Estimated income tax

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Oregon law requires some taxpayers to pay estimated tax. Oregon's estimated tax system is similar to the federal system, but when you figure estimated tax for Oregon:

- Use Oregon income tax laws and tax rates.
- Do not include Social Security tax (FICA), self-employment tax, or household employment tax.

In most cases, you must make estimated tax payments if you owe **$1,000** or more when you file your 2008 Oregon income tax return. That's tax you owe after you subtract your credits and the tax withheld from your income, but before you subtract any 2007 refund you applied to your 2008 estimated tax.

Pay estimated tax for tax year 2008 if:

You expect to owe **$1,000** or more when you file your 2008 Oregon income tax return, **and** you estimate the total income tax withholding will be less than:

- 100 percent of the tax shown on your 2007 income tax return that covered all 12 months of the year, or
- 90 percent of the tax to be shown on your 2008 income tax return, or
- 90 percent of the tax on your 2008 annualized income.

Even if you expect to owe less than $1,000, you may still make estimated tax payments.

Note: Estimated tax payments are not a substitute for withholding Oregon income tax from wage income.

You can file a joint estimated tax Form 40-ESV with your spouse unless **any of the following is true:**

- You or your spouse are nonresident aliens.
- You are legally separated.
- You and your spouse have different tax years. For example, you use a calendar year, and your spouse uses a fiscal year.

If you file a joint estimated tax Form 40-ESV, the payments are considered to be joint, regardless of which spouse actually made the estimated tax payment.

You can file separate Oregon income tax returns even if you file a joint Form 40-ESV. If you file separate income tax returns after filing a joint Form 40-ESV, decide who'll claim the joint estimated tax payments. You can divide the estimated tax between you or agree that one of you will claim the entire amount. If you cannot agree, generally your estimated tax will be divided based on your separate tax liabilities.

Note: If you expect to file separate tax returns, use separate estimated tax accounts to help process your return.

Gross income

Generally, gross income includes all income you receive during the year. There are some exceptions, such as Social Security, Railroad Retirement Board benefits, and welfare payments.

Gross income includes wages, interest, and dividends. It also includes gross profit from rentals, royalties, businesses, farming, fishing, capital gains, and the sale of property. Do not subtract expenses, except cost of goods sold, when figuring gross profit.

Farmers and commercial fishermen

Farmers and fishermen are not required to pay estimated tax if at least two-thirds of their 2007 gross income or two-thirds of their 2008 estimated gross income from all sources is from farming or fishing. This includes oyster farming.

You still need to file Form 10, *Underpayment of Oregon Estimated Tax,* with your Oregon income tax return to show you do not owe estimated tax. To download the form, go to our website, or to order the form, call us.

Your Oregon return is due April 15, 2009, even if you were required to file your federal return earlier.

Employees of farmers or fishermen do not qualify for this exception.

Farmers. Use the amounts on the following federal forms to determine your gross income from farming:

- Federal Schedule F, line 11.
- Federal Schedule E, line 42.
- Federal Form 4797, line 20 (include only gains from sale of livestock held for draft, breeding, sporting, or dairy purposes).

Oregon allows farm income averaging for income tax purposes. Order Form FIA-40 (full-year resident) or Form FIA-40N/P (part-year resident and nonresident) for more information. You can download these forms from our website.

Fishermen. Use the amounts from the following federal schedules to determine your gross income from fishing:

- Schedule C, line 7.
- Schedule C-EZ, line 1.
- Schedule E, line 42.

Example 1: Waldo is a farmer. He wants to know if he must pay estimated tax. His 2007 return shows the following:

Wages	$12,000
Interest	700
Net farm income	3,000
Total adjusted gross income	$15,700

His farm schedule shows:

Gross income from crop sales	$35,000
Total expenses	–32,000
Net farm profit	$ 3,000

His gross income is:

Wages	$12,000
Interest	700
Farm gross income	35,000
Total gross income	$ 47,700
⅔ of $47,700	$31,800
Farm gross income	$35,000

Waldo does not have to pay estimated tax. His farm gross income of $35,000 is more than two-thirds (66.7 percent) of his total gross income ($47,700 × .667 = $31,800). But he does need to file Form 10 with his tax return.

