

Instructions for Form 1994 1040



and Schedules A, B,
C, D, E, F, and SE

Check Your Social Security Numbers (SSNs)!

Incorrect or missing SSNs for you, your spouse, or dependents may delay your refund. See page 7 for details on how to get an SSN.

Can You Take the Earned Income Credit for 1994?

If a child didn't live with you, you earned less than \$9,000, and you or your spouse were at least age 25, you may be able to take this credit. If a child lived with you and you earned less than \$25,296, you may be able to take a larger credit. See the instructions for line 56 on page 27.

Would You Like To Get Your Refund Within 21 Days?

If you would, have your return filed electronically as millions of others do. See **Electronic Filing** on page 5.

Note: *This booklet does not contain any tax forms.*



Department of the Treasury
Internal Revenue Service

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Department
of the
Treasury

**Internal
Revenue
Service**

Instructions for Form 1040

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DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

Dear Taxpayer:

The Internal Revenue Service has embarked on several major initiatives that will improve our service to you, the American taxpayer.

The National Performance Review (NPR), chartered by the President and led by the Vice President, conducted an extensive review of the Federal government. Its purpose is to ensure a government that works for people. The NPR recognized the Internal Revenue Service as a leader among government agencies in customer service, but challenged the IRS to make even more progress toward customer service, with emphasis on quality, fairness, and efficiency. Improving customer service is central to the job of reinventing government to make it work better and cost less.

IRS accepted the NPR's challenge. Our plans for customer service are a major step toward making better IRS customer service a reality.

I want you to know that the "S" in IRS represents a commitment to serve you. We intend to meet your needs and expectations as taxpayers and as customers. If the service you receive from the IRS does not measure up to our Customer Service Standards, please let us know.

We are also increasing our efforts to ensure accuracy of return information, particularly Social Security Numbers. Not providing correct information may delay your tax refund until accurate information is provided.

With improved service and increased accuracy, I believe that, together, we can make this the most effective filing season ever.

Margaret Milner Richardson

Customer Service
Standards for 1995



For 1995, we have set the following Customer Service Standards.

- To make it easier for you to meet your tax obligations, we will expand your opportunity for simplified return filing and payment of your taxes through our electronic filing, joint federal/state filing, touchtone phone, and electronic payment programs.
- You will have more convenient access to tax law and account information. Our pre-recorded tax information will continue to be available 24 hours a day, 7 days a week, and access to refund status information will be extended. We will also extend the time that you will be able to contact our tax assistants to 10 hours each business day. (See pages 37 and 38.)
- Our goal is to answer your questions and process your tax returns accurately. To reach that goal, we will continue to make improvements yearly.
- If you file a complete and accurate tax return and you are due a refund, your refund will be issued within 40 days if you file a paper return or within 21 days if you file electronically.
- Our goal is to resolve your account inquiries with one contact. To reach that goal, we will make improvements yearly.
- If you provide sufficient and accurate information to our tax assistants but are given and reasonably rely on an incorrect answer, we will cancel related penalties.
- If you have a problem that has not been resolved through normal processes, you may contact our Problem Resolution Office. A caseworker will contact you within one week and will work with you to resolve the problem. (See page 5.)
- We will make tax forms and instructions simpler and easier for you to use. We made some good changes this year, but we want your ideas for future improvements. Please call us toll free or write to us. (See page 4.)

Privacy Act and Paperwork Reduction Act Notice

The Privacy Act of 1974 and Paperwork Reduction Act of 1980 say that when we ask you for information we must first tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it and whether your response is voluntary, required to obtain a benefit, or mandatory under the law.

This notice applies to all papers you file with us, including this tax return. It also applies to any questions we need to ask you so we can complete, correct, or process your return; figure your tax; and collect tax, interest, or penalties.

Our legal right to ask for information is Internal Revenue Code sections 6001, 6011, and 6012(a) and their regulations. They say that you must file a return or statement with us for any tax you are liable for. Your response is mandatory under these sections. Code section 6109 and its regulations say that you must show your social security number on what you file. This is so we know who you are, and can process your return and papers. You must fill in all parts of the tax form that apply to you. But you do not have to check the boxes for the Presidential Election Campaign Fund.

We ask for tax return information to carry out the tax laws of the United States. We need it to figure and collect the right amount of tax.

We may give the information to the Department of Justice and to other Federal

agencies, as provided by law. We may also give it to cities, states, the District of Columbia, and U.S. commonwealths or possessions to carry out their tax laws. And we may give it to foreign governments because of tax treaties they have with the United States.

If you do not file a return, do not provide the information we ask for, or provide fraudulent information, the law says that you may be charged penalties and, in certain cases, you may be subject to criminal prosecution. We may also have to disallow the exemptions, exclusions, credits, deductions, or adjustments shown on the tax return. This could make the tax higher or delay any refund. Interest may also be charged.

Please keep this notice with your records. It may help you if we ask you for other information. If you have questions about the rules for filing and giving information, please call or visit any Internal Revenue Service office.

The Time It Takes To Prepare Your Return

We try to create forms and instructions that are accurate and can be easily understood. Often this is difficult to do because some of the tax laws enacted by Congress are very complex. For some people with income mostly from wages, filling in the forms is easy. For others who have businesses, pensions, stocks, rental income, or other investments, it is more difficult.

We Welcome Comments on Forms

If you have comments concerning the accuracy of the time estimates shown below or suggestions for making these forms simpler, we would be happy to hear from you. You can write to both the **Internal Revenue Service**, Attention: Tax Forms Committee, PC:FP, Washington, DC 20224; and the **Office of Management and Budget**, Paperwork Reduction Project (1545-0074), Washington, DC 20503. **Or**, you can call the IRS with your suggestions at 1-800-829-9043 and leave a recorded message 24 hours a day, 7 days a week.

DO NOT send your return to either of these addresses. Instead, see **Where Do I File?** on page 10.

Estimated Preparation Time

The time needed to complete and file Form 1040 and its schedules will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to the IRS
Form 1040	3 hr., 8 min.	2 hr., 53 min.	4 hr., 41 min.	53 min.
Sch. A	2 hr., 32 min.	26 min.	1 hr., 10 min.	27 min.
Sch. B	33 min.	8 min.	17 min.	20 min.
Sch. C	6 hr., 26 min.	1 hr., 10 min.	2 hr., 5 min.	35 min.
Sch. C-EZ	46 min.	4 min.	18 min.	20 min.
Sch. D	51 min.	42 min.	1 hr., 1 min.	41 min.
Sch. E	2 hr., 52 min.	1 hr., 7 min.	1 hr., 16 min.	35 min.
Sch. EIC		2 min.	4 min.	5 min.
Sch. F:				
Cash Method	4 hr., 2 min.	35 min.	1 hr., 14 min.	20 min.
Accrual Method	4 hr., 22 min.	25 min.	1 hr., 19 min.	20 min.
Sch. R	20 min.	15 min.	22 min.	35 min.
Sch. SE:				
Short	20 min.	13 min.	11 min.	14 min.
Long	26 min.	22 min.	34 min.	20 min.

Electronic Filing



Last year, 14 million people filed their tax returns electronically. Electronic filing offers the following benefits:

- **Accuracy.** Computer programs quickly catch mistakes before they become problems.
- **Acknowledgment.** The IRS notifies your transmitter that your return has been received and accepted.
- **Refunds.** If you file a complete and accurate return, your refund will be issued within 21 days.* You can also get the convenience and safety of direct deposit.
- **File now, pay later.** If you owe tax, file early and pay by April 17, 1995.
- **Simultaneous Federal/state filing.** You may be able to file your state return electronically with your Federal return. Check with your preparer or transmitter.

Electronic filing is available whether you prepare your own return or use a preparer. In addition to many tax preparers, other firms are approved by the IRS to offer electronic filing services. An

approved transmitter must sign your **Form 8453**, U.S. Individual Income Tax Declaration for Electronic Filing. For more details on electronic filing, call Tele-Tax (see page 38) and listen to topic 252.

Another way to file your return with the IRS is to file an "answer sheet" return. This return, called **Form 1040PC**, can be created only by using a personal computer. It is shorter than the regular tax return and can be processed faster and more accurately. A paid tax preparer may give you Form 1040PC to sign and file instead of the tax return you are used to seeing. If you prepare your own return on a computer, you can produce Form 1040PC using one of the many tax preparation software programs sold in computer stores. The form is not available from the IRS. For more details, call Tele-Tax (see page 38) and listen to topic 251.

* Some refunds may be temporarily delayed as a result of compliance reviews to ensure that the returns are accurate.

What Free Tax Help Is Available?

Tax Forms and Publications. You can answer most of your tax questions by reading the tax form instructions or one of our many free tax publications. See page 35.

Refund Information. Our **Tele-Tax** service can tell you the status of your refund. See page 38.

Recorded Tax Information by Telephone. Tele-Tax also has recorded tax information covering many topics. See page 38 for the number to call.

Telephone Help. IRS representatives are available to help you with your tax questions. If, after reading the tax form instructions and publications, you are not sure how to fill in your return, or have a question about a notice you received from us, please call us. Use the number for your area on page 37.

Send the IRS Written Questions. You may send your written tax questions to your IRS District Director. You should get an answer in about 30 days. If you don't have the address, you can get it by calling the number for your area on page 37.

Walk-In Help. Assistors are available in most IRS offices throughout the country to help you prepare your return. An assistor will explain a Form 1040EZ, 1040A, or 1040 with Schedules A and B to you and a number of other taxpayers in a group setting. To find the IRS office nearest you, look in the phone book under "United States Government, Internal Revenue Service."

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE). These programs help older, disabled, low-income, and non-English-speaking people fill in their returns. For details, call

the number for your area on page 37. If you got a Federal income tax package in the mail, take it with you when you go for help.

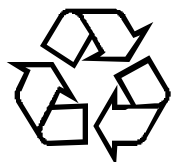
Videotaped Instructions for completing your return are available in English and Spanish at many libraries.

Large-Print Forms and Instructions. **Pub. 1614** has large-print copies of Form 1040, Schedules A, B, D, E, EIC, and R, and their instructions. You can use the large-print form and schedules as worksheets to figure your tax. To get Pub. 1614, call 1-800-TAX-FORM (1-800-829-3676).

Telephone Help for People With Impaired Hearing is available. See page 37 for the number to call. **Braille Materials** are available at regional libraries that have special services for people with disabilities.

Unresolved Tax Problems. The **Problem Resolution Program** is for people who have been unable to resolve their problems with the IRS. If you have a tax problem you cannot clear up through normal channels, write to your local IRS District Director or call your local IRS office and ask for Problem Resolution assistance. People with impaired hearing who have access to TDD equipment may call 1-800-829-4059 to ask for help from Problem Resolution. This office cannot change the tax law or technical decisions. But it can help you clear up problems that resulted from previous contacts. For more details, call Tele-Tax (see page 38) and listen to topic 104 or get **Pub. 1546**.

Recycling



The IRS tries to use recycled paper for all of its forms and instructions. The tax forms and instructions you received are printed on recyclable paper.

If your community has a recycling program, please recycle. But remember to keep a copy of your return and any worksheets you used.

Answers to Frequently Asked Questions

How can I check on the status of my refund?

Call **Tele-Tax** to get automated refund information. See page 38 for the number.

I just completed my return and find that I owe the IRS money. What should I do?

You should file your return even if you can't pay all of the amount you owe. File by April 17, 1995, and pay as much as possible. By filing on time, you avoid the late filing penalty. By paying as much of the amount you owe as possible, you reduce the amount of interest and late payment penalty that you will owe. For more details on interest and penalties, see page 40.

Can I ask to make installment payments on the amount I owe?

Yes. However, you will be charged interest and a late payment penalty on the tax not paid by April 17, 1995, even if your request to pay in installments is granted. For more details on installment payments, see the instructions for line 64 on page 32.

If I won't be able to finish my return by April 17, 1995, can I get an extension?

Yes. You can get an extension by filing **Form 4868**, Extension of Time To File U.S. Individual Income Tax Return, by April 17, 1995. By filing the extension, you avoid the late filing penalty. However, Form 4868 does not extend the time to pay your income tax.

What can I do to make sure I will not owe the IRS on my 1995 return?

You can either increase the amount of income tax withheld from your pay or make estimated tax payments for 1995. See **Tax Withholding and Estimated Tax Payments for 1995** on page 34 for details.

I just received my tax package in the mail. Why are there so many forms and schedules in it?

We print several packages that include different forms and schedules that may be filed with Form 1040. We mail you the package that includes the items you may need based on what you filed last year. We use packages instead of mailing forms and schedules separately as a cost-saving measure for us and as a convenience for you.

Do I have to file all the forms and schedules that are in my tax package?

No. Complete and attach to your return only the forms and schedules you need to report your income, deductions, and credits.

How can I get forms and publications?

Call 1-800-TAX-FORM (1-800-829-3676) during the times shown on page 35; or visit your local IRS office, participating library, bank, or post office; or use the order blank (see page 35).

Can I get the earned income credit?

You may be able to take this credit if a child didn't live with you and you earned less than \$9,000. You may also be able to take this credit if a child lived with you and you earned less than \$25,296. But other rules apply. For details, see the instructions for line 56 on page 27.

I'm concerned about the public debt. Can I make a payment to reduce it?

Yes. See **How Do I Make a Gift To Reduce the Public Debt?** on page 34 for details.

Although we supported our unmarried, 19-year-old daughter, she spent most of 1994 away from home at school. Can we claim her as a dependent?

Yes. The time your child spends at school or on vacation counts as time lived with you.

I'm single, live alone, and have no dependents. Can I file as head of household?

No. To use this filing status, you must have paid over half the cost of keeping up a home for a child or other qualifying person.

I asked my employer several times for my W-2 form, but I still don't have it. What should I do?

If you don't get it by February 15, call the number listed on page 37 for your area. We will ask you for certain information. For details, see the instructions for line 7 on page 15.

I received an IRS notice. I've contacted the IRS at least three times about it, but the problem still hasn't been fixed. What can I do?

Call your local IRS office and ask for Problem Resolution assistance. The number is listed in your phone book.

Can I take an IRA deduction for the amount I contributed to a 401(k) plan in 1994?

No. A 401(k) plan is not an IRA. The amount you contributed is not included as income in box 1 of your W-2 form so you don't pay tax on it this year.

In addition to my regular job, I had a part-time business fixing cars. Do I have to report the money I made in 1994 fixing cars?

Yes. This is self-employment income. You must report it on Schedule C or C-EZ. You may also have to file Schedule SE and pay self-employment tax.

What is "itemizing"? How can I tell if it will help me?

You itemize deductions by filing Schedule A with Form 1040. On Schedule A, you list amounts you paid during the year for certain items such as medical and dental care, state and local income taxes, real estate taxes, home mortgage interest, and gifts to charity. If your itemized deductions are more than your standard deduction, your Federal income tax will be less if you itemize.

I refinanced my home in 1994 and paid "points." Can I deduct the entire amount as interest on my 1994 return?

No. Points paid solely to refinance your home cannot be deducted in the year paid. Instead, they must be deducted over the life of the loan. For more details, get **Pub. 936**, Home Mortgage Interest Deduction.

I sold my home in 1994. Do I have to report the sale?

Yes. Use **Form 2119**, Sale of Your Home. You must report the sale even if you sold your home at a loss. You must also report the sale even if you are eligible to exclude or postpone part or all of the gain or you replaced your home.

Can I get the credit for the elderly or the disabled?

If you were age 65 or older or disabled and your income is less than \$17,500 (less than \$25,000 if married filing jointly), you may be able to take this credit. For details, see the instructions for line 42 on page 25.

What are the standard mileage rates for 1994?

The rate for business use is generally 29 cents per mile. The rate for travel to get medical care is 9 cents per mile. The rate for travel for deductible volunteer work is 12 cents per mile.

Section 1.

Before You Fill In Form 1040

Why not have your tax return filed electronically? See page 5 for details.

*If you were a participant in **Operation Desert Storm**, get **Pub. 945**, *Tax Information for Those Affected by Operation Desert Storm*.*

What's New for 1994?

Social Security Numbers (SSNs)

Make sure you enter the SSN of each dependent age 1 or older. If you don't have the mailing label, also be sure to enter your SSN and your spouse's SSN. If you don't enter an SSN or if the SSN you enter is incorrect, it will take us longer to issue any refund shown on your return. To apply for an SSN, get **Form SS-5** from your local Social Security Administration (SSA) office or call the SSA at 1-800-772-1213. Fill it in and return it to the SSA. It usually takes about 2 weeks to get a number. If you won't have an SSN by April 17, 1995, see **When Should I File?** on page 9.

Earned Income Credit

If you do not have any qualifying children, you earned less than \$9,000, and you or your spouse were at least age 25, you may be able to take this credit. See the instructions for line 56 on page 27. If you can take the credit, you **do not** have to file **Schedule EIC**.

If you have one qualifying child and you earned less than \$23,755, you may be able to take a larger credit. If you have two or more qualifying children, you must have earned less than \$25,296. See the instructions for line 56 on page 27. If you can take the credit, you **must** attach **Schedule EIC** to your return.

Also, the extra credit for a child born during the year and the health insurance credit are no longer allowed.

Self-Employed Health Insurance Deduction

This deduction expired December 31, 1993. However, at the time Form 1040 was printed, Congress was considering legislation that would allow a deduction for 1994. For later information about this deduction, get **Pub. 553**, *Highlights of 1994 Tax Changes*.

Social Security Benefits

If your income, including one-half of your social security benefits, is over \$34,000 if single (over \$44,000 if married filing jointly), more of your benefits may be taxable. See the instructions for lines 20a and 20b on page 18 for details.

Charitable Contributions

No deduction is allowed for any contribution of \$250 or more unless you have a written statement from the charitable organization containing certain information. See page A-3 for details.

Capital Gain Distributions

The separate line for reporting capital gain distributions when **Schedule D** is not filed has been removed. Instead, capital gain distributions are now reported on line 13. If you have capital gain distributions and don't need to file Schedule D, enter those distributions on line 13. Write "CGD" on the dotted line next to line 13 to indicate that you don't need to file Schedule D.

Moving Expenses

New rules apply to expenses incurred after 1993. The distance test has been increased from 35 to 50 miles and certain expenses are no longer deductible. In addition, expenses incurred in 1994 are deducted on Form 1040, line 24. For more details, get **Form 3903**, *Moving Expenses*, and its instructions or **Form 3903-F**, *Foreign Moving Expenses*.

Travel, Meal, and Entertainment Expenses

Travel expenses for a person (including your spouse or dependent) who accompanied you on business travel are not deductible unless that person is your employee. Also, the travel must be for a bona fide business purpose and would otherwise be deductible by that person. Generally, only 50% of meal and entertainment expenses are deductible.

Club Dues

No deduction is allowed for amounts paid or incurred after 1993 for membership dues in any club organized for business, pleasure, recreation, or other social purpose. This includes business, social, athletic, luncheon, sporting, airline, and hotel clubs.

Payment of Deferred Additional 1993 Taxes

Some higher-income taxpayers owed additional 1993 Federal income taxes due solely to the 1993 income tax rate increases. If you were one of these taxpayers and elected to defer these taxes and pay them in installments by filing **Form 8841**, *Deferral of Additional 1993 Taxes*, with your 1993 return, you have an installment due on April 17, 1995. The installment due is one-half of the amount shown on line 16 of Form 8841. There is no interest on the installment payment if it is made on time. But if you do not make the installment payment by April 17,

1995, the entire amount you deferred will become due and payable upon notice and demand from the IRS. You should receive a reminder notice early in January 1995 showing the installment amount due by April 17, 1995.

You have two options to pay the installment:

- Send a separate check or money order to the IRS by April 17, 1995. The notice you receive in January will include a tear-off voucher for you to send back with your check or money order payable to the Internal Revenue Service. Clearly write your SSN and "1993 OBRA Installment" on your payment. Send your payment with the tear-off voucher in the return envelope included with the notice. If you don't have the tear-off voucher or envelope, send your payment by itself to the Internal Revenue Service Center for the place where you live. The address is shown on page 10. We will apply this payment to your deferred 1993 taxes regardless of any other outstanding debts you may have.

Do not send this payment with your tax return. Also, do not make this payment using a payment voucher other than the one attached to the reminder notice.

- Apply part or all of any refund on your 1994 tax return toward the installment payment. See the instructions for line 62 on page 32 for details.

Tax Law Changes

For more details, see **Pub. 553**.

Earned Income Credit With Your Pay

If you expect to be able to claim the earned income credit in 1995 and a child lives with you, you may be able to get part of the credit in your paycheck instead of waiting until you file your 1995 return. For details, call Tele-Tax (see page 38) and listen to topic 604 or get **Form W-5**, *Earned Income Credit Advance Payment Certificate*, from your employer.

Section 2.

Filing Requirements

The rules under **Do I Have To File?** apply to all U.S. citizens and resident aliens. They also apply to **nonresident aliens** and **dual-status aliens** who were married to U.S. citizens or residents at the end of 1994 and who have elected to be treated as resident aliens.

Exception. Different rules apply to other nonresident aliens and dual-status aliens. They may have to file **Form 1040NR**, U.S. Nonresident Alien Income Tax Return. Specific rules apply to determine if you are a resident or nonresident alien. Get **Pub. 519**, U.S. Tax Guide for Aliens, for details, including the rules for students and scholars. Different rules also apply to U.S. citizens who lived in a U.S. possession or had income from a U.S. possession. Get **Pub. 570**, Tax Guide for Individuals With Income From U.S. Possessions. Residents of Puerto Rico can call Tele-Tax (see page 38) and listen to topic 901 to see if they must file a return.

Do I Have To File?

Use **Chart A** on this page to see if you must file a return. But you must use **Chart B** on the next page if your parent (or someone else) can claim you as a dependent on his or her return. Also, see **Chart C** on the next page for other situations when you must file.

Note: Even if you do not have to file a return, you should file one to get a refund of any Federal income tax withheld. You should also file if you can take the earned income credit. If you file for either of these reasons only, you may be able to use Form 1040A or 1040EZ.

Exception for Children Under Age 14

If your child is required to file a return and **all four** of the following apply, you may elect to report your child's income on your return. But you must use **Form 8814**, Parents' Election To Report Child's Interest and Dividends, to do so. If you make this election, your child does not have to file a return.

1. Your child was under age 14 on January 1, 1995.
2. Your child had income only from interest and dividends (including Alaska Permanent Fund dividends).
3. Your child's gross income was less than \$5,000.
4. Your child had no Federal income tax withheld from his or her income (backup withholding) and did not make estimated tax payments for 1994.

If you and the child's other parent are not filing a joint return, special rules apply to determine which parent may make the election. See Form 8814 for details.

Chart A—For Most People

To use this chart, first find your marital status at the end of 1994. Then, read across to find your filing status and age at the end of 1994. You must file a return if your **gross income** was at least the amount shown in the last column. **Gross income** means all income you received in the form of money, goods, property, and services that is not exempt from tax, including any gain on the sale of your home (even if you may exclude or postpone part or all of the gain).

Marital status	Filing status	Age*	Gross income
Single (including divorced and legally separated)	Single	under 65 65 or older	\$6,250 7,200
	Head of household	under 65 65 or older	\$8,050 9,000
Married with a child and living apart from your spouse during the last 6 months of 1994	Head of household (see page 13)	under 65 65 or older	\$8,050 9,000
		under 65 (both spouses) 65 or older (one spouse) 65 or older (both spouses)	\$11,250 12,000 12,750
Married and living with your spouse at end of 1994 (or on the date your spouse died)	Married, joint return	any age	\$2,450
	Married, separate return	any age	\$2,450
Married, not living with your spouse at end of 1994 (or on the date your spouse died)	Married, joint or separate return	any age	\$2,450
		Single	under 65 65 or older	$6,250 7,200
Widowed before 1994 and not remarried in 1994	Head of household	under 65 65 or older	\$8,050 9,000
	Qualifying widow(er) with dependent child (see page 13)	under 65 65 or older	\$8,800 9,550

* If you turned age 65 on January 1, 1995, you are considered to be age 65 at the end of 1994.

Chart B—For Children and Other Dependents (See the instructions for line 6c on page 13 to find out if someone can claim you as a dependent.)

If your parent (or someone else) can claim you as a dependent on his or her return and any of the four conditions listed below apply to you, you must file a return.

In this chart, **unearned income** includes taxable interest and dividends. **Earned income** includes wages, tips, and taxable scholarship and fellowship grants.

Caution: If your gross income was \$2,450 or more, you usually cannot be claimed as a dependent unless you were under 19 or under 24 and a student. For details, see **Test 4—Income** on page 14.

1. Single dependents under 65. You must file a return if—	and	The total of that income plus your earned income was:
Your unearned income was:		
\$1 or more		more than \$600
\$0		more than \$3,800

- 2. Single dependents 65 or older or blind.** You must file a return if—
- Your earned income was more than \$4,750 (\$5,700 if 65 or older **and** blind), or
 - Your unearned income was more than \$1,550 (\$2,500 if 65 or older **and** blind), or
 - Your gross income was more than the total of your earned income (up to \$3,800) or \$600, whichever is larger, plus \$950 (\$1,900 if 65 or older **and** blind).

- 3. Married dependents under 65.** You must file a return if—
- Your earned income was more than \$3,175, or
 - You had any unearned income and your gross income was more than \$600, or
 - Your gross income was at least \$5 and your spouse files a separate return on Form 1040 and itemizes deductions.

- 4. Married dependents 65 or older or blind.** You must file a return if—
- Your earned income was more than \$3,925 (\$4,675 if 65 or older **and** blind), or
 - Your unearned income was more than \$1,350 (\$2,100 if 65 or older **and** blind), or
 - Your gross income was more than the total of your earned income (up to \$3,175) or \$600, whichever is larger, plus \$750 (\$1,500 if 65 or older **and** blind), or
 - Your gross income was at least \$5 and your spouse files a separate return on Form 1040 and itemizes deductions.

Chart C—Other Situations When You Must File

If any of the four conditions below applied to you for 1994, you must file a return.

1. You owe any special taxes, such as:
 - Social security and Medicare tax on tips you did not report to your employer,
 - Uncollected social security and Medicare or RRTA tax on tips you reported to your employer or on group-term life insurance,
 - Alternative minimum tax,
 - Tax on a qualified retirement plan, including an individual retirement arrangement (IRA), or
 - Recapture taxes. (See the instructions for line 49 on page 26.)
2. You received any advance earned income credit (EIC) payments from your employer. These payments should be shown in box 9 of your W-2 form.
3. You had net earnings from self-employment of at least \$400.
4. You had wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes.

Which Form Should I Use?

Because Forms 1040A and 1040EZ are easier to complete than Form 1040, you should use one of them unless using Form 1040 lets you pay less tax. **But** if you cannot use Form 1040A or Form 1040EZ, you **must** use Form 1040.

You May Be Able To Use Form 1040EZ If:

1. You were single or are married filing jointly and do not claim any dependents.
2. You (and your spouse if married filing jointly) were not 65 or older OR blind.
3. You had **only** wages, salaries, tips, taxable scholarship and fellowship grants, and not more than \$400 of taxable interest income.
4. Your taxable income is less than \$50,000.
5. You did not receive any advance earned income credit (EIC) payments.
6. You do not itemize deductions or claim any adjustments to income.

You can also use Form 1040EZ to claim the earned income credit if you do not have a qualifying child.

Note: If you are married filing jointly and either you or your spouse worked for more than one employer, you cannot use Form 1040EZ if that person's total wages were over \$60,600.

You May Be Able To Use Form 1040A If:

1. You had income **only** from wages, salaries, tips, taxable scholarship and fellowship grants, pensions or annuities, taxable social security benefits, payments from your individual retirement account (IRA), unemployment compensation, interest, or dividends.
2. Your taxable income is less than \$50,000.
3. You do not itemize deductions.

You can also use Form 1040A to claim the earned income credit, the deduction for certain contributions to an IRA, nondeductible contributions to an IRA, the credit for child and dependent care expenses, and the credit for the elderly or the disabled. You may use it even if you made estimated tax payments for 1994 or if you can take the exclusion of interest from series EE U.S. savings bonds issued after 1989.

When Should I File?

You should file as soon as you can after January 1, but not later than April 17, 1995. If you file late, you may have to pay penalties and interest. See page 40.

If you know that you cannot file your return by the due date, you should file **Form 4868**, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, by April 17, 1995.

Caution: Form 4868 does not extend the time to pay your income tax. See Form 4868.

If you are a U.S. citizen or resident, you may qualify for an automatic extension of time to file if, on the due date of your return, you meet one of the following conditions:

- You live outside the United States and Puerto Rico, AND your main place of business or post of duty is outside the United States and Puerto Rico.
- You are in military or naval service on duty outside the United States and Puerto Rico.

This extension gives you an extra 2 months to file and pay the tax, but interest will be charged from the original due date of the return on any unpaid tax. You must attach a statement to your return showing that you meet the requirements.

Where Do I File?

If an envelope came with your booklet, please use it. If you did not receive an envelope, or if you moved during the year, mail your return to the **Internal Revenue Service Center** for the place where you live. See the chart on this page. No street address is needed.

Mailing Your Return

Envelopes without enough postage will be returned to you by the post office. If your envelope contains more than five pages or is oversized, it may require additional postage. Also, your envelope should include your complete return address in the upper left corner.

Where To File

If you live in:	Use this address:
Florida, Georgia, South Carolina	Atlanta, GA 39901
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
American Samoa	Philadelphia, PA 19255
Guam: Permanent residents	Department of Revenue and Taxation Government of Guam 378 Chalan San Antonio Tamuning, GU 96911
Guam: Nonpermanent residents	
Puerto Rico (or if excluding income under section 933)	Philadelphia, PA 19255
Virgin Islands: Nonpermanent residents	
Virgin Islands: Permanent residents	V.I. Bureau of Internal Revenue Lockhart Gardens No. 1-A Charlotte Amalie, St. Thomas, VI 00802
Foreign country (or if a dual-status alien): U.S. citizens and those filing Form 2555, Form 2555-EZ, or Form 4563	Philadelphia, PA 19255
All APO and FPO addresses	

Where To Report Certain Items From 1994 Forms W-2, 1098, and 1099

Report any Federal income tax withheld from these forms on Form 1040, line 54. If you itemize your deductions, report any state or local income tax withheld from these forms on Schedule A, line 5.

Form	Item and Box in Which It Should Appear	Where To Report if Filing Form 1040
W-2	Wages, salaries, tips, etc. (box 1) Allocated tips (box 8) Advance EIC payments (box 9) Dependent care benefits (box 10)	Form 1040, line 7 See Tip Income on page 15 Form 1040, line 52 Form 2441, line 11
W-2G	Gambling winnings (box 1)	Form 1040, line 21 (Schedule C or C-EZ for professional gamblers)
1098	Mortgage interest (box 1) Points (box 2) Refund of overpaid interest (box 3)	Schedule A, line 10* Schedule A, line 10* See the instructions for Form 1040, line 21, on page 18*
1099-A	Acquisition or abandonment of secured property	See Pub. 544
1099-B	Stocks, bonds, etc. (box 2) Bartering (box 3) Futures contracts (box 9)	Schedule D See Pub. 525 Form 6781
1099-C	Canceled debt (box 2)	Form 1040, line 21, but first see Pub. 525*
1099-DIV	Ordinary dividends (box 1b) Capital gain distributions (box 1c) Nontaxable distributions (box 1d) Investment expenses (box 1e) Foreign tax paid (box 3)	Form 1040, line 9 See the instructions for Form 1040, line 13, on page 16 See the instructions for Form 1040, line 9, on page 16 Form 1040, line 9, and Schedule A, line 22 Schedule A, line 8 (or Form 1116)
1099-G	Unemployment compensation (box 1) State or local income tax refund (box 2) Taxable grants (box 6) Agriculture payments (box 7)	Form 1040, line 19. But if you repaid any unemployment compensation in 1994, see the instructions for line 19 on page 18 See the instructions for Form 1040, line 10, on page 16* Form 1040, line 21* See the Schedule F instructions or Pub. 225
1099-INT	Interest income (box 1) Early withdrawal penalty (box 2) Interest on U.S. savings bonds and Treasury obligations (box 3) Foreign tax paid (box 5)	Form 1040, line 8a Form 1040, line 28 See the instructions for Form 1040, line 8a, on page 15 Schedule A, line 8 (or Form 1116)
1099-MISC	Rents (box 1) Royalties (box 2) Other income (box 3) Nonemployee compensation (box 7) Other (boxes 5, 6, 8, 9, and 10)	See the instructions for Schedule E Schedule E, line 4 (timber, coal, iron ore royalties, see Pub. 544) Form 1040, line 21* Schedule C, C-EZ, or F (Form 1040, line 7, if you were not self-employed) See the instructions on Form 1099-MISC
1099-OID	Original issue discount (box 1) } Other periodic interest (box 2) } Early withdrawal penalty (box 3)	See the instructions on Form 1099-OID Form 1040, line 28
1099-PATR	Patronage dividends and other distributions from a cooperative (boxes 1, 2, 3, and 5) Credits (boxes 6, 7, and 8)	Schedule C, Schedule C-EZ, Schedule F, or Form 4835, but first see the instructions on Form 1099-PATR Form 3468 or Form 5884
1099-R	Distributions from IRAs Distributions from pensions, annuities, etc. Capital gain (box 3)	See the instructions for Form 1040, lines 15a and 15b, on page 17 See the instructions for Form 1040, lines 16a and 16b, on page 17 See the instructions on Form 1099-R
1099-S	Gross proceeds from real estate transactions (box 2) Buyer's part of real estate tax (box 5)	Form 2119 (or Form 4797 or Schedule D if the property was not your home) See the instructions for Schedule A, line 6, on page A-2*

* If the item relates to an activity for which you are required to file Schedule C, C-EZ, E, or F, or Form 4835, report the taxable or deductible amount allocable to the activity on that schedule or form instead.

Section 3.

Line Instructions for Form 1040

Name, Address, and Social Security Number (SSN)

Why Use the Label? The mailing label on the front of the instruction booklet is designed to speed processing at Internal Revenue Service Centers and prevent common errors that delay refund checks. But do not attach the label until you have finished your return. Cross out any errors and print the correct information. Add any missing items such as your apartment number.

Caution: *If the label is for a joint return and the SSNs are not listed in the same order as the first names, show the SSNs in the correct order.*

Address Change. If the address on your mailing label is not your current address, cross out your old address and print your new address. If you move after you file your return, see page 34.

Name Change. If you changed your name because of marriage, divorce, etc., be sure to report this to your local Social Security Administration office before filing your return. This prevents delays in processing your return and issuing refunds. It also safeguards your future social security benefits. If you received a mailing label, cross out your former name and print your new name.

Deceased Taxpayer. See **Death of Taxpayer** on page 34.

What If I Do Not Have a Label? If you didn't receive a label, print or type the information in the spaces provided. But if you are married filing a separate return, do not enter your husband's or wife's name here. Instead, show his or her name on line 3.

Social Security Number. Enter your SSN in the area marked "Your social security number." If you are married, enter your husband's or wife's SSN in the area marked "Spouse's social security number." Be sure the SSN you enter agrees with the SSN on your social security card. Also, check that your SSN is correct on your Forms W-2 and 1099. See page 34 for more details.

An incorrect or missing SSN will delay your refund. To apply for an SSN, get **Form SS-5** from your local Social Security Administration (SSA) office or call the SSA at 1-800-772-1213. Fill it in and return it to the SSA. It usually takes about two weeks to get an SSN.

Nonresident Alien Spouse. If your spouse is a nonresident alien and you file a joint return, your spouse must get an SSN. But if your spouse cannot get an SSN because he or she had no income from U.S. sources,

enter "NRA" in the space for your spouse's SSN. If you file a separate return and your spouse has no SSN and no income, enter "NRA."

P.O. Box. If your post office does not deliver mail to your home and you have a P.O. box, show your box number instead of your home address.

Foreign Address. If your address is outside the United States or its possessions or territories, fill in the line for "City, town or post office, state, and ZIP code" in the following order: city, province or state, postal code, and the name of the country. **Do not** abbreviate the country name.

Presidential Election Campaign Fund

Congress set up this fund to help pay for Presidential election campaign costs. The fund reduces candidates' dependence on large contributions from individuals and groups and places candidates on an equal financial footing in the general election. If you want \$3 to go to this fund, check the "Yes" box. If you are filing a joint return, your spouse may also have \$3 go to the fund. If you check "Yes," your tax or refund will not change.

Filing Status

Check **only** the filing status listed below that applies to you. The ones that will usually give you the lowest tax are listed last.

- Married filing a separate return
- Single
- Head of household
- Married filing a joint return or Qualifying widow(er) with dependent child

If more than one filing status applies to you, choose the one that will give you the lowest tax.

Line 1

Single

You may check the box on line 1 if **any** of the following was true on December 31, 1994:

- You were never married, or
- You were legally separated, according to your state law, under a decree of divorce or separate maintenance, or
- You were widowed before January 1, 1994, and did not remarry in 1994.

Line 2

Married Filing Joint Return

You may check the box on line 2 if **any** of the following is true:

- You were married as of December 31, 1994, even if you did not live with your spouse at the end of 1994, or
- Your spouse died in 1994 and you did not remarry in 1994, or
- Your spouse died in 1995 before filing a 1994 return. For details on filing the joint return, see **Death of Taxpayer** on page 34.

A husband and wife may file a joint return even if only one had income or if they did not live together all year. However, both must sign the return and both are responsible. This means that if one spouse does not pay the tax due, the other may have to.

If you file a joint return for 1994, you may not, after the due date for filing that return, amend it to file as married filing a separate return.

Nonresident Aliens and Dual-Status Aliens. You may be able to file a joint return. Get **Pub. 519**, U.S. Tax Guide for Aliens, for details.

Line 3

Married Filing Separate Return

If you file a separate return, you will usually pay more tax. But you may want to figure your tax both ways (married filing joint and married filing separate) to see which filing status is to your benefit.

Generally, you report only your own income, exemptions, deductions, and credits. Different rules apply to people who live in community property states. See page 15.

You may be able to file as head of household if you had a child living with you and you lived apart from your spouse during the last 6 months of 1994. See **Married Persons Who Live Apart** on the next page.

Line 4

Head of Household

This filing status is for **unmarried** individuals who provide a home for certain other persons. (Some **married persons who live apart** may also qualify. See below.) You may check the box on line 4 **only if** you were unmarried or legally separated as of December 31, 1994. But **either** 1 or 2 below must apply to you.

1. You paid over half the cost of keeping up a home that was the main home for all of 1994 of your **parent** whom you can claim as a dependent. Your parent did not have to live with you in your home; **or**

2. You paid over half the cost of keeping up a home in which you lived and in which one of the following also lived for more than half of the year (if half or less, see the **Exception** later):

- Your **unmarried** child, adopted child, grandchild, great-grandchild, etc., or stepchild. This child does not have to be your dependent. But in this case, enter the child's name in the space provided on line 4. If you don't enter the name, it will take us longer to process your return.

- Your **married** child, adopted child, grandchild, great-grandchild, etc., or stepchild. This child must be your dependent. But if your married child's other parent claims him or her as a dependent under the rules for **Children of Divorced or Separated Parents** on page 14, this child does not have to be your dependent. But in this case, enter the child's name on line 4. If you don't enter the name, it will take us longer to process your return.

- Your **foster** child, who must be your dependent.

- Any other relative you can claim as a dependent. For the definition of a relative, see **Test 1** on this page. But for this purpose, the **Exception** at the end of that test doesn't apply.

Note: You **cannot** file as head of household if your child, parent, or relative described above is your dependent under the rules on page 14 for **Person Supported by Two or More Taxpayers**.

Married Persons Who Live Apart. Even if you were not divorced or legally separated in 1994, you may be able to file as head of household. You may check the box on line 4 if **all five** of the following apply.

1. You **must** have lived apart from your spouse for the **last 6 months** of 1994.

2. You file a separate return from your spouse.

3. You paid over half the cost of keeping up your home for 1994.

4. Your home was the main home of your child, adopted child, stepchild, or foster child for more than half of 1994 (if half or less, see the **Exception** later).

5. You claim this child as your dependent or the child's other parent claims him or her under the rules for **Children of Divorced or Separated Parents** on page 14. If this child is not your dependent, be sure to enter the child's name on line 4. If you don't enter the name, it will take us longer to process your return.

Note: If all five of the above apply, you may also be able to take the credit for child and dependent care expenses and the earned income credit. In addition, you can take the standard deduction even if your spouse itemizes deductions. For more details, see the instructions for these topics.

Keeping Up a Home. To find out what is included in the cost of keeping up a home, get **Pub. 501**, Exemptions, Standard Deduction, and Filing Information.

If you used payments you received under the **Aid to Families With Dependent Children (AFDC)** program or **other public assistance** programs to pay part of the cost of keeping up your home, you **cannot** count them as money you paid. But you must include them in the total cost of keeping up your home to figure if you paid over half of the cost.

Dependents. To find out if someone is your dependent, see the instructions for line 6c.

Exception. You can count temporary absences such as for school, vacation, or medical care as time lived in the home.

If the person for whom you kept up a home was born or died in 1994, you may still file as head of household as long as the home was that person's main home for the part of the year he or she was alive.

Line 5

Qualifying Widow(er) With Dependent Child

You may check the box on line 5 and use joint return tax rates for 1994 if **all five** of the following apply.

1. Your spouse died in 1992 or 1993 and you did not remarry in 1994.

2. You have a child, stepchild, adopted child, or foster child whom you can claim as a dependent.

3. This child lived in your home for all of 1994. Temporary absences, such as for vacation or school, count as time lived in the home.

4. You paid over half the cost of keeping up your home for this child.

5. You could have filed a joint return with your spouse the year he or she died, even if you didn't actually do so.

Do not claim an exemption for your spouse.

If your spouse died in 1994, you may not file as qualifying widow(er) with dependent child. Instead, see the instructions for line 2.

Exemptions

For each exemption you can take, you generally can deduct \$2,450 on line 36.

Line 6a

Yourself

Check the box on line 6a **unless** your parent (or someone else) can claim you as a dependent on his or her tax return. For example, if your parents (or someone else) could claim you as a dependent on their return but they chose not to claim you, **do not** check the box on line 6a.

Line 6b

Spouse

If you file a joint return and your spouse cannot be claimed as a dependent on another person's return, check the box on line 6b. If you file a separate return, you can take an exemption for your spouse only if your spouse is not filing a return, had no income, and cannot be claimed as a dependent on another person's return.

If you were divorced or legally separated at the end of 1994, you cannot take an exemption for your former spouse. If your divorce was not final (an interlocutory decree), you are considered married for the whole year.

Death of Your Spouse. If your spouse died in 1994 and you did not remarry by the end of 1994, check the box on line 6b if you could have taken an exemption for your spouse on the date of death. For other filing instructions, see **Death of Taxpayer** on page 34.

Nonresident Alien Spouse. If your filing status is married filing separately, you can take an exemption for your nonresident alien spouse only if your spouse had no income from U.S. sources and is not the dependent of another person. If you can take an exemption for your spouse, check the box on line 6b and enter "NRA" to the right of the word "Spouse."

Line 6c

Dependents

You can take an exemption for each of your dependents who was alive during some part of 1994. This includes a baby **born** in 1994 or a person who **died** in 1994. Get **Pub. 501**, Exemptions, Standard Deduction, and Filing Information, for more details. Any person who meets **all five** of the following tests qualifies as your dependent.

Test 1—Relationship

The person must be your relative. But see **Exception** at the end of **Test 1**. The following are considered your relatives:

- Your child, stepchild, adopted child; a child who lived in your home as a family member if placed with you by an authorized placement agency for legal adoption; or a foster child (any child who lived in your home as a family member for the whole year).

- Your grandchild, great-grandchild, etc.

- Your son-in-law, daughter-in-law.

- Your parent, stepparent, parent-in-law.

- Your grandparent, great-grandparent, etc.

- Your brother, sister, half brother, half sister, stepbrother, stepsister, brother-in-law, sister-in-law.

- If related by blood, your aunt, uncle, nephew, niece.

Any relationships established by marriage are not treated as ended by divorce or death.

Exception. A person who lived in your home as a family member for the entire year can also be considered a dependent. But the relationship must not violate local law.

Test 2—Married Person

If the person is married and files a joint return, you cannot take an exemption for the person. However, if the person and the person's spouse file a joint return only to get a refund of all tax withheld, you may be able to claim him or her if the other four tests are met. See Pub. 501 for details.

Test 3—Citizen or Resident

The person must be **one** of the following:

- A U.S. citizen or resident alien, or
- A resident of Canada or Mexico, or
- Your adopted child who is not a U.S. citizen but who lived with you all year in a foreign country.

Test 4—Income

Generally, the person's gross income must be less than \$2,450. Gross income does not include nontaxable income, such as welfare benefits or nontaxable social security benefits.

Income earned by a permanently and totally disabled person for services performed at a sheltered workshop school is generally not included for purposes of the income test. See Pub. 501 for details.

