

Chapter 4: Estimated Taxes

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Corrections were made to this workbook through January of 2014. No subsequent modifications were made.

INTRODUCTION

Taxpayers who do not pay enough tax during the year may have to pay a penalty for failure to make estimated tax payments. Tax practitioners should review their clients' anticipated tax situation for the coming year to help the client avoid unnecessary penalties. Estimated tax payments are used to pay most taxes included on an income tax return, including income taxes, self-employment (SE) taxes, and additional taxes for early distributions from certain retirement plans.

Estates and trusts must also make estimated tax payments. However, estates (and certain grantor trusts that receive the residue of the decedent's estate under the decedent's will) are exempt from paying estimated tax for the first two years after the decedent's death.

Almost all taxes reported on Form 1040 are subject to the estimated tax payment requirements. However, the following taxes are not.

1. Unreported social security and Medicare tax or railroad retirement tax from Form 4137, *Social Security and Medicare Tax on Unreported Tip Income*, or Form 8919, *Uncollected Social Security and Medicare Tax on Wages*
2. Any tax on excess **contributions** to IRAs, Archer MSAs, Coverdell education savings accounts, and health savings accounts, or any tax on excess accumulations in qualified retirement plans
3. The following taxes reported on line 60 of Form 1040
 - a. Uncollected social security and Medicare tax or railroad retirement tax on tips or group-term life insurance
 - b. Tax on excess golden parachute payments
 - c. Excise tax on insider stock compensation from an expatriated corporation
 - d. Look-back interest due under IRC §167(g)
 - e. Look-back interest due under IRC §460(b)
 - f. Recapture of federal mortgage subsidy
 - g. Additional tax on advance payments of health coverage tax credit when not eligible
4. Household employment taxes if the taxpayer meets certain conditions (See the instructions for Schedule H, *Household Employment Taxes*, for more information.)

Note. When calculating the required estimates and any penalties for not making estimates, the total tax amount should be reduced by refundable credits.

Note. States have different rules for estimated tax payments. For example, the State of Illinois does not require estimated tax payments for individuals who are over age 65 **and** permanently in a nursing home.

GENERAL RULE AND SAFE HARBOR EXCEPTION

GENERAL RULE

In most cases, taxpayers must pay estimated tax for the current tax year if they expect to owe at least **\$1,000** in tax after subtracting withholding and refundable credits.

SAFE HARBOR

The general rule does not apply if the taxpayer's withholding and refundable credits will be at least **the lesser of:**¹

1. 90% of the taxes to be shown on the current year return, or
2. 100% of the taxes shown on the return for the previous year.

Additional exceptions and rules apply to farmers and fishermen. The special rules for taxpayers engaged in the business of farming or fishing are discussed in the final section of this chapter. In addition, the safe harbor rules are slightly different for **higher-income taxpayers** (discussed later in this chapter).

Note. The new Medicare taxes, effective January 1, 2013, may cause estimated tax and/or withholding issues for higher-income taxpayers.

Example 1. Jane calls her tax return preparer, Frank, in December to inform him that she has just received a large IRA distribution from her mother's estate. There were no taxes withheld on the distribution. Frank asks Jane about her other income, expenses, and life events for the year, and Jane tells him that "everything else is about the same."

Frank uses this information to calculate the following projection.

	2013 Projected
Total tax liability	\$9,000
Tax withholding	(6,500)
Tax due	\$2,500

Because Jane's projected balance due is over \$1,000, she may need to make an estimated tax payment. However, Frank also compares her actual 2012 and projected 2013 taxes to the amount of 2013 withholding to see if she meets one of the safe harbor exceptions.

	2012 Actual	2013 Projected
Total tax liability	\$6,000	\$9,000
Applicable percentage	$\times 100\%$	$\times 90\%$
Safe harbor threshold	\$6,000	\$8,100
Lowest threshold		\$6,000
2013 withholding		\$6,500

Because Jane's 2013 withholding is greater than 100% of her 2012 taxes, she is not required to make an estimated tax payment for 2013.

¹ IRC §6654(d)(1).

MARRIED TAXPAYERS

Taxpayers who file married filing jointly (MFJ) each year complete the calculations for estimated tax payments and any related penalties in the same manner as other taxpayers. However, taxpayers who file MFJ for one year but not both must perform additional calculations to determine the proper amount to use as their prior year's tax.

Couples with Alternating MFJ and MFS Returns

For purposes of determining the required amount of any estimated tax payments, a return with any filing status other than MFJ is considered a separate return. If a couple files MFJ for the current year but filed married filing separately (MFS) for the prior year, the total tax amount from each of the prior year MFS returns is added together to arrive at the prior year total tax amount.

Conversely, couples who file MFS for the current year but filed MFJ for the prior year must use their respective portions of the prior year tax from the MFJ return for estimated tax calculation purposes. The respective portions of prior year tax are calculated by determining the amount of tax each spouse **would have paid** if they had filed their returns for the prior year using the same status that they plan to use for the current year. The total of the two recalculated prior year returns is compared to each taxpayer's portion of that total to determine the percentage of tax allocable from the joint return to each person.

Example 2. For 2013, Kate plans to file as head of household (HoH) and her soon-to-be ex-husband, Jon, plans to file as MFS. For 2012, they filed jointly.

Kate prepares a pro forma 2012 return based on her actual share of their 2012 income as if she filed HoH that year. She also prepares a pro forma 2012 return based on Jon's share of the income as if he filed MFS for that year.

	Pro Forma 2012 Tax	Percentage of Total
Kate	\$ 5,000	25%
Jon	15,000	75%
Total	\$20,000	

The actual 2012 tax on their MFJ return was \$16,000. Kate's 25% share is therefore \$4,000 ($\$16,000 \times 25\%$), which she uses to determine her required estimated tax payments.

HIGHER-INCOME TAXPAYERS

To meet the safe harbor exception, certain higher-income taxpayers must use 110% rather than 100% of the prior year tax in the safe harbor calculation. Taxpayers, except those filing MFS, are considered higher income if their adjusted gross income (AGI) for the preceding tax year exceeds \$150,000. For taxpayers who file MFS in the current tax year, the AGI threshold is \$75,000.²

Example 3. Assume the same facts as **Example 2**. Jon and Kate's AGI for 2012 was \$125,000. Because Jon's 2013 filing status is MFS and their 2012 AGI is greater than \$75,000, Jon must use 110% of \$12,000 ($\$16,000$ actual tax $\times 75\%$ Jon's share) when calculating his minimum estimated tax payments under the safe harbor method. However, Kate, who is filing as HoH in 2013, is not subject to the 110% rule because the prior year AGI is less than \$150,000.

² IRC §6654(d)(1)(C).

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New Medicare Taxes and Estimated Tax Rules

Higher-income taxpayers may be affected by two new Medicare taxes that are effective January 1, 2013.

1. The net investment income tax (NIIT) of 3.8%³
2. The additional Medicare tax of 0.9%⁴

Both new Medicare taxes are subject to the estimated tax requirements. These new taxes affect taxpayers with modified adjusted gross income (MAGI) in excess of the following thresholds.

Filing Status	Threshold
MFJ	\$250,000
MFS	125,000
All others	200,000

Note. For additional details on these two new Medicare taxes, see the 2013 *University of Illinois Federal Tax Workbook*, Volume A, Chapter 2: Affordable Care Act.

The taxpayer's NIIT liability and additional Medicare tax liability are taken into account for purposes of calculating estimated tax payment requirements.⁵ An employer is required to withhold additional Medicare tax on wages it pays to an employee in excess of \$200,000 (regardless of the taxpayer's filing status).⁶ The employer does not take into account any income of the employee's spouse in fulfilling this withholding requirement.

PAYING ESTIMATED TAXES

DUE DATES

Generally, for individual calendar-year taxpayers, estimated tax payments are due on the 15th day of April, June, and September of the current year, and January of the following year. If the due date for an estimated tax payment falls on a Saturday, Sunday, or legal holiday, the payment is timely if made on the next business day. The January payment is not required if the return is filed and the balance of tax owed is paid by January 31.

Example 4. Adam does not pay any estimated tax for 2013. He files his 2013 income tax return and pays the balance due on January 27, 2014.

Adam's estimated tax for the fourth payment period is considered to have been paid on time. However, he may owe a penalty for not making the first three estimated tax payments.

³ IRC §1411.

⁴ IRC §3101(b)(2).

⁵ IRC §6654.

⁶ IRC §3102(f)(1).

PAYMENT METHODS

There are five ways to pay estimated tax.

1. Credit an overpayment on the prior year's return to the current year's estimated tax.
2. Send in the payment (check or money order) with a payment voucher, Form 1040-ES, *Estimated Tax for Individuals*.
3. Pay electronically using the Electronic Federal Tax Payment System (EFTPS).
4. Pay by electronic funds withdrawal (EFW) if the taxpayer is filing electronically.
5. Pay by credit or debit card using a pay-by-phone system or the Internet.

Credit an Overpayment

Taxpayers who have an overpayment of tax on their prior year's return can apply part or all of the refund to their estimated tax for the current year. The applied amount is treated as a payment made on April 15 of the current year if the taxpayer's return is timely filed (including extensions).

Once the overpayment is applied, the taxpayer cannot have any of that amount refunded until they file their tax return the following year. They also cannot use that overpayment in any other way.

Example 5. Kathleen has a \$750 overpayment on her 2012 return. She credits \$600 of the overpayment to her 2013 estimated tax and has the remaining \$150 refunded to her.

