Internal Revenue Service
Small Business/Self-Employed

IRS Stakeholder Headliners ...and More

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This e-mail is being sent to you for distribution to your organization's members. If you need further assistance please contact your local Taxpayer Education and Communication (TEC) office. The number is available in IRS Publication 3698A "Small Business/Self-Employed Taxpayer Education and Communication at a Glance."

Understanding Estimated Tax Payments

Federal income tax is a pay-as-you-go tax. Estimated tax is the method used to pay tax on income that is not subject to withholding. This includes income from self-employment, interest, dividends, alimony, rents, gains from the sale of assets, prizes and awards.

Self-employed workers (filers of Form 1040 Schedule C and Schedule F) are required to pay tax on income as it's earned during the year, by making estimated payments directly to the IRS each quarter using the Electronic Federal Tax Payment System (EFTPS) or by submitting your payments along with Form 1040-ES payment voucher. If, in addition to your self-employment income, you or your spouse receive wages paid by an employer you may increase the amount of income tax withheld from your wages by filing a new Form W-4, *Employee's Withholding Allowance Certificate*, with your employer. If you do not pay enough tax through withholding and/or by making estimated tax payments, you may be charged a penalty.

Generally, your withholding and estimated payments for 2002 must total at least 100 percent of the tax shown on your 2001 return or 90 percent of your anticipated 2002 tax liability, whichever is less. Special rules apply if your 2001 adjusted gross income exceeded $150,000. If you want to base your estimated tax payment on your 2001 tax, you'll have to pay 112 percent of the amount – not just 100 percent.

Refer to Publication 505 for more information. Additional publications can be found at www.irs.gov.