Exception for Your Child. Your child can have gross income of \$2,450 or more if:

1. Your child was **under age 19** at the end of 1994, **or**
2. Your child was **under age 24** at the end of 1994 **and** was a **student**.

Your child was a **student** if he or she—

- Was enrolled as a full-time student at a school during any 5 months of 1994, or
- Took a full-time, on-farm training course during any 5 months of 1994. The course had to be given by a school or a state, county, or local government agency.

A **school** includes technical, trade, and mechanical schools. It does not include on-the-job training courses or correspondence schools.

Test 5—Support

The general rule is that you had to provide over half the person's total support in 1994. If you file a joint return, support can come from either spouse. If you remarried, the support provided by your new spouse is treated as support coming from you. For exceptions to the support test, see **Children of Divorced or Separated Parents** and **Person Supported by Two or More Taxpayers** on this page.

Support includes food, a place to live, clothing, medical and dental care, and education. It also includes items such as a car and furniture, but only if they are for the person's own use or benefit. In figuring total support:

- Use the actual cost of these items, but figure the cost of a place to live at its fair rental value.
- Include money the person used for his or her own support, even if this money was not taxable. Examples are gifts, savings, social security and welfare benefits, and other public assistance payments. This support is treated as **not** coming from you.

Total support **does not** include items such as income tax, social security and Medicare

tax, life insurance premiums, scholarship grants, or funeral expenses.

If you care for a foster child, see Pub. 501 for special rules that apply.

Children of Divorced or Separated Parents. Special rules apply to determine if the support test is met for children of divorced or separated parents. The rules also apply to children of parents who lived apart from each other during the last 6 months of the year, even if they do not have a separation agreement. For these rules, a **custodial parent** is the parent who had custody of the child for most of the year. A **noncustodial parent** is the parent who had custody for the shorter period of time or who did not have custody at all. See Pub. 501 for the definition of custody.

The general rule is that the custodial parent is treated as having provided over half of the child's total support if both parents together paid over half of the child's support. This means that the custodial parent can claim the child as a dependent if the other dependency tests are also met.

But if you are the noncustodial parent, you are treated as having provided over half of the child's support and can claim the child as a dependent if both parents together paid over half of the child's support, the other dependency tests are met, and **either** 1 or 2 below applies:

1. The custodial parent agrees not to claim the child's exemption for 1994 by signing **Form 8332** or a similar statement. But you (as the noncustodial parent) **must** attach this signed Form 8332 or similar statement to your return. Instead of attaching Form 8332, you can attach a copy of certain pages of your divorce decree or separation agreement if it went into effect after 1984 (see **Children Who Didn't Live With You Due to Divorce or Separation** on this page), **or**

2. Your divorce decree or written separation agreement went into effect before 1985 and it states that you (the noncustodial parent) can claim the child as a dependent. But you must have given at least \$600 for the child's support in 1994. Also, you must check the pre-1985 agreement box on line 6d. This rule does not apply if your decree or agreement was changed after 1984 to say that you cannot claim the child as your dependent.

Person Supported by Two or More Taxpayers. Even if you did not pay over half of another person's support, you might still be able to claim him or her as a dependent if **all five** of the following apply.

1. You and one or more other eligible person(s) together paid over half of another person's support.
2. You paid over 10% of that person's support.
3. No one alone paid over half of that person's support.
4. Tests 1 through 4 are met.
5. Each eligible person who paid over 10% of support completes **Form 2120**, Multiple Support Declaration, and you attach these forms to your return. The form states that only you will claim the person as a dependent for 1994.

An **eligible person** is someone who could have claimed another person as a dependent except that he or she did not pay over half of that person's support.

Columns (1) through (5)

After you have figured out who you can claim as a dependent, fill in the columns on line 6c. If you have more than six dependents, attach a statement to your return. Give the same information as in columns (1) through (5) for each dependent.

Column (1). Enter the name of each dependent.

Column (2). If your dependent was under age 1 on December 31, 1994, put a checkmark in column (2).

Column (3). Any dependent age 1 or older must have a social security number (SSN). You must enter that SSN in column (3). If you do not enter it or if the SSN is wrong, it will take us longer to issue any refund shown on your return. You may also have to pay a \$50 penalty.

Your dependent can get an SSN by filing **Form SS-5** with your local Social Security Administration (SSA) office. It usually takes about 2 weeks to get an SSN. If your dependent won't have an SSN by April 17, 1995, see **When Should I File?** on page 9. If your dependent lives in Canada or Mexico, see Pub. 501 for details on how to get an SSN.

Column (4). Enter your dependent's relationship to you. For example, if the dependent is your child, enter "son" or "daughter."

Column (5). Enter the number of months your dependent lived with you in 1994. Do not enter more than 12. Count temporary absences such as school or vacation as time lived in your home. If your dependent was born or died in 1994, enter "12" in this column. If your dependent lived in Canada or Mexico during 1994, don't enter a number. Instead, enter "CN" or "MX," whichever applies.

Children Who Didn't Live With You Due to Divorce or Separation. If you are claiming a child who didn't live with you under the rules on this page for **Children of Divorced or Separated Parents**, enter the total number of such children on the line to the right of line 6c labeled "No. of your children on 6c who: didn't live with you due to divorce or separation." If you put a number on this line, you **must** do one of the following **each** year you claim this child as a dependent.

- **Check the box on line 6d** if your divorce decree or written separation agreement went into effect before 1985 and it states that you can claim the child as your dependent.

- **Attach Form 8332** or similar statement to your return. If your divorce decree or separation agreement went into effect after 1984 and it unconditionally states that you can claim the child as your dependent, you may attach a copy of the following pages from the decree or agreement instead of Form 8332:

1. Cover page (enter the other parent's SSN on this page),
2. The page that unconditionally states you can claim the child as your dependent, and
3. Signature page with the other parent's signature and the date of the agreement.

Note: You must attach the required information even if you filed it in an earlier year.

Other Dependent Children. Enter the total number of children who did not live with you for reasons other than divorce or separation on the line labeled "Dependents on 6c not

entered above." Include dependent children who lived in Canada or Mexico during 1994.

Income

U.S. Citizens Living Abroad

You must report unearned income, such as interest, dividends, and pensions, from sources outside the United States unless exempt by law or a tax treaty. You must also report earned income, such as wages and tips, from sources outside the United States. But you may also be able to exclude part or all of your earned income. For details, get **Pub. 54**, Tax Guide for U.S. Citizens and Resident Aliens Abroad, and **Form 2555**, Foreign Earned Income, or **Form 2555-EZ**, Foreign Earned Income Exclusion.

Community Property States

Community property states are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

If you and your spouse lived in a community property state, you must follow state law to determine what is community income and what is separate income. However, different rules could apply if:

- You and your spouse lived apart all year,
- You do not file a joint return, and
- None of the community income you earned was transferred to your spouse.

For details, get **Pub. 555**, Federal Tax Information on Community Property.

Rounding Off to Whole Dollars

You may round off cents to the nearest whole dollar on your forms and schedules. This will make it easier to complete your return. To do so, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$129.39 becomes \$129 and \$235.50 becomes \$236. If you do round off, do so for all amounts. But if you have to add two or more amounts to figure the amount to enter on a line, include cents when adding and only round off the total.

Example. You received two W-2 forms, one showing wages of \$5,000.55 and one showing wages of \$18,500.73. On Form 1040, line 7, you would enter \$23,501 (\$5,000.55 + \$18,500.73 = \$23,501.28).

Line 7

Wages, Salaries, Tips, etc.

Enter the total of your wages, salaries, tips, etc. This should be shown in box 1 of your W-2 form. For a joint return, be sure to include your spouse's income. Also include in this total:

- Corrective distributions of excess salary deferrals.
- Corrective distributions of excess contributions and excess aggregate contributions to a retirement plan.
- Disability pensions if you have not reached the minimum retirement age set by your employer.

Note: Disability pensions received after you reach your employer's minimum retirement age and other pensions shown on **Form 1099-R** (other than payments from an IRA)

are reported on lines 16a and 16b of Form 1040. Payments from an IRA are reported on lines 15a and 15b.

For details on reporting income received in the form of goods, property, meals, stock options, etc., get **Pub. 525**, Taxable and Nontaxable Income.

If you don't get a Form W-2 by January 31, 1995, or if the one you get isn't correct, please contact your employer as soon as possible. Only your employer can give you a Form W-2 or correct it. If you cannot get a Form W-2 by February 15, call the number listed on page 37 for your area. You will be asked for your employer's name, address, telephone number, and, if known, identification number. You will also be asked for your address, SSN, daytime telephone number, dates of employment, and your best estimate of your total wages and Federal income tax withheld.

If you used an **employer-provided vehicle** for both personal and business use and 100% of its annual lease value was included as wages on your W-2 form, you may be able to deduct the business use of the vehicle on Schedule A. But you must use **Form 2106**, Employee Business Expenses, to do so. The total annual lease value of the vehicle should be shown in either box 12 or 14 of your W-2 form or on a separate statement. For more details, get **Pub. 917**, Business Use of a Car.

Tip Income. Be sure to report all tip income you actually received, even if it is not included in box 1 of your W-2 form(s). You must report as income the amount of allocated tips shown on your W-2 form(s) unless you can prove with adequate records that you received a smaller amount. Allocated tips should be shown in box 8 of your W-2 form(s). They are not included in box 1 of your W-2 form(s). For details on allocated tips, get **Pub. 531**, Reporting Tip Income.

Use **Form 4137**, Social Security and Medicare Tax on Unreported Tip Income, to figure any social security and Medicare tax on unreported or allocated tips. See the instructions for line 50.

Statutory Employees. If you were a statutory employee, the "Statutory employee" box in box 15 of your W-2 form should be checked. Statutory employees include full-time life insurance salespeople, certain agent or commission drivers and traveling salespeople, and certain homeworkers.

If you are deducting business expenses as a statutory employee, report the amount shown in box 1 of your W-2 form and your expenses on Schedule C or C-EZ. If you are not deducting business expenses, report your income on line 7.

Excess Salary Deferrals. You may have chosen to have your employer contribute part of your pay to certain retirement plans (such as a 401(k) plan or the Federal Thrift Savings Plan) instead of having it paid to you. If so, the "Deferred compensation" box in box 15 of your W-2 form should be checked. The amount deferred should be shown in box 13. The total amount that may be deferred for 1994 under all plans is generally limited to \$9,240 for each person. But a different limit may apply if amounts were deferred under a tax-sheltered annuity plan or an eligible plan of a state or local government or tax-exempt organization. For details, get **Pub. 575**, Pension and Annuity Income (In-

cluding Simplified General Rule). Any amount deferred in excess of these limits must be reported on Form 1040, line 7.

Caution: You may **not** deduct the amount deferred. It is not included as income in box 1 of your W-2 form.

Dependent Care Benefits (DCB). If you received benefits for 1994 under your employer's dependent care plan, you may be able to exclude part or all of them from your income. But you must use **Form 2441**, Child and Dependent Care Expenses, to do so. The benefits should be shown in box 10 of your W-2 form(s). First, fill in Parts I and III of Form 2441. Include any taxable benefits from line 20 of that form on Form 1040, line 7. On the dotted line next to line 7, enter "DCB."

Scholarship and Fellowship Grants. If you received a scholarship or fellowship, part or all of it may be taxable even if you didn't receive a W-2 form. If you were a degree candidate, the amounts you used for expenses other than tuition and course-related expenses are taxable. For example, amounts used for room, board, and travel are taxable. If you were not a degree candidate, the full amount of the scholarship or fellowship is taxable.

Include the taxable amount not reported on a W-2 form on line 7. Then, enter "SCH" and the taxable amount not reported on a W-2 form on the dotted line next to line 7.

Line 8a

Taxable Interest Income

Each payer should send you a **Form 1099-INT** or a **Form 1099-OID**. A copy is also sent to the IRS.

Report all of your taxable interest income on line 8a, even if it is \$400 or less. If the total is over \$400 or any of the other conditions listed at the beginning of the Schedule B instructions (see page B-1) apply to you, fill in Schedule B first.

Report any interest you received or that was credited to your account so you could withdraw it, even if it wasn't entered in your passbook. Interest credited in 1994 on deposits that you could not withdraw because of the bankruptcy or insolvency of the financial institution may not have to be included in your 1994 income. For details, get **Pub. 550**, Investment Income and Expenses.

Caution: Be sure each payer of interest income has your correct social security number. Otherwise, the payer may withhold 31% of the interest (backup withholding). You may also be subject to penalties.

Examples of Taxable Interest Income You Must Report

Report interest from:

- Notes, loans, and mortgages. Special rules apply to loans with below-market interest rates. See Pub. 550.
- Tax refunds. Report only the interest on them as interest income.
- Bonds and debentures, including arbitrage bonds issued by state and local governments after October 9, 1969. Also, report as interest on line 8a any gain on the disposition of certain market discount bonds to the extent of the accrued market discount.

See Pub. 550 for details. For taxable bonds acquired after 1987, reduce your interest income on the bonds by the amount of any amortizable bond premium (see page B-1). **Do not** deduct the premium as interest expense on Schedule A.

• U.S. savings bonds. The interest is the yearly increase in the value of the bond. Interest on series E or EE bonds can be reported using method **a** or **b** below.

a. Report the total interest when you cash the bonds, or when they reach final maturity and no longer earn interest, **or**

b. Each year report on your return the yearly increase in the bonds' value.

If you change to method **b**, report the entire increase in all your bonds from the date they were issued. Each year after that report only the yearly increase. You may not change to method **a** unless you complete **Form 3115** and attach it to your tax return. See Pub. 550 for details.

Note: If you get a 1994 Form 1099-INT for U.S. savings bond interest that includes amounts you reported before 1994, see Pub. 550.

Line 8b

Tax-Exempt Interest

If you received any tax-exempt interest income, such as from municipal bonds, report it on line 8b. Include any exempt-interest dividends from a mutual fund or other regulated investment company. **Do not** include interest earned on your IRA.

Line 9

Dividend Income

The payer should send you a **Form 1099-DIV**. A copy is also sent to the IRS.

If your total gross dividends are over \$400, first fill in Schedule B (see page B-1). Also, fill in Schedule B if you received, as a nominee, dividends that actually belong to someone else. If you don't have to fill in Schedule B, include on line 9 only ordinary dividends and any investment expenses. If you received capital gain distributions, see the instructions for line 13.

Caution: Be sure each payer of dividends has your correct social security number. Otherwise, the payer may withhold 31% of the dividend income (backup withholding). You may also be subject to penalties.

Nontaxable Distributions. Some distributions are nontaxable because they are a return of your cost. They will not be taxed until you recover your cost. You must reduce your cost (or other basis) by these distributions. After you get back all of your cost (or other basis), you must report these distributions as capital gains. For details, get **Pub. 550**, Investment Income and Expenses.

Dividends on Insurance Policies. These are a partial return of the premiums you paid. **Do not** report them as dividends. Include them in income only if they exceed the total of all net premiums you paid for the contract.

Line 10

Taxable Refunds, Credits, or Offsets of State and Local Income Taxes

If you received a refund, credit, or offset of state or local income taxes in 1994 that you paid and deducted before 1994, part or all of this amount may be taxable. You may receive **Form 1099-G**, or similar statement, showing the refund.

If you chose to apply part or all of the refund to your 1994 estimated state or local income tax, the amount applied is considered income you received in 1994.

If, in the year you paid the tax, you **(a)** did not itemize deductions on Schedule A (Form 1040), or **(b)** filed Form 1040A or Form 1040EZ, **none** of your refund is taxable.

If the refund was for a tax you paid in 1993 and you itemized deductions on Schedule A (Form 1040) for 1993, use the worksheet below to see if any of your refund is taxable.

Exceptions. See **Recoveries** in **Pub. 525**, Taxable and Nontaxable Income, instead of using the worksheet below if **any** of the following applies:

- You received a refund in 1994 that is for a tax year other than 1993.
- You received a refund other than an income tax refund, such as a real property tax refund, in 1994 of an amount deducted or credit claimed in an earlier year.
- Your 1993 taxable income was less than zero.
- You made your last payment of 1993 estimated state or local income tax in 1994.
- You owed alternative minimum tax in 1993.
- You could not deduct the full amount of credits you were entitled to in 1993 because the total credits exceeded the tax shown on your 1993 Form 1040, line 40.
- You could be claimed as a dependent by someone else in 1993.

Also, see **Tax Benefit Rule** in Pub. 525 instead of using the worksheet below if **all three** of the following apply:

1. You had to use the Itemized Deductions Worksheet in the 1993 Schedule A instructions because your 1993 adjusted gross income was over \$108,450 (over \$54,225 if married filing separately).

2. You couldn't deduct the amount on line 1 of the 1993 worksheet.

3. The amount on line 8 of the 1993 worksheet would be more than the amount on line 4 of that worksheet if the amount on line 4 were reduced by 80% of the refund you received in 1994.

Line 11

Alimony Received

Enter amounts received as alimony or separate maintenance. You must let the person who made the payments know your social security number. If you don't, you may have to pay a \$50 penalty. For details, get **Pub. 504**, Divorced or Separated Individuals.

If you received payments under a divorce or separation instrument executed after 1984, see the instructions for line 29 on page 22 for the rules that apply in determining whether these payments qualify as alimony.

Line 12

Business Income or (Loss)

If you operated a business or practiced your profession as a sole proprietor, report your income and expenses on Schedule C or Schedule C-EZ.

Line 13

Capital Gain or (Loss)

Enter the gain or (loss) from Schedule D. But if you received **capital gain distributions** (reported to you on **Form 1099-DIV** or a substitute statement) and do not need Schedule

State and Local Income Tax Refund Worksheet—Line 10 (keep for your records)

1. Enter the income tax refund from Form(s) 1099-G (or similar statement)	1. _____
2. Enter your total allowable itemized deductions from your 1993 Schedule A, line 26	2. _____
Note: If the filing status on your 1993 Form 1040 was married filing separately and your spouse itemized deductions in 1993, skip lines 3, 4, and 5 and enter the amount from line 2 on line 6.	
3. Enter on line 3 the amount shown below for the filing status claimed on your 1993 Form 1040:	3. _____
• Single, enter \$3,700	}
• Married filing jointly or Qualifying widow(er), enter \$6,200	
• Married filing separately, enter \$3,100	
• Head of household, enter \$5,450	
4. If you didn't complete line 33a on your 1993 Form 1040, enter -0-. Otherwise, multiply the number on your 1993 Form 1040, line 33a, by \$700 (\$900 if your 1993 filing status was single or head of household) and enter the result	4. _____
5. Add lines 3 and 4	5. _____
6. Subtract line 5 from line 2. If zero or less, enter -0-	6. _____
7. Taxable part of your refund. Enter the smaller of line 1 or line 6 here and on Form 1040, line 10	7. _____

D for other capital transactions, enter those distributions on line 13. Write "CGD" on the dotted line next to line 13.

Note: Use the *Capital Gain Tax Worksheet* on page 25 to figure your tax if your taxable income (Form 1040, line 37) is **more than** \$91,850 (\$55,100 if single; \$78,700 if head of household; or \$45,925 if married filing separately).

Line 14

Other Gains or (Losses)

If you sold or exchanged assets used in a trade or business, see the instructions for Form 4797.

Lines 15a and 15b

IRA Distributions

Use lines 15a and 15b to report payments (distributions) you received from your individual retirement arrangement (IRA). These include regular distributions, early distributions, rollovers, and any other money or property you received from your IRA account or annuity. You should get a **Form 1099-R** showing the amount of your distribution.

If you made any nondeductible contributions to your IRA for 1994 or an earlier year or you rolled your IRA distribution over into another IRA, see below. **Do not** use lines 15a and 15b to report a rollover from a qualified employer's plan to an IRA. Instead, see the instructions for lines 16a and 16b.

IRA distributions that you must include in income are taxed at the same rate as other income. You may not use the special averaging rule for lump-sum distributions from qualified employer plans.

If your IRA distribution is fully taxable, enter it on line 15b; **do not** make an entry on line 15a. If only part is taxable, enter the total distribution on line 15a and the taxable part on line 15b.

Caution: If you received an early distribution and the total distribution was not rolled over or you received an excess distribution, you may have to pay additional tax. See the instructions for line 51 for details.

Nondeductible Contributions. If you made nondeductible contributions for any year, only part of your IRA distribution may be taxable. Get **Form 8606** to figure the taxable part of your IRA distribution. If you made any nondeductible contributions for 1994, you may need to make a special computation. Get **Pub. 590**, Individual Retirement Arrangements (IRAs), for details. Enter the total distribution on line 15a and the taxable part on line 15b.

IRA Rollovers. A rollover is a tax-free distribution of cash or other assets from one retirement plan that is contributed to another plan. Use lines 15a and 15b to report a rollover from one IRA to another IRA. Enter the total distribution on line 15a. If the total on line 15a was rolled over, enter zero on line 15b. If the total was not rolled over, enter the part not rolled over on line 15b. But if you ever made nondeductible contributions to any of your IRAs, use Form 8606 to figure the taxable part to enter on line 15b. For more details, see Pub. 590.

Lines 16a and 16b

Pensions and Annuities

Use lines 16a and 16b to report pension and annuity payments you received, including payments (distributions) from retirement plans, life insurance annuity contracts, profit-sharing plans, and employee-savings plans. See this page for details on rollovers. See page 18 for details on lump-sum distributions.

Also use these lines to report disability pensions received after you reach the minimum retirement age set by your employer. Disability pensions received before you reach your employer's minimum retirement age are reported on line 7.

You should receive a **Form 1099-R** showing the amount you received. Attach Form 1099-R to Form 1040 if any Federal income tax was withheld.

Do not use lines 16a and 16b to report corrective distributions of excess salary deferrals, excess contributions, or excess aggregate contributions from retirement plans. Instead, see the instructions for line 7. Also, **do not** use lines 16a and 16b to report any social security or railroad retirement benefits shown on **Forms SSA-1099** and **RRB-1099**. Instead, see the instructions for lines 20a and 20b.

Caution: Certain transactions, such as loans against your interest in a qualified plan, may be treated as taxable distributions and may also be subject to additional taxes. For details, get **Pub. 575**, Pension and Annuity Income (Including Simplified General Rule).

Fully Taxable Pensions and Annuities

If your pension or annuity is fully taxable, enter it on line 16b; **do not** make an entry on line 16a. Your payments are fully taxable if **either** of the following applies:

1. You did not contribute to the cost of your pension or annuity, or
2. You used the 3-Year Rule and you got your entire cost back tax free before 1994.

Fully taxable pensions and annuities also include military retirement pay shown on Form 1099-R. For details on military disability pensions, get **Pub. 525**, Taxable and Nontaxable Income. If you received a **Form RRB-1099-R**, get Pub. 575 to see how to report your benefits.

Partially Taxable Pensions and Annuities

If your pension or annuity is partially taxable and your Form 1099-R does not show the taxable part, you must use the General Rule to figure the taxable part. The General Rule is explained in **Pub. 939**, Pension General Rule (Nonsimplified Method). But if your annuity starting date (defined later) was **after** July 1, 1986, you may be able to use the Simplified General Rule instead. See **Simplified General Rule** on this page.

You can ask the IRS to figure the taxable part for you for a \$50 fee. Submit your request before the due date of your return, including extensions. For details, see Pub. 939.

If your Form 1099-R shows a taxable amount, you may report that amount on line

16b. But you may be able to report a lower taxable amount by using the General Rule or, if you qualify, the Simplified General Rule.

Once you have figured the taxable part of your pension or annuity, enter that amount on line 16b and the total on line 16a.

Annuity Starting Date. Your annuity starting date is the later of the first day of the first period for which you received a payment, or the date the plan's obligations became fixed.

Simplified General Rule. This method will usually give you the same amount or more tax free each year as the General Rule or as figured by the IRS. You can use this simpler method if **all four** of the following apply.

1. Your annuity starting date was **after** July 1, 1986.
2. The payments are for **(a)** your life or **(b)** your life and that of your beneficiary.
3. The payments are from a qualified employee plan, a qualified employee annuity, or a tax-sheltered annuity.
4. At the time the pension or annuity payments began, either you were under age 75 or the number of years of guaranteed payments was fewer than 5.

If all four of the above apply, use the worksheet on page 18 to figure the taxable part of your pension or annuity. If you are a beneficiary entitled to a death benefit exclusion, add the exclusion to the amount you enter on line 2 of the worksheet. Do this even if you received a Form 1099-R showing a taxable amount. The payer of the annuity cannot add the death benefit exclusion to your cost when figuring the taxable amount. Attach a signed statement to your return stating that you are entitled to a death benefit exclusion. For more details on the Simplified General Rule, see Pub. 575 or **Pub. 721**, Tax Guide to U.S. Civil Service Retirement Benefits.

Caution: If you received U.S. Civil Service retirement benefits and you chose the lump-sum credit option, use the worksheet in **Pub. 721**. **Do not** use the one on page 18.

Age at Annuity Starting Date. If you are the retiree, use your age on the annuity starting date. If you are the survivor of a retiree, use the retiree's age on his or her annuity starting date. If you are the beneficiary of an employee who died, see Pub. 575. If there is more than one beneficiary, see Pub. 575 or Pub. 721 to figure each beneficiary's taxable amount.

Changing Methods. If your annuity starting date was **after** July 1, 1986, you may be able to change from the General Rule to the Simplified General Rule (or the other way around). For details, see Pub. 575 or Pub. 721.

Death Benefit Exclusion. If you are the beneficiary of a deceased employee or former employee, amounts paid to you by, or on behalf of, an employer because of the death of the employee may qualify for a death benefit exclusion of up to \$5,000. If you are entitled to this exclusion, add it to the cost of the pension or annuity. Special rules apply if you are the survivor under a joint and survivor's annuity. For details, see Pub. 575.

Rollovers. A rollover is a tax-free distribution of cash or other assets from one retirement plan that is contributed to another plan. Use lines 16a and 16b to report a rollover, includ-

ing a direct rollover, from one qualified employer's plan to another or to an IRA.

Enter on line 16a the total distribution before income tax or other deductions were withheld. This amount should be shown in box 1 of **Form 1099-R**. If the total on line 16a (minus any contributions that were taxable to you when made) was rolled over, either directly or within 60 days of receiving the distribution, enter zero on line 16b. Otherwise, subtract the amount that was rolled over and any contributions that were taxable to you when made from the total on line 16a. Enter the result on line 16b. Special rules apply to partial rollovers of property. For more details on rollovers, including distributions under qualified domestic relations orders, see Pub. 575.

Lump-Sum Distributions. If you received a lump-sum distribution from a profit-sharing or retirement plan, your Form 1099-R should have the "Total distribution" box in box 2b checked. If you received an early distribution from a qualified retirement plan and the total amount was not rolled over, you may owe an additional tax. You may also owe an additional tax if you received an excess distribution from a qualified retirement plan. For details, see the instructions for line 51.

Enter the total distribution on line 16a and the taxable part on line 16b. But you may pay less tax on the distribution if you were born before 1936, you meet certain other conditions, and you choose to use **Form 4972**, Tax on Lump-Sum Distributions, to figure the tax on any part of the distribution. You may also be able to use Form 4972 if you are the beneficiary of a deceased employee who was born before 1936 and was age 50 or older on the date of death. For details, get Form 4972.

Simplified General Rule Worksheet—Lines 16a and 16b (keep for your records)

1. Enter the total pension or annuity payments received this year. Also, enter this amount on Form 1040, line 16a	1. _____
2. Enter your cost in the plan at the annuity starting date plus any death benefit exclusion (see page 17)	2. _____
3. Age at annuity starting date (see page 17):	Enter:
55 and under	300
56–60	260
61–65	240
66–70	170
71 and older	120
4. Divide line 2 by the number on line 3	4. _____
5. Multiply line 4 by the number of months for which this year's payments were made. If your annuity starting date was before 1987, skip lines 6 and 7 and enter this amount on line 8. Otherwise, go to line 6	5. _____
6. Enter the amount, if any, recovered tax free in years after 1986	6. _____
7. Subtract line 6 from line 2	7. _____
8. Enter the smaller of line 5 or line 7	8. _____
9. Taxable amount. Subtract line 8 from line 1. Enter the result, but not less than zero. Also, enter this amount on Form 1040, line 16b. If your Form 1099-R shows a larger amount, use the amount on this line instead of the amount from Form 1099-R	9. _____

Note: If you had more than one partially taxable pension or annuity, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 16b. Enter the total pension or annuity payments received in 1994 on Form 1040, line 16a.

Line 19

Unemployment Compensation

Enter on line 19 any unemployment compensation (insurance) you received. By January 31, 1995, you should receive a **Form 1099-G** showing the total amount paid to you during 1994. The amount should be in box 1.

If you received an overpayment of unemployment compensation in 1994 and you repaid any of it in 1994, subtract the amount you repaid from the total amount you received. Enter the result on line 19. Also, enter "Repaid" and the amount you repaid on the dotted line next to line 19. If, in 1994, you repaid unemployment compensation that you included in gross income in an earlier year, you may deduct the amount repaid on Schedule A, line 22. But if the amount repaid was more than \$3,000, see **Repayments in Pub. 525**, Taxable and Nontaxable Income, for details on how to report the repayment.

Do not include on line 19 any supplemental unemployment benefits received from a company-financed supplemental unemployment benefit fund. Instead, report these benefits on line 7.

Lines 20a and 20b

Social Security Benefits

Social security and equivalent railroad retirement benefits you received may be taxable. Social security benefits include any monthly benefit under title II of the Social Security Act or the part of a tier 1 railroad retirement benefit treated as a social security benefit. Social

security benefits include monthly survivor and disability benefits paid to you. They do not include any supplemental security income (SSI) payments.

By January 31, 1995, you should receive a **Form SSA-1099** showing in box 3 the total social security benefits paid to you in 1994. Box 4 will show the amount of any benefits you repaid in 1994. If you received railroad retirement benefits treated as social security, you should receive a **Form RRB-1099**. For more details, get **Pub. 915**, Social Security Benefits and Equivalent Railroad Retirement Benefits.

Caution: Do not use lines 20a and 20b to report any railroad retirement benefits shown on Form RRB-1099-R. Instead, see the instructions for lines 16a and 16b.

To find out if any of your benefits are taxable, first complete Form 1040, lines 7 through 19, 21, and 23a through 30 if they apply to you. Then, complete the worksheet on page 19. However, **do not** use the worksheet if any of the following applies to you:

- You made IRA contributions for 1994 and you were covered by a retirement plan at work or through self-employment. Instead, use the worksheets in **Pub. 590**, Individual Retirement Arrangements (IRAs), to see if any of your social security benefits are taxable and to figure your IRA deduction.
- You repaid any benefits in 1994 and your total repayments (box 4) were more than your total benefits for 1994 (box 3). **None** of your benefits are taxable for 1994. In addition, you may be able to take an itemized deduction for part of the excess repayments if they were for benefits you included in gross income in an earlier year. See Pub. 915.
- You file **Form 2555**, Foreign Earned Income, **Form 2555-EZ**, Foreign Earned Income Exclusion, **Form 4563**, Exclusion of Income for Bona Fide Residents of American Samoa, **Form 8815**, Exclusion of Interest From Series EE U.S. Savings Bonds Issued After 1989, or you exclude income from sources within Puerto Rico. Instead, use the worksheet in Pub. 915.

Line 21

Other Income

Use this line to report any other income not reported on your return or other schedules. See examples later. List the type and amount of income. If necessary, show the required information on an attached statement. For more details, see **Miscellaneous Taxable Income** in **Pub. 525**, Taxable and Nontaxable Income.

Do not report any nontaxable income on line 21, including the following:

- Child support.
- Money or property that was inherited, willed to you, or received as a gift.
- Life insurance proceeds received because of a person's death.

Do not report any income from **self-employment** on this line. Instead, you **must** use Schedule C, C-EZ, or F, even if you do not have any business expenses.

Examples of **income to report** on line 21 are:

- Prizes and awards.

Social Security Benefits Worksheet—Lines 20a and 20b (keep for your records)

If you are married filing separately and you **lived apart** from your spouse for all of 1994, enter "D" to the left of line 20a.

1. Enter the total amount from **box 5** of **all** your **Forms SSA-1099** and **RRB-1099** **1.** _____
Note: If line 1 is zero or less, stop; none of your social security benefits are taxable. Otherwise, go to line 2.
 2. Enter one-half of line 1 **2.** _____
 3. Add the amounts on Form 1040, lines 7, 8a, 9 through 14, 15b, 16b, 17 through 19, and 21. Do not include amounts from box 5 of Forms SSA-1099 or RRB-1099 **3.** _____
 4. Enter the amount, if any, from Form 1040, line 8b **4.** _____
 5. Add lines 2, 3, and 4 **5.** _____
 6. Enter the amount from Form 1040, line 30 **6.** _____
 7. Subtract line 6 from line 5 **7.** _____
 8. Enter \$25,000 (\$32,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time in 1994) **8.** _____
 9. Subtract line 8 from line 7. If zero or less, enter -0- **9.** _____
- Is line 9 more than zero?**
- No.** Stop; none of your social security benefits are taxable. Do not enter any amounts on lines 20a or 20b. **But** if you are married filing separately and you **lived apart** from your spouse for all of 1994, enter -0- on line 20b. Be sure to enter "D" to the left of line 20a.
- Yes.** Go to line 10.
10. Enter \$9,000 (\$12,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time in 1994) **10.** _____
 11. Subtract line 10 from line 9. If zero or less, enter -0- **11.** _____
 12. Enter the **smaller** of line 9 or line 10 **12.** _____
 13. Enter one-half of line 12 **13.** _____
 14. Enter the **smaller** of line 2 or line 13 **14.** _____
 15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- **15.** _____
 16. Add lines 14 and 15 **16.** _____
 17. Multiply line 1 by 85% (.85) **17.** _____
 18. **Taxable social security benefits.** Enter the **smaller** of line 16 or line 17 **18.** _____
 - Enter the amount from line 1 on Form 1040, line 20a.
 - Enter the amount from line 18 on Form 1040, line 20b.

Note: If part of your benefits are taxable for 1994 and they include benefits paid in 1994 that were for an earlier year, you may be able to reduce the taxable amount shown on the worksheet. Get Pub. 915 for details.

- Gambling winnings. Proceeds from lotteries, raffles, etc., are gambling winnings. You must report the full amount of your winnings on line 21. You cannot offset losses against winnings and report the difference. If you had any gambling losses, you may take them as an itemized deduction on Schedule A. But you cannot deduct more than the winnings you report.
- Amounts received for medical expenses or other items, such as real estate taxes, that you deducted in an earlier year if they reduced your tax. See Pub. 525 for details on how to figure the amount to report.
- Fees received for jury duty or precinct election board duty. You may be able to deduct part or all of your jury duty pay. See the instructions for line 30.
- Fees received as a notary public.
- Fees received as a nonprofessional fiduciary, such as an executor or administrator of the estate of a deceased friend or relative.
- Alaska Permanent Fund dividends.
- Refund of overpaid mortgage interest if you deducted the interest in an earlier year

and it reduced your tax. To figure the amount to report, see Pub. 525.

- Income from the rental of personal property if you were not in the business of renting such property. (See the instructions for line 30 to report your expenses.)

Recapture of Clean-Fuel Vehicle Deduction. If you claimed this deduction in 1993 for property that no longer qualifies as clean-fuel vehicle property, you may have to include the amount deducted on line 21. For details, get **Pub. 535**, Business Expenses.

Net Operating Loss. If you had a net operating loss in an earlier year to carry forward to 1994, include it as a negative amount on line 21. Attach a statement showing how you figured the amount. Get **Pub. 536**, Net Operating Losses, for more details.

Adjustments to Income

Lines 23a and 23b

IRA Deduction

If you made contributions to an individual retirement arrangement (IRA) for 1994, you may be able to take an IRA deduction. Read the instructions below and on the next page to see if you can take an IRA deduction and, if you can, which worksheet to use to figure it. Enter your IRA deduction on line 23a. If you file a joint return, enter your spouse's deduction on line 23b. You should receive a statement by May 31, 1995, that shows all contributions to your IRA for 1994.

Caution: You **may not** deduct contributions to a 401(k) plan or the Federal Thrift Savings Plan. These amounts are not included as income in box 1 of your W-2 form.

If you were age 70½ or older at the end of 1994, you cannot deduct any contributions made to your IRA for 1994 or treat them as nondeductible contributions.

Note: If you file **Form 2555**, Foreign Earned Income, or **Form 2555-EZ**, Foreign Earned Income Exclusion, get **Pub. 590** to figure your IRA deduction.

Were You Covered by a Retirement Plan?

If you were covered by a retirement plan (qualified pension, profit-sharing (including 401(k)), annuity, Keogh, SEP, etc.) at work or through self-employment, your IRA deduction may be reduced or eliminated. But you can still make contributions to an IRA even if you can't deduct them. In any case, the income earned on your IRA contributions is not taxed until it is paid to you.

The "Pension plan" box in box 15 of your W-2 form should be checked if you were covered by a plan at work even if you were not vested in the plan. You are also covered by a plan if you were self-employed and had a Keogh or SEP retirement plan.

If you were covered by a retirement plan and you file **Form 8815**, Exclusion of Interest From Series EE U.S. Savings Bonds Issued After 1989, get Pub. 590 to figure the amount, if any, of your IRA deduction.

Special Rule for Married Individuals Who File Separate Returns. If you were not covered by a retirement plan but your spouse was, **you** are considered covered by a plan unless you **lived apart** from your spouse for all of 1994. See the chart on page 20. It will tell you if you can take the deduction and, if you can, which worksheet to use.

Not Covered by a Retirement Plan. If you (and your spouse if filing a joint return) were not covered by a plan, use **Worksheet 1** on page 20 to figure your deduction.

Covered by a Retirement Plan. If you (or your spouse if filing a joint return) were covered by a plan, see the chart on page 20. It will tell you if you can take the deduction and, if you can, which worksheet to use.

Nondeductible Contributions. Your nondeductible contribution is the difference between the total allowable contributions to your IRA and the amount you deduct. You can make nondeductible contributions to your IRA whether you are allowed to deduct all, part, or none of your contributions.

Example. Your filing status is single and you paid \$2,000 into your IRA. You were covered by a retirement plan and your modified AGI is over \$35,000 (all wages). You can't deduct the \$2,000. But you can treat it as a nondeductible contribution.

Use **Form 8606** to report all contributions you treat as nondeductible. If you don't, you may have to pay a \$50 penalty. If you and your spouse each make nondeductible contributions, each of you must complete a separate Form 8606.

Read the following list before you fill in your IRA worksheet.

- You will first need to complete Form 1040 through line 22, lines 24 through 29, and figure any amount to be entered on the dotted line next to line 30.
- If you made contributions to your IRA in 1994 that you deducted for 1993, **do not** include them in the worksheet.
- If you received a distribution from a non-qualified deferred compensation plan, get Pub. 590 to figure your IRA deduction. The distribution should be shown in box 11 of your W-2 form.
- For purposes of the IRA deduction, alimony payments received under certain divorce or separation instruments are considered earned income. For more details, see Pub. 590.
- If the total of your IRA deduction on Form 1040 plus any nondeductible contribution on your Form 8606 is less than your total IRA contributions for 1994, see Pub. 590 for special rules.
- You must file a joint return to deduct contributions to your nonworking spouse's IRA. A **nonworking spouse** is one who had no wages or other earned income in 1994, or a working spouse who chooses to be treated as having no earned income for figuring the deduction.
- Do not include rollover contributions in figuring your deduction. See the instructions for lines 15a and 15b on page 17 for more details on rollover contributions.
- Do not include trustee's fees that were billed separately and paid by you for your IRA. These fees can be deducted only as an itemized deduction on Schedule A.

Chart for People Covered by a Retirement Plan*—Lines 23a and 23b

In this chart, **modified AGI** (adjusted gross income) is the amount on Form 1040, line 22, minus the total of any deductions claimed on Form 1040, lines 24 through 29 and any amount you entered on the dotted line next to line 30.

If you (or your spouse if filing jointly) **were covered by a retirement plan and—**

Your filing status is:	And your modified AGI is:	You can take:
Single, Head of household, or Married filing separately and lived apart from your spouse for all of 1994	\$25,000 or less	Full IRA deduction (use Worksheet 1 on this page)
	Over \$25,000 but less than \$35,000	Partial IRA deduction (use Worksheet 2 on page 21)
	\$35,000 or more	No IRA deduction (but see Nondeductible Contributions)
Married filing jointly or Qualifying widow(er)	\$40,000 or less	Full IRA deduction (use Worksheet 1 on this page)
	Over \$40,000 but less than \$50,000	Partial IRA deduction (use Worksheet 2 on page 21)
	\$50,000 or more	No IRA deduction (but see Nondeductible Contributions)
Married filing separately and lived with your spouse at any time during 1994	Over -0- but less than \$10,000	Partial IRA deduction (use Worksheet 2 on page 21)
	\$10,000 or more	No IRA deduction (but see Nondeductible Contributions)

* If married filing separately and you were not covered by a plan but your spouse was, **you** are considered covered by a plan unless you **lived apart** from your spouse for all of 1994.

IRA Worksheet 1—Lines 23a and 23b (keep for your records)

	(a) Your IRA	(b) Your working spouse's IRA
1. Enter IRA contributions you made, or will make by April 17, 1995, for 1994. But do not enter more than \$2,000 in either column	1. _____	_____
2. For each person, enter wages and other earned income from Form 1040, minus any deductions on Form 1040, lines 25 and 27. Do not reduce wages by any loss from self-employment	2. _____	_____
3. Enter the smaller of line 1 or line 2. Enter on Form 1040, line 23a, the amount from line 3, column (a), you choose to deduct. Enter on Form 1040, line 23b, the amount, if any, from line 3, column (b), you choose to deduct. If filing a joint return and contributions were made to your nonworking spouse's IRA, go to line 4	3. _____	_____
		Nonworking spouse's IRA
4. Enter the smaller of line 2, column (a), or \$2,250	4. _____	_____
5. Enter the amount from line 3, column (a)	5. _____	_____
6. Subtract line 5 from line 4	6. _____	_____
7. Enter IRA contributions made, or that will be made by April 17, 1995, for 1994 for your nonworking spouse. But do not enter more than \$2,000	7. _____	_____
8. Enter the smaller of line 6 or line 7. Enter on Form 1040, line 23b, the amount from line 8 you choose to deduct	8. _____	_____

IRA Worksheet 2—Lines 23a and 23b (keep for your records)

<p>1. If you checked Filing Status box: } 1 or 4, enter \$35,000 2 or 5, enter \$50,000 3, enter \$10,000 (\$35,000 if you lived apart from your spouse for all of 1994) 1. _____</p> <p>2. Enter the amount from Form 1040, line 22 2. _____</p> <p>3. Add amounts on Form 1040, lines 24 through 29, and any amount you entered on the dotted line next to line 30 . . . 3. _____</p> <p>4. Subtract line 3 from line 2. If the result is equal to or more than the amount on line 1, none of your IRA contributions are deductible. Stop here. If you want to make a nondeductible IRA contribution, see Form 8606 4. _____</p> <p>5. Subtract line 4 from line 1. If the result is \$10,000 or more, stop here and use Worksheet 1 5. _____</p> <p>6. Multiply line 5 above by 20% (.20). If the result is not a multiple of \$10, round it up to the next multiple of \$10 (for example, round \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200. Go to line 7 . . . 6. _____</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 5%;"></td> <td style="width: 45%;"></td> </tr> <tr> <td></td> <td style="text-align: center;">(a)</td> <td style="text-align: center;">(b)</td> </tr> <tr> <td></td> <td style="text-align: center;">Your</td> <td style="text-align: center;">Your working</td> </tr> <tr> <td></td> <td style="text-align: center;">IRA</td> <td style="text-align: center;">spouse's IRA</td> </tr> </table>					(a)	(b)		Your	Your working		IRA	spouse's IRA
	(a)	(b)											
	Your	Your working											
	IRA	spouse's IRA											
Deductible IRA contributions													
<p>7. For each person, enter wages and other earned income from Form 1040, minus any deductions on Form 1040, lines 25 and 27. Do not reduce wages by any loss from self-employment 7. _____</p> <p>8. Enter IRA contributions you made, or will make by April 17, 1995, for 1994. But do not enter more than \$2,000 in either column 8. _____</p> <p>9. Enter the smallest of line 6, 7, or 8. This is the most you can deduct. Enter on Form 1040, line 23a, the amount from line 9, column (a), you choose to deduct. Enter on Form 1040, line 23b, the amount, if any, from line 9, column (b), you choose to deduct. If line 8 is more than line 9, go to line 10 9. _____</p>													
Nondeductible IRA contributions													
<p>10. Subtract line 9 from the smaller of line 7 or line 8. Enter on line 1 of your Form 8606 the amount from line 10 you choose to make nondeductible 10. _____</p>													
If filing a joint return and contributions were made to your nonworking spouse's IRA, go to line 11.													
Deductible IRA contributions for nonworking spouse													
<p>11. Enter the smaller of line 7, column (a), or \$2,250 11. _____</p> <p>12. Add the amount on line 9, column (a), to the part of line 10, column (a), that you choose to make nondeductible 12. _____</p> <p>13. Subtract line 12 from line 11. If the result is zero or less, stop here. You cannot make deductible or nondeductible IRA contributions for your nonworking spouse 13. _____</p> <p>14. Enter the smallest of (a) IRA contributions made, or that will be made by April 17, 1995, for 1994 for your nonworking spouse; (b) \$2,000; or (c) the amount on line 13 14. _____</p> <p>15. Multiply line 5 above by 22.5% (.225). If the result is not a multiple of \$10, round it up to the next multiple of \$10. If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200 15. _____</p> <p>16. Enter the amount from line 9, column (a) 16. _____</p> <p>17. Subtract line 16 from line 15 17. _____</p> <p>18. Enter the smaller of line 14 or line 17 18. _____</p> <p>19. Enter the smallest of line 6, 7, or 8. This is the most you can deduct. Enter on Form 1040, line 23b, the amount from line 19 you choose to deduct. If line 14 is more than line 19, go to line 20 19. _____</p>													
Nondeductible IRA contributions for nonworking spouse													
<p>20. Subtract line 19 from line 14. Enter on line 1 of your spouse's Form 8606 the amount from line 20 that you choose to make nondeductible 20. _____</p>													

Line 24

Moving Expenses

Employees and self-employed persons (including partners) can deduct certain moving expenses. Expenses incurred in 1994 are deducted on this line. Expenses incurred before 1994 that were not previously deducted are only allowed as an itemized deduction on Schedule A.