In September, she amends her 2012 return. On the amended return she owes an additional \$250 in tax. She does not send in a payment with the amended return. Because \$600 of the original \$750 overpayment has already been applied to her 2013 estimated tax and the balance refunded to her, the IRS bills her for the additional \$250, plus penalties and interest. Kathleen cannot use any of the \$600 she has credited to her 2013 estimated tax to pay this bill.

Mail

Individual taxpayers may mail their estimated tax payments with Form 1040-ES vouchers to the appropriate address shown in the instructions for Form 1040-ES. The IRS accepts checks and money orders by mail. A 2012 estimated tax payment voucher follows.

Note. Practitioners may wish to caution their clients that it is generally more difficult to prove that a payment was made using a money order than it is to prove that a payment was made using a check.

Form 1040-ES Department of the Treasury Internal Revenue Service	<h2 style="margin: 0;">2012 Estimated Tax</h2>	Payment Voucher 4 OMB No. 1545-0074			
File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to " United States Treasury ." Write your social security number and "2012 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.		Calendar year—Due Jan. 15, 2013 Amount of estimated tax you are paying by check or money order.			
		<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="width: 70%;"></td> <td style="width: 15%; text-align: center;">Dollars</td> <td style="width: 15%; text-align: center;">Cents</td> </tr> </table>		Dollars	Cents
	Dollars	Cents			
Print or type	Your first name and initial	Your last name	Your social security number		
	If joint payment, complete for spouse				
	Spouse's first name and initial	Spouse's last name	Spouse's social security number		
	Address (number, street, and apt. no.)				
	City, state, and ZIP code. (If a foreign address, enter city, province or state, postal code, and country.)				

For Privacy Act and Paperwork Reduction Act Notice, see instructions.
 Form 1040-ES (2012) -9-

Paying the Installments through EFTPS

The EFTPS website can be used by individuals or businesses to pay federal taxes. The EFTPS system may be appropriate for individuals who wish to have their payments withdrawn more frequently than quarterly or who wish to set up the installments prior to electronically filing their income tax returns. It may be used to schedule tax payments for up to 365 days in advance of the payment due dates.

To use the website, the taxpayer must first enroll at www.eftps.gov/eftps. After the enrollment information is validated, a personal identification number (PIN) is sent via U.S. mail in five to seven business days.

Scheduling Payments via EFW

Tax preparation software may include an option to request electronic funds withdrawal for the current year's estimated taxes. This request is sent with the client's electronically filed tax return.

Up to four installments may be scheduled with the electronically filed return. However, the due date for the installment must not have passed before the return is electronically filed or the return will be rejected by the IRS.

Paying Installments by Credit or Debit Card

The IRS does not accept credit or debit cards directly, but it has a list of approved service providers who process such payments **for a fee**. The current list and applicable fees can be found at www.irs.gov/uac/Pay-Taxes-by-Credit-or-Debit-Card.

EXCESS SOCIAL SECURITY OR RRTA WITHHOLDING

Most employers must withhold social security taxes from their employee's wages. Railroad employers must withhold tier 1 and tier 2 railroad retirement (RRTA) taxes instead. Tier 1 RRTA is equivalent to social security and Medicare taxes. Tier 2 RRTA provides a private pension benefit.

A taxpayer who works for more than one employer may have more combined social security and/or tier 1 taxes withheld than they are required to pay for the year. If the total of the taxes paid exceeds the annual limit, the taxpayer may claim the excess as an income tax payment on the current year return. This may reduce the amount of estimated tax payments that the taxpayer is required to pay.

Note. Excess tier 2 payments may be claimed by filing Form 843, *Claim for Refund and Request for Abatement*. There is no limit on the amount of Medicare taxes a taxpayer must pay each year.

For 2013, taxable earnings up to \$113,700 are subject to the social security tax.⁷ For an employed individual, the maximum 2013 social security contribution is \$7,049 ($6.2\% \times \$113,700$ maximum threshold). If the taxpayer pays an amount in excess of \$7,049 for 2013, the excess is reported in the payment section of Form 1040, on the line for excess social security and tier 1 RRTA tax withheld. It may either be refunded or applied to the regular tax liability. As with an income tax overpayment, it is also possible to apply some or all of the social security overpayment to the following year's estimated tax payments by indicating this on Form 1040, line 75.

SEPARATE RETURNS AND DIVORCED TAXPAYERS

Married taxpayers may file their estimated tax vouchers under one or both social security numbers. If they pay the estimates under both numbers but do not file MFJ, they can choose to allocate the estimates in any manner. However, if they cannot agree on the allocation of the estimated payments, the payments are divided in proportion to each spouse's tax as shown on their current year returns.

⁷ The social security earnings threshold for 2012 was \$110,100.

Taxpayers who divorce during the tax year and are claiming any part of jointly paid estimated taxes should enter the former spouse's social security number (SSN) under the space designated for the spouse's SSN on page 1 of Form 1040. However, if the taxpayer divorces and remarries, that space will already be used for the new spouse's SSN. In that case, the former spouse's SSN followed by "DIV" should be entered to the left of the estimated payments entry on page 2 of Form 1040.

Caution. Practitioners may want to warn their clients that allocation of the estimated payments may cause some processing difficulties when they file. This is especially true for the taxpayer who was listed as the spouse on the estimated tax vouchers.

DETERMINING THE REQUIRED ESTIMATED TAX PAYMENTS

Taxpayers may use any one of three methods for determining the amount of estimated tax payments they should make during the year. If the taxpayer pays at least the amount that is calculated under the method that produces the lowest result, they will not be subject to estimated tax penalties.

THE PRIOR TAX YEAR 25% METHOD

The simplest way to determine the amounts to pay each quarter is by using the calculation under the safe harbor explained earlier in this chapter. Under the safe harbor, the taxpayer avoids an estimated tax penalty if they pay at least 100% of the liability shown on their prior year return (or 110% for higher-income taxpayers).

Note. If the taxpayer files an amended return **by** the due date of the original return, the tax shown on the amended return is used to calculate the required estimated tax payments. If the amended return is filed **after** the due date of the original return, the tax shown on the original return is used.

Example 6. Duane is retired. Most of his income is from dividends and interest. He does not receive any income from which federal taxes can easily be withheld. In April 2013, his tax advisor, P.J., prepares Duane's 2012 return, on which his AGI is less than \$150,000. She uses the following calculation to suggest that he make four quarterly estimates of \$500 each.

2012 tax liability	\$2,000
2013 withholding	\$ 0
Minimum total estimates required for 2013 (100% of prior year liability)	\$2,000
	<u>× 25%</u>
Minimum quarterly payment	\$ 500

Example 7. Assume the same facts as **Example 6**, except Duane's 2012 AGI is over \$150,000. P.J. uses the following calculation to suggest that Duane make four quarterly estimates of \$11,000 each.

2012 tax liability	\$40,000
110% of 2012 tax liability	\$44,000
2013 withholding	\$ 0
Minimum total estimates required for 2013	\$44,000
	<u>× 25%</u>
Minimum quarterly payment	\$11,000

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THE CURRENT YEAR 25% METHOD

Taxpayers who are reasonably certain that their current year tax liability will be less than their prior year liability may want to use the current year 25% method. Under this method, the taxpayer must pay at least 90% of the current year tax using estimated tax payments and/or tax withholding in order to avoid penalties.

Example 8. Assume the same facts as **Example 7**. Duane expects his 2013 tax liability to be less than his 2012 liability. He does not want to pay \$11,000 each quarter when he does not expect to owe that much. He calculates his 2013 estimated tax payments based on 90% of his projected 2013 liability.

Projected 2013 tax liability	\$31,111
90% of 2013 tax liability	\$28,000
2013 withholding	\$ 0
Minimum total estimates required for 2013	\$28,000
	× 25%
Minimum quarterly payment	\$ 7,000

Caution. Taxpayers who use this method should monitor their income closely during the year to ensure that it does not exceed original expectations. If their income increases, they should use the annualized method to adjust their subsequent payments.

THE ANNUALIZED METHOD

The annualized method is typically used by taxpayers whose incomes fluctuate during the year. This method matches the estimated tax payments more closely with the time that the income is earned and expenses are paid. This may be beneficial for taxpayers who receive a significant portion of their income in the last months of the tax year.

Note. Taxpayers who use this method must keep records that accurately reflect the months in which income becomes taxable and expenses become deductible. Separate components for income and self-employment taxes are reported on Form 2210, *Underpayment of Estimated Tax by Individuals, Estates, and Trusts*.

For each estimated tax payment due date, taxpayers using this method must determine all of the taxable income and deductible expenses incurred during the applicable period. The periods relating to each installment date for calendar year taxpayers are shown below.

April	January through March	(3 months)
June	January through May	(5 months)
September	January through August	(8 months)
January	January through December	(12 months)

After calculating all of the items that will be includable on the current year return for each period, the results are divided by the number of months they represent and multiplied by 12 months to determine the estimated total for the year. This total is the annualized amount.

Note. On IRS worksheets, the process of dividing and multiplying months has been condensed to a multiplier for each quarter (e.g., taxable income for period ÷ 8 months × 12 months = taxable income for period × 1.5).

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Example 9. Theresa wins the lottery in March of 2013 and declines to have any taxes withheld. She asks her tax advisor, Dale, to calculate the amount of estimated tax payments she is required to make each quarter. She tells him that her employer pays her a monthly salary on the 12th of each month.

Theresa provides Dale with the following information for January through March of 2013 and Dale calculates the average monthly amount.