Example 2: Vern is a farmer. Julie is a wage earner and an artist. They will file jointly and want to know if they must pay estimated tax for 2008. Their return shows the following:

Schedule C business loss	$ (1,500)
Wages	25,000
Net farm income	18,500
Adjusted gross income	$42,000

Their farm schedule shows:

Gross crop sales	$ 10,000
Gross livestock sales	17,000
Farm gross income	$ 27,000
Total expenses	– 8,500
Net farm profit	$ 18,500

Their business Schedule C shows:

Gross receipts	$20,000
Cost of goods sold (COGS)	–12,000
Gross income after COGS	8,000
Total expenses	9,500
Net Schedule C business loss	$ (1,500)

Their gross income is:

Business gross income after COGS	$ 8,000
Wage income	25,000
Farm gross income	27,000
Total gross income	$ 60,000
⅔ of $60,000 (gross income)	$ 40,000
Farm gross income	$ 27,000

Vern and Julie estimated their 2008 gross income and gross farm income will be about the same as their 2007 income amounts. Because less than two-thirds of their gross income is from farming, they should make quarterly estimated tax payments for 2008.

Nonresidents and part-year residents

Nonresidents figure Oregon estimated tax only on income that is:

- Subject to Oregon withholding, or
- From conducting a trade or business within Oregon.

Use one of the worksheets in the estimated tax booklet to figure the tax. Follow the same instructions as full-year residents for filing Form 40-ESV and paying estimated tax.

The amount of your payment is based on the tax you compute using one of the methods shown below. Use your 2007 Form 40N or Form 40P as a guideline to estimate your 2008 Oregon income tax. Follow the same instructions for filing Form 40-ESV and paying estimated tax that full-year residents do.

Farmer or fisherman

Figure your gross income as all the income you expect to earn both in and out of Oregon to determine if you need to pay Oregon estimated tax.

Example: Felicia, a resident of Washington, owns a farm in Oregon. All of her other income is from nonfarm sources within Washington. Her total farm income from Oregon sources is $50,000. Her total gross income from within and outside of Oregon is $90,000. Because Felicia's gross income from farming is not equal to or greater than two-thirds of her total gross income, she does not qualify for the exception for farmers and fishermen. She must make estimated tax payments.

S corporation, limited liability company (LLC), or partnership income

If you're a shareholder in an S corporation, a member of an LLC, or in a partnership with income from Oregon sources, you may need to make estimated tax payments.

Part-year residents. For the part of the year you were a nonresident, you are subject to Oregon tax on your share of the Oregon income reported by the S corporation, LLC, or partnership. Partners must also report guaranteed payments. For the part of the year you were a resident, you're subject to Oregon tax on your share of all the S corporation, LLC, or partnership income.

Nonresidents. You're subject to Oregon tax on your share of the Oregon income reported by the S corporation, LLC, or partnership. You're also subject to Oregon tax on any guaranteed payments from the partnership. The payments are apportioned using the partnership's percentage.

Retirees

If you're retired or will soon retire, you may need to make estimated tax payments. Or, you may be able to have Oregon income tax withheld from your retirement income. Contact the payer of the income to see if this is possible.

Retirees who are Oregon residents but not living in Oregon may be subject to tax on their Oregon-source pensions. This law applies to retirees who still have Oregon as their domicile but file as nonresidents.

Nonresident aliens

Estimated tax filing requirements are the same for both United States citizens and nonresident aliens. Nonresident aliens can be either **Oregon** residents or nonresidents. If you or your spouse are a nonresident alien, you must file separate estimated tax forms.

Fiduciaries

Do not file Form 40-ESV. You do not need to pay estimated tax on behalf of an estate or trust.

Due dates

2008 estimated tax for calendar-year taxpayers

First payment—due April 15, 2008.
Second payment—due June 16, 2008.
Third payment—due September 15, 2008.
Fourth payment—due January 15, 2009.

If you still owe more income tax, pay the balance by April 15, 2009. You must pay the tax even if you get an extension to file your tax return.

Special cases: You do not need to make the fourth payment if:

- You file your Oregon tax return before February 1, 2009, and
- You pay all tax due with your return.

You must still pay estimated tax on the earlier payment dates.

Fiscal-year taxpayers: Pay one-fourth of your Oregon estimated tax on the 15th day of the fourth, sixth, and ninth months of your tax year. The last payment is due 15 days after the end of your tax year. If the due date falls on a Saturday, Sunday, or legal holiday, use the next regular workday.

Example: Your tax year begins July 1, 2007 and ends June 30, 2008. The estimated tax Form 40-ESV and payments are due:

- October 15, 2007.
- December 15, 2007.
- March 15, 2008.
- July 15, 2008.