You can take this deduction if you moved in connection with your job or business and your new workplace is at least 50 miles farther from your old home than your old home was from your old workplace. If you had no former workplace, your new workplace must be at least 50 miles from your old home. If you meet these requirements, call Tele-Tax (see page 38) and listen to topic 455 or get **Pub. 521**, Moving Expenses. Use Part I of **Form 3903**, Moving Expenses, to figure the amount to enter on this line. If you began work at a new workplace outside the United States or its possessions, get **Form 3903-F**, Foreign Moving Expenses.

Line 25

One-Half of Self-Employment Tax

If you had income from self-employment and you owe self-employment tax, first fill in Schedule SE. Then, enter on Form 1040, line 25, the amount shown on line 6 of Short Schedule SE or line 13 of Long Schedule SE, whichever applies.

Line 26

Self-Employed Health Insurance Deduction

Caution: This deduction expired December 31, 1993. However, at the time these instructions went to print, Congress was considering legislation that would allow a deduction for 1994. Get **Pub. 553**, Highlights of 1994 Tax Changes, for later information about this deduction. You **cannot** take a deduction on this line unless it has been allowed by Congress before you file your return.

If you were self-employed and had a net profit for the year, or if you received wages in 1994 from an S corporation in which you were a more than 2% shareholder, you may be able to deduct part of the amount paid for health insurance on behalf of yourself, your spouse, and dependents. But if you were also eligible to participate in any subsidized health plan maintained by your or your spouse's employer for any month or part of a month in 1994, amounts paid for health insurance coverage for that month cannot be used to figure the deduction. For example, if you were eligible to participate in a subsidized health plan maintained by your spouse's employer from September 30 through December 31, you cannot use amounts paid for health insurance coverage for September through December to figure your deduction. For more details, get **Pub. 535**, Business Expenses.

If you qualify to take the deduction, use the worksheet on this page to figure the amount you can deduct. But if either of the following applies, **do not** use the worksheet. Instead, see Pub. 535 to find out how to figure your deduction.

- You had more than one source of income subject to self-employment tax.
- You file **Form 2555**, Foreign Earned Income, or **Form 2555-EZ**, Foreign Earned Income Exclusion.

Line 27

Keogh Retirement Plan and Self-Employed SEP Deduction

If you are self-employed or a partner, deduct payments to your Keogh (HR 10) plan or simplified employee pension (SEP) plan on line 27. Deduct payments for your employees on Schedule C or F.

There are two types of Keogh plans:

- A **defined-contribution plan** has a separate account for each person. Benefits are based on the amount paid to each account.
- Payments to a **defined-benefit plan** are determined by the funds needed to give a specific benefit at retirement. If you deduct payments to this kind of plan, enter "DB" next to line 27.

Get **Pub. 560**, Retirement Plans for the Self-Employed, for more details, including limits on the amount you can deduct.

Line 28

Penalty on Early Withdrawal of Savings

The **Form 1099-INT** or **Form 1099-OID** you received will show the amount of any penalty you were charged. Enter this amount on line 28.

Self-Employed Health Insurance Deduction Worksheet—Line 26 (keep for your records)

See the **Caution** on page 21 before completing this worksheet.

- | | |
|--|----------|
| 1. Enter the total amount paid in 1994 for health insurance coverage for 1994 for you, your spouse, and dependents. But do not include amounts for any month you were eligible to participate in an employer-sponsored health plan | 1. _____ |
| 2. Multiply line 1 by 25% (.25) | 2. _____ |
| 3. Enter your net profit and any other earned income* from the business under which the insurance plan is established, minus any deductions you claim on Form 1040, lines 25 and 27 | 3. _____ |
| 4. Self-employed health insurance deduction. Enter the smaller of line 2 or line 3 here and on Form 1040, line 26. DO NOT include this amount in figuring any medical expense deduction on Schedule A (Form 1040) | 4. _____ |

* **Earned income** includes net earnings and gains from the sale, transfer, or licensing of property you created. It does not include capital gain income. If you were a more than 2% shareholder in an S corporation, earned income is your wages from that corporation.

Line 29

Alimony Paid

You can deduct periodic payments of alimony or separate maintenance made under a court decree. You can also deduct payments made under a written separation agreement or a decree for support. Don't deduct lump-sum cash or property settlements, voluntary payments not made under a court order or a written separation agreement, or amounts specified as child support.

For details, call Tele-Tax (see page 38) and listen to topic 452 or get **Pub. 504**, Divorced or Separated Individuals.

Caution: You must enter the recipient's SSN in the space provided on line 29. If you don't, you may have to pay a \$50 penalty and your deduction may be disallowed.

If you paid alimony to more than one person, enter the SSN of one of the recipients. Show the SSN(s) and the amount paid to the other recipient(s) on an attached statement. Enter your total payments on line 29.

Divorce or Separation Instruments Executed After 1984. Generally, you may deduct any payment made in cash to, or on behalf of, your spouse or former spouse under a divorce or separation instrument executed after 1984 if **all four** of the following apply.

1. The instrument does not prevent the payment from qualifying as alimony.
2. You and your spouse or former spouse did not live together when the payment was made if you were separated under a decree of divorce or separate maintenance.
3. You are not required to make any payment after the death of your spouse or former spouse.
4. The payment is not treated as child support.

These rules also apply to certain instruments modified after 1984. Other rules apply if your annual payments decreased by more than \$15,000. For details, see Pub. 504.

Line 30

Total Adjustments

Include in the total on line 30 any of the following adjustments.

Qualified Performing Artists. Include in the total on line 30 your performing-arts-related expenses from line 10 of **Form 2106**, Employee Business Expenses, or line 6 of **Form 2106-EZ**, Unreimbursed Employee Business Expenses. Enter the amount and "OPA" on the dotted line next to line 30.

Jury Duty Pay Given to Employer. If you reported jury duty pay on line 21 and you were required to give your employer any part of that pay because your employer continued to pay your salary while you served on the jury, include the amount you gave your employer in the total on line 30. Enter the amount and "Jury pay" on the dotted line next to line 30.

Forestation or Reforestation Amortization. If you can claim a deduction for amortization of the costs of forestation or reforestation and you do not have to file Schedule C, C-EZ, or F for this activity, include your deduction in the total on line 30. Enter the amount and "Reforestation" on the dotted line next to line 30.

Repayment of Sub-Pay Under the Trade Act of 1974. If you repaid supplemental unemployment benefits (sub-pay) that you previously reported in income because you became eligible for payments under the Trade Act of 1974, include in the total on line 30 the amount you repaid in 1994. Enter the amount and "Sub-pay TRA" on the dotted line next to line 30. Or, you may be able to claim a credit against your tax instead. Get **Pub. 525**, Taxable and Nontaxable Income, for more details.

Contributions to Section 501(c)(18) Pension Plans. The amount you contributed should be identified with code **H** in box 13 of your W-2 form. You may deduct this amount subject to the limits explained under **Excess Salary Deferrals** on page 15. Include your deduction in the total on line 30. Enter the amount and "501(c)(18)" on the dotted line next to line 30.

Deduction for Clean-Fuel Vehicles. If you placed a vehicle in service in 1994 that uses a clean-burning fuel, you may be able to take this deduction. For details, including how to figure the deduction, get **Pub. 535**, Business Expenses. Include your deduction in the total on line 30. But if part of your deduction is claimed on Schedule C, C-EZ, E, or F, subtract that part from your total deduction and include only the balance on line 30. Enter the amount and "Clean-Fuel" on the dotted line next to line 30.

Expenses From the Rental of Personal Property. If you reported income from the rental of personal property on line 21, include the total of your deductible expenses related to that income in the total on line 30. Enter the amount and "PPR" on the dotted line next to line 30.

Adjusted Gross Income

Line 31

If line 31 is less than zero, you may have a net operating loss that you can carry to another tax year. If you carry the loss back to earlier years, see **Form 1045**, Application for Tentative Refund. For more details, get **Pub. 536**, Net Operating Losses.

Tax Computation

Line 33a

If you were age 65 or older or blind, check the appropriate boxes on line 33a. If you were married and checked the box on line 6b on page 1 of Form 1040 and your spouse was age 65 or older or blind, also check the appropriate boxes for your spouse. Then, add the number of boxes checked on line 33a. Enter the total in the box provided on line 33a. You need this total to use the **Standard Deduction Chart for People Age 65 or Older or Blind** on this page.

Age. If you were age 65 or older on January 1, 1995, check the "65 or older" box on your 1994 return.

Blindness. If you were completely blind as of December 31, 1994, attach a statement to your return describing this condition. If you were partially blind, you must attach a statement certified by your eye doctor or registered optometrist that:

- You can't see better than 20/200 in your better eye with glasses or contact lenses, or
- Your field of vision is 20 degrees or less.

If your eye condition is not likely to improve beyond the conditions listed above, attach a statement certified by your eye doctor or registered optometrist to this effect. Keep a copy of this statement for your records. If you attached this statement in a prior year, attach a note saying that you have already filed a statement.

Line 33b

If your parent (or someone else) can claim you as a dependent on his or her return (even if that person chose not to claim you), check the box on line 33b. Use the **Standard Deduction Worksheet for Dependents** on this page to figure your standard deduction.

Line 33c

If your spouse itemizes deductions on a separate return or if you were a dual-status alien, check the box on line 33c. But if you were a dual-status alien and you file a joint return with your spouse who was a U.S. citizen or resident at the end of 1994 and you and your spouse agree to be taxed on your combined worldwide income, **do not** check the box.

If you check this box, you **cannot** take the standard deduction. If you have any itemized deductions, such as state and local income taxes, your Federal income tax will be less if you itemize your deductions.

Line 34

Itemized Deductions or Standard Deduction

Your Federal income tax will be less if you take the **larger** of:

- Your itemized deductions, or
- Your standard deduction.

The standard deduction has increased for most people. Even if you itemized last year, be sure to see if the standard deduction will benefit you for 1994.

Itemized Deductions. To figure your itemized deductions, fill in **Schedule A**.

If your itemized deductions are larger than your standard deduction, attach Schedule A and enter on Form 1040, line 34, the amount from Schedule A, line 29.

Standard Deduction. Most people can find their standard deduction by looking at line 34 of Form 1040. But if you checked **any** of the boxes on **lines 33a or 33b**, use the chart or worksheet on this page that applies to you to figure your standard deduction. Also, if you checked the box on **line 33c**, your standard deduction is zero, even if you were age 65 or older or blind.

If your standard deduction is larger than your itemized deductions, enter your standard deduction on line 34.

Itemizing for State Tax or Other Purposes. If you itemize even though your itemized deductions are less than your standard deduction, enter "IE" (itemized elected) next to line 34.

Standard Deduction Chart for People Age 65 or Older or Blind—Line 34

If someone can claim you as a dependent, use the worksheet below instead.

Enter the number from the box on line 33a of Form 1040

Caution: Do not use the number of exemptions from line 6e.

If your filing status is:	And the number in the box above is:	Your standard deduction is:
Single	1	\$4,750
	2	5,700
Married filing jointly or Qualifying widow(er)	1	\$7,100
	2	7,850
	3	8,600
	4	9,350
Married filing separately	1	\$3,925
	2	4,675
	3	5,425
	4	6,175
Head of household	1	\$6,550
	2	7,500

Standard Deduction Worksheet for Dependents—Line 34 (keep for your records)

Use this worksheet **only** if someone can claim you as a dependent.

1. Enter your **earned income** (defined below). If none, enter -0- **1.** _____
2. Minimum amount **2.** 600.00
3. Enter the **larger** of line 1 or line 2 **3.** _____
4. Enter on line 4 the amount shown below for your filing status:
 - Single, enter \$3,800
 - Married filing separately, enter \$3,175
 - Married filing jointly or Qualifying widow(er), enter \$6,350
 - Head of household, enter \$5,600**4.** _____
5. **Standard deduction.**
 - a. Enter the **smaller** of line 3 or line 4. If under 65 and not blind, stop here and enter this amount on Form 1040, line 34. Otherwise, go to line 5b **5a.** _____
 - b. If 65 or older or blind, multiply \$950 (\$750 if married filing jointly or separately, or qualifying widow(er)) by the number on Form 1040, line 33a **5b.** _____
 - c. Add lines 5a and 5b. Enter the total here and on Form 1040, line 34 **5c.** _____

Earned income includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income. Generally, your earned income is the total of the amount(s) you reported on Form 1040, lines 7, 12, and 18, minus the amount, if any, on line 25.

Deduction for Exemptions Worksheet—Line 36 (keep for your records)

Use this worksheet **only** if the amount on Form 1040, line 32, is more than the amount shown on line 3 below for your filing status. If the amount on Form 1040, line 32, is equal to or less than the amount shown on line 3, multiply \$2,450 by the total number of exemptions claimed on Form 1040, line 6e, and enter the result on line 36.

1. Multiply \$2,450 by the total number of exemptions claimed on Form 1040, line 6e	1. _____
2. Enter the amount from Form 1040, line 32.	2. _____
3. Enter on line 3 the amount shown below for your filing status:	
• Married filing separately, enter \$83,850	} 3. _____
• Single, enter \$111,800	
• Head of household, enter \$139,750	
• Married filing jointly or Qualifying widow(er), enter \$167,700	
4. Subtract line 3 from line 2. If zero or less, stop here ; enter the amount from line 1 above on Form 1040, line 36	4. _____
Note: If line 4 is more than \$122,500 (more than \$61,250 if married filing separately), stop here ; you cannot take a deduction for exemptions. Enter -0- on Form 1040, line 36.	
5. Divide line 4 by \$2,500 (\$1,250 if married filing separately). If the result is not a whole number, round it up to the next higher whole number (for example, round 0.0004 to 1)	5. _____
6. Multiply line 5 by 2% (.02) and enter the result as a decimal amount	6. _____
7. Multiply line 1 by line 6	7. _____
8. Deduction for exemptions. Subtract line 7 from line 1. Enter the result here and on Form 1040, line 36	8. _____

The IRS Will Figure Your Tax and Some of Your Credits

If you want, we will figure your tax for you. If you have paid too much, we will send you a refund. If you did not pay enough, we'll send you a bill. We won't charge you interest or a late payment penalty if you pay within 30 days of the notice date or by the due date for your return, whichever is later.

We can figure your tax if you meet **all five** of the conditions described below:

- All of your income for 1994 was from wages, salaries, tips, interest, dividends, taxable social security benefits, unemployment compensation, IRA distributions, pensions, or annuities.
- You do not itemize deductions.
- You do not file any of the following forms:
 - Form 2555**, Foreign Earned Income.
 - Form 2555-EZ**, Foreign Earned Income Exclusion.
 - Form 4137**, Social Security and Medicare Tax on Unreported Tip Income.
 - Form 4970**, Tax on Accumulation Distribution of Trusts.
 - Form 4972**, Tax on Lump-Sum Distributions.
 - Form 6198**, At-Risk Limitations.
 - Form 6251**, Alternative Minimum Tax—Individuals.
 - Form 8615**, Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,200.
 - Form 8814**, Parents' Election To Report Child's Interest and Dividends.

4. Your taxable income (line 37) is less than \$100,000.

5. You do not want any of your refund applied to next year's estimated tax.

To have us figure your tax, please do the following:

- Fill in the parts of your return through line 37 that apply to you.
- If you are filing a joint return, use the space under the words "Adjustments to Income" on the front of your return to separately show your own and your spouse's taxable income.
- Read lines 39 through 59. Fill in the lines that apply to you, but do not fill in the total lines. Please be sure to fill in line 54 for Federal income tax withheld. See the instructions below if you want us to figure your credit for the elderly or the disabled or your earned income credit.
- Fill in and attach any forms or schedules asked for on the lines you completed.
- Sign and date your return (both spouses must sign a joint return) and enter your occupation(s).
- Mail your return by April 17, 1995.

We will figure the following credits too:

Credit for the Elderly or the Disabled. If you can take this credit, you **must** attach **Schedule R** to your return and enter "CFE" on the dotted line next to line 42. Check the box on Schedule R for your filing status and age, and fill in Part II and lines 11 and 13 of Part III if applicable.

Earned Income Credit (EIC). If you can take this credit, write "EIC" next to line 56. Enter the amount and type of any nontaxable income (see page 29) in the spaces provided

on line 56. If you have a qualifying child, fill in Schedule EIC and attach it to your return.

Line 38

Tax

Tax Table. If your taxable income is less than \$100,000, you **must** use the Tax Table to find your tax unless you are required to use **Form 8615** or you use the **Capital Gain Tax Worksheet** (see below). Be sure you use the correct column in the Tax Table.

Tax Rate Schedules. You must use the Tax Rate Schedules to figure your tax if your taxable income is \$100,000 or more unless you are required to use **Form 8615** or you use the **Capital Gain Tax Worksheet**.

Capital Gain Tax Worksheet. If you had a net capital gain on Schedule D or you reported capital gain distributions on Form 1040, line 13, your tax may be less if you figure it using the worksheet on page 25.

Form 8615. Form 8615 must generally be used to figure the tax for any child who was under age 14 on January 1, 1995, and who had more than \$1,200 of investment income, such as taxable interest or dividends. But if neither of the child's parents was alive on December 31, 1994, do not use Form 8615 to figure the child's tax.

Credits

Line 41

Credit for Child and Dependent Care Expenses

You may be able to take this credit if you paid someone to care for your child **under age 13** or your dependent or spouse who could not care for himself or herself. But to do so, the care must have been provided so that you (and your spouse if you were married) could work or look for work and you must have had income from a job or through self-employment.

Use **Form 2441** to figure the credit. If you received any dependent care benefits for 1994, you must file Form 2441 to figure the amount of the benefits you may exclude from your income even if you cannot take the credit. For more details, including special rules for divorced or separated parents, see the Instructions for Form 2441 and **Pub. 503**, Child and Dependent Care Expenses.

Note: If the care was provided in your home, both you and the employee may have to pay a share of the social security and Medicare tax on the employee's wages. You may also have to pay Federal unemployment tax, which is for your employee's unemployment insurance. For details, get **Pub. 926**, Employment Taxes for Household Employers.

Capital Gain Tax Worksheet—Line 38 (keep for your records)

Use this worksheet to figure your tax **only** if (a) you are filing Schedule D and both lines 17 and 18 of Schedule D are gains, or (b) you reported capital gain distributions on Form 1040, line 13, and:

Your filing status is:	AND	Form 1040, line 37, is over:	Your filing status is:	AND	Form 1040, line 37, is over:
Single		\$55,100	Head of household		\$78,700
Married filing jointly or Qualifying widow(er)		\$91,850	Married filing separately		\$45,925

1. Enter the amount from Form 1040, line 37 1. _____
2. If you are filing Schedule D, enter the **smaller** of Schedule D, line 17 or line 18. Otherwise, enter the capital gain distributions reported on Form 1040, line 13 2. _____
3. If you are filing Form 4952, enter the amount from Form 4952, line 4e 3. _____
4. Subtract line 3 from line 2. If zero or less, **stop here**; you **cannot** use this worksheet to figure your tax. Instead, use the Tax Table or Tax Rate Schedules, whichever applies 4. _____
5. Subtract line 4 from line 1 5. _____
6. Enter \$38,000 (\$22,750 if single; \$19,000 if married filing separately; \$30,500 if head of household) 6. _____
7. Enter the **greater** of line 5 or line 6 7. _____
8. Subtract line 7 from line 1 8. _____
9. Figure the tax on the amount on line 7. Use the Tax Table or Tax Rate Schedules, whichever applies 9. _____
10. Multiply line 8 by 28% (.28) 10. _____
11. Add lines 9 and 10 11. _____
12. Figure the tax on the amount on line 1. Use the Tax Table or Tax Rate Schedules, whichever applies 12. _____
13. **Tax.** Enter the **smaller** of line 11 or line 12 here and on Form 1040, line 38. Check the box for Capital Gain Tax Worksheet 13. _____

Line 42

Credit for the Elderly or the Disabled

You may be able to take this credit if by the end of 1994:

- You were age 65 or older, or
- You were under age 65, you retired on **permanent and total** disability, and you had taxable disability income in 1994.

Income Limits. Even if you meet one of the above conditions, you generally **CANNOT** take the credit if you are:

- Single, head of household, or qualifying widow(er), and the amount on Form 1040, line 32, is \$17,500 or more; or you received \$5,000 or more of nontaxable social security or other nontaxable pensions.
- Married filing jointly, only one spouse is eligible for the credit, and the amount on Form 1040, line 32, is \$20,000 or more; or you received \$5,000 or more of nontaxable social security or other nontaxable pensions.
- Married filing jointly, both spouses are eligible for the credit, and the amount on Form 1040, line 32, is \$25,000 or more; or you received \$7,500 or more of nontaxable social security or other nontaxable pensions.
- Married filing separately, you lived apart from your spouse all year, and the amount on Form 1040, line 32, is \$12,500 or more; or you received \$3,750 or more of nontaxable social security or other nontaxable pensions.

For more details, see the separate instructions for Schedule R and **Pub. 524**, Credit

for the Elderly or the Disabled. If you want the IRS to figure the credit for you, see **The IRS Will Figure Your Tax and Some of Your Credits** on page 24.

Line 43

Foreign Tax Credit

Form 1116 explains when you can take this credit for payment of income tax to a foreign country. Also, get **Pub. 514**, Foreign Tax Credit for Individuals.

Line 44

Other Credits

General Business Credit. If you have two or more of the following credits, a carryforward of any of these credits, or if any of the credits (other than the low-income housing credit) are from a passive activity, you must also complete **Form 3800**. Include on line 44 the amount from Form 3800 and check box **a**. If you don't have to file Form 3800 and you have one of these credits, include on line 44 the amount of the credit. Check box **d** and enter the form number for that credit.

- Investment credit (Form 3468).
- Jobs credit (Form 5884).
- Credit for alcohol used as a fuel (Form 6478).
- Credit for increasing research activities (Form 6765).
- Low-income housing credit (Form 8586, Form 8609, and Schedule A (Form 8609)).
- Disabled access credit (Form 8826).

- Enhanced oil recovery credit (Form 8830).
- Renewable electricity production credit (Form 8835).
- Indian employment credit (Form 8845).
- Credit for employer social security and Medicare taxes paid on certain employee tips (Form 8846).
- Credit for contributions to selected community development corporations (Form 8847).

Empowerment Zone Employment Credit (Form 8844). Although this credit is part of the general business credit, it is not reported on Form 3800. If you can take this credit, check box **d** on line 44 and enter the form number.

Mortgage Interest Credit (Form 8396). If you were issued a mortgage credit certificate by a state or local government, get Form 8396 to see if you can take this credit. If you can, check box **b** on line 44.

Credit for Prior Year Minimum Tax (Form 8801). If you paid alternative minimum tax in an earlier year, get Form 8801 to see if you can take this credit. If you can, check box **c** on line 44.

Qualified Electric Vehicle Credit (Form 8834). If you placed a new electric vehicle in service in 1994, get Form 8834 to see if you can take this credit. If you can, check box **d** on line 44 and enter the form number.

Line 45

If you sold fuel produced from a nonconventional source, see Internal Revenue Code section 29 to find out if you can take the **nonconventional source fuel credit**. If you can, attach a schedule showing how you figured the credit. Include the credit in the total on line 45. Enter the amount and "FNS" on the dotted line next to line 45.

Other Taxes

Line 48

Alternative Minimum Tax

The tax law gives special treatment to some kinds of income and allows special deductions and credits for some kinds of expenses. If you benefit from these provisions, you may have to pay at least a minimum amount of tax through the alternative minimum tax. This tax is figured on **Form 6251**, Alternative Minimum Tax—Individuals. Use the worksheet on page 26 to see if you should complete Form 6251.

Exception. If you claimed or received any of the following items, **don't** use the worksheet on the next page. Instead, fill in Form 6251.

1. Accelerated depreciation in excess of straight line.
2. Income from incentive stock options in excess of the amount reported on your return.
3. Tax-exempt interest from private activity bonds.
4. Intangible drilling costs.
5. Depletion.
6. Circulation expenditures.
7. Research and experimental expenditures.
8. Mining exploration/development costs.

- 9. Amortization of pollution-control facilities.
- 10. Income or (loss) from tax shelter farm activities.
- 11. Income or (loss) from passive activities.
- 12. Income from long-term contracts using the percentage-of-completion method.
- 13. Income from installment sales of certain property.
- 14. Interest paid on a home mortgage **not** used to buy, build, or substantially improve your home.
- 15. Investment interest expense reported on Form 4952.
- 16. Foreign tax credit.
- 17. Net operating loss deduction.

Caution: Form 6251 should be filled in for a child under age 14 if the total of the child's adjusted gross income from Form 1040, line 32, is more than the sum of \$1,000 plus the child's earned income.

Line 49

Recapture Taxes

Recapture of Investment Credit. If you disposed of investment credit property or changed its use before the end of its useful life or recovery period, get **Form 4255** to see if you owe this tax. If you do, check box **a** and include the tax on line 49.

Recapture of Low-Income Housing Credit. If you disposed of property (or there was a reduction in the qualified basis of the property) on which you took the low-income housing credit, get **Form 8611** to see if you owe this tax. If you do, check box **b** and include the tax on line 49.

Recapture of Federal Mortgage Subsidy. If you sold your home in 1994 and it was financed (in whole or part) from the proceeds of any tax-exempt qualified mortgage bond or you claimed the mortgage interest credit, get **Form 8828** to see if you owe this tax. If you do, check box **c** and include the tax on line 49.

Worksheet To See If You Should Fill In Form 6251—Line 48 (keep for your records)

1. Enter the amount from Form 1040, line 35	1. _____
2. If you itemized deductions on Schedule A, go to line 3. Otherwise, enter your standard deduction from Form 1040, line 34, and go to line 5.	2. _____
3. Enter the smaller of the amount on Schedule A, line 4, or 2.5% of the amount on Form 1040, line 32	3. _____
4. Add lines 9 and 26 of Schedule A and enter the total	4. _____
5. Add lines 1 through 4 above	5. _____
6. Enter \$45,000 (\$22,500 if married filing separately; \$33,750 if single or head of household)	6. _____
7. Subtract line 6 from line 5. If zero or less, stop here ; you don't need to fill in Form 6251	7. _____
8. Enter \$150,000 (\$75,000 if married filing separately; \$112,500 if single or head of household)	8. _____
9. Subtract line 8 from line 5. If zero or less, enter -0- here and on line 10 and go to line 11	9. _____
10. Multiply line 9 by 25% (.25) and enter the result but do not enter more than line 6 above	10. _____
11. Add lines 7 and 10. If the total is over \$175,000 (over \$87,500 if married filing separately), stop here and fill in Form 6251 to see if you owe the alternative minimum tax	11. _____
12. Multiply line 11 by 26% (.26)	12. _____

Next: If line 12 is more than the amount on Form 1040, line 38, fill in Form 6251 to see if you owe the alternative minimum tax. If line 12 is equal to or less than the amount on Form 1040, line 38, **do not** fill in Form 6251.

Recapture of Qualified Electric Vehicle Credit. If you claimed this credit in 1993 based on a vehicle that no longer qualifies, get **Pub. 535**, Business Expenses, to see if you owe this tax. If you do, include the tax on line 49 and write "QEV" to the left of the entry space.

Line 50

Social Security and Medicare Tax on Tip Income Not Reported to Employer

If you received tips of \$20 or more in any month and you did not report the full amount to your employer, you must pay the social security and Medicare or railroad retirement (RRTA) tax on the unreported tips. You must also pay this tax if your W-2 form(s) shows allocated tips that you are including in your income on Form 1040, line 7.

To figure the tax, get **Form 4137**, Social Security and Medicare Tax on Unreported Tip Income. Enter the tax on line 50. But to pay the RRTA tax, contact your employer. Your employer will figure and collect the tax.

Caution: You may be charged a penalty equal to 50% of the social security and Medicare tax due on tips you received but did not report to your employer.

Line 51

Tax on Qualified Retirement Plans, Including IRAs

You may owe this tax if any of the following apply:

1. You received any early distributions from a qualified retirement plan (including your IRA), annuity, or modified endowment contract (entered into after June 20, 1988).
2. You made excess contributions to your IRA.

3. You had excess accumulations in a qualified retirement plan.

4. You received any excess distributions from a qualified retirement plan.

If any of the above apply, get **Form 5329** and its instructions to see if you owe this tax and if you must file Form 5329. Enter the tax from Form 5329 on line 51. **However**, if **only** item 1 above applies to you and distribution code 1 is shown in box 7 of your **Form 1099-R**, you do not have to file Form 5329. Instead, multiply the taxable amount of the distribution by 10% (.10) and enter the result on line 51. The taxable amount of the distribution is the part of the distribution you reported on line 15b or line 16b of Form 1040 or on Form 4972. Also, enter "No" on the dotted line next to line 51 to indicate that you do not have to file Form 5329. **But** if distribution code 1 is incorrectly shown in box 7, you must file Form 5329.

Caution: Be sure to include on line 15b or line 16b of Form 1040 or on Form 4972, whichever applies, the taxable part of any early distributions you received.

Line 52

Advance Earned Income Credit Payments

Enter the total amount of advance earned income credit (EIC) payments you received. These payments should be shown in box 9 of your W-2 form(s). See the instructions for line 56 to figure the earned income credit you can actually take.

Line 53

Total Tax

Include in the total on line 53 any of the following that applies.

Section 72(m)(5) Excess Benefits Tax. If you are or were a 5% owner of a business and you received a distribution of excess benefits from a qualified pension or annuity plan, you may have to pay a penalty tax of 10% of the distribution. Get **Pub. 560** for more details. Include this penalty tax in your total for line 53. Also, enter the amount and "Section 72(m)(5)" on the dotted line next to line 53.

Uncollected Social Security and Medicare or RRTA Tax on Tips or Group-Term Life Insurance. If you did not have enough wages to cover the social security and Medicare or railroad retirement (RRTA) tax due on tips you reported to your employer, the amount of tax due should be identified with codes **A** and **B** in box 13 of your Form W-2.

You may have to pay social security and Medicare or RRTA tax on part of the cost of group-term life insurance you had through a former employer. The amount of tax due should be identified with codes **M** and **N** in box 13 of your Form W-2.

Include this tax in the total for line 53. Enter the amount and "Uncollected Tax" on the dotted line next to line 53.

Golden Parachute Payments. These are certain payments made by a corporation to key employees to compensate them if control of the corporation changes. If you received an excess parachute payment (EPP), you must pay a 20% tax on the payment.

If you received a **Form W-2** that includes a parachute payment, the amount of tax on any excess payment should be identified with code **K** in box 13. (Box 2 should also include any amount withheld for this tax.)

If you received a **Form 1099-MISC** that includes a parachute payment, any excess payment will be separately identified. Multiply the excess payment by 20% to figure the tax.

Include the tax in the total for line 53. Also, enter the amount and "EPP" on the dotted line next to line 53.

Payments

Line 54

Federal Income Tax Withheld

Add the amounts shown as Federal income tax withheld on your **Forms W-2, W-2G, and 1099-R**. Enter the total on line 54. The amount withheld should be shown in box 2 of Form W-2 or W-2G, and in box 4 of Form 1099-R. If line 54 includes amounts withheld as shown on Form 1099-R, check the box on line 54 and attach the Form 1099-R.

Backup Withholding. If you received a 1994 Form 1099 showing Federal income tax withheld (backup withholding) on dividends, interest income, or other income you received, include the amount withheld in the total on line 54. This should be shown in box 2 of Form 1099-DIV and box 4 of the other 1099 forms. Be sure to check the box on line 54.

Line 55

1994 Estimated Tax Payments

Enter on this line any payments you made on your estimated Federal income tax (**Form 1040-ES**) for 1994. Include any overpayment from your 1993 return that you applied to your 1994 estimated tax.

If you and your spouse paid joint estimated tax but are now filing separate income tax returns, either of you can claim all of the amount paid. Or you can each claim part of it. Get **Pub. 505, Tax Withholding and Estimated Tax**, for details on how to divide your payments. Be sure to show both social security numbers (SSNs) in the space provided on the separate returns. If you or your spouse paid separate estimated tax but you are now filing a joint return, add the amounts you each paid. Follow these instructions even if your spouse died in 1994 or in 1995 before filing a 1994 return.

Divorced Taxpayers. If you got divorced in 1994 and you made joint estimated tax payments with your former spouse, enter your former spouse's SSN in the space provided on the front of Form 1040. If you were divorced and remarried in 1994, enter your present spouse's SSN in the space provided on the front of Form 1040. Also, under the

bold heading "Payments" to the left of line 55, enter your former spouse's SSN, followed by "DIV."

Name Change. If you changed your name because of marriage, divorce, etc., and you made estimated tax payments using your former name, attach a statement to the front of Form 1040 explaining all the payments you and your spouse made in 1994, where you made the payments, and the name(s) and SSN(s) under which you made the payments.

Line 56

Earned Income Credit (EIC)

The EIC is a special credit for certain workers. It reduces tax you owe. It may give you a refund even if you don't owe any tax. To see if you can take this credit, answer the

questions on this page. But first see the **Caution** on this page. The credit can be as much as \$306 if you don't have a qualifying child (defined on page 28). If you have a qualifying child, the credit can be as much as \$2,038. If you have more than one qualifying child, it can be as much as \$2,528. If you can take the credit and have a qualifying child, you **must** attach Schedule EIC.

Caution: You **cannot** take the credit if your filing status is married filing separately or you are filing **Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion**. You also **cannot** take the credit if you were the qualifying child of another person in 1994. If you were, enter "No" next to line 56.

Questions To See if You Can Take the Earned Income Credit

All filers:

1. Do you have at least one qualifying child (defined on page 28)?
 No. Skip to question 4.
 Yes. Go to question 2.

If you have at least one qualifying child:

2. Is the total of your **taxable and nontaxable earned income** (see page 29) less than \$23,755 (less than \$25,296 if you have more than one qualifying child)? (Nontaxable earned income includes military housing and subsistence, and contributions to a 401(k) plan.)
 No. Stop. You **cannot** take the credit. Enter "No" next to line 56.
 Yes. Go to question 3.
3. Is the amount on Form 1040, line 31, less than \$23,755 (less than \$25,296 if you have more than one qualifying child)?
 No. Stop. You **cannot** take the credit.
 Yes. You can take the credit. **If you want the IRS to figure it for you, stop.** Enter "EIC" next to line 56 and attach Schedule EIC to your return. Also, enter the amount and type of any nontaxable earned income in the spaces provided on line 56. **If you want to figure the credit yourself, stop** and complete the worksheet on page 28 now.

If you don't have a qualifying child:

4. Were you (or your spouse if filing a joint return) at least age 25 but under age 65 at the end of 1994?
 No. Stop. You **cannot** take the credit. Enter "No" next to line 56.
 Yes. Go to question 5.
5. Can your parents (or someone else) claim you as a dependent on their 1994 tax return?
 Yes. Stop. You **cannot** take the credit.
 No. Go to question 6.
6. Was your home in the United States for more than half of 1994?
 No. Stop. You **cannot** take the credit. Enter "No" next to line 56.
 Yes. Go to question 7.
7. Is the total of your **taxable and nontaxable earned income** (see page 29) less than \$9,000? (Nontaxable earned income includes military housing and subsistence, and contributions to a 401(k) plan.)
 No. Stop. You **cannot** take the credit. Enter "No" next to line 56.
 Yes. Go to question 8.
8. Is the amount on Form 1040, line 31, less than \$9,000?
 No. Stop. You **cannot** take the credit.
 Yes. You can take the credit. **If you want the IRS to figure it for you, enter "EIC" next to line 56.** Also, enter the amount and type of any nontaxable earned income in the spaces provided on line 56. **If you want to figure the credit yourself, complete the worksheet on page 28.**

Earned Income Credit Worksheet—Line 56 (keep for your records)

Caution: If you are a minister or member of a religious order, see **Special Rules** on page 29 before completing this worksheet.

1. Enter the amount from Form 1040, line 7 1. _____
2. If you received a taxable scholarship or fellowship grant that wasn't reported on a W-2 form, enter that amount here 2. _____
3. Subtract line 2 from line 1 3. _____
4. Enter any **nontaxable earned income** (see page 29). Types of nontaxable earned income include contributions to a 401(k) plan, which should be shown in box 13 of your W-2 form, and military housing and subsistence 4. _____
5. If you were self-employed **or** used Schedule C or C-EZ as a statutory employee, enter the amount from the worksheet on page 29 5. _____
6. Add lines 3, 4, and 5 6. _____
7. Look up the amount on **line 6** above in the **EIC Table** on pages **30-31** to find your credit. Enter the credit here 7. _____
If line 7 is zero, **stop**. You cannot take the credit. Enter "No" next to Form 1040, line 56.
8. Enter the amount from Form 1040, line 31 8. _____
9. **Is line 8 less than—**
 - \$5,000 if you don't have a qualifying child?
 - \$11,000 if you have at least one qualifying child?
 - YES**. Go to line 10 now.
 - NO**. Look up the amount on **line 8** above in the **EIC Table** on pages **30-31** to find your credit. Enter the credit here 9. _____
10. **Earned income credit.**
 - If you checked "YES" on line 9, enter the amount from line 7.
 - If you checked "NO" on line 9, enter the **smaller** of line 7 or line 9 10. _____

Next: Take the amount from line 10 above and enter it on Form 1040, line 56.

AND

If you had any nontaxable earned income (see line 4 above), enter the amount and type of the income in the spaces provided on line 56.

AND

Complete Schedule EIC and attach it to your return **ONLY** if you have a qualifying child.

Note: If you owe the alternative minimum tax (Form 1040, line 48), subtract it from the amount on line 10 above. Then, enter the result (if more than zero) on Form 1040, line 56. Also, replace the amount on line 10 above with the amount entered on Form 1040, line 56.

Qualifying Child

- A qualifying child is a child who:
1. Is your son, daughter, adopted child, grandchild, stepchild, or foster child, **and**
 2. Was (at the end of 1994)—
 - under age 19, or
 - under age 24 and a student (see this page), or
 - any age and permanently and totally disabled (see this page), **and**
 3. Lived with you in the United States for more than half of 1994 (for all of 1994 if a foster child). If the child didn't live with you for the required time, see the **Exception** later.
- A child doesn't have to be your dependent in most cases. But if the child was married or is also a qualifying child of another person (other than your spouse if filing a joint return), special rules apply. See **Married Child** and

Qualifying Child of More Than One Person

- on this page.
- Example.** You are divorced and have a 7-year-old son. Although you had custody of your son, he is claimed as a dependent on his other parent's 1994 tax return. Your son is your qualifying child because he meets one condition from each of the three requirements listed earlier. Your son is not a qualifying child of his other parent because he did not live with the other parent for more than half of 1994 and the **Exception** on this page does not apply.
- The following explains some of the terms used earlier.
- A **foster child** is any child you cared for as your own child. For example, if you acted as the parent of your niece or nephew, this child is considered your foster child.
 - A child placed with you by an authorized placement agency for legal adoption is an **adopted child** even if the adoption isn't final.

- A **grandchild** is any descendant of your son, daughter, or adopted child. For example, a grandchild includes your great-grandchild, great-great-grandchild, etc.
- A **student** is a child who—
 1. Was enrolled as a full-time student at a school during any 5 months of 1994, or
 2. Took a full-time, on-farm training course during any 5 months of 1994. The course had to be given by a school or a state, county, or local government agency.

A **school** includes technical, trade, and mechanical schools. It does not include on-the-job training courses or correspondence schools.

- A child is **permanently and totally disabled** if **both** of the following apply.
 1. He or she cannot engage in any substantial gainful activity because of a physical or mental condition.
 2. A doctor determines the condition has lasted or can be expected to last continuously for at least a year or can lead to death.
- Exception.** The child, including a foster child, is considered to have lived with you for all of 1994 if **both** of the following apply.
1. The child was born or died in 1994.
 2. Your home was the child's home for the entire time he or she was alive during 1994.

Temporary absences, such as for school, vacation, or medical care, count as time lived at home.

Married Child. If your child was married at the end of 1994, that child is a qualifying child only if you can claim him or her as your dependent on Form 1040, line 6c. But if this child's other parent claimed him or her as a dependent under the rules on page 14 for **Children of Divorced or Separated Parents**, this child is your qualifying child.

Qualifying Child of More Than One Person. If a child meets the conditions to be a qualifying child of more than one person, only the person who had the **highest** adjusted gross income for 1994 may treat that child as a qualifying child. If the other person is your spouse and you are filing a joint return, this rule doesn't apply. If you cannot take the earned income credit because of this rule, enter "No" next to line 56.

Example. You and your 5-year-old daughter moved in with your mother in April 1994. You are not a qualifying child of your mother. Your daughter meets the conditions to be a qualifying child for both you and your mother. Your adjusted gross income for 1994 was \$10,000 and your mother's was \$14,000. Because your mother's adjusted gross income was higher, your daughter is your mother's qualifying child.

Taxable Earned Income

This is usually the amount reported on Form 1040, line 7, plus your earnings from self-employment. (Use the worksheet on page 29 to figure your earnings from self-employment.) But if line 7 of Form 1040 includes an amount for a taxable scholarship or fellowship grant that wasn't reported on a W-2 form, subtract that amount from the total amount on line 7. The result plus your earnings from self-employment is your taxable earned income for purposes of the earned income credit.

Nontaxable Earned Income

Certain earned income is not taxable, but it must be included to see if you can take the earned income credit. It is also used to figure the credit. It includes anything of value (money, goods, or services) that is not taxable which you received from your employer for your work. Some examples are listed below.

- Basic quarters and subsistence allowances and the value of in-kind quarters and subsistence received from the U.S. military. This amount may be shown on your last Leave and Earnings Statement for 1994. If it isn't or you need additional help, contact your legal assistance office or unit tax advisor.
- Housing allowances or rental value of a parsonage for clergy members. But if you are filing Schedule SE, see **Special Rules** on this page.
- Meals and lodging provided for the convenience of your employer.
- Voluntary salary deferrals. If you chose to have your employer contribute part of your pay to certain retirement plans (such as a 401(k) plan or the Federal Thrift Savings Plan) instead of having it paid to you, the "Deferred compensation" box in box 15 of your W-2 form should be checked. The amount deferred should be shown in box 13 of your W-2 form.
- Excludable dependent care benefits from Form 2441, line 19.
- Voluntary salary reductions, such as under a cafeteria plan, unless they are included in box 1 of your W-2 form(s). For details, get **Pub. 596**, Earned Income Credit.
- Combat zone excluded pay. If you served in Operation Desert Storm, contact your legal assistance office or unit tax advisor to find out the amount you received in 1994.

Note: *Nontaxable earned income does not include welfare benefits.*

Effect of Credit on Certain Welfare Benefits

Any refund you receive as the result of claiming the earned income credit will not be used to determine if you are eligible for the following benefit programs, or how much you can receive from them.

- Aid to Families With Dependent Children (AFDC).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

Special Rules

If you are filing **Schedule SE**, Self-Employment Tax, and the amount on line 2

Line 5 of EIC Worksheet on Page 28 (keep for your records)

If filing a joint return and your spouse was also self-employed or reported income and expenses on Schedule C or C-EZ as a statutory employee, add your spouse's amounts to yours to figure the amounts to enter below.