		Average Monthly Amount
Wages received	\$ 21,000	\$ 7,000
Interest received	3,000	1,000
Lottery winnings	90,000	30,000
Total income	\$114,000	\$38,000
Federal income taxes withheld	\$ 4,500	\$ 1,500

Dale annualizes Theresa's income by multiplying the average monthly amount by 12 to arrive at an estimated yearly income of \$456,000 ($\$38,000 \times 12$). The annualized amounts are then used to project the total taxes that will be due on the 2013 tax return.

There are two additional steps to determine the minimum payment due under the annualized method.

1. The total projected tax liability is multiplied by the 90% safe harbor rate and then multiplied by a fraction. The numerator is the number of payments due through the year to date and the denominator is four. For example, the payment due in September is the third of four payments. The total projected tax is multiplied by 90% and then multiplied by $\frac{3}{4}$. The IRS factor to calculate the total taxes due through the third payment is 67.5% of the total projected taxes (line 22 of worksheet 2-9 in IRS Pub. 505, *Tax Withholding and Estimated Tax*), which equals $90\% \times \frac{3}{4}$.
2. The resulting amount is compared to the required minimum payment using the lowest result of the two 25% methods. The lowest of the three results for the period is compared to the total estimated payments already made and income tax withheld for the period to determine the next required installment.

Example 10. Assume the same facts as **Example 9**. Based on this level of income, Dale estimates that Theresa's federal income taxes will be approximately \$136,000 for 2013.

Under the annualized method, her first quarter taxes are \$34,000 ($\$136,000 \div 12 \text{ months} \times 3 \text{ months}$). Her minimum payment under this method is 90% of the first quarter taxes, or \$30,600.

Before telling Theresa what she needs to pay this quarter, Dale decides that he should calculate her required estimate using the prior year tax 25% method. Theresa's 2012 AGI was under \$150,000.

2012 tax liability	\$19,000
100% of 2012 tax	\$19,000
25% of 2012 tax	\$ 4,750
Resulting minimum payments under each method:	
Annualized method	\$30,600
Prior year 25% method	\$ 4,750
Lower of the two amounts	\$ 4,750

Dale subtracts the amount of Theresa's federal tax withholding from January through April 15 (the due date of the estimate) from the lower of the two amounts.

Minimum required payment as determined above	\$4,750
Less: federal income taxes withheld through April 15 ($\$1,500 \times 4$)	(6,000)
Resulting required payment (not less than \$0)	\$ 0

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The amount of income tax withheld used in the calculation may be based on the total to be withheld for the year or the actual amount withheld during the period. By allowing taxpayers to treat all withholding as made evenly throughout the year, the IRS has provided taxpayers with a valuable tool for avoiding or reducing penalties for underpayment of tax estimates.

Example 11. Trish is the sole shareholder of a very successful tax practice that is taxed as an S corporation. Trish takes profit distributions throughout the year but waits until December to take her wages. She expects to have \$180,000 of federal income taxes withheld at that time. This method allows her to retain the amount of her federal income taxes until January of the following year and still avoid paying any penalties for failure to make estimated tax payments.

In April 2013, Trish determines that her profit from tax season is comparable to the prior year. She knows that using the annualized method will grossly overstate her tax liability at this point in time, so she uses the safe harbor to determine how much she would have to pay in estimated taxes if she did not treat her income tax withholding as paid evenly throughout the year. Her 2012 AGI exceeded \$150,000.

2012 tax liability	\$160,000	
	× 110%	
110% of 2012 tax liability	\$176,000	
	× 25%	
Required minimum tax payments per quarter		\$44,000
25% of projected federal income tax withholding (\$180,000 × 25%)	\$ 45,000	
Actual withholding January through April 15, 2013	\$ 0	
Greater of projected amount or actual amount		(45,000)
Under/(over) payment		(\$ 1,000)
Required payment		\$ 0

Note. IRS Pub. 505, *Tax Withholding and Estimated Tax*, contains various worksheets to help taxpayers and their advisors calculate the minimum amount of estimates required to avoid penalties. These worksheets may appear intimidating, but they simply map out the process explained in the previous examples.

UNDERPAYMENT PENALTY FOR ESTIMATED TAX PAYMENTS

When taxpayers file their tax returns, they may include the applicable estimated tax penalty with the return. However, they are not required to do so. If the penalty is not included with the return, the IRS may calculate it and assess the balance due. The underpayment penalty for 2012 and for the first two quarters of 2013 is computed at an annual rate of 3%. This rate is subject to change.

The penalty is calculated separately for each payment period. Taxpayers may owe a penalty for an earlier payment period even if they later paid enough to make up the underpayment. This is true even if they are due a refund when they file their income tax return.

Example 12. Mike does not make estimated tax payments for 2013 because he thinks he will have enough tax withheld from his wages to cover his taxes. Early in January 2014, he prepares a preliminary tax return to see how much of a refund he will be getting. He then realizes that his employer reduced his withholding and he is going to owe approximately \$3,000 when he files his return.

On January 10, 2014, he makes an estimated tax payment of \$3,000. When he prepares his 2013 return, he is due a net refund of \$50. Mike does not owe a penalty for the payment due on January 15, 2014. However, he may owe a penalty for not making estimated payments in April, June, and September.

When taxpayers miss a payment or pay less than the minimum required in a period, the underpayment penalty is calculated from the date the amount was due to the date the payment was made. The postmark date serves as the payment date for payments sent on or before the due date. For late payments, the date the IRS received the payment serves as the payment date.⁸

REQUESTING A WAIVER OR ABATEMENT

The Code specifically allows the IRS to waive the penalty for underpayment of estimated tax in each of the following circumstances.

1. The taxpayer did not make a payment because of a casualty, disaster, or other unusual circumstance and it would be **inequitable or not in good conscience to impose the penalty.**⁹
2. The taxpayer retired (after reaching age 62) or became disabled in the current or preceding tax year and both the following requirements are met.¹⁰
 - a. They had a reasonable cause for not making the payment.
 - b. The underpayment was not due to willful neglect.
3. The taxpayer has a case pending under the Bankruptcy Code and meets certain conditions.¹¹

In addition, the IRS may grant abatement¹² of the penalty under its administrative procedures in circumstances such as the following.

1. First time abatements
2. Computational errors associated with the calculation of the estimated tax penalty included on a return
3. Reliance on IRS written advice, tax practitioners, or other third parties
4. Erroneous refund of estimated tax payments or credit applied from prior year's tax return
5. Federally declared disasters

Note. The Internal Revenue Manual specifically states that reasonable cause is not sufficient in itself to justify abatement of estimated tax penalties.¹³ Therefore, practitioners who are requesting a waiver or abatement of an estimated tax penalty may wish to make the appeal under the “good conscience” provision specifically mentioned in the Code.

⁸ IRC §7502(a)(2).

⁹ IRC §6654(e)(3)(A).

¹⁰ IRC §6654(e)(3)(B).

¹¹ IRC §6658.

¹² IRM 20.1 (2011).

¹³ IRM Exhibit 20.1.1-1 Penalty Relief—Application Chart.

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To request a penalty waiver with the original return, the taxpayer should file Form 2210 and complete the following steps, as applicable.

1. Check box A or B in **Part II**.
 - a. If box A is checked, only page 1 of Form 2210 should be completed.
 - b. If box B is checked, Form 2210 should be completed using the method that produces the lowest penalty.

worksheet and enter your penalty on your tax return, but file only page 1 of Form 2210.

Part II **Reasons for Filing.** Check applicable boxes. If none apply, **do not** file Form 2210.

- A** You request a **waiver** (see instructions) of your entire penalty. You must check this box and file page 1 of Form 2210, but you are not required to figure your penalty.
- B** You request a **waiver** (see instructions) of part of your penalty. You must figure your penalty and waiver amount and file Form 2210.
- C** Your income varied during the year and your penalty is reduced or eliminated when figured using the **annualized income installment method**. You must figure the penalty using Schedule AI and file Form 2210.
- D** Your penalty is lower when figured by treating the federal income tax withheld from your income as paid on the dates it was actually withheld, instead of in equal amounts on the payment due dates. You must figure your penalty and file Form 2210.
- E** You filed or are filing a joint return for either 2011 or 2012, but not for both years, and line 8 above is smaller than line 5 above. You must file page 1 of Form 2210, but you are **not** required to figure your penalty (unless box **B**, **C**, or **D** applies).

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11744P

Form **2210** (2012)

2. Attach a statement to the return explaining the reason(s) that the taxpayer was unable to meet the estimated tax requirements and the time period for which they are requesting a waiver.
3. If the taxpayer is requesting a penalty waiver due to retirement or disability, attach documentation that shows the retirement date (and their age on that date) or the date they became disabled.
4. If the taxpayer is requesting a penalty waiver due to a casualty, disaster, or other unusual circumstance, attach documentation such as police and insurance company reports.

Note. The IRS does not need documentation if the taxpayer is located in a federally declared disaster area. The IRS **should** automatically apply any applicable relief to taxpayers who live in a federally declared disaster area and therefore Form 2210 is not required.

If the IRS calculates the penalty and assesses the taxpayer accordingly, Form 2210 and any supporting documentation may be filed in response to the penalty notice.

FORM 2210

Form 2210 is used by taxpayers to show their calculation of the penalty **or** to request a waiver of the penalty. **The penalty calculation section of the form does not have to be completed if the taxpayer is simply requesting a waiver.**

Taxpayers should include **the calculation** of the estimated tax penalty with their return in the following situations.

1. They are requesting a waiver of part, but not all, of the penalty.
2. They are using the annualized income installment method to calculate the penalty.
3. They are treating federal income taxes withheld as paid on the dates actually withheld.
4. They base any of their required installments on the tax shown on their prior year's return and they filed or are filing a joint return for either the prior year or the current year but not for both years.