Additional withholding

If you don't have enough Oregon tax withheld from your wages, ask your employer to increase your withholding. You can change your Oregon withholding without changing your federal withholding. File a new federal Form W-4, *Employee's Withholding Allowance Certificate,* with your employer. Write "For state use only" on the W-4.

Do you and your spouse both work? Or, do you or your spouse have two jobs? If so, we have information to help you figure tax that should be withheld from your wages. Send for *Oregon Income Tax Withholding: Some Special Cases* by writing to: Forms, Oregon Department of Revenue, PO Box 14999, Salem OR 97309-0990. Or, download the form from our website.

How to figure your payments

You will need:

- Your 2007 Oregon income tax return and instructions.
- 2008 exemption credit: $169.
- 2008 federal tax subtraction limit: $5,600 ($2,800 married filing separately).
- 2008 tax rate charts.

You may need:

- Your federal income tax return and schedules.
- The appropriate worksheet from the estimated income tax instructions for Form 40-ESV.

Method 1: 2008

90 percent of your 2008 net income tax. To figure your payments under this method, use the appropriate worksheet in the estimated income tax instructions for Form 40-ESV.

Use your 2007 income tax returns and instructions as **guides** to estimate your 2008 federal adjusted gross income (AGI).

Example: Basil used his 2007 tax return to estimate his 2008 income and Oregon tax. He estimates his net tax liability for Oregon will be $3,600. Basil should pay 90 percent of that amount ($3,600 × .90 = $3,240) in four equal payments. He should pay $810 ($3,240 ÷ 4) each payment period.

Method 2: Safe harbor—2007

100 percent of the tax shown on your 2007 income tax return. Your 2007 return must have a net income tax and be filed on time, including extensions. Pay 25 percent of this amount on each estimated tax payment due date. You cannot use this method if in tax year 2007 you:

- Did not file an Oregon return, or
- Filed a short-year return.

Example: Arianne's 2007 tax was $1,000 after credits. She should pay $250 ($1,000 ÷ 4) on each of the four estimated tax due dates.

Method 3: Annualized—2008

90 percent of your 2008 annualized net income tax. If you don't get your taxable income evenly throughout the year, you may annualize your income to figure your estimated tax payments. Use the annualized income worksheet on the Form 10, *Interest on Underpayment of Estimated Tax*, as a guide. Download Form 10 and instructions from our website. Or, call us to order it.

Computing your annualized tax. Compute your Oregon income from the beginning of the year to the end of the month preceding the estimated tax payment due date. For example, if you're annualizing your income through June 15, include only your income from January through May. Do not include income earned between June 1 and June 15.

Next, figure your Oregon itemized deductions, additions, and subtractions for the same period. You don't need to figure your itemized deductions if you're taking the standard deduction.

Then, use the following formula to figure your annualized income, itemized deductions, additions, and subtractions.

First payment

Actual income January 1 to
March 31 × 4 = $___ annualized amount

Second payment

Actual income January 1 to
May 31 × 2.4 = $___ annualized amount

Third payment

Actual income January 1 to
August 31 × 1.5 = $___ annualized amount

Fourth payment

Actual income January 1 to
December 31 × 1.0 = $___ annualized amount

To figure your annualized Oregon taxable income, add your annualized Oregon additions to your annualized federal adjusted gross income. Then subtract:

- Your annualized Oregon subtractions. Don't include your federal tax subtraction. Use the formula above. Substitute your subtractions to date for your income.
- Your annualized itemized deductions. Use the formula above. Substitute your itemized deductions to date for your income.
- Your standard deduction based on your filing status if you're not itemizing. Don't annualize the standard deduction.
- Federal tax figured on your annualized federal taxable income. Use the federal tax rate charts to determine the tax on your annualized federal taxable income. The 2008 federal tax subtraction is limited to $5,600 ($2,800 if married filing separately).

Then use the 2008 Oregon tax rate charts to figure your annualized tax before credits. Oregon's tax rates change each year because of inflation. Do not use a 2007 rate chart.

You must reduce your annualized tax by:

- The exemption credits you expect to claim on your Oregon return, $169 each in 2008, and
- Any other Oregon credit in the period you earn it to arrive at net annualized tax.

Note: If you are a high-income taxpayer, your exemption credits may be reduced.