- 1. If you are filing Schedule SE:**
 - a. Enter the amount from Schedule SE, Section A, line 3, or Section B, line 3, whichever applies **1a.** _____
 - b. Enter the amount, if any, from Schedule SE, Section B, line 4b **1b.** _____
 - c. Add lines 1a and 1b **1c.** _____
 - d. Enter the amount from Form 1040, line 25 **1d.** _____
 - e. Subtract line 1d from line 1c **1e.** _____
- 2. If you are NOT filing Schedule SE because your net earnings from self-employment were less than \$400 or you had a net (loss),** complete lines 2a through 2c. But **do not** include on these lines any amount exempt from self-employment tax as the result of the filing and approval of **Form 4029** or **Form 4361**.
 - a. Enter any net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a. **2a.** _____
 - b. Enter any net profit or (loss) from Schedule C, line 31, Schedule C-EZ, line 3, and Schedule K-1 (Form 1065), line 15a (other than farming) **2b.** _____
 - c. Add lines 2a and 2b. Enter the total even if a loss **2c.** _____
- 3. If you are filing Schedule C or C-EZ as a statutory employee,** enter the amount from line 1 of that Schedule C or C-EZ **3.** _____
- 4.** Add lines 1e, 2c, and 3. Enter the total here and on line 5 of the **Earned Income Credit Worksheet** on page 28 even if a loss. If the result is a loss, enter it in parentheses and read the **Caution** below **4.** _____

Caution: *If line 5 of the Earned Income Credit Worksheet is a loss, subtract it from the total of lines 3 and 4 of that worksheet and enter the result on line 6 of that worksheet. If the result is zero or less, you **can't** take the earned income credit.*

of that schedule includes an amount that was also reported on Form 1040, line 7, follow these special rules. First, write "Clergy" to the right of line 56. If you received a housing allowance or were provided housing, **do not** include the allowance or rental value of the parsonage as nontaxable earned income on line 4 of the worksheet on page 28 (or in the space provided on line 56 of Form 1040). This income should be included on Schedule SE, line 2.

Then, if you are figuring the earned income credit yourself, determine how much of the income reported on Form 1040, line 7, was also reported on Schedule SE, line 2. Next, subtract that income from the amount on Form 1040, line 7. Then, enter only the result on line 1 of the worksheet on page 28. Last, be sure to complete the worksheet on this page.

Line 57

Amount Paid With Form 4868 (Extension Request)

If you filed **Form 4868** to get an automatic extension of time to file Form 1040, enter the amount you paid with that form. Also, include any amounts paid with **Form 2688** or **Form 2350**.

Line 58

Excess Social Security and RRTA Tax Withheld

Excess Social Security Tax Withheld. If you had more than one employer for 1994 and your total wages were over \$60,600, too much social security tax may have been withheld. If so, you can take a credit for the excess amount on line 58. Use the worksheet on this page to figure the excess amount. The limit on the amount of wages subject to Medicare tax has been repealed.

If any one employer withheld more than \$3,757.20 of social security tax, you must ask that employer to refund the excess to you. You cannot claim it on your return.

Excess Railroad Retirement (RRTA) Tax Withheld. If you had more than one railroad employer for 1994 and your total compensation was over \$60,600, too much tier 1 tax may have been withheld. If your total compensation was over \$45,000, too much tier 2 tax may have been withheld. If so, you can take a credit for the excess amount on line 58. Get **Pub. 505**, Tax Withholding and Estimated Tax, to figure the excess amount. **Do not** use the worksheet on this page.

If any one employer withheld more than \$3,757.20 of tier 1 tax or more than \$2,205.00 of tier 2 tax, you must ask that employer to refund the excess to you. You cannot claim it on your return.

Line 59

Other Payments

Regulated Investment Company Credit. Include on this line the total amount of the credit from **Form 2439**, Notice to Shareholder of Undistributed Long-Term Capital Gains. Be sure to attach Copy B of Form 2439 and check box **a** on line 59.

Excess Social Security Tax Withheld Worksheet—Line 58 (keep for your records)

If you are filing a joint return, you must figure any excess tax withheld separately for each spouse. DO NOT combine amounts of both husband and wife.

Caution: Do not use this worksheet if any RRTA tax was withheld from your pay. Instead, get Pub. 505 to figure the excess amount.

1. Add all social security tax withheld but not more than \$3,757.20 for each employer. This tax should be shown in box 4 of your W-2 forms. Enter the total here	1. _____
2. Enter any uncollected social security tax on tips or group-term life insurance included in the total on Form 1040, line 53	2. _____
3. Add lines 1 and 2. If \$3,757.20 or less, stop here ; you do not have any excess social security tax withheld	3. _____
4. Social security tax limit	4. <u>3,757.20</u>
5. Excess social security tax withheld. Subtract line 4 from line 3. Enter the result here and on Form 1040, line 58	5. _____

Credit for Federal Tax Paid on Fuels. If you can take a credit for tax on gasoline, diesel fuel, and other fuels used in your business, or for certain diesel-powered cars, vans, and light trucks, attach **Form 4136**. Include the credit on line 59 and check box **b**.

Refund or Amount You Owe

Line 61

Amount Overpaid

If line 61 is under \$1, we will send a refund only on written request.

Note: If the amount you overpaid is large, you may want to decrease the amount of income tax withheld from your pay. See **Income Tax Withholding and Estimated Tax Payments for 1995** on page 34.

Injured Spouse Claim. If you file a joint return and your spouse has not paid child or spousal support payments or certain Federal debts such as student loans, all or part of the overpayment on line 61 may be used to pay the past-due amount. But **your** part of the overpayment may be refunded to you if **all three** of the following apply.

1. You are not required to pay the past-due amount.
2. You received and reported income (such as wages, taxable interest, etc.) on the joint return.
3. You made and reported payments (such as Federal income tax withheld from your wages or estimated tax payments) on the joint return.

If **all three** of the above apply to you and you want your part of the amount on line 61 refunded to you, complete **Form 8379**, Injured Spouse Claim and Allocation. Write "Injured Spouse" in the upper left corner of Form 1040 and attach Form 8379. If you have already filed your return for 1994, file Form 8379 by itself to get your refund.

Note: You may also be able to file an injured spouse claim for prior years. See **Form 8379** for details.

Line 62

Refund

If you filed **Form 8841**, Deferral of Additional 1993 Taxes, with your 1993 tax return, you may be able to apply part or all of your refund to your installment due by April 17, 1995. The most you can apply is the amount of your refund, reduced by any payments made after April 17, 1995. Also, you must file your 1994 return on or before its due date, including extensions.

Caution: If you have any other outstanding Federal tax liability (including any other 1993 Federal income tax liability), any refund on your 1994 tax return will first be applied to such a liability before being applied to the installment due. This is true regardless of how you indicate to apply your refund. If the remaining refund is not sufficient to cover the installment due, your installment payment election will be terminated. Any unpaid installments of the additional 1993 Federal income taxes will be due upon notice and demand from the IRS. In addition, you will owe interest and the failure to pay penalty on any remaining balance from the due date of the installment. Therefore, it may be to your advantage to use the separate payment option explained under **Payment of Deferred Additional 1993 Taxes** on page 7.

To apply part or all of your refund, on the dotted line next to line 62 write the words "93 OBRA Install." and the amount you want applied. **Do not** reduce the amount on line 62 by the amount applied. If the amount you apply is less than the installment due, you may send a separate check for the balance, as explained on page 7. **Do not** include a check for the balance with your return.

Line 63

Applied to 1995 Estimated Tax

Subtract line 62 from line 61 and enter the result on line 63. This is the amount that will be applied to your estimated tax for 1995. We will apply this amount to your account unless you request us to apply it to your spouse's account. The request should include your spouse's social security number. This election to apply part or all of the amount overpaid to your 1995 estimated tax cannot be changed later.

Line 64

Amount You Owe

Enclose in the envelope with your return a check or money order payable to the Internal Revenue Service for the full amount due when you file. **Do not** attach the payment to your return. Write your name, address, social security number, daytime phone number, and "1994 Form 1040" on your payment. You do not have to pay if line 64 is under \$1.

Do not include any estimated tax payment in your check or money order. Mail any estimated tax payment in an envelope separate from the one you use to pay the tax due on Form 1040.

Note: If you owe tax for 1994, you may need to (a) increase the amount of income tax withheld from your pay or (b) make estimated tax payments for 1995. See *Income Tax Withholding and Estimated Tax Payments for 1995* on page 34.

Installment Payments. If you cannot pay the full amount shown on line 64 with your return, you may ask to make monthly installment payments. However, you will be charged interest and a late payment penalty on the tax not paid by April 17, 1995, even if your request to pay in installments is granted. To limit the interest and penalty charges, pay as much of the tax as possible. But before requesting an installment agreement, you should consider other less costly alternatives, such as a bank loan.

To ask for an installment agreement, use **Form 9465**, Installment Agreement Request. You can get Form 9465 by calling 1-800-TAX-FORM (1-800-829-3676). You should receive a response to your request for installments within 30 days. But if you file your return after March 31, it may take us longer to reply.

Line 65

Estimated Tax Penalty

You may owe this penalty if:

- Line 64 is at least \$500 and it is more than 10% of the tax shown on your return, or
- You did not pay enough estimated tax by any of the due dates. This is true even if you are due a refund.

For most people, the "tax shown on your return" is the amount on line 53 minus the total of any amounts shown on line 56 and Forms 8828, 4137, 4136, and 5329 (Parts II, III, and IV only).

Get **Form 2210** (or **Form 2210-F** for farmers and fishermen) to see if you owe the penalty. If so, you can use the form to figure the amount. In certain situations, you may be able to lower your penalty. For details, see the Instructions for Form 2210 (or 2210-F). Because Form 2210 is complicated, if you want, the IRS will figure the penalty for you and send you a bill.

Exceptions to the Penalty. You will not owe the penalty if your 1993 tax return was for a tax year of 12 full months AND either of the following applies:

1. You had no tax liability for 1993 and you were a U.S. citizen or resident for all of 1993, or
2. The total of lines 54, 55, and 58 on your 1994 return is at least as much as your 1993 tax liability. Your estimated tax payments for 1994 must have been made on time and for the required amount.

Caution: If your 1993 adjusted gross income was over \$150,000 (over \$75,000 if your 1994 filing status is married filing separately), item 2 above applies only if the total of lines 54, 55, and 58 on your 1994 return is at least 110% of your 1993 tax liability. This rule does not apply to farmers and fishermen.

Figuring the Penalty. If the **Exceptions** above do not apply and you choose to figure the penalty yourself, use Form 2210 (or 2210-F). Enter the penalty on Form 1040, line 65. Add the penalty to any tax due and enter the total on line 64. If you are due a refund, subtract the penalty from the overpayment

you show on line 61. **Do not** file Form 2210 with your return. Instead, keep it for your records.

If you leave line 65 blank, the IRS will figure the penalty and send you a bill. We will not begin to charge you interest on the penalty until 10 days after the date of the bill.

Sign Your Return

Form 1040 is not considered a valid return unless you sign it. If you are filing a joint return, your spouse must also sign. Be sure to date your return and enter your occupation(s). If you have someone prepare your return, you are still responsible for the correctness of the return. If you are filing a joint return as a surviving spouse, see **Death of Taxpayer** on page 34.

Child's Return. If your child cannot sign the return, sign your child's name in the space provided. Then, add "By (your signature), parent for minor child."

Paid Preparers Must Sign Your Return. Generally, anyone you pay to prepare your return must sign it by hand in the space provided. Signature stamps or labels cannot be used. The preparer must give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign your return.

Avoid Common Mistakes

1. If the amount on Form 1040, line 31, is under \$25,296 and a child lived with you (under \$9,000 if a child didn't live with you), did you read the instructions for line 56 that begin on page 27 to see if you can take the earned income credit?

2. If you are taking the standard deduction and you checked any box on line 33a or 33b, did you see page 23 to find the correct amount to enter on line 34?

3. If you (or your spouse if you checked the box on line 6b) were age 65 or older or blind, did you check the appropriate boxes on line 33a?

4. Are your name, address, and SSN correct on the mailing label? If not, did you enter the correct information?

5. If you are married filing jointly and didn't get a mailing label, or you are married filing separately, did you enter your spouse's SSN in the space provided on page 1 of Form 1040? Did you enter your SSN in the space provided next to your name?

6. Did you check your math especially when figuring your taxable income, total income, total tax, Federal income tax withheld, and your refund or amount you owe?

7. If you received capital gain distributions and you didn't report those distributions on Schedule D, did you enter them on Form 1040, line 13, and write "CGD" on the dotted line next to line 13?

8. Did you attach your W-2 form(s) and other required forms and schedules? Did you put all forms and schedules in the proper order? See **Assemble Your Return** below.

9. Did you sign and date Form 1040 and enter your occupation?

10. If you are making a payment, did you include your SSN on it?

Assemble Your Return

Assemble any schedules and forms behind Form 1040 in order of the "Attachment Sequence No." shown in the upper right corner of the schedule or form. For example, the attachment sequence no. for Schedule A (Form 1040) is 07. Put forms without an attachment sequence number next. If you have supporting statements, arrange them in the same order as the forms or schedules they support and attach them last. Attach the first copy or Copy B of Form(s) W-2 to the front of Form 1040. If you received a Form 1099-R showing Federal income tax withheld, also attach the first copy or Copy B of that form. If you are making a payment, **do not** attach it to your return. Instead, place it loose inside the envelope.

Section 4.

General Information

What Are My Rights as a Taxpayer?

You have the right to be treated fairly, professionally, promptly, and courteously by IRS employees. Our goal at the IRS is to protect your rights so that you will have the highest confidence in the integrity, efficiency, and fairness of our tax system. To ensure that you always receive such treatment, you should know about the many rights you have at each step of the tax process. For details, get **Pub. 1, Your Rights as a Taxpayer**, by calling 1-800-TAX-FORM (1-800-829-3676) or use the order blank (see page 35).

Income Tax Withholding and Estimated Tax Payments for 1995

If the amount you owe (line 64) or the amount you overpaid (line 61) is large, you may want to file a new **Form W-4, Employee's Withholding Allowance Certificate**, with your employer to change the amount of income tax to be withheld from your pay. In general, you do not have to make estimated tax payments if you expect that your 1995 Form 1040 will show a tax refund or a tax balance due the IRS of less than \$500. If your total estimated tax (including any alternative minimum tax) for 1995 is \$500 or more, get **Form 1040-ES, Estimated Tax for Individuals**. It has a worksheet you can use to see if you have to make estimated tax payments. For more details, get **Pub. 505, Tax Withholding and Estimated Tax**.

Do Both the Name and SSN on Your Tax Forms Agree With Your Social Security Card?

If not, your refund may be delayed or you may not receive credit for your social security earnings. If your Form W-2, Form 1099, or other tax document shows an incorrect SSN or name, notify your employer or the form-issuing agent as soon as possible to make sure your earnings are credited to your social security record. If the name or SSN on your social security card is incorrect, call the Social Security Administration at 1-800-772-1213.

How Do I Make a Gift To Reduce the Public Debt?

If you wish to do so, enclose a separate check with your income tax return. Make it payable to "Bureau of the Public Debt." You may be able to deduct this gift on your 1995 tax return if you itemize your deductions. Do not add your gift to any tax you may owe. If you owe tax, include a separate check for that amount payable to "Internal Revenue Service."

Address Change

If you move after you file, always notify in writing the Internal Revenue Service Center where you filed your last return, or the Chief, Taxpayer Service Division, in your local IRS district office. You can use **Form 8822, Change of Address**, to notify us of your new address. If you are expecting a refund, also notify the post office serving your old address. This will help forward your check to your new address.

Corresponding With the IRS

Be sure to include your social security number on any correspondence with the IRS. If you do not include it, it may take us longer to reply.

How Long Should Records Be Kept?

Keep records of income, deductions, and credits shown on your return, as well as any worksheets you used, until the statute of limitations runs out for that return. Usually, this is 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever is later. Also, keep copies of your filed tax returns and any Forms W-2 or 1099 you received as part of your records. You should keep some records longer. For example, keep property records (including those on your home) as long as they are needed to figure the basis of the original or replacement property. For more details, get **Pub. 552, Recordkeeping for Individuals**.

Requesting a Copy of Your Tax Return

If you need a copy of your tax return, use **Form 4506**. If you have questions about your account, call or write your local IRS office. If you want a printed copy of your account, it will be mailed to you free of charge.

Amended Return

If you find changes in your income, deductions, or credits after you mail your return, file **Form 1040X, Amended U.S. Individual Income Tax Return**, to change the return you already filed. If you filed a joint return, you may not, after the due date of that return, amend it to file as married filing a separate return. Generally, Form 1040X must be filed within 3 years after the date the original return was filed, or within 2 years after the date the tax was paid, whichever is later.

Death of Taxpayer

If a taxpayer died before filing a return for 1994, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. A personal representative can be an executor, administrator, or anyone who is in charge of the deceased taxpayer's property. If the taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund. The person who files the return should write "**DECEASED**," the deceased taxpayer's name, and the date of death across the top of the return.

If your spouse died in 1994 and you did not remarry in 1994, you can file a joint return. You can also file a joint return if your spouse died in 1995 before filing a 1994 return. A joint return should show your spouse's 1994 income before death and your income for all of 1994. Write "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign.

The surviving spouse or personal representative should promptly notify all payers of income, including financial institutions, of the taxpayer's death. This will ensure the proper reporting of income earned by the taxpayer's estate or heirs.

Claiming a Refund for a Deceased Taxpayer. If you are filing a joint return as a surviving spouse, file only the tax return to claim the refund. If you are a court-appointed representative, file the return **and** attach a copy of the certificate that shows your appointment. All other filers requesting the deceased taxpayer's refund must file the return and attach **Form 1310**.

For more details, call Tele-Tax (see page 38) and listen to topic 356 or get **Pub. 559, Survivors, Executors, and Administrators**.

How To Get Forms and Publications

Generally, we mail forms and schedules directly to you based on what you filed last year. Schedules, forms, and publications you may need are listed on the next page. Other forms and publications referred to in the instructions are also available without cost. Get **Pub. 910** for a complete list of available publications. **To get the items you need**, you can visit your local IRS office, a participating bank, post office, or library; or use the order blank below; or call 1-800-TAX-FORM (1-800-829-3676) from **8 A.M. to 5 P.M. weekdays** and **9 A.M. to 3 P.M. Saturdays**. (In Alaska and Hawaii, the hours are Pacific Standard Time; in Puerto Rico, the hours are Eastern Standard Time.)

Mail Orders

We will send you two copies of each form and one copy of each publication or set of instructions you order from us. To help reduce waste, please order only the items you think you will need to prepare your return. You should receive your order or notification of the status of your order within 7-15 workdays after we receive your request.

Order Blank Instructions

Circle the items you want on the order blank below. Use the blank spaces to order items not listed. If you need more space, attach a separate sheet of paper.

Print or type your name and address accurately in the space provided below. Cut the order blank on the dotted line. Enclose the order blank in your own envelope and address it to the IRS address shown on this page that applies to you. **Do not** send your tax return to any of the addresses listed on this page. Instead, see **Where Do I File?** on page 10.

Where To Mail Your Order Blank for Free Forms and Publications

If you live in:	Mail to:	Other locations:
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Kansas, Montana, Nevada, New Mexico, Oklahoma, Oregon, Utah, Washington, Wyoming, Guam, Northern Marianas, American Samoa	Western Area Distribution Center Rancho Cordova, CA 95743-0001	Foreign Addresses— Taxpayers with mailing addresses in foreign countries should mail this order blank to either: Eastern Area Distribution Center, P.O. Box 25866, Richmond, VA 23286-8107; or Western Area Distribution Center, Rancho Cordova, CA 95743-0001, whichever is closer. Mail letter requests for other forms and publications to: Eastern Area Distribution Center, P.O. Box 25866, Richmond, VA 23286-8107. Puerto Rico— Eastern Area Distribution Center, P.O. Box 25866, Richmond, VA 23286-8107. Virgin Islands— V.I. Bureau of Internal Revenue, Lockhart Gardens No. 1-A, Charlotte Amalie, St. Thomas, VI 00802
Alabama, Arkansas, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Texas, Wisconsin	Central Area Distribution Center P.O. Box 8903 Bloomington, IL 61702-8903	
Connecticut, Delaware, District of Columbia, Florida, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia	Eastern Area Distribution Center P.O. Box 85074 Richmond, VA 23261-5074	

Detach at this line

Order Blank

Fill in your name and address

Name

Number, street, and apt. number

City, town or post office, state, and ZIP code

Circle the Forms, Instructions, and Publications You Need

The items in bold type may be picked up at many banks, post offices, and libraries.

1040	Schedule F (1040)	1040EZ	2441 & instructions	8822 & instructions	Pub. 505	Pub. 554	
Instructions for 1040 & Schedules	Schedule R (1040) & instructions	Instructions for 1040EZ	3903 & instructions	8829 & instructions	Pub. 508	Pub. 575	
Schedules A&B (1040)	Schedule SE (1040)	1040-ES & instructions (1995)	4562 & instructions	Pub. 1	Pub. 521	Pub. 590	
Schedule C (1040)	1040A	1040X & instructions	4868 & instructions	Pub. 17	Pub. 523	Pub. 596	
Schedule C-EZ (1040)	Instructions for 1040A & Schedules	2106 & instructions	5329 & instructions	Pub. 334	Pub. 525	Pub. 910	
Schedule D (1040)	Schedule 1 (1040A)	2106-EZ & instructions	8283 & instructions	Pub. 463	Pub. 527	Pub. 917	
Schedule E (1040)	Schedule 2 (1040A)	2119 & instructions	8582 & instructions	Pub. 501	Pub. 529	Pub. 929	
Schedule EIC (1040A or 1040)	Schedule 3 (1040A) & instructions	2210 & instructions	8606 & instructions	Pub. 502	Pub. 550	Pub. 936	



N

Forms

You can order the following items from the IRS or get them at participating banks, post offices, or libraries.

Form 1040

Instructions for Form 1040 and Schedules

Schedule A for itemized deductions

Schedule B for interest income if over \$400; for dividends and other distributions on stock if over \$400; and for answering the Foreign Accounts or Trusts questions

Schedule EIC qualifying child information for the earned income credit

Form 1040A

Instructions for Form 1040A and Schedules

Schedule 1 for Form 1040A filers to report interest and dividend income

Schedule 2 for Form 1040A filers to report child and dependent care expenses

Form 1040EZ

Instructions for Form 1040EZ

You can photocopy the following items (as well as those listed above) at participating libraries or order them from the IRS.

Schedule 3, Credit for the Elderly or the Disabled, for Form 1040A filers

Schedule C, Profit or Loss From Business

Schedule C-EZ, Net Profit From Business

Schedule D, Capital Gains and Losses

Schedule E, Supplemental Income and Loss

Schedule F, Profit or Loss From Farming

Schedule R, Credit for the Elderly or the Disabled

Schedule SE, Self-Employment Tax

Form 1040-ES, Estimated Tax for Individuals

Form 1040X, Amended U.S. Individual Income Tax Return

Form 2106, Employee Business Expenses

Form 2106-EZ, Unreimbursed Employee Business Expenses

Form 2119, Sale of Your Home

Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts

Form 2441, Child and Dependent Care Expenses

Form 3903, Moving Expenses

Form 4562, Depreciation and Amortization

Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return

Form 5329, Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts

Form 8283, Noncash Charitable Contributions

Form 8582, Passive Activity Loss Limitations

Form 8606, Nondeductible IRAs (Contributions, Distributions, and Basis)

Form 8822, Change of Address

Form 8829, Expenses for Business Use of Your Home

Publications

The following publications can be ordered from the IRS, or you can read or photocopy them at participating libraries.

1 Your Rights as a Taxpayer

17 Your Federal Income Tax

334 Tax Guide for Small Business

463 Travel, Entertainment, and Gift Expenses

501 Exemptions, Standard Deduction, and Filing Information

502 Medical and Dental Expenses

505 Tax Withholding and Estimated Tax

508 Educational Expenses

521 Moving Expenses

523 Selling Your Home

525 Taxable and Nontaxable Income

527 Residential Rental Property (Including Rental of Vacation Homes)

529 Miscellaneous Deductions

550 Investment Income and Expenses

554 Tax Information for Older Americans

575 Pension and Annuity Income

590 Individual Retirement Arrangements (IRAs)

596 Earned Income Credit

910 Guide to Free Tax Services (includes a list of all publications)

917 Business Use of a Car

929 Tax Rules for Children and Dependents

936 Home Mortgage Interest Deduction

Call the IRS With Your Tax Question

If you cannot answer your tax question by reading the tax form instructions or one of our free tax publications, please call us for assistance. You will not be charged for the call unless your phone company charges you for local calls. This service is available Monday through Friday from 7:30 a.m. to 5:30 p.m. (hours in Alaska and Hawaii may vary). If you only need to order forms or publications, see page 35 instead.

If you want to check on the status of your **refund**, call **Tele-Tax**. See page 38 for the number.

Before You Call

IRS representatives care about the quality of the service we provide to you, our customer. You can help us provide accurate, complete answers to your tax questions by having the following information available.

1. The tax form, schedule, or notice to which your question relates.
2. The facts about your particular situation. The answer to the same question often varies from one taxpayer to another because of differences in their age, income, whether they can be claimed as a dependent, etc.
3. The name of any IRS publication or other source of information that you used to look for the answer.

Before You Hang Up

If you do not fully understand the answer you receive, or you feel our representative may not fully understand your question, our representative needs to know this. The representative will be happy to take the additional time required to be sure he or she has answered your question fully and in the manner that is most helpful to you.

By law, you are responsible for paying your fair share of Federal income tax. If we should make an error in answering your question, you are still responsible for the payment of the correct tax. Should this occur, however, you will not be charged any penalty. To make sure that IRS representatives give accurate and courteous answers, a second IRS representative sometimes listens in on telephone calls. No record is kept of any taxpayer's identity.

Tax Help Telephone Numbers

Choosing the Right Number

Use only the number listed below for your state or local calling area. Use a local number only if it is not a long distance call for you. **Do not dial "1-800" when using a local number.** However, if your area does not have a local number, dial 1-800-829-1040.

Alabama
1-800-829-1040

Alaska
Anchorage, 561-7484
Elsewhere, 1-800-829-1040

Arizona
Phoenix, 640-3900
Elsewhere, 1-800-829-1040

Arkansas
1-800-829-1040

California
Oakland, 839-1040
Elsewhere, 1-800-829-1040

Colorado
Denver, 825-7041
Elsewhere, 1-800-829-1040

Connecticut
1-800-829-1040

Delaware
1-800-829-1040

District of Columbia
1-800-829-1040

Florida
Jacksonville, 354-1760
Elsewhere, 1-800-829-1040

Georgia
Atlanta, 522-0050
Elsewhere, 1-800-829-1040

Hawaii
Oahu, 541-1040
Elsewhere, 1-800-829-1040

Idaho
1-800-829-1040

Illinois
Chicago, 435-1040
In area code 708,
1-312-435-1040
Elsewhere, 1-800-829-1040

Indiana
Indianapolis, 226-5477
Elsewhere, 1-800-829-1040

Iowa
Des Moines, 283-0523
Elsewhere, 1-800-829-1040

Kansas
1-800-829-1040

Kentucky
1-800-829-1040

Louisiana
1-800-829-1040

Maine
1-800-829-1040

Maryland
Baltimore, 962-2590
Elsewhere, 1-800-829-1040

Massachusetts
Boston, 536-1040
Elsewhere, 1-800-829-1040

Michigan
Detroit, 237-0800
Elsewhere, 1-800-829-1040

Minnesota
Minneapolis, 644-7515
St. Paul, 644-7515
Elsewhere, 1-800-829-1040

Mississippi
1-800-829-1040

Missouri
St. Louis, 342-1040
Elsewhere, 1-800-829-1040

Montana
1-800-829-1040

Nebraska
Omaha, 422-1500
Elsewhere, 1-800-829-1040

Nevada
1-800-829-1040

New Hampshire
1-800-829-1040

New Jersey
1-800-829-1040

New Mexico
1-800-829-1040

New York
Bronx, 488-9150
Brooklyn, 488-9150
Buffalo, 685-5432
Manhattan, 732-0100
Nassau, 222-1131
Queens, 488-9150
Staten Island, 488-9150
Suffolk, 724-5000
Elsewhere, 1-800-829-1040

North Carolina
1-800-829-1040

North Dakota
1-800-829-1040

Ohio
Cincinnati, 621-6281
Cleveland, 522-3000
Elsewhere, 1-800-829-1040

Oklahoma
1-800-829-1040

Oregon
Portland, 221-3960
Elsewhere, 1-800-829-1040

Pennsylvania
Philadelphia, 574-9900
Pittsburgh, 281-0112
Elsewhere, 1-800-829-1040

Puerto Rico
San Juan Metro Area,
766-5040
Elsewhere, 1-800-829-1040

Rhode Island
1-800-829-1040

South Carolina
1-800-829-1040

South Dakota
1-800-829-1040

Tennessee
Nashville, 834-9005
Elsewhere, 1-800-829-1040

Texas
Dallas, 742-2440
Houston, 541-0440
Elsewhere, 1-800-829-1040

Utah
1-800-829-1040

Vermont
1-800-829-1040

Virginia
Richmond, 649-2361
Elsewhere, 1-800-829-1040

Washington
Seattle, 442-1040
Elsewhere, 1-800-829-1040

West Virginia
1-800-829-1040

Wisconsin
Milwaukee, 271-3780
Elsewhere, 1-800-829-1040

Wyoming
1-800-829-1040

Phone Help for People With Impaired Hearing

All areas in U.S., including
Alaska, Hawaii, Virgin
Islands, and Puerto Rico:
1-800-829-4059

Note: This number is answered
by TDD equipment only.

Hours of TDD Operation

8:00 A.M. to 6:30 P.M. EST
(Jan. 1–April 1)

9:00 A.M. to 7:30 P.M. EDT
(April 2–April 17)

9:00 A.M. to 5:30 P.M. EDT
(April 18–Oct. 28)

8:00 A.M. to 4:30 P.M. EST
(Oct. 29–Dec. 31)

What Is Tele-Tax?

Automated Refund Information allows you to check the status of your **refund**.
Recorded Tax Information includes about 140 topics that answer many Federal tax questions. You can listen to up to three topics on each call you make.

How Do I Use Tele-Tax?

Automated Refund Information

Be sure to have a copy of your tax return available because you will need to know the first social security number shown on your return, the filing status, and the **exact** whole-dollar amount of your refund. Then, call the appropriate phone number listed on this page and follow the recorded instructions.

The IRS updates refund information every 7 days. If you call to find out about the status of your refund and do not receive a refund mailing date, please wait 7 days before calling back.

Touch-tone service is available Monday through Friday from 7:00 A.M. to 11:30 P.M. (Hours may vary in your area.)

Recorded Tax Information

A complete list of topics is on the next page. Touch-tone service is available 24 hours a day, 7 days a week.

Select the number of the topic you want to hear. Then, call the appropriate phone number listed on this page. **For the directory of topics, listen to topic 123.** Have paper and pencil handy to take notes.

Tele-Tax Telephone Numbers

Choosing the Right Number

Use only the number listed below for your state or local calling area. Use a local number only if it is not a long distance call for you. **Do not dial "1-800" when using a local number.** However, if your area does not have a local number, dial 1-800-829-4477.

Alabama
1-800-829-4477

Alaska
1-800-829-4477

Arizona
Phoenix, 640-3933
Elsewhere, 1-800-829-4477

Arkansas
1-800-829-4477

California
Counties of: Alpine,
Amador, Butte, Calaveras,
Colusa, Contra Costa,
Del Norte, El Dorado,
Glenn, Humboldt, Lake,
Lassen, Marin, Mendocino,
Modoc, Napa, Nevada,
Placer, Plumas,
Sacramento, San Joaquin,
Shasta, Sierra, Siskiyou,
Solano, Sonoma, Sutter,
Tehama, Trinity, Yolo,
and Yuba,
1-800-829-4032
Oakland, 839-4245
Elsewhere, 1-800-829-4477

Colorado
Denver, 592-1118
Elsewhere, 1-800-829-4477

Connecticut
1-800-829-4477

Delaware
1-800-829-4477

District of Columbia
628-2929

Florida
1-800-829-4477

Georgia
Atlanta, 331-6572
Elsewhere, 1-800-829-4477

Hawaii
1-800-829-4477

Idaho
1-800-829-4477

Illinois
Chicago, 886-9614
In area code 708,
1-312-886-9614
Springfield, 789-0489
Elsewhere, 1-800-829-4477

Indiana
Indianapolis, 631-1010
Elsewhere, 1-800-829-4477

Iowa
Des Moines, 284-7454
Elsewhere, 1-800-829-4477

Kansas
1-800-829-4477

Kentucky
1-800-829-4477

Louisiana
1-800-829-4477

Maine
1-800-829-4477

Maryland
Baltimore, 244-7306
Elsewhere, 1-800-829-4477

Massachusetts
Boston, 536-0709
Elsewhere, 1-800-829-4477

Michigan
Detroit, 961-4282
Elsewhere, 1-800-829-4477

Minnesota
St. Paul, 644-7748
Elsewhere, 1-800-829-4477

Mississippi
1-800-829-4477

Missouri
St. Louis, 241-4700
Elsewhere, 1-800-829-4477

Montana
1-800-829-4477

Nebraska
Omaha, 221-3324
Elsewhere, 1-800-829-4477

Nevada
1-800-829-4477

New Hampshire
1-800-829-4477

New Jersey
1-800-829-4477

New Mexico
1-800-829-4477

New York
Bronx, 488-8432
Brooklyn, 488-8432
Buffalo, 685-5533
Manhattan, 406-4080
Queens, 488-8432
Staten Island, 488-8432
Elsewhere, 1-800-829-4477

North Carolina
1-800-829-4477

North Dakota
1-800-829-4477

Ohio
Cincinnati, 421-0329
Cleveland, 522-3037
Elsewhere, 1-800-829-4477

Oklahoma
1-800-829-4477

Oregon
Portland, 294-5363
Elsewhere, 1-800-829-4477

Pennsylvania
Philadelphia, 627-1040
Pittsburgh, 261-1040
Elsewhere, 1-800-829-4477

Puerto Rico
1-800-829-4477

Rhode Island
1-800-829-4477

South Carolina
1-800-829-4477

South Dakota
1-800-829-4477

Tennessee
Nashville, 781-5040
Elsewhere, 1-800-829-4477

Texas
Dallas, 767-1792
Houston, 541-3400
Elsewhere, 1-800-829-4477

Utah
1-800-829-4477

Vermont
1-800-829-4477

Virginia
Richmond, 783-1569
Elsewhere, 1-800-829-4477

Washington
Seattle, 343-7221
Elsewhere, 1-800-829-4477

West Virginia
1-800-829-4477

Wisconsin
Milwaukee, 273-8100
Elsewhere, 1-800-829-4477

Wyoming
1-800-829-4477

Tele-Tax Topics

Topic No.	Subject
	IRS Help Available
101	IRS services—Volunteer tax assistance, toll-free telephone, walk-in assistance, and outreach programs
102	Tax assistance for individuals with disabilities and the hearing impaired
103	Small Business Tax Education Program (STEP)—Tax help for small businesses
104	Problem Resolution Program—Help for problem situations
105	Public libraries—Tax information tapes and reproducible tax forms
911	Hardship assistance applications
	IRS Procedures
151	Your appeal rights
152	Refunds—How long they should take
153	What to do if you haven't filed your tax return (Nonfilers)
154	Form W-2—What to do if not received
155	Forms and Publications—How to order
156	Copy of your tax return—How to get one
157	Change of address—How to notify the IRS
	Collection
201	The collection process
202	What to do if you can't pay your tax
203	Failure to pay child support and other Federal obligations
204	Offers in compromise
	Alternative Filing Methods
251	Form 1040PC tax return
252	Electronic filing
253	Substitute tax forms
254	How to choose a tax preparer
	General Information
301	When, where, and how to file
302	Highlights of tax changes
303	Checklist of common errors when preparing your tax return
304	Extensions of time to file your tax return
305	Recordkeeping
306	Penalty for underpayment of estimated tax
307	Backup withholding
308	Amended returns
309	Tax fraud—How to report
310	Tax-exempt status for organizations
311	How to apply for exempt status
312	Power of attorney information
999	Local information
	Filing Requirements, Filing Status, and Exemptions
351	Who must file?
352	Which form—1040, 1040A, or 1040EZ?
353	What is your filing status?
354	Dependents
355	Estimated tax
356	Decedents
	Types of Income
401	Wages and salaries
402	Tips
403	Interest received
404	Dividends
405	Refunds of state and local taxes
406	Alimony received
407	Business income
408	Sole proprietorship

Topic No.	Subject
409	Capital gains and losses
410	Pensions and annuities
411	Pensions—The general rule and the simplified general rule
412	Lump-sum distributions
413	Rollovers from retirement plans
414	Rental income and expenses
415	Renting vacation property and renting to relatives
416	Royalties
417	Farming and fishing income
418	Earnings for clergy
419	Unemployment compensation
420	Gambling income and expenses
421	Bartering income
422	Scholarship and fellowship grants
423	Nontaxable income
424	Social security and equivalent railroad retirement benefits
425	401(k) plans
426	Passive activities—Losses and credits
	Adjustments to Income
451	Individual retirement arrangements (IRAs)
452	Alimony paid
453	Bad debt deduction
454	Tax shelters
455	Moving expenses
	Itemized Deductions
501	Should I itemize?
502	Medical and dental expenses
503	Deductible taxes
504	Home mortgage points
505	Interest expense
506	Contributions
507	Casualty losses
508	Miscellaneous expenses
509	Business use of home
510	Business use of car
511	Business travel expenses
512	Business entertainment expenses
513	Educational expenses
514	Employee business expenses
515	Disaster area losses
	Tax Computation
551	Standard deduction
552	Tax and credits figured by the IRS
553	Tax on a child's investment income
554	Self-employment tax
555	Five- or ten-year averaging for lump-sum distributions
556	Alternative minimum tax
557	Estate tax
558	Gift tax
	Tax Credits
601	Earned income credit (EIC)
602	Child and dependent care credit
603	Credit for the elderly or the disabled
604	Advance earned income credit
	IRS Notices and Letters
651	Notices—What to do
652	Notice of underreported income—CP 2000
653	IRS notices and bills and penalty and interest charges
654	Notice of changed tax return—CP 12
	Basis of Assets, Depreciation, and Sale of Assets
701	Sale of your home—General
702	Sale of your home—How to report gain
703	Sale of your home—Exclusion of gain, age 55 and over
704	Basis of assets
705	Depreciation
706	Installment sales

Topic No.	Subject
	Employer Tax Information
751	Social security and Medicare withholding rates
752	Form W-2—Where, when, and how to file
753	Form W-4—Employee's Withholding Allowance Certificate
754	Form W-5—Advance earned income credit
755	Employer identification number (EIN)—How to apply
756	Employment taxes for household employees
757	Form 941—Deposit requirements
758	Form 941—Employer's Quarterly Federal Tax Return
759	Form 940/940-EZ—Deposit requirements
760	Form 940/940-EZ—Employer's Annual Federal Unemployment Tax Return
761	Form 945—Annual Return of Withheld Federal Income Tax
762	Tips—Withholding and reporting
	Magnetic Media Filers—1099 Series and Related Information Returns (For electronic filing of individual returns, listen to topic 252.)
801	Who must file magnetically
802	Acceptable media and locating a third party to prepare your files
803	Applications, forms, and information
804	Waivers and extensions
805	Test files and combined Federal and state filing
806	Electronic filing of information returns
807	Information Reporting Program Bulletin Board System
	Tax Information for Aliens and U.S. Citizens Living Abroad
851	Resident and nonresident aliens
852	Dual-status alien
853	Foreign earned income exclusion—General
854	Foreign earned income exclusion—Who qualifies?
855	Foreign earned income exclusion—What qualifies?
856	Foreign tax credit
	Tax Information for Puerto Rico Residents (in Spanish)
901	Who must file a U.S. income tax return in Puerto Rico
902	Deductions and credits for Puerto Rico filers
903	Federal employment taxes in Puerto Rico
904	Tax assistance for Puerto Rico residents
	Other Tele-Tax Topics in Spanish
951	IRS services—Volunteer tax assistance, toll-free telephone, walk-in assistance, and outreach programs
952	Refunds—How long they should take
953	Forms and publications—How to order
954	Highlights of tax changes
955	Who must file?
956	Which form to use?
957	What is your filing status?
958	Social security and equivalent railroad retirement benefits
959	Earned income credit (EIC)
960	Advance earned income credit
961	Alien tax clearance

Topic numbers are effective January 1, 1995.

Section 5.

Interest and Penalties

Note: *You do not have to figure the amount of any interest or penalties you may owe. Because figuring these amounts is complicated, we will do it for you if you want. We will send you a bill for any amount due.*

Interest

We will charge you interest on taxes not paid by their due date, even if an extension of time to file is granted. We will also charge you interest on penalties imposed for failure to file, negligence, fraud, substantial valuation overstatements, and substantial understatements of tax. Interest is charged on the penalty from the due date of the return (including extensions).

If you include interest with your payment, identify and enter the interest in the bottom margin of Form 1040, page 2. **Do not** include the interest in the **Amount You Owe** on line 64.

Penalty for Late Filing

If you do not file your return by the due date (including extensions), the penalty is usually 5% of the amount due for each month or part of a month your return is late, unless you have a reasonable explanation. If you do, attach it to your return. The penalty cannot usually be more than 25% of the tax due. If your return is more than 60 days late, the minimum penalty will be \$100 or the amount of any tax you owe, whichever is smaller.

If you include this penalty with your payment, identify and enter the penalty amount in the bottom margin of Form 1040, page 2. **Do not** include the penalty in the **Amount You Owe** on line 64.

Penalty for Late Payment of Tax

If you pay your taxes late, the penalty is usually $\frac{1}{2}$ of 1% of the unpaid amount for each month or part of a month the tax is not paid. The penalty cannot be more than 25% of the unpaid amount. It applies to any unpaid tax on the return. It also applies to any additional tax shown on a bill not paid within 10 days of the date of the bill. This penalty is in addition to interest charges on late payments.

If you include this penalty with your payment, identify and enter the penalty amount in the bottom margin of Form 1040, page 2. **Do not** include the penalty in the **Amount You Owe** on line 64.

Estimated Tax Penalty

If line 64 is at least \$500 and it is more than 10% of the tax shown on line 53 of your return, you may owe this penalty. Also, the penalty may be due if you underpaid your 1994 estimated tax liability for any payment period. For more details, see the instructions for line 65 on page 33.

Penalty for Frivolous Return

In addition to any other penalties, the law imposes a penalty of \$500 for filing a frivolous return. A frivolous return is one that does not contain information needed to figure the correct tax or shows a substantially incorrect tax, because you take a frivolous position or desire to delay or interfere with the tax laws. This includes altering or striking out the pre-printed language above the space where you sign.

Other Penalties

Other penalties can be imposed for negligence, substantial understatement of tax, and fraud. Criminal penalties may be imposed for willful failure to file, tax evasion, or making a false statement. Get **Pub. 17**, Your Federal Income Tax, for details on some of these penalties.

Section 6.

1994 Tax Table

Use if your taxable income is less than \$100,000.
If \$100,000 or more, use the Tax Rate Schedules.

Example. Mr. and Mrs. Brown are filing a joint return. Their taxable income on line 37 of Form 1040 is \$25,300. First, they find the \$25,300–25,350 income line. Next, they find the column for married filing jointly and read down the column. The amount shown where the income line and filing status column meet is \$3,799. This is the tax amount they must enter on line 38 of their Form 1040.

