

**U.S. Estimated Tax for Nonresident
Alien Individuals****1998****Purpose of This Package**

If you are a nonresident alien, 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.

Do not use the payment vouchers in this package to notify the IRS of a **change of address**. Instead, use **Form 8822**, Change of Address.

You can order Form 8822 and other forms and publications by writing to the Eastern Area Distribution Center, P.O. Box 25866, Richmond, VA 23286-8107, U.S.A. Or, if you have a computer and modem, use the World Wide Web and connect to www.irs.ustreas.gov. On the Internet, telnet to iris.irs.ustreas.gov or, for file transfer protocol services, connect to ftp.irs.ustreas.gov.

Who Must Make Estimated Tax Payments

Generally, you must make estimated tax payments if you expect to owe at least \$1,000 in tax for 1998 (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 1998 tax return, or
2. The tax shown on your 1997 tax return.

For this purpose, include household employment taxes when figuring the tax shown on your tax return, but **only** if **either** of the following is true:

- You will have Federal income tax withheld from wages, pensions, annuities, or other income effectively connected with a U.S. trade or business, **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.

Tax Law Changes Effective for 1998

Use your 1997 tax return as a guide in figuring your 1998 estimated tax, but be sure to consider the changes noted in this section. For more information on changes that may affect your 1998 estimated tax, see **Pub. 553**, Highlights of 1997 Tax Changes.

Estimated tax payments of household employment taxes. Beginning in 1998, you must **include** household employment taxes when figuring your estimated tax payments if **either** of the following applies for the year:

- You will have Federal income tax withheld from wages, pensions, annuities, or other income effectively connected with a U.S. trade or business, **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.

Increase in amount of tax exempt from estimated tax requirements. Beginning in 1998, the requirement to make estimated tax payments (to avoid a penalty) will not apply unless the tax you owe, after subtracting withholding and other credits, is at least \$1,000.

Modification of estimated tax safe harbor for some taxpayers. For 1998, the estimated tax safe harbor that is based on the tax shown on the prior year tax return is the same for all taxpayers (except for farmers and fishermen), regardless of adjusted gross income (AGI). That safe harbor is 100% of the tax shown on the 1997 tax return.

Child tax credit. For 1998, you may be entitled to a \$400 credit for each dependent child that you may claim on your tax return who is under age 17 on December 31, 1998. However, for purposes of this credit, **the dependent child must be a U.S. citizen, national, or resident.** The credit is subject to limits based on your tax, and a phaseout, which begins when your modified AGI exceeds \$55,000 if married filing separately (\$75,000 for qualifying widow(er)). Above this level, the credit is reduced by \$50 for each \$1,000 (or fraction thereof) of modified AGI.

Student loan interest. You may be allowed to deduct up to \$1,000 for interest due after 1997 that is paid during 1998 on a qualified higher education loan you used to pay for education expenses for yourself or for a dependent that you may claim on your tax return. A loan made by a related person is **not** a qualified loan. The deduction is allowed in arriving at AGI (i.e., you do not have to itemize deductions to claim it). The student must be enrolled in a degree, certificate, or other program leading to a recognized credential at an eligible U.S. educational institution and must carry at least one-half of a normal full-time work load. The deduction is allowed only during the first 60 months in which interest payments are required.

You **cannot** take this deduction if you are married filing a separate return.

IRA deduction increased or restored for some people covered by retirement plans. The income limits for claiming an IRA deduction for 1998 have been increased if you are covered by a retirement plan. Under the new rules, the deduction is phased out ratably over a range that:

- Begins when your modified AGI exceeds \$30,000 (\$50,000 if filing as a qualifying widow(er)), and
- Ends at \$40,000 (\$60,000 if filing as a qualifying widow(er)).

Distributions from IRAs to pay for qualified higher education expenses or "first-time homebuyer" expenses. Beginning with distributions made after 1997, the 10% tax on an early distribution from an IRA will not apply if you use the distribution to pay for either of the following:

- Qualified higher education expenses for academic periods beginning after 1997 for yourself or for a child, grandchild, stepchild, or step-grandchild (that you may otherwise claim as a dependent on your tax return) for attendance at an accredited U.S. institution of higher education.
- Certain expenses incurred to buy, build, or rebuild a "first" home that is your main home, your spouse's main home, or the main home of a child, grandchild, or ancestor of yours or your spouse's. Your main home is where you live most of the time. Distributions used for this purpose are subject to a lifetime limit of \$10,000. In most cases, a home is considered your "first" home if you had no present ownership in a main home during the 2-year period ending on the date you acquired your new home.

Section 179 expense deduction increased. For 1998, the deduction to expense certain property under section 179 generally has been increased to \$18,500.

Self-employed health insurance deduction increased. For 1998, the self-employed health insurance deduction is increased to 45% of health insurance expenses.

Matching contributions to 401(k) plans of self-employed individuals. Generally, matching contributions made for tax years after 1997 to 401(k) plans of self-employed persons are not treated as elective employer contributions and therefore are not subject to the \$10,000 annual limit on elective contributions.

Welfare-to-work credit. Employers that pay wages to long-term family assistance recipients may qualify for the welfare-to-work credit. This new credit is based on wages paid to qualified individuals who begin work after December 31, 1997. For more details, see **Form 8861**, Welfare-to-Work Credit.