).

Standard mileage rates. The 2004 rate for business use of your vehicle is 37½ cents a mile. The 2004 rate for use of your vehicle to get medical care or to move is 14 cents a mile.

Deduction for clean-fuel vehicles. If you place a qualified clean-fuel vehicle in service in 2004, the maximum amount you can deduct is:

- \$1,500.
- \$3,750 for a truck or van with a gross vehicle weight rating over 10,000 pounds but not more than 26,000 pounds.
- \$37,500 for a truck or van with a gross vehicle weight rating over 26,000 pounds or a bus with a seating capacity of at least 20 adults (not including the driver).

Certain credits no longer allowed against alternative minimum tax (AMT). The credit for child and dependent care expenses, credit for the elderly or the disabled, education credits, and mortgage interest credit will no longer be allowed against AMT. However, the child tax credit, adoption credit, and credit for qualified retirement savings contributions will still be allowed against your AMT.

Health savings accounts. Beginning in 2004, eligible individuals covered by a high-deductible health insurance plan may be able to open a health savings account (HSA). Within limits, contributions to an HSA are deductible and are excludable if made by the employer of an eligible individual. Earnings from an HSA are tax deferred. Distributions from an HSA for medical expenses are not taxable.