Sample Table

At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
Your tax is—					
25,200	25,250	4,106	3,784	4,593	3,784
25,250	25,300	4,120	3,791	4,607	3,791
25,300	25,350	4,134	(3,799)	4,621	3,799
25,350	25,400	4,148	3,806	4,635	3,806

If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
Your tax is—		Your tax is—				Your tax is—		Your tax is—				Your tax is—		Your tax is—			
0	5	0	0	0	0	1,300	1,325	197	197	197	197	2,700	2,725	407	407	407	407
5	15	2	2	2	2	1,325	1,350	201	201	201	201	2,725	2,750	411	411	411	411
15	25	3	3	3	3	1,350	1,375	204	204	204	204	2,750	2,775	414	414	414	414
25	50	6	6	6	6	1,375	1,400	208	208	208	208	2,775	2,800	418	418	418	418
50	75	9	9	9	9	1,400	1,425	212	212	212	212	2,800	2,825	422	422	422	422
75	100	13	13	13	13	1,425	1,450	216	216	216	216	2,825	2,850	426	426	426	426
100	125	17	17	17	17	1,450	1,475	219	219	219	219	2,850	2,875	429	429	429	429
125	150	21	21	21	21	1,475	1,500	223	223	223	223	2,875	2,900	433	433	433	433
150	175	24	24	24	24	1,500	1,525	227	227	227	227	2,900	2,925	437	437	437	437
175	200	28	28	28	28	1,525	1,550	231	231	231	231	2,925	2,950	441	441	441	441
200	225	32	32	32	32	1,550	1,575	234	234	234	234	2,950	2,975	444	444	444	444
225	250	36	36	36	36	1,575	1,600	238	238	238	238	2,975	3,000	448	448	448	448
250	275	39	39	39	39	1,600	1,625	242	242	242	242	3,000					
275	300	43	43	43	43	1,625	1,650	246	246	246	246	3,000	3,050	454	454	454	454
300	325	47	47	47	47	1,650	1,675	249	249	249	249	3,050	3,100	461	461	461	461
325	350	51	51	51	51	1,675	1,700	253	253	253	253	3,100	3,150	469	469	469	469
350	375	54	54	54	54	1,700	1,725	257	257	257	257	3,150	3,200	476	476	476	476
375	400	58	58	58	58	1,725	1,750	261	261	261	261	3,200	3,250	484	484	484	484
400	425	62	62	62	62	1,750	1,775	264	264	264	264	3,250	3,300	491	491	491	491
425	450	66	66	66	66	1,775	1,800	268	268	268	268	3,300	3,350	499	499	499	499
450	475	69	69	69	69	1,800	1,825	272	272	272	272	3,350	3,400	506	506	506	506
475	500	73	73	73	73	1,825	1,850	276	276	276	276	3,400	3,450	514	514	514	514
500	525	77	77	77	77	1,850	1,875	279	279	279	279	3,450	3,500	521	521	521	521
525	550	81	81	81	81	1,875	1,900	283	283	283	283	3,500	3,550	529	529	529	529
550	575	84	84	84	84	1,900	1,925	287	287	287	287	3,550	3,600	536	536	536	536
575	600	88	88	88	88	1,925	1,950	291	291	291	291	3,600	3,650	544	544	544	544
600	625	92	92	92	92	1,950	1,975	294	294	294	294	3,650	3,700	551	551	551	551
625	650	96	96	96	96	1,975	2,000	298	298	298	298	3,700	3,750	559	559	559	559
650	675	99	99	99	99	2,000						3,750	3,800	566	566	566	566
675	700	103	103	103	103	2,000	2,025	302	302	302	302	3,800	3,850	574	574	574	574
700	725	107	107	107	107	2,025	2,050	306	306	306	306	3,850	3,900	581	581	581	581
725	750	111	111	111	111	2,050	2,075	309	309	309	309	3,900	3,950	589	589	589	589
750	775	114	114	114	114	2,075	2,100	313	313	313	313	3,950	4,000	596	596	596	596
775	800	118	118	118	118	2,100	2,125	317	317	317	317	4,000					
800	825	122	122	122	122	2,125	2,150	321	321	321	321	4,000	4,050	604	604	604	604
825	850	126	126	126	126	2,150	2,175	324	324	324	324	4,050	4,100	611	611	611	611
850	875	129	129	129	129	2,175	2,200	328	328	328	328	4,100	4,150	619	619	619	619
875	900	133	133	133	133	2,200	2,225	332	332	332	332	4,150	4,200	626	626	626	626
900	925	137	137	137	137	2,225	2,250	336	336	336	336	4,200	4,250	634	634	634	634
925	950	141	141	141	141	2,250	2,275	339	339	339	339	4,250	4,300	641	641	641	641
950	975	144	144	144	144	2,275	2,300	343	343	343	343	4,300	4,350	649	649	649	649
975	1,000	148	148	148	148	2,300	2,325	347	347	347	347	4,350	4,400	656	656	656	656
1,000						2,325	2,350	351	351	351	351	4,400	4,450	664	664	664	664
1,000	1,025	152	152	152	152	2,350	2,375	354	354	354	354	4,450	4,500	671	671	671	671
1,025	1,050	156	156	156	156	2,375	2,400	358	358	358	358	4,500	4,550	679	679	679	679
1,050	1,075	159	159	159	159	2,400	2,425	362	362	362	362	4,550	4,600	686	686	686	686
1,075	1,100	163	163	163	163	2,425	2,450	366	366	366	366	4,600	4,650	694	694	694	694
1,100	1,125	167	167	167	167	2,450	2,475	369	369	369	369	4,650	4,700	701	701	701	701
1,125	1,150	171	171	171	171	2,475	2,500	373	373	373	373	4,700	4,750	709	709	709	709
1,150	1,175	174	174	174	174	2,500	2,525	377	377	377	377	4,750	4,800	716	716	716	716
1,175	1,200	178	178	178	178	2,525	2,550	381	381	381	381	4,800	4,850	724	724	724	724
1,200	1,225	182	182	182	182	2,550	2,575	384	384	384	384	4,850	4,900	731	731	731	731
1,225	1,250	186	186	186	186	2,575	2,600	388	388	388	388	4,900	4,950	739	739	739	739
1,250	1,275	189	189	189	189	2,600	2,625	392	392	392	392	4,950	5,000	746	746	746	746
1,275	1,300	193	193	193	193	2,625	2,650	396	396	396	396						
						2,650	2,675	399	399	399	399						
						2,675	2,700	403	403	403	403						

Continued on next page

* This column must also be used by a qualifying widow(er).

1994 Tax Table—Continued

If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											
		Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
At least	But less than	Your tax is—				At least	But less than	Your tax is—				At least	But less than	Your tax is—																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											
86,000		89,000				92,000		86,000		86,050		86,050		86,100		86,100		86,150		86,150		86,200		86,200		86,250		86,250		86,300		86,300		86,350		86,350		86,400		86,400		86,450		86,450		86,500		86,500		86,550		86,550		86,600		86,600		86,650		86,650		86,700		86,700		86,750		86,750		86,800		86,800		86,850		86,850		86,900		86,900		86,950		86,950		87,000		87,000		87,050		87,050		87,100		87,100		87,150		87,150		87,200		87,200		87,250		87,250		87,300		87,300		87,350		87,350		87,400		87,400		87,450		87,450		87,500		87,500		87,550		87,550		87,600		87,600		87,650		87,650		87,700		87,700		87,750		87,750		87,800		87,800		87,850		87,850		87,900		87,900		87,950		87,950		88,000		88,000		88,050		88,050		88,100		88,100		88,150		88,150		88,200		88,200		88,250		88,250		88,300		88,300		88,350		88,350		88,400		88,400		88,450		88,450		88,500		88,500		88,550		88,550		88,600		88,600		88,650		88,650		88,700		88,700		88,750		88,750		88,800		88,800		88,850		88,850		88,900		88,900		88,950		88,950		89,000		89,000		89,050		89,050		89,100		89,100		89,150		89,150		89,200		89,200		89,250		89,250		89,300		89,300		89,350		89,350		89,400		89,400		89,450		89,450		89,500		89,500		89,550		89,550		89,600		89,600		89,650		89,650		89,700		89,700		89,750		89,750		89,800		89,800		89,850		89,850		89,900		89,900		89,950		89,950		90,000		90,000		90,050		90,050		90,100		90,100		90,150		90,150		90,200		90,200		90,250		90,250		90,300		90,300		90,350		90,350		90,400		90,400		90,450		90,450		90,500		90,500		90,550		90,550		90,600		90,600		90,650		90,650		90,700		90,700		90,750		90,750		90,800		90,800		90,850		90,850		90,900		90,900		90,950		90,950		91,000		91,000		91,050		91,050		91,100		91,100		91,150		91,150		91,200		91,200		91,250		91,250		91,300		91,300		91,350		91,350		91,400		91,400		91,450		91,450		91,500		91,500		91,550		91,550		91,600		91,600		91,650		91,650		91,700		91,700		91,750		91,750		91,800		91,800		91,850		91,850		91,900		91,900		91,950		91,950		92,000		92,000		92,050		92,050		92,100		92,100		92,150		92,150		92,200		92,200		92,250		92,250		92,300		92,300		92,350		92,350		92,400		92,400		92,450		92,450		92,500		92,500		92,550		92,550		92,600		92,600		92,650		92,650		92,700		92,700		92,750		92,750		92,800		92,800		92,850		92,850		92,900		92,900		92,950		92,950		93,000		93,000		93,050		93,050		93,100		93,100		93,150		93,150		93,200		93,200		93,250		93,250		93,300		93,300		93,350		93,350		93,400		93,400		93,450		93,450		93,500		93,500		93,550		93,550		93,600		93,600		93,650		93,650		93,700		93,700		93,750		93,750		93,800		93,800		93,850		93,850		93,900		93,900		93,950		93,950		94,000		94,000		94,050		94,050		94,100		94,100		94,150		94,150		94,200		94,200		94,250		94,250		94,300		94,300		94,350		94,350		94,400		94,400		94,450		94,450		94,500		94,500		94,550		94,550		94,600		94,600		94,650		94,650		94,700		94,700		94,750		94,750		94,800		94,800		94,850		94,850		94,900		94,900		94,950		94,950		95,000		95,000	

* This column must also be used by a qualifying widow(er).

Continued on next page

1994 Tax Table—Continued

If line 37 (taxable income) is—		And you are—				If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—			
95,000						98,000					
95,000	95,050	24,847	21,762	26,861	23,132	98,000	98,050	25,777	22,692	27,941	24,062
95,050	95,100	24,863	21,778	26,879	23,147	98,050	98,100	25,793	22,708	27,959	24,077
95,100	95,150	24,878	21,793	26,897	23,163	98,100	98,150	25,808	22,723	27,977	24,093
95,150	95,200	24,894	21,809	26,915	23,178	98,150	98,200	25,824	22,739	27,995	24,108
95,200	95,250	24,909	21,824	26,933	23,194	98,200	98,250	25,839	22,754	28,013	24,124
95,250	95,300	24,925	21,840	26,951	23,209	98,250	98,300	25,855	22,770	28,031	24,139
95,300	95,350	24,940	21,855	26,969	23,225	98,300	98,350	25,870	22,785	28,049	24,155
95,350	95,400	24,956	21,871	26,987	23,240	98,350	98,400	25,886	22,801	28,067	24,170
95,400	95,450	24,971	21,886	27,005	23,256	98,400	98,450	25,901	22,816	28,085	24,186
95,450	95,500	24,987	21,902	27,023	23,271	98,450	98,500	25,917	22,832	28,103	24,201
95,500	95,550	25,002	21,917	27,041	23,287	98,500	98,550	25,932	22,847	28,121	24,217
95,550	95,600	25,018	21,933	27,059	23,302	98,550	98,600	25,948	22,863	28,139	24,232
95,600	95,650	25,033	21,948	27,077	23,318	98,600	98,650	25,963	22,878	28,157	24,248
95,650	95,700	25,049	21,964	27,095	23,333	98,650	98,700	25,979	22,894	28,175	24,263
95,700	95,750	25,064	21,979	27,113	23,349	98,700	98,750	25,994	22,909	28,193	24,279
95,750	95,800	25,080	21,995	27,131	23,364	98,750	98,800	26,010	22,925	28,211	24,294
95,800	95,850	25,095	22,010	27,149	23,380	98,800	98,850	26,025	22,940	28,229	24,310
95,850	95,900	25,111	22,026	27,167	23,395	98,850	98,900	26,041	22,956	28,247	24,325
95,900	95,950	25,126	22,041	27,185	23,411	98,900	98,950	26,056	22,971	28,265	24,341
95,950	96,000	25,142	22,057	27,203	23,426	98,950	99,000	26,072	22,987	28,283	24,356
96,000						99,000					
96,000	96,050	25,157	22,072	27,221	23,442	99,000	99,050	26,087	23,002	28,301	24,372
96,050	96,100	25,173	22,088	27,239	23,457	99,050	99,100	26,103	23,018	28,319	24,387
96,100	96,150	25,188	22,103	27,257	23,473	99,100	99,150	26,118	23,033	28,337	24,403
96,150	96,200	25,204	22,119	27,275	23,488	99,150	99,200	26,134	23,049	28,355	24,418
96,200	96,250	25,219	22,134	27,293	23,504	99,200	99,250	26,149	23,064	28,373	24,434
96,250	96,300	25,235	22,150	27,311	23,519	99,250	99,300	26,165	23,080	28,391	24,449
96,300	96,350	25,250	22,165	27,329	23,535	99,300	99,350	26,180	23,095	28,409	24,465
96,350	96,400	25,266	22,181	27,347	23,550	99,350	99,400	26,196	23,111	28,427	24,480
96,400	96,450	25,281	22,196	27,365	23,566	99,400	99,450	26,211	23,126	28,445	24,496
96,450	96,500	25,297	22,212	27,383	23,581	99,450	99,500	26,227	23,142	28,463	24,511
96,500	96,550	25,312	22,227	27,401	23,597	99,500	99,550	26,242	23,157	28,481	24,527
96,550	96,600	25,328	22,243	27,419	23,612	99,550	99,600	26,258	23,173	28,499	24,542
96,600	96,650	25,343	22,258	27,437	23,628	99,600	99,650	26,273	23,188	28,517	24,558
96,650	96,700	25,359	22,274	27,455	23,643	99,650	99,700	26,289	23,204	28,535	24,573
96,700	96,750	25,374	22,289	27,473	23,659	99,700	99,750	26,304	23,219	28,553	24,589
96,750	96,800	25,390	22,305	27,491	23,674	99,750	99,800	26,320	23,235	28,571	24,604
96,800	96,850	25,405	22,320	27,509	23,690	99,800	99,850	26,335	23,250	28,589	24,620
96,850	96,900	25,421	22,336	27,527	23,705	99,850	99,900	26,351	23,266	28,607	24,635
96,900	96,950	25,436	22,351	27,545	23,721	99,900	99,950	26,366	23,281	28,625	24,651
96,950	97,000	25,452	22,367	27,563	23,736	99,950	100,000	26,382	23,297	28,643	24,666
97,000						<div style="border: 1px solid black; border-radius: 50%; padding: 20px; width: fit-content; margin: auto;"> <p>\$100,000 or over — use the Tax Rate Schedules on page 53</p> </div>					
97,000	97,050	25,467	22,382	27,581	23,752						
97,050	97,100	25,483	22,398	27,599	23,767						
97,100	97,150	25,498	22,413	27,617	23,783						
97,150	97,200	25,514	22,429	27,635	23,798						
97,200	97,250	25,529	22,444	27,653	23,814						
97,250	97,300	25,545	22,460	27,671	23,829						
97,300	97,350	25,560	22,475	27,689	23,845						
97,350	97,400	25,576	22,491	27,707	23,860						
97,400	97,450	25,591	22,506	27,725	23,876						
97,450	97,500	25,607	22,522	27,743	23,891						
97,500	97,550	25,622	22,537	27,761	23,907						
97,550	97,600	25,638	22,553	27,779	23,922						
97,600	97,650	25,653	22,568	27,797	23,938						
97,650	97,700	25,669	22,584	27,815	23,953						
97,700	97,750	25,684	22,599	27,833	23,969						
97,750	97,800	25,700	22,615	27,851	23,984						
97,800	97,850	25,715	22,630	27,869	24,000						
97,850	97,900	25,731	22,646	27,887	24,015						
97,900	97,950	25,746	22,661	27,905	24,031						
97,950	98,000	25,762	22,677	27,923	24,046						

* This column must also be used by a qualifying widow(er).

1994 Tax Rate Schedules

Caution: Use **only** if your taxable income (Form 1040, line 37) is \$100,000 or more. If less, use the **Tax Table**. Even though you cannot use the tax rate schedules below if your taxable income is less than \$100,000, all levels of taxable income are shown so taxpayers can see the tax rate that applies to each level.

Schedule X—Use if your filing status is **Single**

If the amount on Form 1040, line 37, is: <i>Over—</i>	<i>But not over—</i>	Enter on Form 1040, line 38	<i>of the amount over—</i>
\$0	\$22,750	..... 15%	\$0
22,750	55,100	\$3,412.50 + 28%	22,750
55,100	115,000	12,470.50 + 31%	55,100
115,000	250,000	31,039.50 + 36%	115,000
250,000	.....	79,639.50 + 39.6%	250,000

Schedule Y-1—Use if your filing status is **Married filing jointly** or **Qualifying widow(er)**

If the amount on Form 1040, line 37, is: <i>Over—</i>	<i>But not over—</i>	Enter on Form 1040, line 38	<i>of the amount over—</i>
\$0	\$38,000	..... 15%	\$0
38,000	91,850	\$5,700.00 + 28%	38,000
91,850	140,000	20,778.00 + 31%	91,850
140,000	250,000	35,704.50 + 36%	140,000
250,000	.....	75,304.50 + 39.6%	250,000

Schedule Y-2—Use if your filing status is **Married filing separately**

If the amount on Form 1040, line 37, is: <i>Over—</i>	<i>But not over—</i>	Enter on Form 1040, line 38	<i>of the amount over—</i>
\$0	\$19,000	..... 15%	\$0
19,000	45,925	\$2,850.00 + 28%	19,000
45,925	70,000	10,389.00 + 31%	45,925
70,000	125,000	17,852.25 + 36%	70,000
125,000	.....	37,652.25 + 39.6%	125,000

Schedule Z—Use if your filing status is **Head of household**

If the amount on Form 1040, line 37, is: <i>Over—</i>	<i>But not over—</i>	Enter on Form 1040, line 38	<i>of the amount over—</i>
\$0	\$30,500	..... 15%	\$0
30,500	78,700	\$4,575.00 + 28%	30,500
78,700	127,500	18,071.00 + 31%	78,700
127,500	250,000	33,199.00 + 36%	127,500
250,000	.....	77,299.00 + 39.6%	250,000

Section 7.

Instructions for Schedules to Form 1040

Instructions for Schedule A, Itemized Deductions

Use Schedule A to figure your itemized deductions. Your Federal income tax will be less if you take the **larger** of your itemized deductions or your standard deduction.

If you itemize, you may deduct part of your medical and dental expenses and unreimbursed employee business expenses, and amounts you paid for certain taxes, interest, contributions, and miscellaneous expenses. You may also deduct certain casualty and theft losses.

Medical and Dental Expenses

You may deduct only the part of your medical and dental expenses that is more than 7.5% of the amount on Form 1040, line 32.

Pub. 502, Medical and Dental Expenses, discusses the types of expenses that may and may not be deducted. It also explains when you may deduct capital expenses and special care expenses for disabled persons.

Examples of Medical and Dental Payments You May Deduct

To the extent you were **not reimbursed**, you may deduct what you paid for:

- Prescription medicines and drugs, or insulin.
- Medical doctors, osteopathic doctors, dentists, eye doctors, chiropractors, podiatrists, psychiatrists, psychologists, physical therapists, acupuncturists, and psychoanalysts (medical care only).
- Medical examinations, X-ray and laboratory services, insulin treatment, and whirlpool baths your doctor ordered.
- Nursing help (including your share of the employment taxes paid). If you paid someone to do both nursing and housework, you may deduct only the cost of the nursing help.
- Hospital care (including meals and lodging), clinic costs, and lab fees.
- The supplemental part of Medicare insurance (Medicare B).
- Medical treatment at a center for drug or alcohol addiction.
- Medical aids such as eyeglasses, contact lenses, hearing aids, braces, crutches, wheelchairs, and guide dogs, including the cost of maintaining them.
- Lodging expenses (but not meals) while away from home to receive medical care in a hospital or a medical care facility related to a hospital. **Do not** include more than \$50 a night for each eligible person.
- Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received the care; or you may claim 9 cents a mile. Add parking and tolls to the amount you claim under either method.

Note: Certain medical expenses paid out of a decedent's estate may be claimed on the decedent's final return. See Pub. 502 for details.

Examples of Medical and Dental Payments You May Not Deduct

- The basic cost of Medicare insurance (Medicare A).
- Note:** If you were 65 or older but not entitled to social security benefits, you may deduct premiums you voluntarily paid for Medicare A coverage.
- Cosmetic surgery unless it was necessary to improve a deformity related to a congenital abnormality, an injury from an accident or trauma, or a disfiguring disease.
- Life insurance or income protection policies.
- The Medicare tax on your wages and tips or the Medicare tax paid as part of the self-employment tax.
- Nursing care for a healthy baby. But you may be able to take a credit. See the instructions for Form 1040, line 41.
- Illegal operations or drugs.
- Nonprescription medicines or drugs.
- Travel your doctor told you to take for rest or a change.
- Funeral, burial, or cremation costs.

Line 1

Medical and Dental Expenses

Enter the total of your medical and dental expenses, after you reduce these expenses by any payments received from insurance or other sources. See **Reimbursements** on this page. Include the amount you paid for insurance premiums for medical and dental care, after you reduce that amount by any self-employed health insurance deduction you claimed on Form 1040, line 26.

Include medical and dental bills you paid for:

- Yourself.
- Your spouse.
- All dependents you claim on your return.
- Your child whom you do not claim as a dependent because of the rules explained on page 14 for **Children of Divorced or Separated Parents**.
- Any person you could have claimed as a dependent on your return if that person had

not received \$2,450 or more of gross income or had not filed a joint return.

Example. You provided over half of your mother's support but may not claim her as a dependent because she received wages of \$2,450 in 1994. You may include on line 1 any medical and dental expenses you paid in 1994 for your mother.

Reimbursements. If your insurance company paid the provider directly for part of your expenses, and you paid only the amount that remained, include on line 1 **ONLY** the amount you paid. If you received a reimbursement in 1994 for medical or dental expenses you paid in 1994, reduce your 1994 expenses by this amount. If you received a reimbursement in 1994 for prior year medical or dental expenses, do not reduce your 1994 expenses by this amount. But if you deducted the expenses in the earlier year and the deduction reduced your tax, you must include the reimbursement in income on Form 1040, line 21. See Pub. 502 for details on how to figure the amount to include in income.

Cafeteria Plans. Do not include on line 1 insurance premiums paid by an employer-sponsored health insurance plan (cafeteria plan) unless the premiums are included in box 1 of your W-2 form(s). Also, do not include any other medical and dental expenses paid by the plan unless the amount paid is included in box 1 of your W-2 form(s).

Taxes You Paid

Taxes You May Not Deduct

- Federal income and excise taxes.
- Social security, Medicare, and railroad retirement (RRTA) taxes.
- Customs duties.
- Federal estate and gift taxes. But see the instructions for line 28 on page A-5.
- Certain state and local taxes, including: general sales tax, tax on gasoline, car inspection fees, assessments for sidewalks or other improvements to your property, tax you paid for someone else, and license fees (marriage, driver's, dog, etc.).

Line 5

State and Local Income Taxes

Include on this line the state and local income taxes listed below:

- State and local income taxes withheld from your salary during 1994. Your W-2 form(s) will show these amounts. Forms W-2G, 1099-R, and 1099-MISC may also show state and local income taxes withheld.
- State and local income taxes paid in 1994 for a prior year, such as taxes paid with your 1993 state or local income tax return. **Do not** include penalties or interest.
- State and local estimated tax payments made during 1994, including any part of a prior year refund that you chose to have credited to your 1994 state or local income taxes.
- Mandatory contributions you made to the California Nonoccupational Disability Benefit Fund, New Jersey Nonoccupational Disability Benefit Fund, New York Nonoccupational Disability Benefit Fund, Rhode Island Temporary Disability Benefit Fund, or Washington State Supplemental Workmen's Compensation Fund.

Do not reduce your deduction by:

- Any state or local income tax refund or credit you expect to receive for 1994, or
- Any refund of, or credit for, prior year state and local income taxes you actually received in 1994. Instead, see the instructions for Form 1040, line 10.

Line 6

Real Estate Taxes

Include taxes (state, local, or foreign) you paid on real estate you own that was not used for business, but only if the taxes are based on the assessed value of the property. Also, the assessment must be made uniformly on property throughout the community, and the proceeds must be used for general community or governmental purposes. **Pub. 530** explains the deductions homeowners may take. **Do not** include—

- Real estate taxes deducted elsewhere such as on Schedule C, C-EZ, E, or F, or
- Itemized charges for services to specific property or persons (for example, a \$20 monthly charge per house for trash collection, a \$5 charge for every 1,000 gallons of water consumed, or a flat charge for mowing a lawn that had grown higher than permitted under a local ordinance), or
- Charges for improvements that tend to increase the value of your property (for example, an assessment to build a new sidewalk). The cost of a property improvement is added to the basis of the property. However, a charge is deductible if it is used only to maintain an existing public facility in service (for example, a charge to repair an existing sidewalk, and any interest included in that charge).

If your mortgage payments include your real estate taxes, you may deduct only the amount the mortgage company actually paid to the taxing authority in 1994.

If you sold your home in 1994, any real estate tax charged to the buyer should be shown in box 5 of **Form 1099-S**, Proceeds

From Real Estate Transactions. This amount is considered a refund of real estate taxes you received in 1994. See **Refunds and Rebates** next.

Refunds and Rebates. If you received a refund or rebate in 1994 of real estate taxes you paid in 1994, reduce your deduction by the amount of the refund or rebate. If you received a refund or rebate in 1994 of real estate taxes you paid in an earlier year, do not reduce your deduction by this amount. Instead, you must include the refund or rebate in income on Form 1040, line 21, if you deducted the real estate taxes in the earlier year and the deduction reduced your tax. **Pub. 525**, Taxable and Nontaxable Income, tells you how to figure the amount to include in income.

Line 7

Personal Property Taxes

Enter personal property tax you paid, but only if it is an annual tax based on value alone. For example, if part of the fee you paid for the registration of your car was based on the car's value and part was based on its weight, you may deduct only the part based on the car's value.

Line 8

Other Taxes

If you had any deductible tax not listed on line 5, 6, or 7, list the type and amount of tax. Enter only one total on line 8. Include on this line income tax you paid to a foreign country or U.S. possession. But you may want to take a credit for the tax instead of a deduction. Get **Pub. 514** for details.

Interest You Paid

Do not include interest deducted elsewhere such as on Schedule C, C-EZ, E, or F. Whether your interest expense is treated as investment interest, personal interest, or business interest depends on how and when you used the loan proceeds. Get **Pub. 535**, Business Expenses, for details.

In general, if you paid interest in 1994 that includes amounts that apply to any period after 1994, you may deduct only the amount that applies for 1994.

Interest You May Not Deduct

- Personal interest, such as interest paid on car loans, student loans, life insurance loans, credit cards, charge accounts, etc.
- Interest on any kind of business transaction. Use Schedule C, C-EZ, E, or F to deduct business interest expenses.
- Interest paid on your debts by others, such as mortgage interest subsidy payments made by a government agency.
- Interest on certain loans against your interest in a 401(k) plan or a tax-sheltered annuity plan. Get **Pub. 575**, Pension and Annuity Income (Including Simplified General Rule), for details.
- Interest paid for tax-exempt income. This includes interest on money you borrowed to buy or carry wholly tax-exempt securities. It also includes interest paid to buy or carry obligations or shares, or to make deposits or

other investments, to the extent any interest income received from the investment is tax exempt.

- Interest on a debt to buy a single-premium life insurance or endowment contract.

See Pub. 535 for more details.

Lines 10 and 11

Home Mortgage Interest

A **home mortgage** is any loan that is secured by your main home or second home. It includes first and second mortgages, home equity loans, and refinanced mortgages.

A **home** may be a house, condominium, cooperative, mobile home, boat, or similar property. It must provide basic living accommodations including sleeping space, toilet, and cooking facilities.

Limit on Home Mortgage Interest. The amount of home mortgage interest you may deduct depends on the date you took out the mortgage, how you used the proceeds, and the amount of the mortgage.

If all of your home mortgages fit into one or more of **Categories 1, 2, and 3** (explained later), you may deduct all of your home mortgage interest on line 10 or 11, whichever applies. If one or more of your mortgages does not fit into any of the three categories, get **Pub. 936**, Home Mortgage Interest Deduction, to figure your deduction.

If you had **more than one home** at the same time (a main home and a second home), the dollar limits in **Categories 2 and 3** apply to the total mortgages on both homes. See Pub. 936 for more details.

Category 1. Mortgages taken out **on or before October 13, 1987**. How you used the proceeds of these mortgages does not matter. This category includes **line-of-credit mortgages** you had on October 13, 1987. But if you borrowed additional amounts on this line-of-credit after October 13, 1987, the additional amounts fit into **Category 2 or 3** (or **2 and 3** if a **mixed-use mortgage**—explained later).

This category also includes mortgages you had on October 13, 1987, that you **refinanced** after that date. But if you refinanced for more than the balance of the old mortgage, only the part of the new mortgage equal to the amount you owed on the old mortgage at the time you refinanced it fits into this category. The part of the new mortgage that is more than the balance of the old mortgage fits into **Category 2 or 3** (or **2 and 3** if a **mixed-use mortgage**—explained later).

Category 2. Mortgages taken out **after October 13, 1987, to buy, build, or improve your home**, but only if these mortgages plus any mortgages in **Category 1** above totaled \$1 million or less throughout 1994. The limit is \$500,000 or less if married filing separately.

Category 3. Mortgages taken out **after October 13, 1987, other than to buy, build, or improve your home**, but only if these mortgages totaled \$100,000 or less throughout 1994. The limit is \$50,000 or less if married filing separately. An example of this type of mortgage is a home equity loan you used to pay off credit card bills, to buy a car, or to pay tuition costs.

Note: If the total amount of all mortgages exceeds the fair market value of the home, additional limits apply. See Pub. 936 for details.

Mixed-Use Mortgages. If you took out a mortgage after October 13, 1987 (including refinancing for more than what you owed or borrowing additional amounts on a line-of-credit mortgage you had on October 13, 1987) and used the proceeds for purposes described in both **Categories 2 and 3** earlier, you have a mixed-use mortgage. The mortgage proceeds used to buy, build, or improve the home fit into **Category 2** and the rest of the proceeds fit into **Category 3**.

Line 10. Enter on line 10 mortgage interest and points reported to you on **Form 1098**, Mortgage Interest Statement. If you did not receive a Form 1098, enter the interest on line 11 and any deductible points on line 12.

If you paid \$600 or more of mortgage interest (including points paid to buy your main home), the recipient will generally send you a Form 1098, or similar statement, by January 31, 1995. If this form shows any refund of overpaid interest, do not reduce your deduction by the refund. Instead, see the instructions for Form 1040, line 21.

If you paid more interest to financial institutions than is shown on Form 1098, see Pub. 936 to find out if you can deduct the additional interest. If you can, attach a statement explaining the difference and write "See attached" next to line 10.

Note: If you are claiming the mortgage interest credit (see the instructions for Form 1040, line 44), subtract the amount shown on line 3 of Form 8396 from the total deductible interest you paid on your home mortgage. Enter the result on line 10.

Line 11. If the recipient was not a financial institution or you did not receive a Form 1098 from the recipient, report your deductible mortgage interest on line 11.

If you bought your home from the recipient, be sure to show that recipient's name, identifying no., and address on the dotted lines next to line 11. If the recipient is an individual, the identifying no. is his or her social security number (SSN). Otherwise, it is the employer identification no. You must also let the recipient know your SSN. If you don't show the required information about the recipient and let the recipient know your SSN, you may have to pay a \$50 penalty.

If you and at least one other person (other than your spouse if filing a joint return) were liable for and paid interest on the mortgage, and the other person received the Form 1098, attach a statement to your return showing the name and address of that person. Next to line 11, write "See attached."

Line 12

Points Not Reported on Form 1098

Points are shown on your settlement statement. Points you paid **only** to borrow money are deductible over the life of the loan. But you may deduct the points (including loan origination fees on a loan used to buy your main home) in the year paid if **all three** of the following apply:

1. The loan was used to **buy or improve your main home**, and was secured by that home.

2. The points did not exceed the points usually charged in the area where the loan was made, and were computed as a percentage of the loan amount.

3. If the loan was used to **buy** the home, you must have provided funds (see below) at least equal to the points charged. If the loan was used to **improve** the home, you must have paid the points with funds other than those obtained from the lender.

Funds provided by you include down payments, escrow deposits, earnest money applied at closing, and other amounts actually paid at closing. They do not include amounts you borrowed as part of the overall transaction.

Note: Points paid on a loan to buy your main home include loan origination fees designated on conventional, VA, and FHA loans.

Seller-Paid Points. If you are the buyer, you may be able to deduct points the seller paid in 1994. You can do this if the loan was used to buy your main home, the points meet item **2** above, and you reduce your basis in the home by those points. If you bought your home after April 3, 1994, the seller-paid points reduce your basis in the home, even if you don't deduct them. If you bought your home before April 4, 1994, the seller-paid points reduce your basis only if you deduct them.

If you are the seller, you **cannot** deduct the points as interest. Instead, include them as an expense of sale on **Form 2119**, Sale of Your Home.

Refinancing. If you paid points to refinance your mortgage, get **Pub. 936**, Home Mortgage Interest Deduction.

Line 13

Investment Interest

Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to a passive activity.

Complete and attach **Form 4952**, Investment Interest Expense Deduction, to figure your deduction.

Exception. You do not have to file Form 4952 if **all four** of the following apply:

1. Your only investment income was from interest or dividends.

2. You have no other deductible expenses connected with the production of the interest or dividends.

3. Your investment interest expense is not more than your investment income.

4. You have no disallowed investment interest expense from 1993.

Note: Alaska Permanent Fund dividends, including those reported on **Form 8814**, Parents' Election To Report Child's Interest and Dividends, are not investment income.

For more details, get **Pub. 550**, Investment Income and Expenses.

Gifts to Charity

You may deduct contributions or gifts you gave to organizations that are religious, charitable, educational, scientific, or literary in purpose. You may also deduct what you gave to organizations that work to prevent

cruelty to children or animals. Examples of these organizations are:

- Churches, temples, synagogues, mosques, Salvation Army, Red Cross, CARE, Goodwill Industries, United Way, Boy Scouts, Girl Scouts, Boys and Girls Clubs of America, etc.

- Fraternal orders, if the gifts will be used for the purposes listed above.

- Veterans' and certain cultural groups.

- Nonprofit schools, hospitals, and organizations whose purpose is to find a cure for, or help people who have, arthritis, asthma, birth defects, cancer, cerebral palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.

- Federal, state, and local governments if the gifts are solely for public purposes.

If you do not know whether you may deduct what you gave to an organization, check with that organization or with the IRS.

Contributions You May Deduct

Contributions may be in cash (keep canceled checks, receipts, or other reliable written records showing the name of the organization and the date and amount given), property, or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations described earlier. If you drove to and from the volunteer work, you may take 12 cents a mile or the actual cost of gas and oil. Add parking and tolls to the amount you claim under either method. But don't deduct any amounts that were repaid to you.

If you made a gift and received a benefit in return, such as food, entertainment, or merchandise, you may deduct only the amount that is more than the value of the benefit. For example, if you paid \$70 to a charitable organization to attend a fund-raising dinner and the value of the dinner was \$40, you may deduct only \$30.

Gifts of \$250 or More. You may deduct a gift of \$250 or more only if you have a statement from the charitable organization showing the information in **1** and **2** below.

In figuring whether a gift is \$250 or more, do not combine separate donations. For example, if you gave your church \$25 each week for a total of \$1,300, treat each \$25 payment as a separate gift. If you made donations through payroll deductions, treat each deduction from each paycheck as a separate gift. Get **Pub. 526**, Charitable Contributions, if you made a separate gift of \$250 or more through payroll deduction.

1. The amount of any money contributed and a description (but not value) of any property donated.

2. Whether the organization did or did not give you any goods or services in return for your contribution. If you did receive any goods or services, a description and estimate of the value must be included. If you received only intangible religious benefits (such as admission to a religious ceremony), the organization must state this, but it does not have to describe or value the benefit.

You must get the statement by the date you file your return or the due date (including extensions) for filing your return, whichever is earlier. Do not attach the statement to your return. Instead, keep it for your records.

Limit on the Amount You May Deduct. Get Pub. 526 to figure the amount of your deduction if **any** of the following applies:

- Your cash contributions or contributions of ordinary income property are more than 30% of the amount on Form 1040, line 32.
- Your gifts of capital gain property are more than 20% of the amount on Form 1040, line 32.
- You gave gifts of property that increased in value or gave gifts of the use of property.

You May Not Deduct as Contributions

- Travel expenses (including meals and lodging) while away from home unless there was no significant element of personal pleasure, recreation, or vacation in the travel.
- Political contributions.
- Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups.
- Cost of raffle, bingo, or lottery tickets.
- Cost of tuition.
- Value of your time or services.
- Value of blood given to a blood bank.
- The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).
- Gifts to individuals and groups that are run for personal profit.
- Gifts to foreign organizations. But you may be able to deduct gifts to certain U.S. organizations that transfer funds to foreign charities and certain Canadian and Mexican charities. See Pub. 526 for details.
- Gifts to organizations engaged in certain political activities that are of direct financial interest to your trade or business. See Internal Revenue Code section 170(f)(9) for details.
- Gifts to groups whose purpose is to lobby for changes in the laws.
- Gifts to civic leagues, social and sports clubs, labor unions, and chambers of commerce.
- Value of any benefit that you received in connection with a contribution to a charitable organization.

Line 15

Gifts by Cash or Check

Enter the total contributions you made in cash or by check (including out-of-pocket expenses).

Line 16

Other Than by Cash or Check

Enter your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale.

If the amount of your deduction is more than \$500, you must complete and attach **Form 8283**, Noncash Charitable Contributions. For this purpose, the "amount of your deduction" means your deduction BEFORE applying any income limits that could result in a carryover of contributions. If your total

deduction is over \$5,000, you may also have to get appraisals of the values of the donated property. See Form 8283 and its instructions for details.

Recordkeeping. If you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization's name and address, the date and location of the gift, and a description of the property. For each gift of property, you should also keep reliable written records that include:

- How you figured the property's value at the time you gave it. If the value was determined by an appraisal, you should also keep a signed copy of the appraisal.
- The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.
- How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.
- Any conditions attached to the gift.

Note: If your total deduction for gifts of property is over \$500, or if you gave less than your entire interest in the property, or if you made a "qualified conservation contribution" under Internal Revenue Code section 170(h), your records should contain additional information. See Pub. 526 for details.

Line 17

Carryover From Prior Year

Enter any carryover of contributions that you could not deduct in an earlier year because they exceeded your adjusted gross income limit. See Pub. 526 for details on how to figure a carryover.

Casualty and Theft Losses

Line 19

Use line 19 to report casualty or theft losses of property that is not trade or business, income-producing, or rent or royalty property. Complete and attach **Form 4684**, Casualties and Thefts, to figure the amount of your loss to enter on line 19.

Losses You May Deduct

You may be able to deduct part or all of each loss caused by theft, vandalism, fire, storm, or similar causes, and car, boat, and other accidents. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You may deduct nonbusiness casualty or theft losses only to the extent that—

1. The amount of **each** separate casualty or theft loss is more than \$100, and
2. The total amount of **all** losses during the year is more than 10% of the amount on Form 1040, line 32.

Special rules apply if you had both gains and losses from nonbusiness casualties or thefts. See Form 4684 for details.

Use line 22 of Schedule A to deduct the costs of proving that you had a property loss. Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.

For more details, get **Pub. 547**, Nonbusiness Disasters, Casualties, and Thefts. It also has information about Federal disaster area losses.

Losses You May Not Deduct

- Money or property misplaced or lost.
- Breakage of china, glassware, furniture, and similar items under normal conditions.
- Progressive damage to property (buildings, clothes, trees, etc.) caused by termites, moths, other insects, or disease.

Miscellaneous Deductions

Most miscellaneous deductions cannot be deducted in full. Instead, you must subtract 2% of your adjusted gross income from the total. You figure the 2% limit on line 25.

The 2% limit generally applies to job expenses you paid for which you were not reimbursed. These expenses are reported on line 20. The limit also applies to certain expenses you paid to produce or collect taxable income. These expenses are reported on lines 21 and 22.

Miscellaneous deductions that are not subject to the 2% limit are reported on lines 27 and 28. See the instructions for those lines.

For more details, get **Pub. 529**, Miscellaneous Deductions.

Examples of Expenses You May Not Deduct

- Political contributions.
- Personal legal expenses.
- Lost or misplaced cash or property. But see **Casualty and Theft Losses** on this page if you lost money because of the insolvency or bankruptcy of a financial institution.
- Expenses for meals during regular or extra work hours.
- The cost of entertaining friends.
- Expenses of going to or from your regular workplace.
- Education you need to meet minimum requirements for your job or that will qualify you for a new occupation.
- Travel expenses for employment away from home if that period of employment exceeds 1 year.
- Travel as a form of education.
- Expenses of attending a seminar, convention, or similar meeting unless it is related to your employment.
- Expenses of adopting a child, including a child with special needs.
- Fines and penalties.
- Expenses of producing tax-exempt income.

Line 20

Unreimbursed Employee Expenses

Enter the total job expenses you paid for which you were not reimbursed. (Amounts your employer included in box 1 of your W-2 form are not considered reimbursements.) But you **MUST** fill in and attach **Form 2106**, Employee Business Expenses, if **either** of the following applies:

1. You claim any travel, transportation, meal, or entertainment expenses for your job, OR
2. Your employer paid you for any of your job expenses reportable on line 20.

If you used your own vehicle and **2** does not apply, you may be able to file **Form 2106-EZ**, Unreimbursed Employee Business Expenses, instead.

If you don't have to file Form 2106 or 2106-EZ, list the type and amount of each expense on the dotted lines next to line 20. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 20.

Examples of expenses to include on line 20 are:

- Travel, transportation, meal, or entertainment expenses.
- Union dues.
- Safety equipment, small tools, and supplies you needed for your job.
- Uniforms your employer said you must have, and which you may not usually wear away from work.
- Protective clothing required in your work, such as hard hats, safety shoes, and glasses.
- Physical examinations your employer said you must have.
- Dues to professional organizations and chambers of commerce.
- Subscriptions to professional journals.
- Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.
- Business use of part of your home, but only if you use that part exclusively and on a regular basis in your work and for the convenience of your employer. For details, including limits that apply, call Tele-Tax (see page 38) and listen to topic 509 or get **Pub. 587**, Business Use of Your Home.
- Educational expenses you paid that were required by your employer, or by law or regulation, to keep your salary or job. In general, you may also include the cost of keeping or improving skills you must have in your job. For more details, call Tele-Tax (see page 38) and listen to topic 513 or get **Pub. 508**, Educational Expenses. Some educational expenses are not deductible. See **Examples of Expenses You May Not Deduct** on page A-4.

Line 21

Tax Preparation Fees

Enter the total fees you paid for preparation of your tax return, including fees paid for filing your return electronically. But **do not** include fees deducted elsewhere, such as on Schedule C, C-EZ, E, or F.

Line 22

Other Expenses

Enter the total amount you paid to produce or collect taxable income and manage or protect property held for earning income. But **do not** include any expenses deducted elsewhere such as on Schedule C, C-EZ, E, or F. List the type and amount of each expense on the dotted lines next to line 22. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 22.

Examples of expenses to include on line 22 are:

- Safe deposit box rental.
- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (e.g., trust account) fees.
- Your share of the investment expenses of a regulated investment company.
- Certain losses on nonfederally insured deposits in an insolvent or bankrupt financial institution. For details, including limits on the amount you may deduct, see Pub. 529.
- Deduction for repayment of amounts under a claim of right if \$3,000 or less.
- Certain expenses related to an activity not engaged in for profit. For details, get **Pub. 535**, Business Expenses.

Line 27

Moving Expenses Incurred Before 1994

If you incurred moving expenses in a year before 1994, but did not deduct them on a prior year's return, you may be able to take this deduction. The move must have been in connection with your job or business. For more details, get the instructions for **Form 3903**, Moving Expenses, or **Form 3903-F**, Foreign Moving Expenses.

Line 28

Other

Enter your total other miscellaneous deductions that are not subject to the 2% AGI limit. List the type and amount of each expense on the dotted lines next to line 28. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 28. Only the expenses listed below can be deducted on this line:

- Gambling losses, but only to the extent of gambling winnings reported on Form 1040, line 21.
- Federal estate tax on income in respect of a decedent.
- Amortizable bond premium on bonds acquired before October 23, 1986.
- Deduction for repayment of amounts under a claim of right if more than \$3,000. Get **Pub. 525**, Taxable and Nontaxable Income, for details.
- Certain unrecovered investment in a pension. Get **Pub. 575**, Pension and Annuity Income (Including Simplified General Rule), for details.
- Impairment-related work expenses of a disabled person.

For more details on these expenses, see Pub. 529.

Total Itemized Deductions

Line 29

If the amount on Form 1040, line 32, is over \$111,800 (over \$55,900 if married filing separately), use the worksheet on this page to figure the amount to enter on line 29.

