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**Understanding Estimated Tax Payments
For Tax Year 2002**

The Federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. 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. If you do not pay enough tax through withholding or by making estimated tax payments, you may be charged a penalty.

If you had a tax liability for 2001, you may have to pay estimated tax for 2002.

General Rule. You must make estimated tax payments for 2002 if you expect to owe at least \$1,000 in tax for 2002, after subtracting your withholding and credits, and you expect your withholding to be less than the smaller of

- 1) 90% of the estimated tax on your 2002 tax return, or
- 2) 100% of the tax shown on your 2001 tax return.

Exceptions. There are exceptions to the general rule for farmers, fishermen, and higher income taxpayers. For farmers and fishermen if at least two-thirds of your gross income is from farming or fishing, you are not required to make estimated tax payments if you file your return by March 1 and pay all tax due with the return.

For tax year 2002, the estimated tax rules for higher income individuals (more than \$150,000; \$75,000 if married filing separately) have been modified. All taxpayers (other than farmers and fishermen) having a liability of \$1,000 or more for the 2002 tax year must pay 90 percent of this year's tax or 112% of last year's tax, through either withholding or estimated tax payments to avoid an estimated tax penalty. If you had no tax liability for tax year 2001 and were a U.S. citizen for the entire year, you do not have to make estimated tax payments.

Estimated tax payments are generally made in four equal payments. Due dates for 2002: April 15, June 17, September 16 and January 15, 2003.

There are five ways to pay estimated tax:

- 1) Use the Electronic Federal Tax Payment System (EFTPS). Call 1-800-945-8400 or 1-800-555-4477 or visit www.eftps.gov for more information.
- 2) Pay by direct debit when filing Form 1040/1040A electronically.
- 3) Use a credit card. Visit www.irs.gov for more information.
- 4) Credit an overpayment on your 2001 return to your 2002 estimated tax.
- 5) Send payment along with [Form 1040-ES](#) payment voucher.

References:

Publication 505, *Tax Withholding and Estimated Tax*
Form 1040-ES, *Estimated Tax for Individuals*
Publication 334, *Tax Guide for Small Business*