Calculating the Penalty

There are **three methods** of calculating the penalty reported on Form 2210.

1. Short method
2. Regular method
3. Annualized income installment method (Schedule AI)

Note. For purposes of the estimated tax penalty calculations, amounts paid through withholding include the following.

- Federal income tax withheld
- Excess social security or tier 1 RRTA withholding
- Credits for U.S. tax paid to the Virgin Islands

Part I of Form 2210. Before calculating the penalty using any of the three methods, Part I of Form 2210 must be completed. This part establishes whether the potential penalty will be based on 90% of the current year taxes or 100% (110% for higher-income taxpayer) of the prior year taxes.

Example 13. Krissy owns a sole proprietorship that breeds and trains pit bulls. Her income varies significantly from year to year and from month to month. She also works part time for a construction company as an administrative assistant. The construction company, Mickgar, withholds taxes and issues her a Form W-2 at the end of the year, which shows that she had \$600 withheld from her 2012 wages.

She makes estimated tax payments based on her income and expenses during the applicable periods, but she does not always make the payments on time. When she prepares her tax returns, she completes Form 2210.

Krissy's total taxes are shown below, followed by Part I of her 2012 Form 2210.

	2012	2011
Total taxes	\$7,469	\$6,000

2013 Workbook

For Example 13

Form **2210**

Department of the Treasury
Internal Revenue Service

Underpayment of Estimated Tax by Individuals, Estates, and Trusts

▶ Information about Form 2210 and its separate instructions is at www.irs.gov/form2210.
▶ Attach to Form 1040, 1040A, 1040NR, 1040NR-EZ, or 1041.

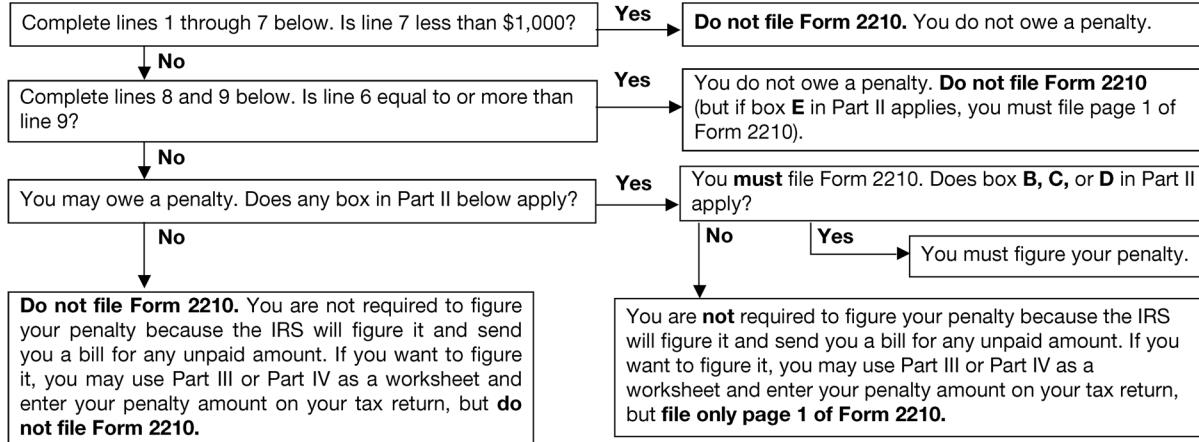
OMB No. 1545-0140

2012
Attachment
Sequence No. **06**

Name(s) shown on tax return
Krissy Diesel

Identifying number
333-10-1010

Do You Have To File Form 2210?



Part I Required Annual Payment

1 Enter your 2012 tax after credits from Form 1040, line 55 (see instructions if not filing Form 1040)	1		3,784
2 Other taxes, including self-employment tax (see instructions)	2		3,685
3 Refundable credits (see instructions)	3		()
4 Current year tax. Combine lines 1, 2, and 3. If less than \$1,000, stop ; you do not owe a penalty. Do not file Form 2210	4		7,469
5 Multiply line 4 by 90% (.90)	5	6,722	
6 Withholding taxes. Do not include estimated tax payments (see instructions)	6		600
7 Subtract line 6 from line 4. If less than \$1,000, stop ; you do not owe a penalty. Do not file Form 2210	7		6,869
8 Maximum required annual payment based on prior year's tax (see instructions)	8		6,000
9 Required annual payment. Enter the smaller of line 5 or line 8	9		6,000

Next: Is line 9 more than line 6?

- No.** You do not owe a penalty. **Do not file Form 2210** unless box **E** below applies.
- Yes.** You may owe a penalty, but **do not file Form 2210** unless one or more boxes in Part II below applies.
- If box **B, C, or D** applies, you must figure your penalty and file Form 2210.
 - If box **A or E** applies (but not **B, C, or D**) file only page 1 of Form 2210. You are **not** required to figure your penalty; the IRS will figure it and send you a bill for any unpaid amount. If you want to figure your penalty, you may use Part III or IV as a worksheet and enter your penalty on your tax return, but **file only page 1 of Form 2210**.

Part II Reasons for Filing. Check applicable boxes. If none apply, **do not file Form 2210**.

- A** You request a **waiver** (see instructions) of your entire penalty. You must check this box and file page 1 of Form 2210, but you are not required to figure your penalty.
- B** You request a **waiver** (see instructions) of part of your penalty. You must figure your penalty and waiver amount and file Form 2210.
- C** Your income varied during the year and your penalty is reduced or eliminated when figured using the **annualized income installment method**. You must figure the penalty using Schedule AI and file Form 2210.
- D** Your penalty is lower when figured by treating the federal income tax withheld from your income as paid on the dates it was actually withheld, instead of in equal amounts on the payment due dates. You must figure your penalty and file Form 2210.
- E** You filed or are filing a joint return for either 2011 or 2012, but not for both years, and line 8 above is smaller than line 5 above. You must file page 1 of Form 2210, but you are **not** required to figure your penalty (unless box **B, C, or D** applies).

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11744P

Form **2210** (2012)

Short Method for Calculating the Penalty. Taxpayers may be able to use the short method in Part III of Form 2210 to calculate their penalty for underpayment of estimated tax. If they qualify to use this method, it results in the same penalty amount as the regular method. However, either the annualized income installment method or the actual withholding method, explained later, may result in a smaller penalty.

Taxpayers can use the short method if they meet either of the following conditions.

1. They made no estimated tax payments.
2. They paid the same amount of estimated tax on each of the four payment due dates.

Taxpayers cannot use the short method if any of the following apply.

1. They made any estimated tax payment late.
2. They are using the annualized income installment method or actual withholding method.
3. They are filing Form 1040NR, *U.S. Nonresident Alien Income Tax Return*, or Form 1040NR-EZ, *U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents*, and they did not receive wages as an employee subject to U.S. income tax withholding.

Example 14. Assume the same facts as **Example 13**. Krissy did not make any estimated tax payments in 2012. She calculated her \$108 penalty using the short method as shown on Part III of her Form 2210, which follows.

Form 2210 (2012)

Page **2**

Part III Short Method

Can You Use the Short Method?

You may use the short method if:

- You made no estimated tax payments (or your only payments were withheld federal income tax), **or**
- You paid the same amount of estimated tax on each of the four payment due dates.

Must You Use the Regular Method?

You must use the regular method (Part IV) instead of the short method if:

- You made any estimated tax payments late,
- You checked box **C** or **D** in Part II, **or**
- You are filing Form 1040NR or 1040NR-EZ and you did not receive wages as an employee subject to U.S. income tax withholding.

Note: If any payment was made earlier than the due date, you may use the short method, but using it may cause you to pay a larger penalty than the regular method. If the payment was only a few days early, the difference is likely to be small.

10 Enter the amount from Form 2210, line 9			10	6,000
11 Enter the amount, if any, from Form 2210, line 6	11	600		
12 Enter the total amount, if any, of estimated tax payments you made.	12			
13 Add lines 11 and 12			13	600
14 Total underpayment for year. Subtract line 13 from line 10. If zero or less, stop ; you do not owe a penalty. Do not file Form 2210 unless you checked box E in Part II			14	5,400
15 Multiply line 14 by .01992			15	108
16 • If the amount on line 14 was paid on or after 4/15/13, enter -0-. • If the amount on line 14 was paid before 4/15/13, make the following computation to find the amount to enter on line 16.				
Amount on line 14 x Number of days paid before 4/15/13 x .00008			16	0
17 Penalty. Subtract line 16 from line 15. Enter the result here and on Form 1040, line 77; Form 1040A, line 46; Form 1040NR, line 74; Form 1040NR-EZ, line 26; or Form 1041, line 26. Do not file Form 2210 unless you checked a box in Part II			17	108

Form **2210** (2012)

2013 Workbook

Regular Method for Calculating the Penalty. Taxpayers **may** use the regular method in Part IV of Form 2210 to calculate their penalty for underpayment of estimated tax if they paid one or more estimated tax payments earlier than the due date.

Taxpayers **must** use the regular method in Part IV of Form 2210 to calculate their estimated tax penalty if any of the following apply.

1. They paid one or more estimated tax payments after the due date.
2. They paid at least one, but less than four, installments of estimated tax.
3. They made estimated tax payments in unequal amounts.
4. They use the annualized income installment method to calculate the underpayment for each payment period.
5. They use their actual withholding during each payment period to calculate the payments.

Under the regular method, the underpayment is calculated for each period in section A of Part IV, and then the penalty is calculated using the penalty worksheet in the instructions for Form 2210.

Part IV of Form 2210 is used to compare the required estimates to the amounts paid. Lines 20 through 26 of each column are completed before completing line 20 of the next column.