Itemized Deductions Worksheet—Line 29 (keep for your records)

- | | |
|--|-----------|
| 1. Add the amounts on Schedule A, lines 4, 9, 14, 18, 19, 26, 27, and 28 | 1. _____ |
| 2. Add the amounts on Schedule A, lines 4, 13, and 19, plus any gambling losses included on line 28 | 2. _____ |
| Caution: Be sure your total gambling losses are clearly identified on the dotted line next to line 28. | |
| 3. Subtract line 2 from line 1. If the result is zero, stop here ; enter the amount from line 1 above on Schedule A, line 29, and see the Note below | 3. _____ |
| 4. Multiply line 3 above by 80% (.80) | 4. _____ |
| 5. Enter the amount from Form 1040, line 32 | 5. _____ |
| 6. Enter \$111,800 (\$55,900 if married filing separately) | 6. _____ |
| 7. Subtract line 6 from line 5. If the result is zero or less, stop here ; enter the amount from line 1 above on Schedule A, line 29, and see the Note below | 7. _____ |
| 8. Multiply line 7 above by 3% (.03) | 8. _____ |
| 9. Enter the smaller of line 4 or line 8 | 9. _____ |
| 10. Total itemized deductions. Subtract line 9 from line 1. Enter the result here and on Schedule A, line 29, and see the Note below | 10. _____ |

Note: Also enter on Form 1040, line 34, the **larger** of the amount you enter on Schedule A, line 29, or your standard deduction.

Instructions for Schedule B, Interest and Dividend Income

Use Schedule B if **any** of the following applies:

- You had over \$400 in taxable interest,
- Any of the **Special Rules** listed below apply to you,
- You are claiming the exclusion of interest from series EE U.S. savings bonds issued after 1989,
- You had over \$400 in dividends,
- You received dividends as a nominee, or
- You had a foreign account or were a grantor of, or transferor to, a foreign trust. Part III of the schedule has questions about foreign accounts and trusts.

Note: You may list more than one payer on each entry space for lines 1 and 5, but be sure to clearly show the amount paid next to the payer's name. Add the separate amounts paid by the payers listed on an entry space and enter the total in the "Amount" column. If you still need more space, attach separate sheets that are about the same size as the printed schedule. Use the same format as lines 1 and 5, and show your totals on Schedule B. Be sure to put your name and social security number (SSN) on the sheets and attach them at the end of your return.

Part I. Interest Income

To see what interest income you must report, read the instructions for Form 1040, line 8a, on page 15. The payer should send you a **Form 1099-INT** or **Form 1099-OID** showing interest you must report. A copy of the form is also sent to the IRS.

Line 1 Interest Income

Report on line 1 **all** taxable interest you received or that was credited to your account so you could withdraw it. List each payer's name and show the amount. If you received a **Form 1099-INT**, **Form 1099-OID**, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

Special Rules

Seller-Financed Mortgages. If you sold your home or other property and the buyer used the property as a personal residence, list first any interest that buyer paid you on a mortgage or other form of seller financing. Be sure to show that buyer's name, address, and SSN. You must also let that buyer know your SSN. If you don't show the buyer's name, address, and SSN, and let the buyer know your SSN, you may have to pay a \$50 penalty.

Nominees. If you received a Form 1099-INT that includes interest you received as a nominee (that is, in your name, but the interest actually belongs to someone else), report the total on line 1. Do this even if you later distributed some or all of this income to others. Under your last entry on line 1, put a subtotal of all interest listed on line 1. Below this subtotal, write "Nominee Distribution" and show the total interest you received as a nominee.

Subtract this amount from the subtotal and enter the result on line 2.

Note: If you received interest as a nominee, you must give the actual owner a **Form 1099-INT** unless the owner is your spouse. You must also file a Form 1099-INT with the IRS. Form 1096 must also be sent with Form 1099-INT. For more details, see the **Instructions for Forms 1099, 1098, 5498, and W-2G.**

Accrued Interest. When you buy bonds between interest payment dates and pay accrued interest to the seller, this interest is taxable to the seller. If you received a Form 1099 for interest as a purchaser of a bond with accrued interest, follow the rules earlier under **Nominees** to see how to report the accrued interest on Schedule B. But identify the amount to be subtracted as "Accrued Interest."

Tax-Exempt Interest. You should not have received a **Form 1099-INT** for tax-exempt interest. But if you did, report it on line 1. Do not include it in the total on line 2. Instead, under your last entry on line 1, put a subtotal of all interest listed on line 1. Below this subtotal, write "Tax-Exempt Interest" and show the amount. Subtract this amount from the subtotal and enter the result on line 2.

Original Issue Discount (OID). If you are reporting OID in an amount less than the amount shown on Form 1099-OID, follow the rules earlier under **Nominees** to see how to report the OID on Schedule B. But identify the amount to be subtracted as "OID Adjustment."

Amortizable Bond Premium. If you are reducing your interest income on a bond by the amount of amortizable bond premium, report the total interest on the bond on line 1. Under your last entry on line 1, put a subtotal of all interest listed on line 1. Below this subtotal, write "ABP Adjustment" and show the amount. Subtract this amount from the subtotal and enter the result on line 2.

Line 3 Excludable Interest on Series EE U.S. Savings Bonds Issued After 1989

If you cashed series EE U.S. savings bonds in 1994 that were issued after 1989 and you meet **all four** of the following conditions, you may be able to exclude part or all of the interest on those bonds.

1. The bonds were issued in your name or, if married, in your name and your spouse's name.

2. You were age 24 or older before the bonds were issued.

3. You paid qualified higher education expenses in 1994 for yourself, your spouse, or your dependents.

4. Your filing status is Single, Married filing jointly, Head of household, or Qualifying widow(er) with dependent child.

If you meet **all four** of the above conditions, get **Form 8815**, Exclusion of Interest From Series EE U.S. Savings Bonds Issued After 1989, to figure the amount of any interest you can exclude.

Part II. Dividend Income

To see what dividend income you must report, read the instructions for Form 1040, line 9, on page 16. The payer should send you a **Form 1099-DIV** showing dividends you must report. A copy of the form is also sent to the IRS.

Note: If, in 1994, you were an officer or director of a foreign corporation or you owned 5% or more in value of the outstanding stock of a foreign corporation, you may have to file **Form 5471**, Information Return of U.S. Persons With Respect To Certain Foreign Corporations. For details, see Form 5471 and its instructions.

Line 5 Dividend Income

Report on line 5 **all** of your dividend income. Include capital gain and nontaxable distributions. They will be deducted on lines 7 and 8. Include cash and the value of stock, property, or merchandise you received as a dividend. If you owned shares in a mutual fund, get **Pub. 564**, Mutual Fund Distributions.

List each payer's name and show the amount of income. If you received a **Form 1099-DIV** or substitute statement from a brokerage firm (securities are held by the brokerage firm in "street name"), list the firm's name as the payer and enter the total dividends shown on that form.

Nominees. If you received a Form 1099-DIV that includes dividends you received as a nominee (that is, in your name, but the dividends actually belong to someone else), report the total on line 5. Do this even if you later distributed some or all of this income to others. Under your last entry on line 5, put a subtotal of all dividends listed on line 5. Below this subtotal, write "Nominee Distri-

bution" and show the total dividends you received as a nominee. Subtract this amount from the subtotal and enter the result on line 6.

Note: If you received dividends as a nominee, you must give the actual owner a **Form 1099-DIV** unless the owner is your spouse. You must also file a **Form 1099-DIV** with the IRS. **Form 1096** must also be sent with **Form 1099-DIV**. For more details, see the **Instructions for Forms 1099, 1098, 5498, and W-2G**.

Line 7

Capital Gain Distributions

Report capital gain distributions on line 7. If you are filing Schedule D, also enter this amount on Schedule D, line 14. If you are not filing Schedule D, also enter this amount on Form 1040, line 13, and write "CGD" on the dotted line next to line 13.

Your tax may be less if you can use the Capital Gain Tax Worksheet on page 25.

Line 8

Nontaxable Distributions

Report nontaxable distributions on line 8. These distributions reduce your basis. For details, see the instructions for Form 1040, line 9, on page 16.

Part III. Foreign Accounts and Trusts

Lines 11a and 11b

Foreign Accounts

Line 11a. Check the **Yes** box on line 11a if **either 1 or 2** below applies to you.

1. You own more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

2. At any time during the year you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

Exceptions. Check **No** if any of the following applies to you:

- The combined value of the accounts was \$10,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.
- You were an officer or employee of a commercial bank that is supervised by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation; the account was in your employer's name; **and** you did not have a personal financial interest in the account.
- You were an officer or employee of a domestic corporation with securities listed on national securities exchanges or with assets of more than \$1 million and 500 or more shareholders of record; the account was in your employer's name; you did not have a personal financial interest in the account; and the corporation's chief financial officer

has given you written notice that the corporation has filed a current report that includes the account.

Note: *Item 2 does not apply to foreign securities held in a U.S. securities account.*

Get **Form TD F 90-22.1** to see if you are considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account). You can get the form by writing to the IRS Distribution Center for your state (see page 35).

If you checked the **Yes** box on line 11a, file Form TD F 90-22.1 by June 30, 1995, with the **Department of the Treasury** at the address shown on that form. **Do not** attach Form TD F 90-22.1 to Form 1040.

Line 11b. If you checked the **Yes** box on line 11a, enter the name of the foreign country or countries in the space provided on line 11b. Attach a separate sheet if you need more space.

Instructions for Schedule C, Profit or Loss From Business

Use Schedule C to report income or loss subject to self-employment tax from a business you operated or a profession you practiced as a sole proprietor. Also, use Schedule C to report wages and expenses you had as a statutory employee. An activity qualifies as a business if your primary purpose for engaging in the activity is for income or profit and you are involved in the activity with continuity and regularity. For example, a sporadic activity or a hobby does not qualify as a business. To report income from a nonbusiness activity, see the Instructions for Form 1040, line 21.

Small businesses and statutory employees with gross receipts of \$25,000 or less and expenses of \$2,000 or less may be able to file **Schedule C-EZ, Net Profit From Business**, instead of Schedule C. See Schedule C-EZ to find out if you qualify to file it.

This activity may subject you to state and local taxes and other requirements such as business licenses and fees. Check with your state and local governments for more information.

General Instructions

A Change To Note

The standard mileage rate has been increased to 29 cents for each mile of business use in 1994. See the instructions for line 10.

Other Schedules and Forms You May Have To File

Schedule A to deduct interest, taxes, and casualty losses not related to your business.

Schedule E to report rental real estate and royalty income or (loss) that is **not** subject to self-employment tax.

Schedule F to report profit or (loss) from farming.

Schedule SE to pay self-employment tax on income from any trade or business.

Form 4562 to claim depreciation on assets placed in service in 1994, to claim amortization that began in 1994, or to report information on listed property.

Form 4684 to report a casualty or theft gain or loss involving property used in your trade or business or income-producing property.

Form 4797 to report sales, exchanges, and involuntary conversions (other than from a casualty or theft) of trade or business property.

Form 8271 if you are claiming or you are reporting on Schedule C or C-EZ any income, deduction, loss, credit, or other tax benefit from a tax shelter.

Form 8594 to report certain purchases or sales of groups of assets that constitute a trade or business.

Form 8824 to report like-kind exchanges.

Form 8829 to claim expenses for business use of your home.

Heavy Vehicle Use Tax

If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a Federal highway motor vehicle use tax. Get **Form 2290**, Heavy Vehicle Use Tax Return, to see if you owe this tax.

Information Returns

You may have to file information returns for wages paid to employees, certain payments

of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other similar basis for resale. For more information, get the **Instructions for Forms 1099, 1098, 5498, and W-2G**.

If you received cash of more than \$10,000 in one or more related transactions in the course of your trade or business, you may have to file **Form 8300**. For details, get **Pub. 1544**, Reporting Cash Payments of Over \$10,000.

Additional Information

Get **Pub. 334**, Tax Guide for Small Business, for more details on business income and expenses.

Specific Instructions

Filers of Form 1041

Do not complete the block labeled "Social security number." Instead, enter your employer identification number (EIN) on line D.

Line A

Describe the business or professional activity that provided your principal source of income reported on line 1. If you owned more than one business, you must complete a separate Schedule C for each business. Give the general field or activity and the type of product or service. If your general field or activity is wholesale or retail trade, or services connected with production services (mining, construction, or manufacturing), also give the type of customer or client. For example, "wholesale sale of hardware to retailers" or "appraisal of real estate for lending institutions."

Line D

You need an employer identification number (EIN) only if you had a Keogh plan or were required to file an employment, excise, estate, trust, or alcohol, tobacco, and firearms tax return. If you need an EIN, file **Form SS-4**, Application for Employer Identification

Number. If you do not have an EIN, leave line D blank. **Do not** enter your SSN.

Line E

Enter your business address. Show a street address instead of a box number. Include the suite or room number, if any. If you conducted the business from your home located at the address shown on Form 1040, page 1, you do not have to complete this line.

Line F

You must use the cash method on your return unless you kept account books. If you kept such books, you can use the cash method or the accrual method. However, if inventories are required, you must use the accrual method for sales and purchases. Special rules apply to long-term contracts. See Internal Revenue Code section 460 for details. The method used must clearly reflect your income.

If you use the **cash method**, show all items of taxable income actually or constructively received during the year (in cash, property, or services). Income is constructively received when it is credited to your account or set aside for you to use. Also, show amounts actually paid during the year for deductible expenses.

If you use the **accrual method**, report income when you earn it and deduct expenses when you incur them even if you do not pay them during the tax year.

Accrual-basis taxpayers are put on a cash basis for deducting business expenses owed to a related cash-basis taxpayer. Other rules determine the timing of deductions based on economic performance. Get **Pub. 538**, Accounting Periods and Methods.

To change your accounting method (including treatment of inventories), you must usually first get permission from the IRS. In general, file **Form 3115** within the first 180 days of the tax year in which you want to make the change.

Line G

Your inventories can be valued at cost; cost or market value, whichever is lower; or any other method approved by the IRS.

Line I

Participation, for purposes of the seven material participation tests listed below, generally includes any work you did in connection with an activity if you owned an interest in the activity at the time you did the work. The capacity in which you did the work does not matter. However, work is not treated as participation if it is work that an owner would not customarily do in the same type of activity and one of your main reasons for doing the work was to avoid the disallowance of losses or credits from the activity under the passive activity rules.

Work you did as an investor in an activity is not treated as participation unless you were directly involved in the day-to-day management or operations of the activity. Work done as an investor includes:

1. Studying and reviewing financial statements or reports on operations of the activity.
2. Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use.
3. Monitoring the finances or operations of the activity in a nonmanagerial capacity.

Participation by your spouse during the tax year in an activity you own can be counted as your participation in the activity. This applies even if your spouse did not own an interest in the activity and whether or not you and your spouse file a joint return for the tax year.

Material Participation. For purposes of the passive activity rules, you materially participated in the operation of this trade or business activity during 1994 if you meet any of the following seven tests:

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year was substantially all of the participation in the activity of all individuals (including individuals who did not own any interest in the activity) for the tax year.
3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other person for the tax year. This includes individuals who did not own any interest in the activity.
4. The activity is a significant participation activity for the tax year, and you participated in all significant participation activities for more than 500 hours during the year. An activity is a "significant participation activity" if it involves the conduct of a trade or business, you participated in the activity for more than 100 hours during the tax year, and you did not materially participate under any of the material participation tests (other than this test 4).
5. You materially participated in the activity for any 5 of the prior 10 tax years.
6. The activity is a personal service activity in which you materially participated for any 3 prior tax years. A personal service activity is an activity that involves performing personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, or any other trade or business in which capital is not a material income-producing factor.

7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year. But you do not meet this test if you participated in the activity for 100 hours or less during the tax year. Your participation in managing the activity does not count in determining if you meet this test if any person (except you) —

a. Received compensation for performing management services in connection with the activity, or

b. Spent more hours during the tax year than you spent performing management services in connection with the activity (regardless of whether the person was compensated for the services).

If you meet any of the above tests, check the "Yes" box.

If you **do not** meet any of the above tests, check the "No" box. This business is a **passive activity**. If you have a loss from this business, see **Limit on Losses** below. If you have a profit from this business activity but have current-year losses from other passive activities or you have prior-year unallowed passive activity losses, see the instructions for **Form 8582**, Passive Activity Loss Limitations.

Exception for Oil and Gas. If you are filing Schedule C to report income and deductions from an oil or gas well in which you own a working interest directly or through an entity that does not limit your liability, check the "Yes" box. The activity of owning the working interest is not a passive activity regardless of your participation in the activity.

Limit on Losses. If you checked the "No" box and you have a loss from this business, you may have to use Form 8582 to figure your allowable loss, if any, to enter on Schedule C, line 31. Generally, you can deduct losses from passive activities only to the extent of income from passive activities.

For more details, get **Pub. 925**, Passive Activity and At-Risk Rules.

Line J

If you started or acquired this business in 1994, check the box on line J. Also, check the box if you are reopening or restarting this business after temporarily closing it, and you did not file a 1993 Schedule C or C-EZ for this business.

Part I. Income

Line 1

Enter gross receipts or sales from your business. Be sure to include on this line amounts you received in your trade or business as shown on **Form(s) 1099-MISC**.

Statutory Employees. If you received a Form W-2 and the "Statutory employee" box in box 15 of that form was checked, report your income and expenses related to that income on Schedule C or C-EZ. Enter your statutory employee income from box 1 of Form W-2 on line 1 of Schedule C or C-EZ, and **check the box** on that line. Social security and Medicare tax should have been withheld from your earnings; therefore, you do not owe self-employment tax on these earnings.

Statutory employees include full-time life insurance agents, certain agent or commission drivers and traveling salespersons, and certain homeworkers.

If you had both self-employment income and statutory employee income, **do not** combine these amounts on a single Schedule C or C-EZ. In this case, you must file two Schedules C. You cannot use Schedule C-EZ.

Installment Sales. Generally, the installment method may not be used to report income from the sale of (a) personal property regularly sold under the installment method, or (b) real property held for resale to customers. But the installment method may be used to report income from sales of certain residential lots and timeshares if you elect to pay interest on the tax due on that income after the year of sale. See Internal Revenue Code section 453(l)(2)(B) for details. If you make this election, include the interest on Form 1040, line 53. Also write "453(l)(3)" and the amount of the interest on the dotted line to the left of line 53.

If you use the installment method, attach a schedule to your return. Show separately for 1994 and the 3 preceding years: gross sales, cost of goods sold, gross profit, percentage of gross profit to gross sales, amounts collected, and gross profit on amounts collected.

Line 2

Enter such items as returned sales, rebates, and allowances from the sales price.

Line 6

Report on line 6 amounts from finance reserve income, scrap sales, bad debts you recovered, interest (such as on notes and accounts receivable), state gasoline or fuel tax refunds you got in 1994, credit for Federal tax paid on gasoline or other fuels claimed on your 1993 Form 1040, and other kinds of miscellaneous business income. Include amounts you received in your trade or business as shown on **Form(s) 1099-PATR**. Also, include any recapture of the deduction for clean-fuel vehicles used in your business and clean-fuel vehicle refueling property. For more details, get **Pub. 535**, Business Expenses.

If the business use percentage of any listed property (defined in the instructions for line 13) decreased to 50% or less in 1994, report on this line any recapture of excess depreciation, including any section 179 expense deduction. Use **Form 4797**, Sales of Business Property, to figure the recapture. Also, if the business use percentage drops to 50% or less on leased listed property (other than a vehicle), include on this line any inclusion amount. Get **Pub. 534**, Depreciation, to figure the amount.

Part II. Expenses

Capitalizing Costs of Property. If you produced real or tangible personal property or acquired property for resale, certain expenses attributable to the property must be included in inventory costs or capitalized. In addition to direct costs, producers of inventory property must also include part of cer-

tain indirect costs in their inventory. Purchasers of personal property acquired for resale must include part of certain indirect costs in inventory only if the average annual gross receipts for the 3 prior tax years exceed \$10 million. Also, you must capitalize part of the indirect costs that benefit real or tangible personal property constructed for use in a trade or business, or noninventory property produced for sale to customers. Reduce the amounts on lines 8–26 and Part V by amounts capitalized. For more details, see **Pub. 538**.

Exception for Creative Property. If you are an artist, author, or photographer, you may be exempt from the capitalization rules. However, your personal efforts must have created (or reasonably be expected to create) the property. This exception does not apply to any expense related to printing, photographic plates, motion picture films, video tapes, or similar items. These expenses are subject to the capitalization rules. For more details, see Pub. 538.

Line 9

Caution: *Cash method taxpayers cannot take a bad debt deduction unless the amount was previously included in income.*

Include debts and partial debts from sales or services that were included in income and are definitely known to be worthless. If you later collect a debt that you deducted as a bad debt, include it as income in the year collected. For more details, get **Pub. 535**, Business Expenses.

Line 10

You can deduct the actual cost of running your car or truck, or take the standard mileage rate. You **must** use actual costs if you did not own the vehicle or if you used more than one vehicle simultaneously in your business (such as in fleet operations).

If you deduct actual costs, include on line 10 the business portion of expenses for gasoline, oil, repairs, insurance, tires, license plates, etc. Show depreciation on line 13 and rent or lease payments on line 20a.

If you want to take the standard mileage rate, multiply the number of business miles by 29 cents a mile. Add to this amount your parking fees and tolls, and enter the total on line 10.

For more details, get **Pub. 917**, Business Use of a Car.

Information on Your Vehicle. If you claim any car and truck expenses, you must provide certain information on the use of your vehicle by completing:

- Part IV of Schedule C, or Part III of Schedule C-EZ, if (a) you are claiming the standard mileage rate, you lease your vehicle, or your vehicle is fully depreciated, and (b) you are **not** required to file Form 4562 for any other reason. If you used more than one vehicle during the year, attach your own schedule with the information requested in Part IV of Schedule C, or Part III of Schedule C-EZ, for each additional vehicle.
- Part V of **Form 4562**, Depreciation and Amortization, if you are claiming depreciation on your vehicle or you are required to file Form 4562 for any other reason (see the instructions for line 13 below).

Line 12

Enter your deduction for depletion on this line. If you have timber depletion, attach **Form T**. See Pub. 535 for details.

Line 13

Depreciation and Section 179 Expense Deduction. Depreciation is the annual deduction allowed to recover the cost or other basis of business or investment property with a useful life of more than 1 year. You can also depreciate improvements made to leased business property. However, stock in trade, inventories, and land are not depreciable.

Depreciation starts when you first use the property in your business or for the production of income. It ends when you take the property out of service, deduct all your depreciable cost or other basis, or no longer use the property in your business or for the production of income.

For property placed in service after 1980, see the Instructions for Form 4562 to figure the amount of depreciation to enter on line 13. For property placed in service before 1981, figure depreciation from your own books and records.

You may also choose under Internal Revenue Code section 179 to expense part of the cost of certain property you bought in 1994 for use in your business. See the Instructions for Form 4562 for more details.

When To Attach Form 4562. You must complete and attach Form 4562 **only** if:

- You are claiming depreciation on property placed in service during 1994, or
- You are claiming depreciation on listed property (defined below), regardless of the date it was placed in service, or
- You are claiming a section 179 expense deduction.

If you acquired depreciable property for the first time in 1994, get **Pub. 946**, How To Begin Depreciating Your Property. For a more comprehensive guide on depreciation, get **Pub. 534**, Depreciation.

Listed property generally includes, but is not limited to:

- Passenger automobiles weighing 6,000 pounds or less.
- Any other property used for transportation if the nature of the property lends itself to personal use, such as motorcycles, pick-up trucks, etc.
- Any property used for entertainment or recreational purposes (such as photographic, phonographic, communication, and video recording equipment).
- Cellular telephones or other similar telecommunications equipment placed in service after 1989.
- Computers or peripheral equipment.

Exceptions. Listed property does not include photographic, phonographic, communication, or video equipment used exclusively in your trade or business or at your regular business establishment. It also does not include any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating the establishment. For purposes of these exceptions,

a portion of your home is treated as a regular business establishment only if that portion meets the requirements under Internal Revenue Code section 280A(c)(1) for deducting expenses for the business use of your home.

If the business use percentage of any listed property decreased to 50% or less in 1994, see the instructions for line 6 on page C-2.

Line 14

Deduct contributions to employee benefit programs that are not an incidental part of a pension or profit-sharing plan included on line 19. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs.

Do not include on line 14 any contributions you made on your behalf as a self-employed person to an accident and health plan or for group-term life insurance. You may be able to deduct on Form 1040, line 26, part of the amount you paid for health insurance on behalf of yourself, your spouse, and dependents, even if you do not itemize your deductions. See the Form 1040 instructions on page 21 for more details.

Line 15

Deduct premiums paid for business insurance on line 15. Deduct on line 14 amounts paid for employee accident and health insurance. Do not deduct amounts credited to a reserve for self-insurance or premiums paid for a policy that pays for your lost earnings due to sickness or disability. For more details, see Pub. 535.

Lines 16a and 16b

Interest Allocation Rules. The tax treatment of interest expense differs depending on its type. For example, home mortgage interest and investment interest are treated differently. "Interest allocation" rules require you to allocate (classify) your interest expense so it is deducted (or capitalized) on the correct line of your return and gets the right tax treatment. These rules could affect how much interest you are allowed to deduct on Schedule C or C-EZ.

Generally, you allocate interest expense by tracing how the proceeds of the loan were used. See Pub. 535 for details.

If you paid interest in 1994 that applies to future years, deduct only the part that applies to 1994. If you paid interest on a debt secured by your main home and any of the proceeds from that debt were used in connection with your trade or business, see Pub. 535 to figure the amount that is deductible on Schedule C or C-EZ.

If you have a mortgage on real property used in your business (other than your main home), enter on line 16a the interest you paid for 1994 to banks or other financial institutions for which you received a **Form 1098**, Mortgage Interest Statement. If you didn't receive a Form 1098, enter the interest on line 16b.

If you paid \$600 or more of mortgage interest, the recipient should send you a Form 1098 or similar statement showing the total interest received from you during 1994. This statement must be sent to you by January 31, 1995. If you paid more mortgage interest

to financial institutions than is shown on Form 1098 or similar statement, see Pub. 535 to find out if you can deduct the additional interest. If you can, enter the amount on line 16a. Attach a statement to your return explaining the difference. Write "See attached" in the left margin next to line 16a.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, report your share of the interest on line 16b. Attach a statement to your return showing the name and address of the person who received the Form 1098. In the left margin next to line 16b, write "See attached."

Do not deduct interest you paid or accrued on debts allocable to investment property. This interest is generally deducted on **Schedule A**. For details, get **Pub. 550**, Investment Income and Expenses.

Line 17

Include on this line fees for tax advice related to your business and for preparation of the tax forms related to your business.

Line 19

Enter your deduction for contributions to a pension, profit-sharing, or annuity plan, or plans for the benefit of your employees. If the plan includes you as a self-employed person, enter contributions made as an employer on your behalf on Form 1040, line 27, not on Schedule C.

Generally, you must file one of the following forms if you maintain a pension, profit-sharing, or other funded-deferred compensation plan. The filing requirement is not affected by whether or not the plan qualified under the Internal Revenue Code, or whether or not you claim a deduction for the current tax year.

Form 5500. Complete this form for each plan with 100 or more participants.

Form 5500-C/R or 5500-EZ. Complete the applicable form for each plan with fewer than 100 participants.

There is a penalty for failure to timely file these forms.

For more information, get **Pub. 560**, Retirement Plans for the Self-Employed.

Lines 20a and 20b

If you rented or leased vehicles, machinery, or equipment, enter on line 20a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you may have to reduce your deduction by an amount called the **inclusion amount**.

You may have to do this if—

The lease term began:	And the vehicle's fair market value on the first day of the lease exceeded:
During 1994	\$14,900
During 1993	14,300
During 1992	13,700
During 1991	13,400
After 1986 but before 1991	12,800

If the lease term began after June 18, 1984, but before January 1, 1987, see **Pub. 917** to find out if you have an inclusion amount.

See **Pub. 917** to figure your inclusion amount.

Enter on line 20b amounts paid to rent or lease other property, such as office space in a building.

Line 21

Deduct the cost of repairs and maintenance. Include labor, supplies, and other items that do not add to the value or increase the life of the property. Do not deduct the value of your own labor. Do not deduct amounts spent to restore or replace property; they must be capitalized.

Line 23

You can deduct the following taxes on this line:

- State and local sales taxes imposed on you as the seller of goods or services. If you collected this tax from the buyer, you must also include the amount collected in gross receipts or sales on line 1.
- Real estate and personal property taxes on business assets.
- Social security and Medicare taxes paid to match required withholding from your employees' wages. Also, Federal unemployment tax paid. Reduce your deduction by the amount of the current year credit shown on line 4 of **Form 8846**, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips.
- Federal highway use tax.

Do not deduct on this line:

- Federal income taxes, including your self-employment tax. However, you may deduct one-half of your self-employment tax on Form 1040, line 25.
- Estate and gift taxes.
- Taxes assessed to pay for improvements, such as paving and sewers.
- Taxes on your home or personal use property.
- State and local sales taxes on property purchased for use in your business. Instead, treat these taxes as part of the cost of the property.
- State and local sales taxes imposed on the buyer that you were required to collect and pay over to the state or local governments. These taxes are not included in gross receipts or sales nor are they a deductible expense. However, if the state or local government allowed you to retain any part of the sales tax you collected, you must include that amount as income on line 6.
- Other taxes not related to your business.

Line 24a

Enter your expenses for lodging and transportation connected with overnight travel for business while away from your tax home. Generally, your tax home is your main place of business regardless of where you maintain your family home. You cannot deduct expenses paid or incurred in connection with employment away from home if that period of employment exceeds 1 year. Also, you

cannot deduct travel expenses for your spouse, your dependent, or any other individual unless that person is your employee, the travel is for a bona fide business purpose, and the expenses would otherwise be deductible by that person.

Do not include expenses for meals and entertainment on this line. Instead, see the instructions for lines 24b and 24c below.

You cannot deduct expenses for attending a foreign convention unless it is directly related to your trade or business and it is as reasonable for the meeting to be held outside the North American area as within it. These rules apply to both employers and employees. Other rules apply to luxury water travel.

For more details, get **Pub. 463**, Travel, Entertainment, and Gift Expenses.

Lines 24b and 24c

On line 24b, enter your total business meal and entertainment expenses. Include meals while traveling away from home for business. Instead of the actual cost of your meals while traveling away from home, you may use the standard meal allowance. For more details, see **Pub. 463**.

Business meal expenses are deductible only if they are **(a)** directly related to or associated with the active conduct of your trade or business, **(b)** not lavish or extravagant, and **(c)** incurred while you or your employee is present at the meal.

You cannot deduct any expense paid or incurred for a facility (such as a yacht or hunting lodge) used for any activity usually considered entertainment, amusement, or recreation. Also, you cannot deduct amounts paid or incurred for membership dues in any club organized for business, pleasure, recreation, or other social purpose. This includes business, social, athletic, luncheon, sporting, airline, and hotel clubs.

There are exceptions to these rules as well as other rules that apply to sky-box rentals and tickets to entertainment events. See **Pub. 463**.

Generally, you may deduct **only** 50% of your business meal and entertainment expenses, including meals incurred while traveling away from home on business. However, you may fully deduct meals and entertainment furnished or reimbursed to an employee if you properly treat the expense as wages subject to withholding. You may also fully deduct meals and entertainment provided to a nonemployee to the extent the expenses are includible in the gross income of that person and reported on Form 1099-MISC.

Figure how much of the amount on line 24b is subject to the 50% limit. Then, enter one-half of that amount on line 24c.

Line 25

Deduct only utility expenses paid or incurred for your trade or business.

Local Telephone Service. If you used your home phone for business, do not deduct the base rate (including taxes) of the first phone line into your residence. But you can deduct expenses for any additional costs you incurred for business that are more than the cost of the base rate for the first phone line.

For example, if you had a second line, you can deduct the business percentage of the charges for that line, including the base rate charges.

Line 26

Enter the total salaries and wages paid or incurred for the tax year. Do not include salaries and wages deducted elsewhere on your return or amounts paid to yourself. Reduce your deduction by the current year credits claimed on:

- **Form 5884**, Jobs Credit.
- **Form 8844**, Empowerment Zone Employment Credit.
- **Form 8845**, Indian Employment Credit.

Caution: If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount applicable to depreciation and other expenses claimed elsewhere.

Line 30

Business Use of Your Home. You may be able to deduct certain expenses for business use of your home, subject to limitations. Generally, any amount not allowed as a deduction for 1994 because of the limitations can be carried over to 1995. You must attach **Form 8829**, Expenses for Business Use of Your Home, if you claim this deduction.

For details, see the Instructions for Form 8829, and get **Pub. 587**, Business Use of Your Home.

Line 31

If you have a loss, the amount of loss you can deduct this year may be limited. Go on to line 32 before entering your loss on line 31. If you answered "No" to Question I on Schedule C, also see the Instructions for Form 8582. Enter the net profit or deductible loss here. Combine this amount with any profit or loss from other businesses, and enter the total on Form 1040, line 12, and Schedule SE, line 2. Estates and trusts should enter the total on Form 1041, line 3.

If you have a net profit on line 31, this amount is earned income and may qualify you for the earned income credit if you meet certain conditions. See the Instructions for Form 1040, line 56, on page 27 for more details.

Statutory Employees. If you are filing Schedule C to report income and expenses as a statutory employee, include your net profit or deductible loss from line 31 with other Schedule C amounts on Form 1040, line 12. However, **do not** report this amount on Schedule SE, line 2. If you are required to file Schedule SE because of other self-employment income, see the instructions for Schedule SE.

Line 32

At-Risk Rules. Generally, if you have (a) a business loss, and (b) amounts in the business for which you are **not at risk**, you will have to complete **Form 6198**, At-Risk Limitations, to figure your allowable loss.

The at-risk rules generally limit the amount of loss (including loss on the disposition of

assets) you can claim to the amount you could actually lose in the business.

Check **box 32b** if you have amounts for which you are not at risk in this business, such as the following.

- Nonrecourse loans used to finance the business, to acquire property used in the business, or to acquire the business, that are not secured by your own property (other than property used in the business). However, there is an exception for certain nonrecourse financing borrowed by you in connection with holding real property.
- Cash, property, or borrowed amounts used in the business (or contributed to the business, or used to acquire the business) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).
- Amounts borrowed for use in the business from a person who has an interest in the business, other than as a creditor, or who is related, under Internal Revenue Code section 465(b)(3), to a person (other than you) having such an interest.

If all amounts are at risk in this business, check **box 32a** and enter your loss on line 31. But if you answered "No" to Question I, you may need to complete **Form 8582** to figure your allowable loss to enter on line 31. See the Instructions for Form 8582 for more details.

If you checked **box 32b**, get Form 6198 to determine the amount of your deductible loss and enter that amount on line 31. But if you answered "No" to Question I, your loss may be further limited. See the Instructions for Form 8582. If your at-risk amount is zero or less, enter zero on line 31. Be sure to attach Form 6198 to your return. If you checked box 32b and you do not attach Form 6198, the processing of your tax return may be delayed.

Statutory Employees. Include your deductible loss with other Schedule C amounts on Form 1040, line 12. **Do not** include this amount on Schedule SE, line 2.

Any loss from this business not allowed for 1994 because of the at-risk rules is treated as a deduction allocable to the business in 1995. For more details, see the Instructions for Form 6198 and **Pub. 925**.

Part III. Cost of Goods Sold

If you engaged in a trade or business in which the production, purchase, or sale of merchandise was an income-producing factor, merchandise inventories must be taken into account at the beginning and end of your tax year.

Note: Certain direct and indirect expenses must be capitalized or included in inventory. See the instructions for Part II.

Part V. Other Expenses

Include all ordinary and necessary business expenses not deducted elsewhere on Schedule C. List the type and amount of each expense separately in the space pro-

vided. Enter the total on lines 46 and 27. Do not include the cost of business equipment or furniture, replacements or permanent improvements to property, or personal, living, and family expenses. Do not include charitable contributions. Also, you may not deduct fines or penalties paid to a government for violating any law. For more details on business expenses, see Pub. 535.

Amortization. Include amortization in this part. For amortization that begins in 1994, you must complete and attach **Form 4562**.

You may amortize:

- The cost of pollution-control facilities.
- Amounts paid for research and experimentation.
- Certain business startup costs.
- Qualified forestation and reforestation costs.
- Amounts paid to acquire, protect, expand, register, or defend trademarks or trade names.
- Goodwill and certain other intangibles.

In general, you **may not** amortize real property construction period interest and taxes. Special rules apply for allocating interest to real or personal property produced in your trade or business.

At-Risk Loss Deduction. Any loss from this activity that was not allowed as a deduction last year because of the at-risk rules is treated as a deduction allocable to this activity in 1994.

Capital Construction Fund. Do not claim on Schedule C or C-EZ the deduction for amounts contributed to a capital construction fund set up under the Merchant Marine Act of 1936. To take the deduction, reduce the amount that would otherwise be entered as taxable income on Form 1040, line 37, by the amount of the deduction. In the margin to the left of line 37, write "CCF" and the amount of the deduction. For more information, get **Pub. 960**, Capital Construction Fund for Commercial Fishermen.

Deduction for Clean-Fuel Vehicles and Clean-Fuel Vehicle Refueling Property. You may deduct part of the cost of qualified clean-fuel vehicle property used in your business and qualified clean-fuel vehicle refueling property. See Pub. 535 for more details.

Disabled Access Credit and the Deduction for Removing Barriers to Individuals with Disabilities and the Elderly. You may be able to claim a tax credit of up to \$5,000 for eligible expenditures paid or incurred in 1994 to provide access to your business for individuals with disabilities. Get **Form 8826**, Disabled Access Credit, for more details. You can also deduct up to \$15,000 of costs paid or incurred in 1994 to remove architectural or transportation barriers to individuals with disabilities and the elderly. However, you cannot take both the credit and the deduction on the same expenditures.

Principal Business or Professional Activity Codes (Caution: Some codes are new or have been revised. Check your code carefully.)

Locate the major category that best describes your activity. Within the major category, select the activity code that most closely identifies the business or profession that is the principal source of your sales or

receipts. **Enter this 4-digit code on line B of Schedule C or C-EZ.** For example, real estate agent is under the major category of **"Real Estate,"** and the code is "5520."

Note: If your principal source of income is from farming activities, you should file **Schedule F (Form 1040), Profit or Loss From Farming.**

<p>Agricultural Services, Forestry, Fishing</p>	<p>Real Estate</p> <p>5538 Operators & lessors of buildings, including residential</p> <p>5553 Operators & lessors of other real property</p> <p>5520 Real estate agents & brokers</p> <p>5579 Real estate property managers</p> <p>5710 Subdividers & developers, except cemeteries</p> <p>6155 Title abstract offices</p>	<p>Hotels & Other Lodging Places</p> <p>7237 Camps & camping parks</p> <p>7096 Hotels, motels, & tourist homes</p> <p>7211 Rooming & boarding houses</p> <p>Laundry & Cleaning Services</p> <p>7450 Carpet & upholstery cleaning</p> <p>7419 Coin-operated laundries & dry cleaning</p> <p>7435 Full-service laundry, dry cleaning, & garment service</p> <p>7476 Janitorial & related services (building, house, & window cleaning)</p>	<p>3081 Eating places, fast food</p> <p>3079 Full service restaurants</p> <p>3210 Grocery stores (general line)</p> <p>3251 Liquor stores</p> <p>3236 Specialized food stores (meat, produce, candy, health food, etc.)</p>
<p>Code</p> <p>1990 Animal services, other than breeding</p> <p>1933 Crop services</p> <p>2113 Farm labor & management services</p> <p>2246 Fishing, commercial</p> <p>2238 Forestry, except logging</p> <p>2212 Horticulture, gardening, & landscaping</p> <p>2469 Hunting & trapping</p> <p>1974 Livestock breeding</p> <p>0836 Logging</p> <p>1958 Veterinary services, including pets</p>	<p>Services: Personal, Professional, & Business Services</p>	<p>Medical & Health Services</p> <p>9274 Chiropractors</p> <p>9233 Dentist's office or clinic</p> <p>9217 Doctor's (M.D.) office or clinic</p> <p>9456 Medical & dental laboratories</p> <p>9472 Nursing & personal care facilities</p> <p>9290 Optometrists</p> <p>9258 Osteopathic physicians & surgeons</p> <p>9241 Podiatrists</p> <p>9415 Registered & practical nurses</p> <p>9431 Offices & clinics of other health practitioners (dietitians, midwives, speech pathologists, etc.)</p> <p>9886 Other health services</p>	<p>Furniture & General Merchandise</p> <p>3988 Computer & software stores</p> <p>3970 Furniture stores</p> <p>4317 Home furnishings stores (china, floor coverings, drapes)</p> <p>4119 Household appliance stores</p> <p>4333 Music & record stores</p> <p>3996 TV, audio & electronic stores</p> <p>3715 Variety stores</p> <p>3731 Other general merchandise stores</p>
<p>Construction</p>	<p>Amusement & Recreational Services</p> <p>9670 Bowling centers</p> <p>9688 Motion picture & tape distribution & allied services</p> <p>9597 Motion picture & video production</p> <p>9639 Motion picture theaters</p> <p>8557 Physical fitness facilities</p> <p>9696 Professional sports & racing, including promoters & managers</p> <p>9811 Theatrical performers, musicians, agents, producers, & related services</p> <p>9613 Video tape rental</p> <p>9837 Other amusement & recreational services</p>	<p>Miscellaneous Repair, Except Computers</p> <p>9019 Audio equipment & TV repair</p> <p>9035 Electrical & electronic equipment repair, except audio & TV</p> <p>9050 Furniture repair & reupholstery</p> <p>2881 Other equipment repair</p>	<p>Miscellaneous Retail Stores</p> <p>4812 Boat dealers</p> <p>5017 Book stores, excluding newsstands</p> <p>4853 Camera & photo supply stores</p> <p>3277 Drug stores</p> <p>5058 Fabric & needlework stores</p> <p>4655 Florists</p> <p>5090 Fuel dealers (except gasoline)</p> <p>4630 Gift, novelty, & souvenir shops</p> <p>4838 Hobby, toy, & game shops</p> <p>4671 Jewelry stores</p> <p>4895 Luggage & leather goods stores</p> <p>5074 Mobile home dealers</p> <p>4879 Optical goods stores</p> <p>4697 Sporting goods & bicycle shops</p> <p>5033 Stationery stores</p> <p>4614 Used merchandise & antique stores (except motor vehicle parts)</p> <p>5884 Other retail stores</p>
<p>Building Trades, Including Repairs</p> <p>0414 Carpentering & flooring</p> <p>0455 Concrete work</p> <p>0273 Electrical work</p> <p>0299 Masonry, dry wall, stone, & tile</p> <p>0257 Painting & paper hanging</p> <p>0232 Plumbing, heating, & air conditioning</p> <p>0430 Roofing, siding, & sheet metal</p> <p>0885 Other building trade contractors (excavation, glazing, etc.)</p>	<p>Automotive Services</p> <p>8813 Automotive rental or leasing, without driver</p> <p>8953 Automotive repairs, general & specialized</p> <p>8839 Parking, except valet</p> <p>8896 Other automotive services (wash, towing, etc.)</p>	<p>Trade, Retail—Selling Goods to Individuals & Households</p> <p>3038 Catalog or mail order</p> <p>3046 Flea markets or shows</p> <p>3012 Selling door to door, by telephone or party plan, or from mobile unit</p> <p>3053 Vending machine selling</p>	<p>Trade, Wholesale—Selling Goods to Other Businesses, etc.</p> <p>Durable Goods, Including Machinery Equipment, Wood, Metals, etc.</p> <p>2634 Agent or broker for other firms—more than 50% of gross sales on commission</p> <p>2618 Selling for your own account</p> <p>Nonurable Goods, Including Food, Fiber, Chemicals, etc.</p> <p>2675 Agent or broker for other firms—more than 50% of gross sales on commission</p> <p>2659 Selling for your own account</p>
<p>General Contractors</p> <p>0075 Highway & street construction</p> <p>0059 Nonresidential building</p> <p>0034 Residential building</p> <p>3889 Other heavy construction (pipe laying, bridge construction, etc.)</p>	<p>Business & Personal Services</p> <p>7658 Accounting & bookkeeping</p> <p>7716 Advertising, except direct mail</p> <p>7682 Architectural services</p> <p>6883 Authors & artists</p> <p>8318 Barber shop (or barber)</p> <p>8110 Beauty shop (or beautician)</p> <p>8714 Child day care</p> <p>7872 Computer programming, processing, data preparation & related services</p> <p>7922 Computer repair, maintenance, & leasing</p> <p>7286 Consulting services</p> <p>7799 Consumer credit reporting & collection services</p> <p>8755 Counseling (except health practitioners)</p> <p>7732 Employment agencies & personnel supply</p> <p>7518 Engineering services</p> <p>7773 Equipment rental & leasing (except computer or automotive)</p> <p>8532 Funeral services & crematories</p> <p>7633 Income tax preparation</p> <p>7914 Investigative & protective services</p> <p>7617 Legal services (or lawyer)</p> <p>7856 Mailing, reproduction, commercial art, photography, & stenographic services</p> <p>7245 Management services</p> <p>8771 Ministers & chaplains</p> <p>8334 Photographic studios</p> <p>7260 Public relations</p> <p>8733 Research services</p> <p>7708 Surveying services</p> <p>8730 Teaching or tutoring</p> <p>7880 Other business services</p> <p>6882 Other personal services</p>	<p>Selling From Showroom, Store, or Other Fixed Location</p> <p>Apparel & Accessories</p> <p>3921 Accessory & specialty stores & furriers for women</p> <p>3939 Clothing, family</p> <p>3772 Clothing, men's & boys'</p> <p>3913 Clothing, women's</p> <p>3756 Shoe stores</p> <p>3954 Other apparel & accessory stores</p>	<p>Transportation, Communications, Public Utilities, & Related Services</p> <p>6619 Air transportation</p> <p>6312 Bus & limousine transportation</p> <p>6676 Communication services</p> <p>6395 Courier or package delivery</p> <p>6361 Highway passenger transportation (except chartered service)</p> <p>6536 Public warehousing</p> <p>6114 Taxicabs</p> <p>6510 Trash collection without own dump</p> <p>6635 Travel agents & tour operators</p> <p>6338 Trucking (except trash collection)</p> <p>6692 Utilities (dumps, snow plowing, road cleaning, etc.)</p> <p>6551 Water transportation</p> <p>6650 Other transportation services</p>
<p>Finance, Insurance, & Related Services</p> <p>6064 Brokers & dealers of securities</p> <p>6080 Commodity contracts brokers & dealers; security & commodity exchanges</p> <p>6148 Credit institutions & mortgage bankers</p> <p>5702 Insurance agents or brokers</p> <p>5744 Insurance services (appraisal, consulting, inspection, etc.)</p> <p>6130 Investment advisors & services</p> <p>5777 Other financial services</p>	<p>Automotive & Service Stations</p> <p>3558 Gasoline service stations</p> <p>3319 New car dealers (franchised)</p> <p>3533 Tires, accessories, & parts</p> <p>3335 Used car dealers</p> <p>3517 Other automotive dealers (motorcycles, recreational vehicles, etc.)</p>	<p>Building, Hardware, & Garden Supply</p> <p>4416 Building materials dealers</p> <p>4457 Hardware stores</p> <p>4473 Nurseries & garden supply stores</p> <p>4432 Paint, glass, & wallpaper stores</p> <p>Food & Beverages</p> <p>0612 Bakeries selling at retail</p> <p>3086 Catering services</p> <p>3095 Drinking places (bars, taverns, pubs, saloons, etc.)</p>	<p>8888 Unable to classify</p>
<p>Manufacturing, Including Printing & Publishing</p> <p>0679 Apparel & other textile products</p> <p>1115 Electric & electronic equipment</p> <p>1073 Fabricated metal products</p> <p>0638 Food products & beverages</p> <p>0810 Furniture & fixtures</p> <p>0695 Leather footwear, handbags, etc.</p> <p>0836 Lumber & other wood products</p> <p>1099 Machinery & machine shops</p> <p>0877 Paper & allied products</p> <p>1057 Primary metal industries</p> <p>0851 Printing & publishing</p> <p>1032 Stone, clay, & glass products</p> <p>0653 Textile mill products</p> <p>1883 Other manufacturing industries</p>	<p>Building, Hardware, & Garden Supply</p> <p>4416 Building materials dealers</p> <p>4457 Hardware stores</p> <p>4473 Nurseries & garden supply stores</p> <p>4432 Paint, glass, & wallpaper stores</p> <p>Food & Beverages</p> <p>0612 Bakeries selling at retail</p> <p>3086 Catering services</p> <p>3095 Drinking places (bars, taverns, pubs, saloons, etc.)</p>	<p>Food & Beverages</p> <p>0612 Bakeries selling at retail</p> <p>3086 Catering services</p> <p>3095 Drinking places (bars, taverns, pubs, saloons, etc.)</p>	<p>8888 Unable to classify</p>
<p>Mining & Mineral Extraction</p> <p>1537 Coal mining</p> <p>1511 Metal mining</p> <p>1552 Oil & gas</p> <p>1719 Quarrying & nonmetallic mining</p>	<p>Food & Beverages</p> <p>0612 Bakeries selling at retail</p> <p>3086 Catering services</p> <p>3095 Drinking places (bars, taverns, pubs, saloons, etc.)</p>	<p>Food & Beverages</p> <p>0612 Bakeries selling at retail</p> <p>3086 Catering services</p> <p>3095 Drinking places (bars, taverns, pubs, saloons, etc.)</p>	<p>8888 Unable to classify</p>

Instructions for Schedule D, Capital Gains and Losses

Additional Information. Get **Pub. 544**, *Sales and Other Dispositions of Assets*, and **Pub. 550**, *Investment Income and Expenses*, for more details.

