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## **September 2001 - DO I NEED TO PAY ESTIMATED TAX?**

The simple answer to the question is that you will need to pay estimated tax now if you will owe \$1,000 or more in taxes when you file your 2001 federal income tax return. This will be referred to as the "\$1,000 Rule" in this article.

Since nothing related to taxes is ever really that simple, here are some more details.

### What Estimated Taxes Are

Income taxes are due as income is earned. Many people pay all of their taxes during the year through payroll or other withholding. People who have income that is not subject to withholding are generally required to make estimated tax payments on four dates spread throughout the year. There is a penalty if you wait to pay with your return instead of making estimated tax payments during the year.

### Exception to the "\$1,000 Rule"

Those who meet both of the following guidelines do not have to make estimated tax payments in 2001:

Your income is below \$150,000 (or \$75,000 if you are married filing separately).

You will have more tax withheld from wages, pensions, or other sources in 2001 than your total tax liability was in 2000.

### How to Make Estimated Tax Payments

Estimated tax payments for individuals are paid using Form 1040-ES, which is available at no charge from my office, or directly from the IRS at [www.irs.gov](http://www.irs.gov) or 1-800-TAX-FORM. This form is a simple coupon. You fill in your name, address, social security number, and the amount of estimated tax being paid. Mail the form and your check to the IRS. The instructions for Form 1040-ES provide a list of mailing addresses depending on where you live. Make sure to check this list before mailing, because the addresses are different from those you use to send in your tax returns.

Be sure to write your name, social security number, "Form 1040-ES", and the year the tax payment is for on your check. This is important because sometimes the form and the check get separated at the IRS processing center.

### When to Pay Estimated Tax

Estimated taxes for 2001 are due for individuals on the following four dates: April 16, 2001, June 15, 2001, September 17, 2001, and January 15, 2002. If you are late, file as soon as possible to reduce the penalty for late payment of estimated tax.

### How Much Estimated Tax To Pay

A worksheet comes with Form 1040-ES to help you determine how much estimated tax to pay. I suggest beginning by looking at your 2000 tax return to give you a starting point. Next, consider changes to your income for 2001, such as a new job, a pay raise, a new business, expected increases in your existing business, or items that will be larger because they began part way through 2000 and will continue for the full year in 2001. After looking at income changes, then review changes in deductions such as a change in the number of children you will be claiming, or changes in itemized deductions such as your mortgage interest, medical expenses, job expenses, or charitable contributions.

Then estimate your tax in 2001 based on these anticipated changes. Factor in changes in credits that you will be eligible for in 2001. Some of the major changes in tax credits will be discussed later in this article.

Once you have estimated your 2001 taxes in this way, you can subtract expected tax payments to be made by payroll, pension, or other withholding. You can also subtract any refund you were eligible for in 2000 that you elected to apply to your 2001 tax. Any excess in anticipated tax over expected payments is the total amount that should be paid in estimated tax. Divide this total by four (the number of estimated tax payments each year) to determine the amount to pay at each date.

#### What Happens If Estimated Tax Payments Are Missed

The IRS won't know you owe estimated tax until after you file your 2001 tax return. Sometime after you file, the IRS will send you a letter requesting payment of a penalty for late payment of estimated tax if you didn't pay enough or paid it late. Fortunately, this is the mildest penalty the IRS has, but it is still about 10% per year (the specific amount is computed to several decimal places and changes regularly).

#### Changes in the 2001 Tax Law Affecting Amount of Estimated Tax Due

- Lower Tax Brackets. Part of the 15% bracket has been reduced to 10%. Many people have already received a tax rebate check this summer. This tax rebate check gives you the reduction now, so you should not include this change in your estimated tax calculations.

The other tax brackets are decreased 0.5% each for 2001. The old 28% bracket is now 27.5%, the old 31% bracket is now 30.5%, the old 36% bracket is now 35.5%, and the old 39.6% bracket is now 39.1%.

- Child Tax Credit. For 2001, the credit is increased to \$600 per dependent child under 17, up from \$500 in 2000. However, if your income is above \$110,000 (married filing jointly), \$75,000 (single, head of household, or qualifying widow), or \$55,000 (married filing separately), the child tax credit continues to be phased out as income increases.
- Adoption Credit. Will go up considerably, but not until 2002.
- Child and Dependent Care Credit. Most people paying for childcare qualify for the maximum credit, which has been increased to \$600 (from \$480) for 1 child and to \$1,200 (from \$960) for 2 or more children.

These highlights are meant to give a quick summary of the estimated tax rules, and the 2001 tax law changes that affect them. Please get qualified tax assistance before attempting to apply them to your situation.

If you have a question you'd like to have answered in a future article, please contact me in care of the **Hurricane Valley Journal**.