More than one method may be used to determine which amounts are reported on lines 18 and 19 of Part IV. The required installments reported on line 18 equal:

- 25% of the required annual payment calculated in Part I, **or**
- The amounts calculated using the annualized installment method.

The payments reported on line 19 equal the amount of estimated tax payments plus:

- 25% of the federal income taxes withheld for the year, **or**
- The actual taxes withheld **by each due date.**

Note. Taxpayers can make the choice to use actual withholding dates separately for the tax withheld from their wages and for all other withholding. For example, they may use the actual withholding dates for their Form W-2 income and the 25% method for withholding from their pension.

2013 Workbook

Example 15. Assume the same facts as **Example 13**. Krissy completed line 19 of Form 2210 using the following information.

	Estimated Payments	Tax Withholding	Total Line 19
April 15, 2012	\$1,500	\$150	\$1,650
June 15, 2012	500	150	650
Sept 15, 2012	750	150	900
January 15, 2013	1,250	150	1,400

She does not use the annualized installment method to determine her required installments. She treats the \$600 withheld from her wages as having been paid evenly throughout the year. Her total penalty is \$27 using this method. The penalty was calculated using the worksheets in the instructions and is not shown. The worksheet imposes the penalty on each underpayment based on the number of days that it remained unpaid.

Form 2210 (2012)

Page **3**

Part IV Regular Method (See the instructions if you are filing Form 1040NR or 1040NR-EZ.)

Section A—Figure Your Underpayment	Payment Due Dates				
	(a) 4/15/12	(b) 6/15/12	(c) 9/15/12	(d) 1/15/13	
18 Required installments. If box C in Part II applies, enter the amounts from Schedule AI, line 25. Otherwise, enter 25% (.25) of line 9, Form 2210, in each column	18	1,500	1,500	1,500	1,500
19 Estimated tax paid and tax withheld (see the instructions). For column (a) only, also enter the amount from line 19 on line 23. If line 19 is equal to or more than line 18 for all payment periods, stop here; you do not owe a penalty. Do not file Form 2210 unless you checked a box in Part II	19	1,650	650	900	1,400
<i>Complete lines 20 through 26 of one column before going to line 20 of the next column.</i>					
20 Enter the amount, if any, from line 26 in the previous column	20		150		
21 Add lines 19 and 20	21		800	900	1,400
22 Add the amounts on lines 24 and 25 in the previous column	22		0	700	1,300
23 Subtract line 22 from line 21. If zero or less, enter -0-. For column (a) only, enter the amount from line 19	23	1,650	800	200	100
24 If line 23 is zero, subtract line 21 from line 22. Otherwise, enter -0-	24		0	0	
25 Underpayment. If line 18 is equal to or more than line 23, subtract line 23 from line 18. Then go to line 20 of the next column. Otherwise, go to line 26 . ▶	25		700	1,300	1,400
26 Overpayment. If line 23 is more than line 18, subtract line 18 from line 23. Then go to line 20 of the next column	26	150			
Section B—Figure the Penalty (Use the Worksheet for Form 2210, Part IV, Section B—Figure the Penalty in the instructions.)					
27 Penalty. Enter the total penalty from line 14 of the Worksheet for Form 2210, Part IV, Section B—Figure the Penalty. Also include this amount on Form 1040, line 77; Form 1040A, line 46; Form 1040NR, line 74; Form 1040NR-EZ, line 26; or Form 1041, line 26. Do not file Form 2210 unless you checked a box in Part II ▶	27				27

Form **2210** (2012)

2013 Workbook

Using the actual withholding may result in a smaller penalty if most of the withholding occurred early in the year. Taxpayers who use actual withholding must check box D in Form 2210, Part II.

Example 16. Assume the same facts as **Example 15**, except the \$600 withheld from Krissy’s wages at Mickgar was taken out of her profit-sharing bonus on April 1, 2012. Instead of treating the \$600 as paid evenly over the year, Krissy completed line 19 of Form 2210 as follows.

	Estimated Payments	Tax Withholding	Total Line 19
April 15, 2012	\$1,500	\$600	\$2,100
June 15, 2012	500	0	500
Sept 15, 2012	750	0	750
January 15, 2013	1,250	0	1,250

Using this method reduced Krissy’s penalty from \$27, as calculated in **Example 15**, to \$24.

Form 2210 (2012)

Page **3**

Part IV Regular Method (See the instructions if you are filing Form 1040NR or 1040NR-EZ.)

Section A—Figure Your Underpayment	Payment Due Dates				
	(a) 4/15/12	(b) 6/15/12	(c) 9/15/12	(d) 1/15/13	
18 Required installments. If box C in Part II applies, enter the amounts from Schedule AI, line 25. Otherwise, enter 25% (.25) of line 9, Form 2210, in each column	18	1,500	1,500	1,500	1,500
19 Estimated tax paid and tax withheld (see the instructions). For column (a) only, also enter the amount from line 19 on line 23. If line 19 is equal to or more than line 18 for all payment periods, stop here; you do not owe a penalty. Do not file Form 2210 unless you checked a box in Part II	19	2,100	500	750	1,250
Complete lines 20 through 26 of one column before going to line 20 of the next column.					
20 Enter the amount, if any, from line 26 in the previous column	20		600		
21 Add lines 19 and 20	21		1,100	750	1,250
22 Add the amounts on lines 24 and 25—in the previous column	22		0	400	1,150
23 Subtract line 22 from line 21. If zero or less, enter -0-. For column (a) only, enter the amount from line 19	23	2,100	1,100	350	100
24 If line 23 is zero, subtract line 21 from line 22. Otherwise, enter -0-	24		0	0	
25 Underpayment. If line 18 is equal to or more than line 23, subtract line 23 from line 18. Then go to line 20 of the next column. Otherwise, go to line 26 . ▶	25		400	1,150	1,400
26 Overpayment. If line 23 is more than line 18, subtract line 18 from line 23. Then go to line 20 of the next column	26	600			
Section B—Figure the Penalty (Use the Worksheet for Form 2210, Part IV, Section B—Figure the Penalty in the instructions.)					
27 Penalty. Enter the total penalty from line 14 of the Worksheet for Form 2210, Part IV, Section B—Figure the Penalty. Also include this amount on Form 1040, line 77; Form 1040A, line 46; Form 1040NR, line 74; Form 1040NR-EZ, line 26; or Form 1041, line 26. Do not file Form 2210 unless you checked a box in Part II ▶	27				24

Form **2210** (2012)

Annualized Income Installment Method (Schedule AI). The annualized income installment method is used by taxpayers whose income fluctuates during the year. This method will calculate whether the estimated tax payments the taxpayer made was appropriate for the amount of tax they owed for each period. The calculations are basically the same as those used to calculate the tax due using the annualized method of estimating the tax discussed earlier in the chapter.

Schedule AI for Form 2210 is used to report the actual activity for each period. For cash basis taxpayers, the activity for the period includes all income actually or constructively received and all deductions actually paid.

Taxpayers who use this method to calculate the amount to report on line 18 of Form 2210 must check box C in Part II of the form and attach Schedule AI to the return.

Example 17. Assume the same facts as **Example 15**, except Krissy completed Schedule AI for Form 2210 and used the results to complete line 18 of Part IV. Her AGI shown on Schedule AI, line 1, is calculated from the following information.

	2012 Actual			
	Jan.–Mar.	Jan.–May	Jan.–Aug.	Jan.–Dec.
a. W-2 wages	\$ 8,000	\$ 8,500	\$ 9,000	\$10,000
b. Net business income	3,000	5,000	22,000	30,000
c. SE tax ^a	368	614	2,702	3,685
d. Deductible part of SE tax ^b	212	353	1,554	2,119
AGI for period (lines a + b – d)	\$10,788	\$13,147	\$29,446	\$37,881

^a Net business income × 92.35% × 13.3%

^b SE tax × 57.51%

Krissy’s Schedule AI and Part IV of Form 2210 follow. The revised Part IV shows Krissy’s penalty at \$22, which is the lowest amount possible.

Observation. Was completing the form worth reducing her penalty by a total of \$5? Probably not. In fact, Krissy might have been better off not filing Form 2210 with her return.

2013 Workbook

For Example 17

Form 2210 (2012)

Page **4**

Schedule AI—Annualized Income Installment Method (See the instructions.)

Estates and trusts, **do not** use the period ending dates shown to the right. Instead, use the following: 2/29/12, 4/30/12, 7/31/12, and 11/30/12.