General Instructions

Purpose of Schedule

Use Schedule D to report:

- The sale or exchange of a capital asset.
- Gains from involuntary conversions (other than from casualty or theft) of capital assets not held for business or profit.
- Capital gain distributions not reported directly on Form 1040, line 13.
- Nonbusiness bad debts.

Other Forms You May Have To File

Use **Form 4797**, *Sales of Business Property*, to report the following:

- The sale or exchange of property used in a trade or business; depreciable and amortizable property; oil, gas, geothermal, or other mineral property; and section 126 property.
- The involuntary conversion (other than from casualty or theft) of property used in a trade or business and capital assets held for business or profit.
- The disposition of noncapital assets other than inventory or property held primarily for sale to customers in the ordinary course of your trade or business.
- Ordinary loss on the sale, exchange, or worthlessness of small business (section 1244) stock.

Use **Form 4684**, *Casualties and Thefts*, to report involuntary conversions of property due to casualty or theft.

Use **Form 8824**, *Like-Kind Exchanges*, if you made one or more like-kind exchanges. See **Like-Kind Exchanges** on page D-2.

Capital Asset

Most property you own and use for personal purposes, pleasure, or investment is a capital asset. For example, your house, furniture, car, stocks, and bonds are capital assets. A capital asset is any property held by you **except** the following:

1. Stock in trade or other property included in inventory or held for sale to customers.
2. Accounts or notes receivable for services performed in the ordinary course of your trade or business or as an employee, or from the sale of any property described in 1.
3. Depreciable property used in your trade or business even if it is fully depreciated.
4. Real property (real estate) used in your trade or business.
5. Copyrights, literary, musical, or artistic compositions, letters or memoranda, or sim-

ilar property: (a) created by your personal efforts; (b) prepared or produced for you (in the case of letters, memoranda, or similar property); or (c) that you received from someone who created them or for whom they were created, as mentioned in (a) or (b), in a way (such as by gift) that entitled you to the basis of the previous owner.

6. U.S. Government publications, including the Congressional Record, that you received from the government, other than by purchase at the normal sales price, or that you got from someone who had received it in a similar way, if your basis is determined by reference to the previous owner's basis.

Short-Term or Long-Term

Separate your capital gains and losses according to how long you held or owned the property. The holding period for long-term capital gains and losses is more than 1 year. The holding period for short-term capital gains and losses is 1 year or less. To figure the holding period, begin counting on the day after you received the property and include the day you disposed of it. Use the trade dates for date acquired and date sold for stocks and bonds traded on an exchange or over-the-counter market.

If you disposed of property that you acquired by inheritance, report the disposition as a long-term gain or loss, regardless of how long you held the property.

A nonbusiness bad debt must be treated as a short-term capital loss. See **Pub. 550** under **Nonbusiness Bad Debts** for what qualifies as a nonbusiness bad debt and how to enter it on Schedule D.

Losses That Are Not Deductible

Do not deduct a loss from the direct or indirect sale or exchange of property between any of the following:

- Members of a family.
- A corporation and an individual owning more than 50% of the corporation's stock (unless the loss is from a distribution in complete liquidation of a corporation).
- A grantor and a fiduciary of a trust.
- A fiduciary and a beneficiary of the same trust.
- A fiduciary and a beneficiary of another trust created by the same grantor.
- An individual and a tax-exempt organization controlled by the individual or the individual's family.

See **Pub. 544** for more details on sales and exchanges between related parties.

If you dispose of (a) an asset used in an activity to which the at-risk rules apply, or

(b) any part of your interest in an activity to which the at-risk rules apply, and you have amounts in the activity for which you are not at risk, get the instructions for **Form 6198**, *At-Risk Limitations*. If the loss is allowable under the at-risk rules, it may then be subject to the passive activity rules. Get **Form 8582**, *Passive Activity Loss Limitations*, and its instructions to see how to report capital gains and losses from a passive activity.

Items for Special Treatment and Special Cases

The following items may require special treatment:

- Transactions by a securities dealer.
- Bonds and other debt instruments. See **Pub. 550** for details.
- Certain real estate subdivided for sale which may be considered a capital asset.
- Gain on the sale of depreciable property to a more than 50% owned entity, or to a trust of which you are a beneficiary.
- Gain on the disposition of stock in an Interest Charge Domestic International Sales Corporation.
- Gain on the sale or exchange of stock in certain foreign corporations.
- Transfer of property to a foreign corporation as paid-in surplus or as a contribution to capital, or to a foreign trust or partnership.
- Transfer of property to a partnership that would be treated as an investment company if it were incorporated.
- Sales of stock received under a qualified public utility dividend reinvestment plan. See **Pub. 550** for details.
- Transfer of appreciated property to a political organization.
- In general, no gain or loss is recognized on the transfer of property from an individual to a spouse or a former spouse if the transfer is incident to a divorce. Get **Pub. 504**, *Divorced or Separated Individuals*.
- Amounts received on the retirement of a debt instrument generally are treated as received in exchange for the debt instrument.
- Any loss on the disposition of converted wetland or highly erodible cropland that is first used for farming after March 1, 1986, is reported as long-term capital loss on Schedule D, but any gain is reported as ordinary income on Form 4797.
- Amounts received by shareholders in corporate liquidations.
- Cash received in lieu of fractional shares of stock as a result of a stock split or stock dividend. See **Pub. 550**.
- Mutual fund load charges may not be taken into account in determining gain or loss on certain dispositions of stock in

mutual funds if reinvestment rights were exercised. For details, get **Pub. 564**, Mutual Fund Distributions.

Wash Sales

A wash sale occurs when you sell or otherwise dispose of stock or securities (including a contract or option to acquire or sell stock or securities) at a loss and, within 30 days before or after the sale or disposition, you directly or indirectly:

1. Buy substantially identical stock or securities,
2. Acquire substantially identical stock or securities in a fully taxable trade, or
3. Enter into a contract or option to acquire substantially identical stock or securities.

You cannot deduct losses from wash sales, unless the loss was incurred in the ordinary course of your business as a dealer in stock or securities. The basis of the substantially identical stock or securities you acquired (or the contract or option to acquire such stock or securities) is its cost increased by the disallowed loss. For more details on wash sales, see Pub. 550.

Report a wash sale transaction on line 1 or line 9. Show the full amount of the loss in column (f). On the next line, enter "Wash Sale" in column (a) and the amount of the loss not allowed in column (g).

Short Sales

A short sale is a contract to sell property you borrowed for delivery to a buyer. At a later date, you either buy substantially identical property and deliver it to the lender or deliver property that you held but did not want to transfer at the time of the sale. Usually, your holding period is the amount of time you actually held the property eventually delivered to the lender to close the short sale. However, if you held substantially identical property for 1 year or less on the date of the short sale, or if you acquire property substantially identical to the property sold short after the short sale but on or before the date you close the short sale, your gain when closing the short sale is a short-term capital gain. If you held substantially identical property for more than 1 year on the date of a short sale, any loss realized on the short sale is a long-term capital loss, even if the property used to close the short sale was held 1 year or less.

Gain or Loss From Options

Report on Schedule D gain or loss from the closing or expiration of an option that is not a section 1256 contract, but that is a capital asset in your hands. If a purchased option expired, enter the expiration date in column (c), and write "EXPIRED" in column (d). If an option that was granted (written) expired, enter the expiration date in column (b), and write "EXPIRED" in column (e). Fill in the other columns as appropriate. See Pub. 550 for more details.

Like-Kind Exchanges

A "like-kind exchange" occurs when you exchange business or investment property for property of a like kind. Complete and attach Form 8824 to your return for each exchange. For exchanges of capital assets, include the

gain or loss from Form 8824, if any, on line 4 or line 12 in column (f) or (g).

Capital Assets Held for Personal Use

Gain from the sale or exchange of this property is a capital gain. Report it on Schedule D, Part I or Part II. Loss from the sale or exchange of this property is not deductible. But if you had a loss from the sale or exchange of real estate held for personal use (other than your main home), you must report the transaction on Schedule D even though the loss is not deductible.

For example, you have a loss on the sale of a vacation home that is not your main home. Report it on line 1 or 9, depending on how long you owned the home. Complete columns (a) through (e). Because the loss is not deductible, write "Personal Loss" across columns (f) and (g).

Specialized Small Business Investment Companies (SSBICs)

If you sold publicly traded securities, you may be able to postpone all or part of the gain on that sale if you bought common stock or a partnership interest in an SSBIC during the 60-day period that began on the day of the sale. An SSBIC is any partnership or corporation licensed by the Small Business Administration under section 301(d) of the Small Business Investment Act of 1958. You must recognize gain on the sale to the extent the proceeds from the sale exceed the cost of your SSBIC stock or partnership interest purchased during the 60-day period that began on the date of the sale (and not previously taken into account). The gain you postpone is limited to \$50,000 a year and \$500,000 during your lifetime. (Reduce these dollar amounts by one-half if you are married filing separately.) The basis of your SSBIC stock or partnership interest is reduced by any postponed gain.

If you choose to postpone gain, report the entire gain realized on the sale on line 1 or 9. Directly below the line on which you reported the gain, enter in column (a) "SSBIC Rollover" and in column (f) the amount of the postponed gain. Also attach a schedule showing (a) how you figured the postponed gain, (b) the name of the SSBIC in which you purchased common stock or a partnership interest, (c) the date of that purchase, and (d) your new basis in that SSBIC stock or partnership interest.

Partnership Interests

A sale or other disposition of an interest in a partnership may result in ordinary income. Get **Pub. 541**, Tax Information on Partnerships.

Regulated Investment Companies

Include on line 12 the amount on **Form 2439**, Notice to Shareholder of Undistributed Long-Term Capital Gains, that represents your share of the undistributed capital gains of a regulated investment company. Enter on Form 1040, line 59, the tax paid by the company shown on Form 2439. Add to the basis of your stock the excess of the amount in-

cluded in income over the amount of the credit. See Pub. 550 for more details.

Capital Gain Distributions

Enter on line 14 capital gain distributions paid to you during the year as a long-term capital gain, regardless of how long you held your investment. See Pub. 550 for details.

Sale of Your Home

Use **Form 2119**, Sale of Your Home, to report the sale of your main home whether or not you bought another one. You must file Form 2119 for the year in which you sell your main home, even if you have a loss or you postpone or defer all or part of your gain.

Installment Sales

If you sold property (other than publicly traded stocks or securities) at a gain and you will receive a payment in a tax year after the year of sale, you must report the sale on the installment method unless you elect not to do so. Use **Form 6252**, Installment Sale Income, to report the sale on the installment method. Also use Form 6252 to report any payment received in 1994 from a sale made in an earlier year that you reported on the installment method. To elect out of the installment method, report the full amount of the gain on Schedule D on a timely filed return (including extensions).

Section 1256 Contracts and Straddles

Use **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles, to report these transactions. Include the amounts from Form 6781 on lines 4 and 12.

Specific Instructions

Parts I and II

Column (b)—Date Acquired

Enter in this column the date the asset was acquired. Use the trade date for stocks and bonds traded on an exchange or over-the-counter market. For stock or other property sold short, enter the date the stock or property was delivered to the broker or lender to close the short sale.

If you disposed of property that you acquired by inheritance, report it on line 9 and write "INHERITED" in column (b) instead of the date you acquired the property.

If you sold a block of stock (or similar property) that was acquired through several different purchases, you may report the sale on one line and write "VARIOUS" in column (b). However, you still must report the short-term gain or loss on the sale in Part I and the long-term gain or loss on the sale in Part II.

Column (c)—Date Sold

Enter in this column the date the asset was sold. Use the trade date for stocks and bonds traded on an exchange or over-the-counter market. For stock or other property sold short, enter the date you sold the stock or property you borrowed to open the short sale transaction.

Column (d)—Sales Price

Enter in this column either the gross sales price or the net sales price from the sale. If you sold stocks or bonds and you received a Form 1099-B or similar statement from your broker that shows gross sales price, enter that amount in column (d). But if Form 1099-B (or your broker) indicates that gross proceeds minus commissions and option premiums were reported to the IRS, enter that net amount in column (d). If the net amount is entered in column (d), do not include the commissions and option premiums from the sale in column (e).

You should not have received a Form 1099-B (or substitute statement) for a transaction merely representing the return of your original investment in a nontransferable obligation, such as a savings bond or a certificate of deposit. But if you did, report the amount shown on Form 1099-B (or substitute statement) in both columns (d) and (e).

Caution: Be sure to add all sales price entries on lines 1 and 9, column (d), to amounts on lines 2 and 10, column (d). Enter the totals on lines 3 and 11.

Column (e)—Cost or Other Basis

In general, the cost or other basis is the cost of the property plus purchase commissions and improvements, minus depreciation, amortization, and depletion. If you inherited the property, got it as a gift, or received it in a tax-free exchange, involuntary conversion, or "wash sale" of stock, you may not be able to use the actual cost as the basis. If you do not use the actual cost, attach an explanation of your basis.

When selling stock, adjust your basis by subtracting all the nontaxable distributions you received before the sale. Also adjust your basis for any stock splits. See Pub. 550 for details on how to figure your basis in stock that split while you owned it.

The basis of property acquired by gift is generally the basis of the property in the hands of the donor. The basis of property acquired from a decedent is generally the fair market value at the date of death. See Pub. 544 for details.

Increase the cost or other basis of an original issue discount (OID) debt instrument by the amount of OID that has been included in gross income for that instrument.

If a charitable contribution deduction is allowed because of a bargain sale of property to a charitable organization, the adjusted basis for purposes of determining gain from the sale is the amount which has the same ratio to the adjusted basis as the amount realized has to the fair market value.

Increase your cost or other basis by any expense of sale, such as broker's fees, commissions, state and local transfer taxes, and option premiums before making an entry in column (e), unless you reported the net sales price in column (d).

For more details, get **Pub. 551, Basis of Assets**.

Lines 1 and 9

Enter all sales and exchanges of capital assets, including stocks, bonds, etc., and real estate (if not reported on Form 2119, 4684, 4797, 6252, 6781, or 8824). Include these transactions even if you did not receive a Form 1099-B or 1099-S (or substitute statement) for the transaction. You can use abbreviations to describe the property as long as the abbreviations are based on the descriptions of the property as shown on Form 1099-B or 1099-S (or substitute statement).

Use lines 20 and 22 on page 2 of Schedule D if you need more space to list transactions for lines 1 and 9. You may use as many

copies of page 2 of Schedule D as you need. Enter on Schedule D, lines 2 and 10, columns (d), (f), and (g) the combined totals of all your copies of page 2 of Schedule D.

Caution: Add the following amounts reported to you for 1994 on Forms 1099-B and 1099-S (or on substitute statements):

1. Proceeds from transactions involving stocks, bonds, and other securities, and
2. Gross proceeds from real estate transactions not reported on another form or schedule.

If this total is **more** than the total of lines 3 and 11, attach a statement explaining the difference.

Capital Loss Carryover Worksheet (keep for your records)

You may deduct capital losses up to the amount of your capital gains plus \$3,000 (\$1,500 if married filing separately). Capital losses that exceed this amount are carried forward to later years. Use this worksheet to figure your capital loss carryovers from 1994 to 1995 if Schedule D, line 19, is a loss and **(a)** that loss is a smaller loss than the loss on Schedule D, line 18, or **(b)** Form 1040, line 35, is a loss.

- | | |
|--|-----------|
| 1. Enter the amount from Form 1040, line 35. If a loss, enclose the amount in parentheses | 1. _____ |
| 2. Enter the loss from Schedule D, line 19, as a positive amount | 2. _____ |
| 3. Combine lines 1 and 2. If zero or less, enter -0- | 3. _____ |
| 4. Enter the smaller of line 2 or line 3 | 4. _____ |
| Note: If line 8 of Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 10. | |
| 5. Enter the loss from Schedule D, line 8, as a positive amount | 5. _____ |
| 6. Enter the gain, if any, from Schedule D, line 17 | 6. _____ |
| 7. Enter the amount from line 4 | 7. _____ |
| 8. Add lines 6 and 7 | 8. _____ |
| 9. Short-term capital loss carryover to 1995. Subtract line 8 from line 5. If zero or less, enter -0- | 9. _____ |
| Note: If line 17 of Schedule D is a loss, go to line 10; otherwise, skip lines 10 through 14. | |
| 10. Enter the loss from Schedule D, line 17, as a positive amount | 10. _____ |
| 11. Enter the gain, if any, from Schedule D, line 8 | 11. _____ |
| 12. Subtract line 5 from line 4. If zero or less, enter -0- | 12. _____ |
| 13. Add lines 11 and 12 | 13. _____ |
| 14. Long-term capital loss carryover to 1995. Subtract line 13 from line 10. If zero or less, enter -0- | 14. _____ |

Instructions for Schedule E, Supplemental Income and Loss

Use Schedule E to report income or loss from rental real estate, royalties, partnerships, S corporations, estates, trusts, and residual interests in REMICs.

If you attach your own schedule(s) to report income or loss from any of these sources, use the same format as on Schedule E. Enter separately on Schedule E the total income and the total loss for each part. Enclose loss figures in (parentheses).

A Change To Note. Beginning in 1994, certain individuals who materially participate in real property trades or businesses are not subject to the passive activity limitations on losses from rental real estate activities in which they materially participate. For more details, see **Exception for Real Estate Professionals** on page E-3.

Part I

Use Part I to report income and expenses from rentals of real estate (including personal property leased with real estate). Also, use Part I to report royalty income and expenses. See the instructions for lines 3 and 4 to determine when rental real estate and royalty income should be reported on **Schedule C** or **C-EZ**, or **Form 4835**, Farm Rental Income and Expenses, instead.

Do not use Schedule E to report income and expenses from the rental of personal property, such as equipment or vehicles. Instead, use Schedule C or C-EZ if you are in the business of renting personal property. Your rental of personal property is a business if the primary purpose for renting the property is income or profit, and you are involved in the rental activity with continuity and regularity. If your rental of personal property is not a business, see the Instructions for Form 1040, lines 21 and 30, to find out how to report the income and expenses.

If you own a part interest in a rental real estate property, report only your part of the income and expenses on Schedule E.

If you have more than three rental real estate or royalty properties, complete and attach as many Schedules E as you need to list them. Complete lines 1 and 2 for each property. But fill in the "Totals" column only on one Schedule E. The figures in the "Totals" column on that Schedule E should be the combined totals of all Schedules E.

If you also need to use page 2 of Schedule E, use the same Schedule E on which you entered the combined totals in Part I.

Filers of Form 1041

Enter your employer identification number in the block for "Your social security number."

Line 1

For rental real estate property only, show the kind of property you rented out, for example, "brick duplex." Give the street address, city or town, and state. You do not have to give the ZIP code. If you own a part interest in the property, show your percentage of ownership.

Line 2

If you rented out a dwelling unit and also used it for personal purposes during the year, you may not be able to deduct all the

expenses for the rental part. A dwelling unit (unit) means a house, apartment, condominium, mobile home, boat, or like property.

If the property is a dwelling unit, check "Yes" if you or your family used the unit for personal purposes in 1994 more than the greater of:

1. 14 days; or
2. 10% of the total days it was rented to others at a fair rental price.

Otherwise, check "No."

What Is Personal Use? A day of personal use is any day, or part of a day, that the unit was used by:

- You for personal purposes.
- Any other person for personal purposes, if that person owns part of the unit (unless rented to that person under a "shared equity" financing agreement).
- Anyone in your family or in the family of someone else who owns part of the unit. The day is not treated as personal if the unit is rented at a fair rental price to that person as his or her main home.
- Anyone under an agreement that lets you use some other unit.
- Anyone who pays less than a fair rental price for the unit.

Days Not Counted As Personal Use. The following days you spent at the dwelling unit are not counted as personal use:

- Any day you spent working substantially full time repairing and maintaining the unit, even if family members used it for recreational purposes on that day.
- The days you used the unit as your main home before or after renting it or offering it for rent, if you rented or tried to rent it for at least 12 consecutive months (or for a period of less than 12 consecutive months at the end of which you sold or exchanged it).

If you checked "No," you can deduct all your expenses for the rental part, subject to the **At-Risk Rules** and the **Passive Activity Loss Rules** explained on pages E-2 and E-3.

If you checked "Yes" and rented the unit out for fewer than 15 days, do not report the rental income and do not deduct any rental expenses. But if you itemize deductions on **Schedule A** (Form 1040), you may deduct allowable interest, taxes, and casualty losses.

If you checked "Yes" and rented the unit out for at least 15 days, you may NOT be able to deduct all your rental expenses. You can deduct your mortgage interest, real estate taxes, and casualty losses for the rental part on Schedule E. You can also deduct your other rental expenses that are

not related to your use of the unit as a home, such as advertising expenses and realtors' fees. If any income is left after deducting these expenses, you can then deduct other expenses. But you cannot deduct more than the income that is left. Carry amounts you cannot deduct to 1995. Get **Pub. 527**, Residential Rental Property (Including Rental of Vacation Homes), for more details.

Line 3

If you were not in the real estate sales business but you received rent from real estate (including personal property leased with real estate), report it on line 3. Include room and other space rentals. If you received services or property instead of money as rent, report its fair market value. Be sure to enter your total rents in the "Totals" column even if you have only one property.

If you provided significant services to the renter or sold real estate as a business, do not use Schedule E. Instead, report the income on Schedule C or C-EZ.

For more details, call Tele-Tax (see page 38) and listen to topic 414 or see Pub. 527.

Rental Income From Farm Production or Crop Shares. Report farm rental income and expenses on Form 4835 if (a) you received rental income based on crops or livestock produced by the tenant, and (b) you did not manage or operate the farm to any great extent. If you use Form 4835, enter on line 39 of Schedule E the net farm rental income or loss from Form 4835. Also, include the gross farm rents from Form 4835, line 7, on Schedule E, line 41.

Line 4

Report on line 4 **royalties** from oil, gas, or mineral properties (not including operating oil, gas, or mineral interests); copyrights; and patents. Enter your total royalties in the "Totals" column. If you received \$10 or more in royalties during 1994, you should receive a **Form 1099-MISC**, or similar statement, showing them. The payer must send this statement to you by January 31, 1995.

If you are in business as a self-employed writer, inventor, artist, etc., report your income and expenses on Schedule C or C-EZ. You may be able to treat amounts received as "royalties" for transfer of a patent or amounts received on the disposal of coal and iron ore as the sale of a capital asset. For details, get **Pub. 544**, Sales and Other Dispositions of Assets.

If state or local taxes were withheld from oil or gas payments you received, enter on

line 4 the gross amount of royalties. Include taxes withheld by the producer on line 16.

Lines 5 through 21

Enter your rental and royalty expenses for each property in the appropriate columns. Also, enter your total expenses for mortgage interest (line 12), total expenses before depreciation expense or depletion (line 19), and depreciation expense or depletion (line 20) in the "Totals" column even if you have only one property. You can deduct an amount for the depreciation of rental property and all ordinary and necessary expenses, such as taxes, interest, repairs, insurance, management fees, and agents' commissions. Do not deduct the value of your own labor, capital investments, or capital improvements.

Renting Out Part of Your Home. If you rent out only part of your home or other property, deduct the part of your expenses that apply to the rented part.

Credit or Deduction for Access Expenditures. You may be able to claim a tax credit for eligible expenditures paid or incurred in 1994 to provide access to your business for individuals with disabilities. Get **Form 8826**, Disabled Access Credit, for details.

You can also deduct up to \$15,000 of qualified costs paid or incurred in 1994 to remove architectural or transportation barriers to individuals with disabilities and the elderly. You cannot take both the credit and the deduction for the same expenditures. Get **Pub. 535**, Business Expenses, for details.

Line 6

You may deduct ordinary and necessary auto and travel expenses, including 50% of meals incurred while traveling away from home, related to your rental activities. If you use your auto in connection with your rental activities, you can either deduct your actual expenses or take the standard mileage rate. You **must** use actual expenses if you do not own the auto you use in your rental activities or if you use more than one vehicle simultaneously (as in fleet operations).

If you deduct actual auto expenses, include on line 6 the rental activity portion of the cost of gasoline, oil, repairs, insurance, tires, etc. Show auto rental or lease payments on line 18 and depreciation on line 20.

If you want to take the standard mileage rate, multiply the number of miles you drove your auto in connection with your rental activities by 29 cents a mile. Include this amount and your parking fees and tolls on line 6.

If you claim any auto expenses (actual or the standard mileage rate), you must provide the information requested in Part V of **Form 4562**, Depreciation and Amortization, and attach Form 4562 to your return.

For more details, get **Pub. 527: Pub. 463**, Travel, Entertainment, and Gift Expenses; and **Pub. 917**, Business Use of a Car.

Line 10

Include on this line fees for tax advice related to your rental real estate or royalty properties and for preparation of the tax forms related to those properties.

Lines 12 and 13

In general, to determine the interest expense allocable to your rental activities, you will have to keep records to show how the proceeds of each debt were used. Specific tracing rules apply for allocating debt proceeds and repayment. See **Pub. 535** for details.

If you have a mortgage on your rental property, enter on line 12 the interest you paid for 1994 to banks or other financial institutions. Be sure to fill in the "Totals" column.

If you paid \$600 or more in interest on this mortgage, the recipient should send you a **Form 1098**, Mortgage Interest Statement, or similar statement, by January 31, 1995, showing the total interest received from you during 1994. If you paid more mortgage interest than is shown on your Form 1098 or similar statement, see **Pub. 535** to find out if you can deduct the additional interest. If you can, enter the amount on line 12. Attach a statement to your return explaining the difference. Write "See attached" in the left margin next to line 12.

Note: *If the recipient was not a financial institution or you did not receive a Form 1098 from the recipient, report your deductible mortgage interest on line 13.*

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage, and the other person received Form 1098, report your share of the interest on line 13. Attach a statement to your return showing the name and address of the person who received Form 1098. In the left margin next to line 13, write "See attached."

Line 17

The base rate (including taxes) for local telephone service for the first telephone line to any residence is a personal expense and is not deductible.

Line 20

Depreciation is the annual deduction allowed to recover the cost or other basis of business or investment property with a useful life of more than one year. Land is not depreciable.

Depreciation starts when you first use the property in your business or for the production of income. It ends when you take the property out of service, deduct all your depreciable cost or other basis, or no longer use the property in your business or for the production of income.

For property placed in service after 1980, see the Instructions for Form 4562 to figure the amount of depreciation to enter on line 20. For property placed in service before 1981, figure depreciation from your own books and records and enter the total on line 20. Be sure to fill in the "Totals" column.

You must complete and attach Form 4562 **only** if:

- You are claiming depreciation on property placed in service during 1994, or
- You are claiming depreciation on listed property (defined in the Instructions for Form 4562), including a vehicle, regardless of the date it was placed in service, or

- You are claiming a section 179 expense deduction or amortization of costs that began in 1994.

If you acquired depreciable property for the first time in 1994, get **Pub. 946**, How To Begin Depreciating Your Property. For a more comprehensive guide to depreciation, get **Pub. 534**, Depreciation.

If you own mineral property or an oil, gas, or geothermal well, you may be able to take a deduction for depletion. See **Pub. 535** for details.

Line 22

At-Risk Rules

Generally, if you have (a) a loss from an activity carried on as a trade or business or for the production of income, and (b) amounts in the activity for which you are not at risk, you will have to complete **Form 6198**, At-Risk Limitations, to figure your allowable loss.

The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the activity. However, if you acquired your interest in the activity before 1987, the at-risk rules do not apply to losses from an activity of holding real property placed in service before 1987. The activity of holding mineral property does not qualify for this exception.

In most cases, you are not at risk for amounts such as:

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity that are not secured by your own property (other than property used in the activity). There is an exception for certain nonrecourse financing borrowed by you in connection with holding real property. See **Qualified nonrecourse financing** below.
- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).
- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related, under Internal Revenue Code section 465(b)(3), to a person (other than you) having such an interest.

Qualified nonrecourse financing secured by real property used in an activity of holding real property that is subject to the at-risk rules is treated as an amount at risk. Qualified nonrecourse financing is financing for which no one is personally liable for repayment and is:

- Borrowed by you in connection with holding real property,
- Not convertible from a debt obligation to an ownership interest, and
- Loaned or guaranteed by any Federal, state, or local government, or borrowed by you from a qualified person.

A **qualified person** is a person who actively and regularly engages in the business of lending money, such as a bank or savings

and loan association. A qualified person is **not**:

- A person related to you (although a person related to you may be a qualified person if the nonrecourse financing is commercially reasonable and on the same terms as loans involving unrelated persons), or
- The seller of the property (or a person related to the seller), or
- A person who receives a fee due to your investment in real property (or a person related to that person).

If you have amounts for which you are not at risk in a rental or royalty activity, get Form 6198 to determine the amount of your deductible loss and enter that amount in the appropriate column of Schedule E, line 22. In the space to the left of line 22, write "Form 6198." Attach Form 6198 to your return.

Line 23

Enter your deductible rental loss. If your rental loss is from a passive activity (defined below), you may need to complete **Form 8582**, Passive Activity Loss Limitations, to figure the amount of loss, if any, to enter. But see the following exception.

Exception for Certain Rental Real Estate Activities. If you had losses from rental real estate activities, you **do not** have to complete Form 8582 to figure the amount of loss you can deduct if you meet **ALL THREE** of the following conditions.

1. Rental real estate activities are your only passive activities.
2. You do not have any prior year unallowed losses from any passive activities.
3. **All** of the following apply if you have an overall net loss from these activities:
 - You actively participated (defined later) in all of the rental real estate activities; **and**
 - If married filing separately, you lived apart from your spouse all year; **and**
 - Your overall net loss from these activities is \$25,000 or less (\$12,500 or less if married filing separately); **and**
 - You have no current or prior year unallowed credits from passive activities; **and**
 - Your modified adjusted gross income, defined later, is \$100,000 or less (\$50,000 or less if married filing separately).

If you meet **ALL THREE** of the conditions listed above, your rental real estate losses are not limited by the passive activity rules. Enter the loss from line 22 on line 23.

If you **do not** meet **ALL THREE** of the conditions listed above, see the Instructions for Form 8582 to find out if you must complete and attach Form 8582.

Active Participation. You can meet the active participation requirement without regular, continuous, and substantial involvement in operations. But you must have participated in making management decisions or arranging for others to provide services (such as repairs), in a significant and bona fide sense. Management decisions that are relevant in this context include approving new tenants, deciding on rental terms, approving capital or repair expenditures, and other similar decisions.

You are not considered to actively participate if, at any time during the tax year, your interest (including your spouse's interest) in

the activity was less than 10% (by value) of all interests in the activity.

Modified Adjusted Gross Income. This is your adjusted gross income from Form 1040, line 31, without taking into account any passive activity loss, rental real estate losses allowed under the exception for real estate professionals (explained below), taxable social security or equivalent railroad retirement benefits, deductible contributions to an IRA or certain other qualified retirement plans under Internal Revenue Code section 219, or the deduction for one-half of self-employment tax. If you file **Form 8815**, Exclusion of Interest From Series EE U.S. Savings Bonds Issued After 1989, include in your modified adjusted gross income the interest excluded on line 14 of that form.

Passive Activity Loss Rules

The passive activity loss rules may limit the amount of losses you can deduct. They apply to losses in Parts I, II, and III, and on line 39 of Schedule E. Losses from passive activities may be first subject to the at-risk rules. Losses deductible under the at-risk rules are then subject to the passive activity rules. You can generally deduct losses from passive activities only to the extent of income from passive activities. An exception applies to certain rental real estate activities (as previously explained).

Passive Activity. A passive activity is any business activity in which you **do not** materially participate and, except as provided below, any rental activity. See the Instructions for Form 8582 to determine whether you materially participated in a business or rental activity. If you are a limited partner, you are generally not treated as having materially participated in the partnership's activity for the year.

The rental of real or personal property is generally a rental activity under the passive activity loss rules, but exceptions apply to this rule. If your rental of property is not treated as a rental activity, you must determine whether it is a trade or business activity, and, if so, whether you materially participated in the activity for the tax year. See the Instructions for Form 8582 for the material participation tests and the definition of "rental activity." See **Pub. 925**, Passive Activity and At-Risk Rules, for special rules that apply to rentals of (a) substantially nondepreciable property, (b) property incidental to development activities, and (c) property to activities in which you materially participate.

Exception for Real Estate Professionals. If you were a real estate professional for 1994, any rental real estate activity in which you materially participated is not a passive activity. You were a **real estate professional** only if you met **both** of the following conditions.

1. More than half of the personal services you performed in trades or businesses were performed in real property trades or businesses in which you materially participated, and
2. You performed more than 750 hours of services in real property trades or businesses in which you materially participated.

For purposes of this rule, each interest in rental real estate is a separate activity, unless you elect to treat all interests in rental real estate as one activity.

If you are married filing jointly, either you or your spouse must separately meet both of the above conditions, without taking into account services performed by the other spouse.

A real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Services you performed as an employee are not treated as performed in a real property trade or business unless you owned more than 5% of the stock (or more than 5% of the capital or profits interest) in the employer.

If you were a real estate professional for 1994, complete line 42 on page 2.

Other Exceptions. The rental of your home that you also used for personal purposes is not a passive activity. See the instructions for line 2.

A working interest in an oil or gas well that you hold directly or through an entity that does not limit your liability is not a passive activity even if you do not materially participate.

Royalty income not derived in the ordinary course of a trade or business reported on Schedule E is generally not considered income from a passive activity.

For more details on passive activities, see the Instructions for Form 8582 and Pub. 925.

Parts II and III

If you are a member of more than one partnership, a shareholder in more than one S corporation, or a beneficiary of more than one estate or trust, do not report information from more than one entity on the same line.

If you need more space in Parts II and III to list your income or losses, attach a continuation sheet using the same format as shown in Parts II and III. However, be sure to complete the "Totals" columns for lines 28a and 28b, or lines 33a and 33b, as appropriate. If you also completed Part I on more than one Schedule E, use the same Schedule E on which you entered the combined totals in Part I.

Tax Shelter Registration Number. If you are claiming or reporting any deduction, loss, credit, or other tax benefit, or reporting income from an interest purchased or otherwise acquired in a tax shelter, you must complete and attach **Form 8271**, Investor Reporting of Tax Shelter Registration Number. This reports the name, tax shelter registration number, and identifying number of the tax shelter. There is a \$250 penalty if you fail to report this number on your tax return.

Tax Preference Items. If you are a partner, a shareholder in an S corporation, or a beneficiary of an estate or trust, you must take into account your share of preferences and adjustments from these entities on **Form 6251**, Alternative Minimum Tax—Individuals, or Schedule H of **Form 1041**, U.S. Income Tax Return for Estates and Trusts.

Partnerships and S Corporations

If you are a member of a partnership or joint venture or a shareholder in an S corporation, use Part II to report your share of the partnership or S corporation income (even if not

received) or loss. You should receive a **Schedule K-1** from the partnership or the S corporation. Do not attach Schedules K-1 to your return. Keep them for your records. You should also receive a copy of the Partner's or Shareholder's Instructions for Schedule K-1. If you did not receive these instructions with your Schedule K-1, you can get a copy at most IRS offices. Your copy of Schedule K-1 and its instructions will tell you where on your return to report your share of the items.

Special rules apply that limit losses. Please note the following:

- If you have a current year loss or a prior year unallowed loss from a partnership or an S corporation, see **At-Risk Rules** on page E-2 and **Passive Activity Loss Rules** on page E-3.

Partners and S corporation shareholders should get a separate statement of income, expenses, deductions, and credits for each activity engaged in by the partnership and S corporation. If you are subject to the at-risk rules for any activity, use Form 6198 to figure the amount of any deductible loss. If the activity is nonpassive, enter the deductible loss, if any, from Form 6198 in Part II, column (i), of Schedule E.

- If you have a passive activity loss, you generally need to complete Form 8582 to figure the amount of the allowable loss to enter in Part II, column (g), for that activity. But if you are a **general** partner or an S corporation shareholder reporting your share of a partnership or an S corporation loss from a rental real estate activity, **and** you meet **ALL THREE** of the conditions listed in the instructions for line 23, you do not have to complete Form 8582. Instead, enter your allowable loss in Part II, column (g).

- If you have passive activity income, complete Part II, column (h), for that activity.
- If you have nonpassive income or losses, complete Part II, columns (i) through (k), as appropriate.

If you are treating items on your tax return differently from the way the partnership or S corporation treated them on its return, you may have to file **Form 8082**, Notice of Inconsistent Treatment or Amended Return.

Partnerships

See the Schedule K-1 instructions before entering on your return other partnership items from a passive activity or income or loss from any publicly traded partnership.

If you have other partnership items, such as depletion, from a nonpassive activity, show each item on a separate line in Part II. You may deduct unreimbursed ordinary and necessary expenses you paid on behalf of the partnership if you were required to pay these expenses under the partnership agreement. Enter deductible unreimbursed partnership expenses from nonpassive activities on a separate line in column (i) of Part II. Enter on Schedule A any unreimbursed partnership expenses deductible as itemized deductions. Report allowable interest expense paid or incurred from debt-financed acquisitions in Part II, or on Schedule A, depending on the type of expenditure to which the interest is allocated. See Pub. 535 for details.

If you claimed a credit for Federal tax on gasoline or other fuels on your 1993 Form 1040 (based on information received from the partnership), enter as income in column

(h) or column (k), whichever applies, the amount of the credit claimed in 1993.

Part or all of your share of partnership income or loss from the operation of the business may be considered net earnings from self-employment that must be reported on **Schedule SE** (Form 1040). Enter the amount from Schedule K-1 (Form 1065), line 15a, on Schedule SE, after you reduce this amount by any allowable expenses attributable to that income.

If you have losses or deductions from a prior year that you could not deduct because of the at-risk or basis rules, and the amounts are now deductible, do not combine the prior year amounts with any current year amounts to arrive at a net figure to report on Schedule E. Instead, report the prior year amounts and the current year amounts on separate lines of Schedule E.

S Corporations

Your share of the net income is NOT subject to self-employment tax. Distributions of prior year accumulated earnings and profits of S corporations are dividends and are reported on Form 1040, line 9. For details, get **Pub. 589**, Tax Information on S Corporations.

Interest expense relating to the acquisition of shares in an S corporation may be fully deductible on Schedule E. For details, see Pub. 535.

As a shareholder in an S corporation, your share of the corporation's aggregate losses and deductions (combined income, losses, and deductions) is limited to the adjusted basis of your corporate stock and any debt the corporation owes you. Any loss or deduction not allowed this year because of the basis limitation may be carried forward and deducted in a later year subject to the basis limitation for that year. If you are claiming a deduction for your share of an aggregate loss, attach to your return a computation of the adjusted basis of your corporate stock and of any debt the corporation owes you. See Pub. 589 for more information.

After applying the basis limitation, the deductible amount of your aggregate losses and deductions may be further reduced by the at-risk rules and the passive activity loss rules explained earlier.

If you have losses or deductions from a prior year that you could not deduct because of the basis or at-risk limitations, and the amounts are now deductible, do not combine the prior year amounts with any current year amounts to arrive at a net figure to report on Schedule E. Instead, report the prior year amounts and the current year amounts on separate lines of Schedule E.

Estates and Trusts

If you are a beneficiary of an estate or trust, use Part III to report your part of the income (even if not received) or loss. You should receive a **Schedule K-1** (Form 1041) from the fiduciary. Do not attach that schedule to your return. Keep it for your records. Your copy of Schedule K-1 and its instructions will tell you where on your return to report the items from Schedule K-1.

If you have estimated taxes credited to you from a trust (Schedule K-1, line 13a), write "ES payment claimed" and the amount on the dotted line next to line 36. **Do not** include

this amount in the total on line 36. Instead, enter the amount on Form 1040, line 55.

A U.S. person who transferred property to a foreign trust may have to include in income the income received by the trust as a result of the transferred property if, during 1994, the trust had a U.S. beneficiary. For details, get **Form 3520-A**, Annual Return of Foreign Trust With U.S. Beneficiaries.

Part IV

If you are the holder of a residual interest in a Real Estate Mortgage Investment Conduit (REMIC), use Part IV to report your total share of the REMIC's taxable income or loss for each quarter included in your tax year. You should receive **Schedule Q** (Form 1066) and instructions from the REMIC for each quarter. Do not attach the schedule(s) to your return. Keep them for your records.

REMIC income or loss is not income or loss from a passive activity.