Example 1: Bill and Mary are married with no dependents. Neither is 65 or older or blind. They had no withholding tax. They had the following income:

Period	Federal adjusted gross income
January 1 to March 31	$ 8,000
January 1 to May 31	16,000

January 1 to August 31	20,000	
January 1 to December 31	38,000	

First payment

Annualized income		
$8,000 × 4 =		$ 32,000
Less: Standard deduction	– 3,650	
Federal tax subtraction	– 1,700	
Total deductions		– 5,350
Annualized taxable income		$ 26,650
Oregon tax		$ 1,991
Less: 2008 exemption credit (2 × $169)		– 338
Annualized Oregon tax		$ 1,653
90% of the first period's tax		
$1,653 × .225 (1st required installment—pay this amount)		$ 372

Second payment

Annualized income		
$16,000 × 2.4 =		$ 38,400
Less: Standard deduction	– 3,650	
Federal tax subtraction	– 2,660	
Total deductions		– 6,310
Annualized taxable income		$ 32,090
Oregon tax		$ 2,480
Less: 2008 exemption credit (2 × $169)		– 338
Annualized Oregon tax		$ 2,142
90% of the second period's tax		
$2,142 × .45 (2nd required installment—[$964 – 372] pay $592)		$ 964

Third payment

Annualized income		
$20,000 × 1.5 =		$ 30,000
Less: Standard deduction	– 3,650	
Federal tax subtraction	– 1,410	
Total deductions		– 5,060
Annualized taxable income		$ 24,940
Oregon tax		$ 1,837
Less: 2008 exemption credit (2 × $169)		– 338
Annualized Oregon tax		$ 1,499
90% of the third period's tax		
$1,499 × .675 (3rd required installment—[$1,012 – 372 – 592] pay $48)		$ 1,012

Fourth payment

Annualized income		
$38,000 × 1.0 =		$ 38,000
Less: Standard deduction	– 3,650	
Federal tax subtraction	– 2,600	
Total deductions		– 6,250
Annualized taxable income		$ 31,750
Oregon tax		$ 2,450
Less: 2008 exemption credit (2 × $169)		– 338
Annualized Oregon tax		$ 2,112
90% of the fourth period's tax		
$2,112 × .9 (4th required installment—[$1,901 – 372 – 592 – 48] pay $889)		$ 1,901

Short-year taxpayers: You do not need to file Form 40-ESV, the estimated tax payment voucher, if the short taxable year is less than **four** months. If the short year is longer than four months, you may need to file Form 40-ESV.

Applying income tax refund to estimated tax payment

If your refund is $1 or more and you filed your return on time, you can apply it to next year's estimated tax payments. You must file Form 40, Form 40N, or Form 40P. Your refund will be applied to your first payment due unless you tell us otherwise. You can't apply your refund if you file Form 40S.

You may need to begin paying estimated tax if you paid withholding in prior years and your economic situation has changed.

If you apply your refund to your estimated taxes and the Oregon Department of Revenue reduces your refund, you may need to make a payment for the difference. Do it immediately. **We apply payments first to underpayments from earlier periods.**

Example: The June 15 payment is first applied to any underpayment for the first payment period. The balance of the June payment is then applied to the second payment period.

What to do if your estimated income, deductions, or credits change?

Amended estimated tax. Did your expected income or deductions change after you made your first estimated tax payment? If so, refigure your estimated tax, using the new income or deductions. Then use the amended estimated tax worksheet in the estimated tax booklet to figure how much to pay.

Did not pay estimated tax on April 15?

Even if you don't need to pay estimated tax on April 15…

- If your expected income, deductions, or credits change, you may need to pay estimated tax at a later date. Fill out the appropriate tax worksheet in the estimated tax booklet.
- If your income changes after April 1 and before June 2, file by June 15. Make three equal payments.

- If your income changes after June 1 and before September 2, file by September 15. Make two equal payments.
- If your income changes after September 1, file by January 15. Pay your estimated tax in full.

Taxpayer assistance

General tax information .... www.oregon.gov/DOR
Salem 503-378-4988
Toll-free from an Oregon prefix 1-800-356-4222

Asistencia en español:
Salem 503-378-4988
Gratis de prefijo de Oregon 1-800-356-4222

TTY (hearing or speech impaired; machine only):
Salem 503-945-8617
Toll-free from an Oregon prefix 1-800-886-7204

Americans with Disabilities Act (ADA): Call one of the help numbers for information in alternative formats.