(a)
1/1/12-3/31/12

(b)
1/1/12-5/31/12

(c)
1/1/12-8/31/12

(d)
1/1/12-12/31/12

Part I Annualized Income Installments

1 Enter your adjusted gross income for each period (see instructions). (Estates and trusts, enter your taxable income without your exemption for each period.) . . .	1	10,788	13,147	29,446	37,881
2 Annualization amounts. (Estates and trusts, see instructions)	2	4	2.4	1.5	1
3 Annualized income. Multiply line 1 by line 2	3	43,152	31,553	44,169	37,881
4 If you itemize, enter itemized deductions for the period shown in each column. All others enter -0-, and skip to line 7. Exception: Estates and trusts, skip to line 9 and enter amount from line 3	4	0	0	0	0
5 Annualization amounts	5	4	2.4	1.5	1
6 Multiply line 4 by line 5	6	0	0	0	0
7 In each column, enter the full amount of your standard deduction from Form 1040, line 40, or Form 1040A, line 24. (Form 1040NR or 1040NR-EZ filers, enter -0-. Exception: Indian students and business apprentices, see instructions.)	7	5,950	5,950	5,950	5,950
8 Enter the larger of line 6 or line 7	8	5,950	5,950	5,950	5,950
9 Subtract line 8 from line 3	9	37,202	25,603	38,219	31,931
10 In each column, multiply \$3,800 by the total number of exemptions claimed. (Estates, trusts, and Form 1040NR or 1040NR-EZ filers, see instructions.) . .	10	3,800	3,800	3,800	3,800
11 Subtract line 10 from line 9. If zero or less, enter -0-	11	33,402	21,803	34,419	28,131
12 Figure your tax on the amount on line 11 (see instructions)	12	4,579	2,839	4,729	3,784
13 Self-employment tax from line 34 (complete Part II below)	13	1,474	1,474	4,053	3,684
14 Enter other taxes for each payment period (see instructions)	14				
15 Total tax. Add lines 12, 13, and 14	15	6,053	4,313	8,782	7,468
16 For each period, enter the same type of credits as allowed on Form 2210, Part I, lines 1 and 3 (see instructions)	16				
17 Subtract line 16 from line 15. If zero or less, enter -0-	17	6,053	4,313	8,782	7,468
18 Applicable percentage	18	22.5%	45%	67.5%	90%
19 Multiply line 17 by line 18	19	1,362	1,941	5,928	6,721
Complete lines 20–25 of one column before going to line 20 of the next column.					
20 Enter the total of the amounts in all previous columns of line 25	20		1,362	1,941	4,500
21 Subtract line 20 from line 19. If zero or less, enter -0-	21	1,362	579	3,987	2,221
22 Enter 25% (.25) of line 9 on page 1 of Form 2210 in each column	22	1,500	1,500	1,500	1,500
23 Subtract line 25 of the previous column from line 24 of that column	23		138	1,059	0
24 Add lines 22 and 23	24	1,500	1,638	2,559	1,500
25 Enter the smaller of line 21 or line 24 here and on Form 2210, Part IV, line 18 ▶	25	1,362	579	2,559	1,500

Part II Annualized Self-Employment Tax (Form 1040 and Form 1040NR filers only)

26 Net earnings from self-employment for the period (see instructions)	26	2,771	4,618	20,317	27,705
27 Prorated social security tax limit	27	\$27,525	\$45,875	\$73,400	\$110,100
28 Enter actual wages for the period subject to social security tax or the 4.2% portion of the 5.65% railroad retirement (tier 1) tax. Exception: If you filed Form 4137 or Form 8919, see instructions	28	8,000	8,500	9,000	10,000
29 Subtract line 28 from line 27. If zero or less, enter -0-	29	19,525	37,375	64,400	100,100
30 Annualization amounts	30	0.416	0.2496	0.156	0.104
31 Multiply line 30 by the smaller of line 26 or line 29 .	31	1,153	1,153	3,169	2,881
32 Annualization amounts	32	0.116	0.0696	0.0435	0.029
33 Multiply line 26 by line 32	33	321	321	884	803
34 Add lines 31 and 33. Enter here and on line 13 above . ▶	34	1,474	1,474	4,053	3,684

Form **2210** (2012)

For Example 17

Form 2210 (2012)

Page **3**

Part IV Regular Method (See the instructions if you are filing Form 1040NR or 1040NR-EZ.)					
Section A—Figure Your Underpayment	Payment Due Dates				
	(a) 4/15/12	(b) 6/15/12	(c) 9/15/12	(d) 1/15/13	
18 Required installments. If box C in Part II applies, enter the amounts from Schedule AI, line 25. Otherwise, enter 25% (.25) of line 9, Form 2210, in each column	18	1,362	579	2,559	1,500
19 Estimated tax paid and tax withheld (see the instructions). For column (a) only, also enter the amount from line 19 on line 23. If line 19 is equal to or more than line 18 for all payment periods, stop here; you do not owe a penalty. Do not file Form 2210 unless you checked a box in Part II.	19	1,650	650	900	1,400
Complete lines 20 through 26 of one column before going to line 20 of the next column.					
20 Enter the amount, if any, from line 26 in the previous column	20		288	359	
21 Add lines 19 and 20	21		938	1,259	1,400
22 Add the amounts on lines 24 and 25 in the previous column	22		0	0	1,300
23 Subtract line 22 from line 21. If zero or less, enter -0-. For column (a) only, enter the amount from line 19	23	1,650	938	1,259	100
24 If line 23 is zero, subtract line 21 from line 22. Otherwise, enter -0-	24		0	0	
25 Underpayment. If line 18 is equal to or more than line 23, subtract line 23 from line 18. Then go to line 20 of the next column. Otherwise, go to line 26 . ▶	25			1,300	1,400
26 Overpayment. If line 23 is more than line 18, subtract line 18 from line 23. Then go to line 20 of the next column	26	288	359		
Section B—Figure the Penalty (Use the Worksheet for Form 2210, Part IV, Section B—Figure the Penalty in the instructions.)					
27 Penalty. Enter the total penalty from line 14 of the Worksheet for Form 2210, Part IV, Section B—Figure the Penalty. Also include this amount on Form 1040, line 77; Form 1040A, line 46; Form 1040NR, line 74; Form 1040NR-EZ, line 26; or Form 1041, line 26. Do not file Form 2210 unless you checked a box in Part II. ▶	27				22

Form **2210** (2012)



FARMERS AND FISHERMEN

SPECIAL RULES FOR QUALIFIED FARMERS AND FISHERMEN

If a taxpayer's gross income for 2012 or 2013 is at least two-thirds from farming or fishing, they qualify for more lenient rules with respect to estimated tax payments. Qualified taxpayers may either:

- Pay **all** of their estimated tax by the 15th day after the end of their tax year, or
- File the return and pay all the taxes due by the 1st day of the 3rd month after the end of their tax year.

For calendar year taxpayers, the respective due dates are **January 15** and **March 1** unless one of those days falls on a weekend or holiday, in which case the next business day is the applicable due date.

2013 Workbook

In addition to the special rules for payment dates, the safe harbor rule is more favorable for qualified farmers and fishermen. The required minimum annual payment is the lesser of:

1. 66 ²/₃% (.6667) of the total tax for the current year, or
2. 100% of the total tax for the previous year.

Note. States may have different rules. For example, the State of Illinois specifically exempts farmers from the requirement to make estimated tax payments¹⁴ if the farmer's gross income from farming is at least two-thirds of the farmer's estimated gross income for the tax year.¹⁵

Example 18. Roy is a qualified farmer. In addition to his substantial farming income, he has a number of investments. He often does not receive final Forms 1099 from his brokers until mid-March. In addition, he usually receives several Schedules K-1 in late March from investments he owns in partnerships and S corporations.

Roy may choose to file and pay his 2013 taxes by March 1, 2014, and amend his return after he receives the final tax reporting statements. Alternatively, Roy may choose to file one estimated payment by January 15, 2014.

Roy chooses to make an estimated payment in January. He uses the safe harbor method to calculate his January estimated tax payment, as follows.

	2012 Actual	2013 Projected
Total tax liability	\$800,000	\$900,000
Applicable percentage	100%	66.67%
Safe harbor threshold	\$800,000	\$600,030
Lowest threshold		\$600,030

GROSS INCOME FROM FARMING AND FISHING

To qualify for the more lenient estimated tax requirements, over two-thirds of the taxpayer's current or prior year gross income must come from farming or fishing activities.

Gross income includes all income the taxpayer receives in the form of money, goods, property, and services that are not exempt from tax. Only income items are used to determine if two-thirds of gross income was from farming or fishing; neither expenses nor losses are used in the calculation. On a joint return, income from both spouses is included in the calculation to determine if at least two-thirds of their total gross income is from farming or fishing.

Note. Wages are not considered gross income from farming or fishing regardless of the type of business the employer is engaged in.

¹⁴ 35 ILCS 5/803(a).

¹⁵ 35 ILCS 5/803(e).

Gross Income from Farming

Gross income from farming is defined as all income from cultivating the soil or raising agricultural commodities. It includes the following amounts.¹⁶

1. Income from operating a stock, dairy, poultry, bee, fruit, or truck farm
2. Income from a plantation, ranch, nursery, range, orchard, or oyster bed
3. Crop share rental income for the use of land
4. Gains from sales of draft, breeding, dairy, or sporting livestock

These amounts can be found in the following places.

Form	2012 Line Number and Description
Schedule F, <i>Profit or Loss From Farming</i>	Line 9, gross income
Form 4835, <i>Farm Rental Income and Expenses</i>	Line 7, gross farm rental income
Form 4797, <i>Sales of Business Property</i> (gains only)	Page 1: lines 2(g) and 10(g)
Form 4797, <i>Sales of Business Property</i> (gains only)	Page 2: line 24, total gain
Schedule K-1 (Form 1065), <i>Partner's Share of Income, Deductions, Credits, etc.</i>	Box 14, code B
Schedule K-1 (Form 1120S), <i>Shareholder's Share of Income, Deductions, Credits, etc.</i>	Box 17, code U
Schedule K-1 (Form 1041), <i>Beneficiary's Share of Income, Deductions, Credits, etc.</i>	Box 14, code F

Example 19. Art and Lola file joint returns for 2012 and 2013. Art is engaged in the business of farming and Lola works as a manager of the local cooperative. A review of their 2012 return shows that their gross income from farming exceeded 66.67% of their 2012 income. Therefore, they may use the special rules for farmers regarding estimated tax payments for 2012 and 2013.

Their gross income from farming for 2012 is calculated as follows.

	Gross Income All Sources	Gross Income Farming
Wages	\$ 30,000	\$ 0
Farm	218,000	218,000
Capital gains	<u>21,400</u>	<u>400</u>
Totals	\$269,400	\$218,400
Percentage from farming ($\$218,400 \div \$269,400$)		81.07%

Selected portions of Art and Lola's 2012 tax return follow.

Note. The taxpayer's share of gross farm income from a passthrough entity is included in the taxpayer's gross income from farming. This rule makes it possible for a taxpayer who is not otherwise engaged in farming to qualify as a farmer for estimated tax payment purposes.

¹⁶ IRS Pub. 225, *Farmer's Tax Guide*.

2013 Workbook

For Example 19

Form	1040	Department of the Treasury—Internal Revenue Service (99)	2012	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2012, or other tax year beginning _____, 2012, ending _____, 20					See separate instructions.
Your first name and initial Art		Last name Hawkins		Your social security number 320 20 2020	
If a joint return, spouse's first name and initial Lola		Last name Hawkins		Spouse's social security number 320 20 2021	
Home address (number and street). If you have a P.O. box, see instructions. RR 5				Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Dix, IL 62830				Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
Foreign country name		Foreign province/state/county		Foreign postal code	
Filing Status 1 <input type="checkbox"/> Single 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child Check only one box.					
Exemptions 6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a } Boxes checked on 6a and 6b 2 b <input checked="" type="checkbox"/> Spouse } No. of children on 6c who: c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions) If more than four dependents, see instructions and check here ▶ <input type="checkbox"/>					
d Total number of exemptions claimed Add numbers on lines above → 2					
Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 30,000 8a Taxable interest. Attach Schedule B if required 8a b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required 9a b Qualified dividends 9b 10 Taxable refunds, credits, or offsets of state and local income taxes 10 11 Alimony received 11 12 Business income or (loss). Attach Schedule C or C-EZ 12 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/> 13 21,000 14 Other gains or (losses). Attach Form 4797 14 (1,100) 15a IRA distributions 15a b Taxable amount 15b 16a Pensions and annuities 16a b Taxable amount 16b 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17 18 Farm income or (loss). Attach Schedule F 18 17,000 19 Unemployment compensation 19 20a Social security benefits 20a b Taxable amount 20b 21 Other income. List type and amount _____ 21 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶ 22 66,900					
Adjusted Gross Income 23 Educator expenses 23 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24 25 Health savings account deduction. Attach Form 8889 25 26 Moving expenses. Attach Form 3903 26 27 Deductible part of self-employment tax. Attach Schedule SE 27 1,201 28 Self-employed SEP, SIMPLE, and qualified plans 28 29 Self-employed health insurance deduction 29 30 Penalty on early withdrawal of savings 30 31a Alimony paid b Recipient's SSN ▶ 31a 32 IRA deduction 32 33 Student loan interest deduction 33 34 Tuition and fees. Attach Form 8917 34 35 Domestic production activities deduction. Attach Form 8903 35 1,500 36 Add lines 23 through 35 36 2,701 37 Subtract line 36 from line 22. This is your adjusted gross income ▶ 37 64,199					
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2012)					

2013 Workbook

For Example 19

Form 1040 (2012)		Page 2
Tax and Credits	38 Amount from line 37 (adjusted gross income)	38 64,199
	39a Check <input checked="" type="checkbox"/> You were born before January 2, 1948, <input type="checkbox"/> Blind. } Total boxes if: <input checked="" type="checkbox"/> Spouse was born before January 2, 1948, <input type="checkbox"/> Blind. } checked ▶ 39a 2	
Standard Deduction for—	b If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b <input type="checkbox"/>	
• People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$5,950 Married filing jointly or Qualifying widow(er), \$11,900 Head of household, \$8,700	40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40 14,200
	41 Subtract line 40 from line 38	41 49,999
	42 Exemptions. Multiply \$3,800 by the number on line 6d	42 7,600
	43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43 42,399
	44 Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/> 962 election	44 2,336
	45 Alternative minimum tax (see instructions). Attach Form 6251	45 0
	46 Add lines 44 and 45 ▶	46 2,336
	47 Foreign tax credit. Attach Form 1116 if required	47
	48 Credit for child and dependent care expenses. Attach Form 2441	48
	49 Education credits from Form 8863, line 19	49
50 Retirement savings contributions credit. Attach Form 8880	50	
51 Child tax credit. Attach Schedule 8812, if required	51	
52 Residential energy credits. Attach Form 5695	52	
53 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	53	
54 Add lines 47 through 53. These are your total credits	54	
55 Subtract line 54 from line 46. If line 54 is more than line 46, enter -0- ▶	55 2,336	
Other Taxes	56 Self-employment tax. Attach Schedule SE	56 2,088
	57 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	57
	58 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	58
	59a Household employment taxes from Schedule H	59a
	b First-time homebuyer credit repayment. Attach Form 5405 if required	59b
	60 Other taxes. Enter code(s) from instructions	60
	61 Add lines 55 through 60. This is your total tax ▶	61 4,424
Payments	62 Federal income tax withheld from Forms W-2 and 1099	62
	63 2012 estimated tax payments and amount applied from 2011 return	63
If you have a qualifying child, attach Schedule EIC.	64a Earned income credit (EIC)	64a
	b Nontaxable combat pay election 64b	64b
	65 Additional child tax credit. Attach Schedule 8812	65
	66 American opportunity credit from Form 8863, line 8	66
	67 Reserved	67
	68 Amount paid with request for extension to file	68
	69 Excess social security and tier 1 RRTA tax withheld	69
	70 Credit for federal tax on fuels. Attach Form 4136	70
	71 Credits from Form: a <input type="checkbox"/> 2439 b <input checked="" type="checkbox"/> Reserved c <input type="checkbox"/> 8801 d <input type="checkbox"/> 8885	71
	72 Add lines 62, 63, 64a, and 65 through 71. These are your total payments ▶	72 0
Refund	73 If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you overpaid	73
	74a Amount of line 73 you want refunded to you . If Form 8888 is attached, check here ▶ <input type="checkbox"/>	74a
Direct deposit? ▶ See instructions.	b Routing number ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	d Account number	
	75 Amount of line 73 you want applied to your 2013 estimated tax ▶ 75	75
Amount You Owe	76 Amount you owe. Subtract line 72 from line 61. For details on how to pay, see instructions ▶	76 4,424
	77 Estimated tax penalty (see instructions)	77
Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No	
	Designee's name ▶	Phone no. ▶
	Personal identification number (PIN) ▶	
Sign Here	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.	
Joint return? See instructions. Keep a copy for your records.	Your signature	Date
	Spouse's signature. If a joint return, both must sign.	Date
	Your occupation	Daytime phone number
	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature
	Firm's name ▶	Firm's EIN ▶
	Firm's address ▶	Date
	Check <input type="checkbox"/> if self-employed	PTIN
	Phone no.	



2013 Workbook

For Example 19

SCHEDULE F (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Farming

▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B.
▶ Information about Schedule F and its separate instructions is at www.irs.gov/form1040.

OMB No. 1545-0074

2012
Attachment
Sequence No. **14**

Name of proprietor Art Hawkins		Social security number (SSN) 320-20-2020	
A Principal crop or activity Fruit and dairy	B Enter code from Part IV 1 1 1 3 0 0	C Accounting method: <input checked="" type="checkbox"/> Cash <input type="checkbox"/> Accrual	D Employer ID number (EIN), (see instr)
E Did you "materially participate" in the operation of this business during 2012? If "No," see instructions for limit on passive losses		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
F Did you make any payments in 2012 that would require you to file Form(s) 1099 (see instructions)		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
G If "Yes," did you or will you file required Forms 1099?		<input type="checkbox"/> Yes <input type="checkbox"/> No	

Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method. Complete Parts II, and Part I, line 9.)

1a Sales of livestock and other resale items (see instructions)	1a		
b Cost or other basis of livestock or other items reported on line 1a	1b		
c Subtract line 1b from line 1a	1c		
2 Sales of livestock, produce, grains, and other products you raised	2		2,000
3a Cooperative distributions (Form(s) 1099-PATR)	3a	200,000	3b Taxable amount
4a Agricultural program payments (see instructions)	4a	1,000	4b Taxable amount
5a Commodity Credit Corporation (CCC) loans reported under election	5a		
b CCC loans forfeited	5b		5c Taxable amount
6 Crop insurance proceeds and federal crop disaster payments (see instructions)			
a Amount received in 2012	6a		6b Taxable amount
c If election to defer to 2013 is attached, check here <input type="checkbox"/>	6d		6d Amount deferred from 2011
7 Custom hire (machine work) income	7		15,000
8 Other income (see instructions)	8		
9 Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50 (see instructions)	9		218,000

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses (see instructions).

10 Car and truck expenses (see instructions). Also attach Form 4562	10		23 Pension and profit-sharing plans	23	
11 Chemicals	11	20,000	24 Rent or lease (see instructions):		
12 Conservation expenses (see instructions)	12		a Vehicles, machinery, equipment	24a	
13 Custom hire (machine work)	13	5,000	b Other (land, animals, etc.)	24b	
14 Depreciation and section 179 expense (see instructions)	14	130,000	25 Repairs and maintenance	25	6,000
15 Employee benefit programs other than on line 23	15		26 Seeds and plants	26	4,000
16 Feed	16		27 Storage and warehousing	27	
17 Fertilizers and lime	17	3,000	28 Supplies	28	10,000
18 Freight and trucking	18	10,000	29 Taxes	29	1,000
19 Gasoline, fuel, and oil	19	6,000	30 Utilities	30	
20 Insurance (other than health)	20	4,000	31 Veterinary, breeding, and medicine	31	
21 Interest:			32 Other expenses (specify):		
a Mortgage (paid to banks, etc.)	21a		a Misc.	32a	2,000
b Other	21b		b	32b	
22 Labor hired (less employment credits)	22		c	32c	
			d	32d	
			e	32e	
			f	32f	
33 Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions	33			33	201,000
34 Net farm profit or (loss). Subtract line 33 from line 9	34			34	17,000

If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.

35 Did you receive an applicable subsidy in 2012? (see instructions) Yes No

36 Check the box that describes your investment in this activity and see instructions for where to report your loss.

a All investment is at risk. b Some investment is not at risk.

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11346H

Schedule F (Form 1040) 2012

2013 Workbook

For Example 19

Form 4797 Department of the Treasury Internal Revenue Service	Sales of Business Property (Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2)) ► Attach to your tax return. ► Information about Form 4797 and its separate instructions is at www.irs.gov/form4797 .	OMB No. 1545-0184 <div style="font-size: 2em; font-weight: bold;">2012</div> Attachment Sequence No. 27
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Name(s) shown on return Art and Lola Hawkins	Identifying number 320-20-2020
--	--

1 Enter the gross proceeds from sales or exchanges reported to you for 2012 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions) **1**

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)

2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	2.3 Acres Farm Ground	09/09/53	02/24/12	23,000		2,000	21,000

3 Gain, if any, from Form 4684, line 39	3	
4 Section 1231 gain from installment sales from Form 6252, line 26 or 37	4	
5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824	5	
6 Gain, if any, from line 32, from other than casualty or theft.	6	
7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows:	7	21,000
Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below. Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.		
8 Nonrecaptured net section 1231 losses from prior years (see instructions)	8	
9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions)	9	

Part II Ordinary Gains and Losses (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	Dairy cow	03/01/12	07/01/12	1,400		1,000	400
	Draft horse	01/31/12	09/01/12	1,000		2,500	(1,500)

11 Loss, if any, from line 7	11	
12 Gain, if any, from line 7 or amount from line 8, if applicable	12	
13 Gain, if any, from line 31	13	
14 Net gain or (loss) from Form 4684, lines 31 and 38a	14	
15 Ordinary gain from installment sales from Form 6252, line 25 or 36	15	
16 Ordinary gain or (loss) from like-kind exchanges from Form 8824.	16	
17 Combine lines 10 through 16	17	(1,100)
18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:		
a If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions	18a	
b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14	18b	(1,100)

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 130861

Form **4797** (2012)

4

2013 Workbook

Gross Income from Fishing

Gross income from fishing is income from catching, taking, harvesting, cultivating, or farming any kind of:¹⁷

- Fish,
- Shellfish (e.g., clams and mussels),
- Crustaceans (e.g., lobsters, crabs, and shrimp),
- Sponges,
- Seaweeds, or
- Other aquatic forms of animal and vegetable life.

Gross income from fishing includes the following amounts.¹⁸

1. Income for services as an officer or crew member of a vessel while the vessel is engaged in fishing
2. The taxpayer's share of the gross fishing income from a partnership, S corporation, estate, or trust
3. Certain taxable interest and punitive damage awards received in connection with the Exxon Valdez litigation
4. Income for services normally performed in connection with fishing, such as:
 - a. Shore service as an officer or crew member of a vessel engaged in fishing
 - b. Services that are necessary for the immediate preservation of the catch, such as cleaning, icing, and packing the catch

These amounts can be found in the following places.

Form	2012 Line Number and Description
Schedule C (Form 1040), <i>Profit or Loss From Business</i>	Line 7, gross income
Schedule K-1 (Form 1065), <i>Partner's Share of Income, Deductions, Credits, etc.</i>	Box 14, code B
Schedule K-1 (Form 1120S), <i>Shareholder's Share of Income, Deductions, Credits, etc.</i>	Box 17, code U
Schedule K-1 (Form 1041), <i>Beneficiary's Share of Income, Deductions, Credits, etc.</i>	Box 14, code F

CALCULATING THE PENALTY FOR FARMERS AND FISHERMEN

Taxpayers who meet the two-thirds of gross income test but fail to either pay their estimated tax by January 15 or file and pay the tax by March 1 should use Form 2210-F, *Underpayment of Estimated Tax by Farmers and Fishermen*, to calculate their penalty.

Form 2210-F is much simpler than Form 2210. Because there are no requirements to make estimated tax payments during the year, there is no need to consider an annualized installment method or treat tax withholding as paid at any particular time of the year.

¹⁷ *Income from Fishing*. IRS. [www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Income-from-Fishing] Accessed on Feb. 4, 2013.

¹⁸ IRS Pub. 505, *Tax Withholding and Estimated Tax*.

Special Waiver for 2012

For 2012, the IRS extended the March 1, 2013 deadline for farmers and fishermen to April 15, 2013, for qualified taxpayers who did not file by March 1. However, if they did file on or before March 1, the taxpayers were still required to make the full payment by March 1.

To request the special waiver, qualified taxpayers were only required to check box A in Part I and attach Form 2210-F to their returns. The IRS granted the waiver if the tax return was filed and all of the taxes were paid by April 15, 2013.

This extended deadline was granted because Congress made significant changes to 2012 tax law in January 2013, which made it impossible for the IRS to have the necessary forms finalized before the March deadline.

Example 20. Assume the same facts as **Example 19** and that the IRS did not create the provision for the special waiver. Art and Lola did not make any estimated tax payments for 2012. They filed their 2012 return on April 14, 2013. Although they could have let the IRS calculate the penalty, they were concerned that the IRS would calculate the penalty as if they did not qualify for the special rules for farmers and fishermen. Accordingly, they included the following Form 2210-F with their return. Note that the penalty is only calculated from January 15 to the date they filed.

2013 Workbook

For Example 20

Form 2210-F Department of the Treasury Internal Revenue Service	Underpayment of Estimated Tax by Farmers and Fishermen ▶ Attach to Form 1040, Form 1040NR, or Form 1041. ▶ Information about Form 2210-F and its separate instructions is at www.irs.gov/form2210 .	OMB No. 1545-0140 <div style="text-align: center; font-size: 2em; font-weight: bold;">2012</div> Attachment Sequence No. 06A
Name(s) shown on tax return Art & Lola Hawkins		Identifying number 320-20-2020

Generally, you do not need to file Form 2210-F. The IRS will figure any penalty you owe and send you a bill. File Form 2210-F **only** if one or both of the boxes in Part I apply to you. If you do not need to file Form 2210-F, you still can use it to figure your penalty. Enter the amount from line 16 on the penalty line of your return, but do not attach Form 2210-F.

Part I Reasons for Filing. Check applicable boxes. If neither applies, **do not file Form 2210-F.**

- A** You request a **waiver**. In certain circumstances, the IRS will waive all or part of the penalty. See *Waiver of Penalty* in the instructions.
- B** You filed or are filing a joint return for either 2011 or 2012, but not for both years, and line 10 below is smaller than line 7 below.

Part II Figure Your Underpayment

1	Enter your 2012 tax after credits from Form 1040, line 55; Form 1040NR, line 52; or Form 1041, Schedule G, line 4	1		2,336
2	Other taxes, including self-employment tax (see instructions)	2		2,088
3	Add lines 1 and 2. If less than \$1,000, you do not owe a penalty; do not file Form 2210-F	3		4,424
4	Refundable credits you claimed on your tax return.			
a	Earned income credit (EIC)	4a		
b	Additional child tax credit	4b		
c	American opportunity credit (Form 8863, line 8)	4c		
d	Reserved	4d		
e	Credit for federal tax paid on fuels	4e		
f	Reserved	4f		
g	Refundable credit for prior year minimum tax (Form 8801, line 27)	4g		
h	Health coverage tax credit	4h		
i	Credit determined under section 1341(a)(5)(B) (see instructions)	4i		
5	Add lines 4a through 4i	5		
6	Current year tax. Subtract line 5 from line 3. If less than \$1,000, you do not owe a penalty; do not file Form 2210-F	6		4,424
7	Multiply line 6 by 66⅔% (.667)	7	2,951	
8	Withholding taxes. Do not include any estimated tax payments on this line (see instructions)	8		
9	Subtract line 8 from line 6. If less than \$1,000, you do not owe a penalty; do not file Form 2210-F	9		4,424
10	Enter the tax shown on your 2011 tax return (see instructions if your 2012 filing status changed to or from married filing jointly)	10		6,000
11	Required annual payment. Enter the smaller of line 7 or line 10 <i>Note: If line 8 is equal to or more than line 11, stop here; you do not owe the penalty. Do not file Form 2210-F unless you checked box B above.</i>	11		2,951
12	Enter the estimated tax payments you made by January 15, 2013, and any federal income tax and excess social security or tier 1 railroad retirement tax withheld during 2012	12		
13	Underpayment. Subtract line 12 from line 11. If the result is zero or less, stop here; you do not owe the penalty. Do not file Form 2210-F unless you checked box B above	13		2,951

Part III Figure the Penalty

14	Enter the date the amount on line 13 was paid or April 15, 2013, whichever is earlier	14		04 / 14 / 13
15	Number of days from January 15, 2013, to the date on line 14	15		89
16	Penalty. Underpayment on line 13 × $\frac{\text{Number of days on line 15}}{365}$ × .03 ▶	16		22

• Form 1040 filers, enter the amount from line 16 on Form 1040, line 77.
 • Form 1040NR filers, enter the amount from line 16 on Form 1040NR, line 74.
 • Form 1041 filers, enter the amount from line 16 on Form 1041, line 26.