Note: *If you are the holder of a regular interest in a REMIC, do not use Schedule E to report the income you received. Instead, report it on Form 1040, line 8a.*

If you are the holder of a residual interest in more than one REMIC, attach a continuation sheet using the same format as in Part IV. Enter the totals of columns (d) and (e) on line 38 of Schedule E. If you also completed Part I on more than one Schedule E, use the same Schedule E on which you entered the combined totals in Part I.

If you are treating REMIC items on your tax return differently from the way the REMIC reported them on its return, you may have to file Form 8082.

Column (c). Report the total of the amounts shown on Schedule(s) Q, line 2c, in Part IV, column (c). This is the smallest amount of taxable income you may report on Form 1040, line 37, for 1994. If the taxable income you would show on Form 1040, line 37, is **smaller** than the total reported in column (c), you **must** enter the amount from column (c) on Form 1040, line 37. Write "Sch. Q" next to line 37 on Form 1040.

Caution: *Do not include the amount shown in column (c) in the total on line 38.*

Column (e). Report the total of the amounts shown on Schedule(s) Q, line 3b, in Part IV, column (e). If you itemize your deductions on Schedule A, include this amount on line 22.

Part V

Line 41

You will not be charged a penalty for underpayment of estimated tax if:

1. Your gross farming or fishing income for 1993 or 1994 is at least two-thirds of your gross income, and
2. You file your 1994 tax return and pay the tax due by March 1, 1995.

Instructions for Schedule F, Profit or Loss From Farming

Use Schedule F to report farm income and expenses. File it with Form 1040, 1041, or 1065.

This activity may subject you to state and local taxes and other requirements such as business licenses and fees. Check with your state and local governments for more information.

Additional Information. Pub. 225, *Farmer's Tax Guide*, has samples of filled-in forms and schedules, and lists important dates that apply to farmers.

General Instructions

A Change To Note

The standard mileage rate has been increased to 29 cents for each mile of business use in 1994. See the instructions for line 12.

Other Schedules and Forms You May Have To File

Schedule E to report rental income from pastureland that is based on a flat charge. Report this income in Part I of Schedule E. But report on line 10 of Schedule F pasture income received from taking care of someone else's livestock.

Schedule SE to pay self-employment tax on income from any trade or business.

Form 4562 to claim depreciation on assets placed in service in 1994, to claim amortization that began in 1994, or to report information on vehicles and other listed property.

Form 4684 to report a casualty or theft gain or loss involving farm business property, including livestock held for draft, breeding, sport, or dairy purposes.

See Pub. 225 for more information on how to report various farm losses, such as losses due to death of livestock or damage to crops or other farm property.

Form 4797 to report sales, exchanges, or involuntary conversions (other than from a casualty or theft) of certain farm property. Also use this form to report sales of livestock held for draft, breeding, sport, or dairy purposes.

Form 4835 to report rental income based on farm production or crop shares if you did not materially participate (for self-employment tax purposes) in the management or operation of the farm. This income is not subject to self-employment tax. See Pub. 225.

Form 8824 to report like-kind exchanges.

Heavy Vehicle Use Tax

If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a Federal highway motor vehicle use tax. Get **Form 2290**, Heavy Vehicle Use Tax Return, to see if you owe this tax.

Information Returns

You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-

sell, deposit-commission, or other similar basis for resale. For more information, get the **Instructions for Forms 1099, 1098, 5498, and W-2G**.

If you received cash of more than \$10,000 in one or more related transactions in your farming business, you may have to file **Form 8300**. For details, get **Pub. 1544**, Reporting Cash Payments of Over \$10,000.

Estimated Tax

If you had to make estimated tax payments in 1994 and you underpaid your estimated tax, you will not be charged a penalty if **both** of the following apply:

1. Your gross farming or fishing income for 1993 or 1994 is at least two-thirds of your gross income.

2. You file your 1994 tax return and pay the tax due by March 1, 1995.

For more details, see Pub. 225.

Specific Instructions

Filers of Forms 1041 and 1065

Do not complete the block labeled "Social security number (SSN)." Instead, enter your employer identification number (EIN) on line D.

Lines A and B

On line A, enter your principal crop or activity for the current year.

On line B, enter one of the 15 principal agricultural activity codes listed in Part IV on page 2 of Schedule F. Select the code that best describes the source of most of your income. **Field crop** includes the production of grains such as wheat, rice, feed corn, soybeans, barley, rye, and lentils; and nongrains such as cotton, tobacco, sugar, and Irish potatoes.

Line C

Under the **cash method**, include all income in the year you actually get it. Generally, deduct expenses when you pay them. If you use the cash method, check the box labeled "Cash." Complete Parts I and II of Schedule F.

Under the **accrual method**, include income in the year you earn it. It does not matter when you get it. Deduct expenses when you incur them. If you use the accrual method, check the box labeled "Accrual." Complete Parts II, III, and line 11 of Schedule F.

Other rules apply that determine the timing of deductions based on economic performance. Get **Pub. 538**, Accounting Periods and Methods, for details.

Farming syndicates cannot use the cash method of accounting. A farming syndicate may be a partnership, any other noncorporate group, or an S corporation if:

1. The interests in the business have ever been for sale in a way that would require registration with any Federal or state agency, or

2. More than 35% of the loss during any tax year is shared by limited partners or limited entrepreneurs. A **limited partner** is one who can lose only the amount invested or required to be invested in the partnership. A **limited entrepreneur** is a person who does not take any active part in managing the business.

Line D

You need an employer identification number (EIN) only if you had a Keogh plan or were required to file an employment, excise, estate, trust, partnership, or alcohol, tobacco, and firearms tax return. If you need an EIN, file **Form SS-4**, Application for Employer Identification Number.

If you do not have an EIN, leave line D blank. **Do not** enter your SSN.

Line E

Material Participation. For the definition of material participation for purposes of the passive activity rules, see the instructions for **Schedule C** (Form 1040), line I, on page C-2.

If you meet any of the material participation tests described in the line I instructions for Schedule C, check the "Yes" box.

If you are a retired or disabled farmer, you are treated as materially participating in a farming business if you materially participated 5 of the 8 years preceding your retirement or disability. Also, a surviving spouse is treated as materially participating in a farming activity if the real property used for farming meets the estate tax rules for special valuation of farm property passed from a qualifying decedent, and the surviving spouse actively manages the farm.

Check the "No" box if you did not materially participate. If you checked "No" and you have a loss from this business, see **Limit on Losses** on page F-2. If you have a profit from this business activity but have current year losses from other passive activities or prior year unallowed passive activity losses, see the instructions for **Form 8582**, Passive Activity Loss Limitations.

Limit on Losses. If you checked the "No" box on line E and you have a loss from this business, you may have to use Form 8582 to figure your allowable loss, if any, to enter on Schedule F, line 36. Generally, you can deduct losses from passive activities only to the extent of income from passive activities.

For more details, get **Pub. 925**, *Passive Activity and At-Risk Rules*.

Part I. Farm Income—Cash Method

In Part I, show income received for items listed on lines 1 through 10. Count both the cash actually or constructively received and the fair market value of goods or other property received for these items.

Income is constructively received when it is credited to your account or set aside for you to use.

If you ran the farm yourself and received rents based on farm production or crop shares, report these rents as income on line 4.

Sales of Livestock Because of Drought

If you sold livestock because of a drought, you can count the income from the sale in the year after the drought, instead of the year of the sale. You can do this if **all** of the following apply:

- Your main business is farming.
- You can show that you sold the livestock only because of the drought.
- Your area qualified for Federal aid.

Forms 1099 or CCC-1099-G

If you received Forms 1099 or CCC-1099-G showing amounts paid to you, first determine if the amounts are to be included with farm income. Then, use the following chart to determine where to report the income on Schedule F. Include the Form 1099 or CCC-1099-G amounts with any other income reported on that line.

Information return	Where to report
Form 1099-PATR	Line 5a
Form 1099-A	Line 7b
Form 1099-MISC (for crop insurance)	Line 8a
Forms 1099-G or CCC-1099-G (for disaster payments)	Line 8a
Forms 1099-G or CCC-1099-G (for other agricultural program payments)	Line 6a

You may also receive **Form 1099-MISC** for other types of income. In this case, report it on whichever line best describes the income. For example, if you received a Form 1099-MISC for custom farming work, include this amount on line 9, "Custom hire (machine work) income."

Lines 1 and 2

On line 1, show amounts received from sales of livestock and other items bought for resale. On line 2, show the cost or other basis of the livestock and other items you actually sold.

Line 4

Show amounts received from sales of livestock, produce, grains, and other products you raised.

Lines 5a and 5b

If you received distributions from a cooperative in 1994, you should receive **Form 1099-PATR**. On line 5a, show your total distributions from cooperatives. This includes patronage dividends, nonpatronage distributions, per-unit retain allocations, and redemption of nonqualified notices and per-unit retain allocations.

Show patronage dividends (distributions) received in cash, and the dollar amount of qualified written notices of allocation. If you received property as patronage dividends, report the fair market value of the property as income. Include cash advances received from a marketing cooperative. If you received per-unit retains in cash, show the amount of cash. If you received qualified per-unit retain certificates, show the stated dollar amount of the certificate.

Do not include as income on line 5b patronage dividends from buying personal or family items, capital assets, or depreciable assets. Enter these amounts on line 5a only. If you do not report patronage dividends from these items as income, you must subtract the amount of the dividend from the cost or other basis of these items.

Lines 6a and 6b

Enter on line 6a the TOTAL of the following amounts. These are government payments you received, usually reported to you on **Form 1099-G**. You may also receive Form CCC-1099-G from the Department of Agriculture showing the amounts and types of payments made to you.

- Price support payments.
- Market gain from the repayment of a secured Commodity Credit Corporation (CCC) loan for less than the original loan amount.
- Diversion payments.
- Cost-share payments (sight drafts).
- Payments in the form of materials (such as fertilizer or lime) or services (such as grading or building dams).
- Face value of commodity credit certificates (often called "generic" or "PIK" certificates).

On line 6b, report only the taxable amount. For example, do not report the market gain shown on Form CCC-1099-G on line 6b if you elected to report CCC loan proceeds as income in the year received (see lines 7a through 7c below). No gain results from redemption of the commodity because you previously reported the CCC loan proceeds as income. You are treated as repurchasing the commodity for the amount of the loan repayment. However, if you did not report

the CCC loan proceeds under the election, you must report the market gain on line 6b.

Lines 7a through 7c

Commodity Credit Corporation Loans. Generally, you do not report CCC loan proceeds as income. However, if you pledge part or all of your production to secure a CCC loan, you may elect to report the loan proceeds as income in the year you receive them, instead of the year you sell the crop. If you make this election (or made the election in a prior year), report loan proceeds you received in 1994 on line 7a. Attach a statement to your return showing the details of the loan(s).

Forfeited CCC Loans. Include the full amount forfeited on line 7b, even if you reported the loan proceeds as income.

If you **did not** elect to report the loan proceeds as income, also include the forfeited amount on line 7c.

If you did elect to report the loan proceeds as income, you generally will not have an entry on line 7c. But if the amount forfeited is different from your basis in the commodity, you may have an entry on line 7c.

CCC Loans Repaid With CCC Certificates. Include on line 7b the amount of any CCC loan you repaid with certificates, even if you reported the loan proceeds as income.

If you **did not** elect to report the CCC loan proceeds as income, include on line 7c the amount of the loan you repaid with the certificates minus your basis in those certificates. Your basis in certificates is the face value of the certificates you included as income, or the amount you paid for them.

If you elected to report the loan proceeds as income, do not include on line 7c the amount of the loan you repaid with the certificates.

For more information on the tax consequences of electing to report CCC loan proceeds as income or forfeiting CCC loans, see Pub. 225.

Lines 8a through 8d

In general, you must report crop insurance proceeds in the year you receive them. Federal crop disaster payments are treated as crop insurance proceeds. However, if 1994 was the year of damage, you may elect to include certain proceeds in income for 1995. To make this election, check the box on line 8c and attach a statement to your return. See Pub. 225 for a description of the proceeds for which an election may be made and for what you must include in your statement.

Generally, if you elect to defer any eligible crop insurance proceeds, you must defer all such crop insurance proceeds (including Federal disaster payments).

Enter on line 8a the TOTAL crop insurance proceeds you received in 1994, even if you elect to include them in income for 1995.

Enter on line 8b the taxable amount of the proceeds you received in 1994. Do not include proceeds you elect to include in income for 1995.

Enter on line 8d the amount, if any, of crop insurance proceeds you received in 1993 and elected to include in income for 1994.

Line 9

Enter on this line the income you received for custom hire (machine work).

Line 10

Use this line to report income not shown on lines 1 through 9. For example, include the following income items on line 10:

- Illegal Federal irrigation subsidies. See Pub. 225.
 - Bartering income.
 - Income from discharge of indebtedness. Generally, if a debt is canceled or forgiven, you must include the canceled amount in income. If a Federal agency, financial institution, or credit union canceled or forgave a debt you owed of \$600 or more, it should send you a **Form 1099-C**, Cancellation of Debt, or similar statement, by January 31, 1995, showing the amount of debt canceled in 1994. However, certain solvent farmers may exclude from income discharged qualified farm indebtedness. For information on whether you must include in income any discharge of indebtedness, see Pub. 225.
 - State gasoline or fuel tax refund you got in 1994.
 - The amount of credit for Federal tax paid on fuels claimed on your 1993 Form 1040.
 - The amount of credit for alcohol used as a fuel that was entered on **Form 6478**.
 - Any recapture of excess depreciation, including any section 179 expense deduction, if the business use percentage of any listed property decreased to 50% or less in 1994. Use **Form 4797**, Sales of Business Property, to figure the recapture. See the instructions for **Schedule C** (Form 1040), line 13, on page C-3 for the definition of listed property.
 - The inclusion amount on leased listed property (other than vehicles) when the business use percentage drops to 50% or less. Get **Pub. 534**, Depreciation, to figure the amount.
 - Any recapture of the deduction for clean-fuel vehicles used in your business and clean-fuel vehicle refueling property. For details on how to figure recapture, get **Pub. 535**, Business Expenses.
 - The gain or loss on the sale of commodity futures contracts if the contracts were made to protect you from price changes. These are a form of business insurance and are considered hedges. If you had a loss in a closed futures contract, enclose it in parentheses.
- Caution:** For property acquired and hedging positions established, you must clearly identify on your books and records both the hedging transaction and the item(s) or aggregate risk that is being hedged.
- Purchase or sales contracts are not true hedges if they offset losses that already occurred. If you bought or sold commodity futures with the hope of making a profit due to favorable price changes, do not report the profit or loss on this line. Report it on **Form 6781**.

Part II. Farm Expenses

Do not deduct:

- Personal or living expenses (such as taxes, insurance, or repairs on your home) that do not produce farm income.
- Expenses of raising anything you or your family used.
- The value of animals you raised that died.
- Inventory losses.
- Personal losses.

If you were repaid for any part of an expense, you must subtract the amount you were repaid from the deduction.

Capitalizing Costs of Property. If you produced real or tangible personal property or acquired property for resale, certain expenses must be included in inventory costs or capitalized. These expenses include the direct costs of the property and the share of any indirect costs allocable to that property. However, these rules generally do not apply to:

1. Expenses of raising animals,
2. Expenses of producing any plant that has a preproductive period of 2 years or less, or
3. Expenses of replanting certain crops if they were lost or damaged by reason of freezing temperatures, disease, drought, pests, or casualty.

Note: *Exceptions 1 and 2 above do not apply to tax shelters, farm syndicates, or partnerships required to use the accrual method of accounting under Internal Revenue Code section 447 or 448.*

But you may be able to deduct rather than capitalize the expenses of producing a plant with a preproductive period of more than 2 years. See **Election To Deduct Certain Preproductive Period Expenses** below.

Do not reduce your deductions on lines 12 through 34e by the preproductive period expenses you are required to capitalize. Instead, enter the total amount capitalized in parentheses on line 34f. See **Preproductive Period Expenses** on page F-5 for more details.

If you revoked a prior election to deduct preproductive period expenses for animals, you must continue to apply the alternative depreciation rules to property placed in service while your election was in effect. Also, the expenses you previously chose to deduct will have to be recaptured as ordinary income when you dispose of the animals.

Election To Deduct Certain Preproductive Period Expenses. If the preproductive period of any plant you produce is more than 2 years, you may choose to currently deduct the expenses rather than capitalize them. But you may not make this election for the costs of planting or growing citrus or almond groves that are incurred before the end of the 4th tax year beginning with the tax year you planted them in their permanent grove. By deducting the preproductive period expenses for which you may make this election, you are treated as having made the election.

Note: *In the case of a partnership or S corporation, the election must be made by the partner or shareholder. This election may not*

be made by tax shelters, farm syndicates, or partners in partnerships required to use the accrual method of accounting under Internal Revenue Code section 447 or 448.

If you make the election to deduct preproductive expenses for plants, any gain you realize when disposing of the plants is ordinary income up to the amount of the preproductive expenses you deducted. Also, the alternative depreciation rules apply to property placed in service in any tax year your election is in effect. Unless you obtain the consent of the IRS, you must make this election for the first tax year in which you engage in a farming business involving the production of property subject to the capitalization rules. You may not revoke this election without the consent of the IRS.

For more information, see Pub. 225.

Prepaid Farm Supplies. Generally, if you use the cash method of accounting and your prepaid farm supplies are more than 50% of your other deductible farm expenses, your deduction for those supplies may be limited. Prepaid farm supplies include expenses for feed, seed, fertilizer, and similar farm supplies not used or consumed during the year. They also include the cost of poultry that would be allowable as a deduction in a later tax year if you were to (a) capitalize the cost of poultry bought for use in your farm business and deduct it ratably over the lesser of 12 months or the useful life of the poultry, and (b) deduct the cost of poultry bought for resale in the year you sell or otherwise dispose of it. If the limit applies, you can deduct prepaid farm supplies that do not exceed 50% of your other deductible farm expenses in the year of payment. You can deduct the excess only in the year you use or consume the supplies (other than poultry, which is deductible as explained above). For exceptions and more details on these rules, see Pub. 225.

Line 12

You can deduct the actual cost of running your car or truck, or take the standard mileage rate. You **must** use actual costs if you did not own the vehicle or if you used more than one vehicle simultaneously in your business (such as in fleet operations).

If you deduct actual costs, include on line 12 the business portion of expenses for gasoline, oil, repairs, insurance, tires, license plates, etc. Show depreciation on line 16 and rent or lease payments on line 26a.

If you want to take the standard mileage rate, multiply the number of business miles by 29 cents a mile. Add to this amount your parking fees and tolls, and enter the total on line 12.

If you claim any car or truck expenses (actual or the standard mileage rate), you must provide the information requested in Part V of **Form 4562**, Depreciation and Amortization. Be sure to attach Form 4562 to your return.

For more details, get **Pub. 917**, Business Use of a Car.

Line 14

Amounts you spent to conserve soil or water, or to prevent erosion of your land, can be deducted only if the expenses are consistent

with a conservation plan approved by the Soil Conservation Service (SCS) of the Department of Agriculture for the area in which your land is located. If no plan exists, the expenses must be consistent with a plan of a comparable state agency. You cannot deduct the expenses if they were paid or incurred for land used in farming in a foreign country. You must attach **Form 8645**, Soil and Water Conservation Plan Certification, to your return if you claim this deduction.

Do not deduct expenses you pay or incur to drain or fill wetlands or to prepare land for center pivot irrigation systems.

The amount you deduct may not exceed 25% of your gross income from farming (excluding certain gains from selling assets such as farm machinery and land). If your conservation expenses are more than the limit, the excess may be carried forward and deducted in later tax years. However, the amount deductible for any 1 year may not exceed the 25% gross income limit for that year. Attach a copy of the original Form 8645 to your return for each carryover year you claim the deduction.

Line 15

Enter amounts paid for custom hire or machine work (the machine operator furnished the equipment). Do not include amounts paid for rental or lease of equipment that you operated yourself. You should report those amounts on line 26a.

Line 16

You can deduct depreciation of buildings, improvements, cars and trucks, machinery, and other farm equipment of a permanent nature.

Do not deduct depreciation on your home, furniture, or other personal items, land, livestock you bought or raised for resale, or other property in your inventory.

You may also choose under Internal Revenue Code section 179 to expense a portion of the cost of certain tangible property you bought in 1994 for use in your business.

For more details, including when you must complete and attach **Form 4562**, see the instructions for **Schedule C** (Form 1040), line 13, on page C-3.

Line 17

Deduct contributions to employee benefit programs that are not an incidental part of a pension or profit-sharing plan included on line 25. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs.

Do not include on line 17 any contributions you made on your behalf as a self-employed person to an accident and health plan or for group-term life insurance. You may be able to deduct on Form 1040, line 26, part of the amount you paid for health insurance on behalf of yourself, your spouse, and dependents, even if you do not itemize your deductions. See the Form 1040 instructions on page 21 for more details.

Line 18

Generally, you cannot currently deduct expenses for feed to be consumed by your livestock in a later tax year. See **Prepaid Farm Supplies** on page F-3.

Line 20

Do not include as freight paid the cost of transportation incurred in purchasing livestock held for resale. Instead, add these costs to the cost of the livestock, and deduct them when the livestock are sold.

Line 22

Deduct on this line premiums paid for farm business insurance. Deduct on line 17 amounts paid for employee accident and health insurance.

Amounts credited to a reserve for self-insurance or premiums paid for a policy that pays for your lost earnings due to sickness or disability are not deductible.

Lines 23a and 23b

Interest Allocation Rules. The tax treatment of interest expense differs depending on its type. For example, home mortgage interest and investment interest are treated differently. "Interest allocation" rules require you to allocate (classify) your interest expense so it is deducted on the correct line of your return and gets the right tax treatment. These rules could affect how much interest you are allowed to deduct on Schedule F.

Generally, you allocate interest expense by tracing how the proceeds of the loan are used. Get Pub. 535 for details.

If you paid interest on a debt secured by your main home, and any of the proceeds from that debt were used in your farming business, see Pub. 535 to figure the amount that is deductible on Schedule F.

If you have a mortgage on real property used in your farming business (other than your main home), enter on line 23a the interest you paid for 1994 to banks or other financial institutions for which you received a **Form 1098**, Mortgage Interest Statement.

If the recipient was not a financial institution or you did not receive a Form 1098 from the recipient, report your mortgage interest on line 23b.

If you paid \$600 or more of interest on this mortgage, the recipient should send you a Form 1098 or similar statement showing the total interest received from you during 1994. This statement must be sent to you by January 31, 1995. If you paid more mortgage interest to financial institutions than is shown on Form 1098 or similar statement, see Pub. 535 to find out if you can deduct the additional interest. If you can, enter the amount on line 23a. Attach a statement to your return explaining the difference and write "See attached" in the left margin next to line 23a.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, report your share of the interest on line 23b. Attach a statement to your return showing the name and address of the person who

received the Form 1098. In the left margin, next to line 23b, write "See attached."

On line 23b, enter the interest on other loans related to this farm. Do not deduct interest you prepaid in 1994 for later years; include only the part that applies to 1994.

Line 24

Enter the amounts you paid for farm labor. Do not include amounts paid to yourself. Reduce your deduction by the current year credits claimed on:

- **Form 5884**, Jobs Credit.
- **Form 8844**, Empowerment Zone Employment Credit.
- **Form 8845**, Indian Employment Credit.

Count the cost of boarding farm labor but not the value of any products they used from the farm. Count only what you paid household help to care for farm laborers.

Caution: If you provided taxable fringe benefits to your employees, such as personal use of a car, do not include in farm labor the amounts you depreciated or deducted elsewhere.

Line 25

Enter your deduction for contributions to employee pension, profit-sharing, or annuity plans. If the plan included you as a self-employed person, see the instructions for **Schedule C** (Form 1040), line 19, on page C-4.

Lines 26a and 26b

If you rented or leased vehicles, machinery, or equipment, enter on line 26a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you may have to reduce your deduction by an **inclusion amount**. For details, see the instructions for **Schedule C** (Form 1040), line 20a, on page C-4.

Enter on line 26b amounts paid to rent or lease other property such as pasture or farm land.

Line 27

Enter amounts you paid for repairs and maintenance of farm buildings, machinery, and equipment. You can also include what you paid for tools of short life or minimal cost, such as shovels and rakes.

Do not deduct repairs or maintenance on your home.

Line 31

You may deduct the following taxes on this line:

- Real estate and personal property taxes on farm business assets.
- Social security and Medicare taxes you paid to match what you are required to withhold from farm employees' wages and any Federal unemployment tax paid.
- Federal highway use tax.

Do not deduct on this line:

- Federal income taxes, including your self-employment tax. However, you may deduct one-half of your self-employment tax on Form 1040, line 25.

- Estate and gift taxes.
- Taxes assessed for improvements, such as paving and sewers.
- Taxes on your home or personal use property.
- State and local sales taxes on property purchased for use in your farm business. Instead, treat these taxes as part of the cost of the property.
- Other taxes not related to the farm business.

Line 32

Enter amounts you paid for gas, electricity, water, etc., for business use on the farm. Do not include personal utilities.

You cannot deduct the base rate (including taxes) of the first telephone line into your residence, even if you use it for business. See the instructions for **Schedule C** (Form 1040), line 25, on page C-4.

Lines 34a through 34f

Include all ordinary and necessary farm expenses not deducted elsewhere on Schedule F, such as advertising, office supplies, etc. Do not include fines or penalties paid to a government for violating any law.

Amortization. You can amortize qualifying forestation and reforestation costs over an 84-month period. You can also amortize certain business startup costs over a period of at least 60 months. For more details, get Pub. 535. For amortization that begins in 1994, you must complete and attach **Form 4562**.

At-Risk Loss Deduction. Any loss from this activity that was not allowed as a deduction last year because of the at-risk rules is treated as a deduction allocable to this activity in 1994.

Bad Debts. Cash method taxpayers can deduct bad debts only if the amount was previously included in income. See the instructions for **Schedule C** (Form 1040), line 9, on page C-3.

Business Use of Your Home. You may be able to deduct certain expenses for business use of your home, subject to limitations. Use the worksheet in **Pub. 587**, Business Use of Your Home, to figure your allowable deduction. **Do not** use **Form 8829**, Expenses for Business Use of Your Home.

Deduction for Clean-Fuel Vehicles and Clean-Fuel Vehicle Refueling Property. You may deduct part of the cost of qualified clean-fuel vehicle property used in your business and qualified clean-fuel vehicle refueling property. See Pub. 535 for more details.

Legal and Professional Fees. You can deduct on this line fees for tax advice related to your farm business and for preparation of the tax forms related to your farm business.

Travel, Meals, and Entertainment. Generally, you can deduct expenses for farm business travel and 50% of your business meals and entertainment. But there are exceptions and limitations. See the instructions for **Schedule C** (Form 1040), lines 24a through 24c, on page C-4.

Preproductive Period Expenses. Enter in parentheses on line 34f, preproductive period expenses that are capitalized. If you had preproductive period expenses in 1994

and you decided to capitalize these expenses, you **MUST** enter the total of these expenses in parentheses on line 34f and write "263A" in the space to the left of the total.

If you entered an amount in parentheses on line 34f because you have preproductive period expenses you are capitalizing, subtract the amount on line 34f from the total of lines 12 through 34e. Enter the result on line 35.

For more information, see **Capitalizing Costs of Property** on page F-3 and Pub. 225.

Line 36

If you have a loss, the amount of loss you can deduct this year may be limited. Go on to line 37 before entering your loss on line 36. If you answered "No" to Question E on Schedule F, also see the instructions for **Form 8582**. Enter the net profit or **deductible** loss here and on Form 1040, line 18, and Schedule SE, line 1. Estates and trusts should enter the net profit or deductible loss here and on Form 1041, line 6. Partnerships should stop here and enter the profit or loss on this line and on Form 1065, line 5.

If you have a net profit on line 36, this amount is earned income and may qualify you for the earned income credit if you meet certain conditions. See the Instructions for Form 1040, line 56, on page 27 for more details.

Line 37

At-Risk Rules. Generally, if you have (a) a loss from a farming activity, and (b) amounts in the activity for which you are **not at risk**, you will have to complete **Form 6198**, At-Risk Limitations, to figure your allowable loss.

The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the activity.

Check **box 37b** if you have amounts for which you are not at risk in this activity, such as the following:

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire the activity, that are not secured by your own property (other than property used in the activity). However, there is an exception for certain nonrecourse financing borrowed by you in connection with holding real property.
- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).
- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related, under Internal Revenue Code section 465(b)(3), to a person (other than you) having such an interest.

If all amounts are at risk in this business, check **box 37a** and enter your loss on line 36. But if you answered "No" to Question E, you may need to complete **Form 8582** to figure your allowable loss to enter on line 36.

See the Instructions for Form 8582 for more details.

If you checked **box 37b**, get Form 6198 to determine the amount of your deductible loss and enter that amount on line 36. But if you answered "No" to Question E, your loss may be further limited. See the Instructions for Form 8582. If your at-risk amount is zero or less, enter zero on line 36. Be sure to attach Form 6198 to your return. If you checked box 37b and you fail to attach Form 6198, processing of your tax return may be delayed.

Any loss from this activity not allowed for 1994 because of the at-risk rules is treated as a deduction allocable to the activity in 1995.

For more details, get **Pub. 925**, Passive Activity and At-Risk Rules. Also see the Instructions for Form 6198.

Part III. Farm Income—Accrual Method

If you use the accrual method, report farm income when you earn it, not when you receive it. Generally, you must include animals and crops in your inventory if you use this method. Get **Pub. 538**, Accounting Periods and Methods, for exceptions, inventory methods, how to change methods of accounting, and for rules that require certain costs to be capitalized or included in inventory.

Line 38

Enter the amount earned from the sale of livestock, produce, grains, and other products you raised.

Lines 39a through 41c

See the instructions for lines 5a through 7c, on page F-2.

Lines 43 and 44

See the instructions for lines 9 and 10, on page F-3.

Instructions for Schedule SE, Self-Employment Tax

Use Schedule SE to figure the tax due on net earnings from self-employment. The Social Security Administration uses the information from Schedule SE to figure your benefits under the social security program. This tax applies no matter how old you are, and even if you are already getting social security or Medicare benefits.

Additional Information. Get **Pub. 533, Self-Employment Tax**, for more details.

General Instructions

Changes To Note

- Beginning in 1994, the limit on the amount of self-employment income subject to the 2.9% Medicare tax has been repealed. You now must pay the Medicare tax on the entire amount of your net earnings from self-employment of at least \$400 (\$108.28 if church employee income).
- For 1994, the maximum amount of self-employment income subject to social security tax is \$60,600.

Who Must File Schedule SE

You must file Schedule SE if:

- You were self-employed, and your net earnings from self-employment from other than church employee income were \$400 or more, or
- You had church employee income of \$108.28 or more—see **Employees of Churches and Church Organizations** on this page.

Who Must Pay Self-Employment Tax?

Self-Employed Persons

You must pay SE tax if you had net earnings as a self-employed person of \$400 or more. If you are in business for yourself, or you are a farmer, for example, you are self-employed.

You must also pay SE tax on your share of certain partnership income and your guaranteed payments. See **Partnership Income or Loss** on page SE-2.

Employees of Churches and Church Organizations

If you had church employee income of \$108.28 or more, you must pay SE tax. **Church employee income** is wages you received as an employee (other than as a minister or member of a religious order) from a church or qualified church-controlled organization that has a certificate in effect electing an exemption from employer social security and Medicare taxes.

Ministers and Members of Religious Orders

You must pay SE tax on salaries and other income for services you performed as a minister or member of a religious order, unless you received approval from the IRS for an

exemption from SE tax. See **Who Is Exempt From Self-Employment Tax?** on this page. If you must pay SE tax, include this income on line 2 of either Short or Long Schedule SE. But do not report it on line 5a of Long Schedule SE; it is not considered church employee income. Also include on line 2:

- The rental value of a home or an allowance for a home furnished to you (including payments for utilities), and
- The value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.

If you were a duly ordained minister who was an employee of a church and you must pay SE tax, the unreimbursed business expenses that you incurred as a church employee are allowed only as an itemized deduction for income tax purposes. Subtract the allowable amount from your SE earnings when figuring SE tax.

If you were a U.S. citizen or resident alien serving outside the United States as a minister or member of a religious order and you must pay SE tax, you may not reduce your net earnings by the foreign housing exclusion or deduction.

For more details, get **Pub. 517, Social Security and Other Information for Members of the Clergy and Religious Workers**.

U.S. Citizens Employed by Foreign Governments or International Organizations

You must pay SE tax on income you earned as a U.S. citizen employed by a foreign government (or, in certain cases, by a wholly owned instrumentality of a foreign government or an international organization under the International Organizations Immunities Act) in the United States, Puerto Rico, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or the Virgin Islands. Report income from this employment on Schedule SE (Section A or B), line 2. If you are employed elsewhere by a foreign government or an international organization, those earnings are exempt from SE tax.

U.S. Citizens or Resident Aliens Living Outside the United States

If you are a self-employed U.S. citizen or resident alien living outside the United States, in most cases you must pay SE tax. You may not reduce your foreign earnings from self-employment by your foreign earned income exclusion.

Who Is Exempt From Self-Employment Tax?

In most cases, you must pay SE tax on net earnings you received as a minister, a member of a religious order who has not taken a vow of poverty, or a Christian Science practitioner. But you will be exempt from SE tax on those net earnings if you filed **Form 4361, Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners**, and you received approval from the IRS for an exemption from paying SE tax. In this case, if you have no other income subject to SE tax, write "Exempt-Form 4361" on Form 1040, line 47. However, if you have other earnings of \$400 or more subject to SE tax, see line A at the top of Long Schedule SE.

Note: If you have ever filed Form 2031 to elect social security coverage on your earnings as a minister, you cannot revoke that election now.

If you have conscientious objections to social security insurance because of your membership in and belief in the teachings of a religious sect recognized as being in existence at all times since December 31, 1950, and which has provided a reasonable level of living for its dependent members, you are exempt from SE tax if you got IRS approval by filing **Form 4029, Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits**. In this case, do not file Schedule SE. Instead, write "Form 4029" on Form 1040, line 47.

See Pub. 517 for more details.

More Than One Business

If you were a farmer and had at least one other business or you had two or more businesses, your net earnings from self-employment are the combined net earnings from all of your businesses. If you had a loss in one business, it reduces the income from another. Figure the combined SE tax on one Schedule SE.

Joint Returns

Show the name of the spouse with SE income on Schedule SE. If both spouses have SE income, each must file a separate Schedule SE. If one spouse qualifies to use Short Schedule SE, and the other has to use Long Schedule SE, both can use one Schedule SE. One spouse should complete the front and the other the back.

Include the total profits or losses from all businesses on Form 1040, as appropriate.

Enter the combined SE tax on Form 1040, line 47.

Community Income

In most cases, if any of the income from a business (including farming) is community income, all of the income from that business is SE earnings of the spouse who carried on the business. The facts in each case will determine which spouse carried on the business. If you and your spouse are partners in a partnership, see **Partnership Income or Loss** below.

If you and your spouse had community income and file separate returns, attach Schedule SE to the return of the spouse with the SE income. Also attach Schedule(s) C, C-EZ, or F.

Caution: *Community income included on Schedule(s) C, C-EZ, or F must be divided for income tax purposes on the basis of the community property laws.*

Fiscal Year Filers

If your tax year is a fiscal year, use the tax rate and earnings base that apply at the time the fiscal year begins. Do not prorate the tax or earnings base for a fiscal year that overlaps the date of a rate or earnings base change.

Specific Instructions

Read the chart on page 1 of Schedule SE to see if you can use **Section A**, Short Schedule SE, or if you must use **Section B**, Long Schedule SE. For either section, you need to know what to include as net earnings from self-employment. Read the instructions below to see what to include as net earnings and how to fill in lines 1 and 2 of either Short or Long Schedule SE. Enter all negative amounts in parentheses.

Net Earnings From Self-Employment

What Is Included in Net SE Earnings?

In most cases, net earnings include your net profit from a farm or nonfarm business. If you were a partner in a partnership, see the instructions below.

Partnership Income or Loss

If you were a general or limited partner in a partnership, include on line 1 or line 2, whichever applies, the amount from line 15a of Schedule K-1 (Form 1065). General partners should reduce this amount before entering it on Schedule SE by any section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties. If you reduce the amount you enter on Schedule SE, attach an explanation.

If a partner died and the partnership continued, include in SE income the deceased's distributive share of the partnership's ordinary income or loss through the end of the month in which he or she died. See Internal Revenue Code section 1402(f).

If you were married and both you and your spouse were partners in a partnership, each of you must pay SE tax on your own share of the partnership income. Each of you must file a Schedule SE and report the partnership income or loss on **Schedule E** (Form 1040), Part II, for income tax purposes.

SE income belongs to the person who is the member of the partnership and cannot be treated as SE income by the nonmember spouse even in community property states.

Share Farming

You are considered self-employed if you produced crops or livestock on someone else's land for a share of the crops or livestock produced (or a share of the proceeds from the sale of them). This applies even if you paid another person (an agent) to do the actual work or management for you. Report your net earnings for income tax purposes on **Schedule F** (Form 1040) and for SE tax purposes on Schedule SE. For more details, get **Pub. 225**, Farmer's Tax Guide.

Other Income and Losses Included in Net Earnings From Self-Employment

- Rental income from a farm if, as landlord, you materially participated in the production or management of the production of farm products on this land. This income is farm earnings. To determine whether you materially participated in farm management or production, do not consider the activities of any agent who acted for you. The material participation tests are explained in Pub. 225.
- Cash or a payment-in-kind from the Department of Agriculture for participating in a land diversion program.
- Payments for the use of rooms or other space when you also provided substantial services. Examples are hotel rooms, boarding houses, tourist camps or homes, parking lots, warehouses, and storage garages.
- Income from the retail sale of newspapers and magazines if you were age 18 or older and kept the profits.
- Amounts received by current or former self-employed insurance agents that are:
 1. Paid after retirement but calculated as a percentage of commissions received from the paying company before retirement;
 2. Renewal commissions; or
 3. Deferred commissions paid after retirement for sales made before retirement.
- Income as a crew member of a fishing vessel with a crew of normally fewer than 10 people.
- Fees as a state or local government employee if you were paid only on a fee basis and the job was not covered under a Federal-state social security coverage agreement.
- Interest received in the course of any trade or business, such as interest on notes or accounts receivable.
- Fees and other payments received by you for services as a director of a corporation.
- Recapture amounts under sections 179 and 280F that you included in gross income because the business use of the property dropped to 50% or less. Do not include amounts you recaptured on the disposition

of property. See **Form 4797**, Sales of Business Property.

- Fees you received as a professional fiduciary. This may also apply to fees paid to you as a nonprofessional fiduciary if the fees relate to active participation in the operation of the estate's business, or the management of an estate that required extensive management activities over a long period of time.

- Gain or loss from section 1256 contracts or related property by an options or commodities dealer in the normal course of dealing in or trading section 1256 contracts.

Income and Losses Not Included in Net Earnings From Self-Employment

- Salaries, fees, etc., subject to social security or Medicare tax that you received for performing services as an employee, including services performed as a public official (except as a fee basis government employee as explained earlier under **Other Income and Losses Included in Net Earnings From Self-Employment**) or as an employee or employee representative under the railroad retirement system.

- Income you received as a retired partner under a written partnership plan that provides for lifelong periodic retirement payments if you had no other interest in the partnership and did not perform services for it during the year.

- Income from real estate rentals (including rentals paid in crop shares), if you did not receive the income in the course of a trade or business as a real estate dealer. This includes cash and crop shares received from a tenant or sharefarmer. Report this income on Schedule E.

- Dividends on shares of stock and interest on bonds, notes, etc., if you did not receive the income in the course of your trade or business as a dealer in stocks or securities.

- Gain or loss from:

1. The sale or exchange of a capital asset;
2. The sale, exchange, involuntary conversion, or other disposition of property unless the property is stock in trade or other property that would be includible in inventory, or held primarily for sale to customers in the ordinary course of the business; or
3. Certain transactions in timber, coal, or domestic iron ore.

- Net operating losses from other years.

Statutory Employee Income. If you were required to check the box on line 1 of Schedule C or C-EZ because you were a statutory employee, **do not** include the net profit or (loss) from line 31 of that Schedule C (or the net profit from line 3 of Schedule C-EZ) on line 2 of Short or Long Schedule SE. But if you file Long Schedule SE, be sure to include statutory employee social security wages and tips from Form W-2 on line 8a.

Optional Methods

How Can the Optional Methods Help You?

Social Security Coverage. The optional methods may give you credit toward your social security coverage even though you have a loss or a small amount of income from self-employment.

Earned Income Credit. Using the optional methods may qualify you to claim the earned income credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than \$1,600. Figure the earned income credit with and without using the optional methods to see if the optional methods will benefit you.

Child and Dependent Care Credit. The optional methods may also help you qualify for this credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than \$1,600. Figure this credit with and without using the optional methods to see if the optional methods will benefit you.

Note: *Using the optional methods may give you the benefits described above but they may also increase your self-employment tax.*

Farm Optional Method

You may use this method to figure your net earnings from farm self-employment if your gross farm income was \$2,400 or less **OR** your gross farm income was more than \$2,400 but your net farm profits (defined below) were less than \$1,733. There is no limit on how many years you can use this method.

Under this method, you report on line 15, Part II, two-thirds of your gross farm income, up to \$1,600, as your net earnings. This method can increase or decrease your net SE farm earnings even if the farming business had a loss.

You may change the method after you file your return. For example, you can change from the regular to the optional method or from the optional to the regular method.

For a farm partnership, figure your share of gross income based on the partnership agreement. With guaranteed payments, your share of the partnership's gross income is your guaranteed payments plus your share of the gross income after it is reduced by all guaranteed payments of the partnership. If you are a limited partner, include only guaranteed payments for services you actually rendered to or on behalf of the partnership.

Net farm profits is the total of the amounts from Schedule F (Form 1040), line 36, and Schedule K-1 (Form 1065), line 15a, from farm partnerships.

Nonfarm Optional Method

You may be able to use this method to figure your net earnings from nonfarm self-employment if your nonfarm profits (defined below) were less than \$1,733, and also less than 72.189% of your gross nonfarm income. To use this method, you also must be regularly self-employed. You meet this requirement if your actual net earnings from self-employment were \$400 or more in 2 of the 3 years preceding the year you use the nonfarm method. The net earnings of \$400 or more could be from either farm or nonfarm earnings or both. The net earnings include your distributive share of partnership income or loss subject to SE tax. Use of the nonfarm optional method from nonfarm self-employment is limited to 5 years. The 5 years do not have to be consecutive.

Under this method, you report on line 17, Part II, two-thirds of your gross nonfarm income, up to \$1,600, as your net earnings. But **you may not report less than your**

actual net earnings from nonfarm self-employment.

You may change the method after you file your return. For example, you can change from the regular to the optional method or from the optional to the regular method.

Figure your share of gross income from a nonfarm partnership in the same manner as a farm partnership. See **Farm Optional Method** above for details.

Net nonfarm profits is the total of the amounts from Schedule C (Form 1040), line 31 (or Schedule C-EZ (Form 1040), line 3), and Schedule K-1 (Form 1065), line 15a, from other than farm partnerships.

Using Both Optional Methods

If you can use both methods, you may report less than your total actual net earnings from farm and nonfarm income, but you **cannot** report less than your actual net earnings from nonfarm SE income alone.

If you use both methods to figure net earnings, you **cannot** report more than \$1,600 of net SE earnings.

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* These items may not be included in this package. To reduce printing costs, we've sent you only the forms you may need based on what you filed last year.

Major Categories of Federal Income and Outlays for Fiscal Year 1993

On or before the first Monday in February of each year, the President is required by law to submit to the Congress a budget proposal for the fiscal year that begins the following October. The budget plan sets forth the President's proposed receipts, spending, and the deficit for the Federal Government. The plan includes recommendations for new legislation as well as recommendations to change, eliminate, and add programs. After receipt of the President's proposal, the Congress reviews the proposal and makes changes. It first passes a budget resolution setting its own targets for receipts, outlays, and the deficit. Individual spending and revenue bills are then enacted consistent with the goals of the budget resolution.

In fiscal year 1993 (which began on October 1, 1992, and ended on September 30, 1993), Federal income was \$1,154 billion and outlays were \$1,408 billion, leaving a deficit of \$255 billion.

Federal Income

Income and social insurance taxes are, by far, the largest source of receipts. In 1993, individuals paid \$510 billion in income taxes and corporations paid \$118 billion. Social security and other insurance and retirement contributions were \$428 billion. Excise taxes were \$48 billion. The remaining \$50 billion of receipts were from Federal Reserve deposits, customs duties, estate and gift taxes, and other miscellaneous receipts.

Federal Outlays

About 82% of total outlays were financed by tax receipts and the remaining 18% were financed by borrowing. Government receipts and borrowing finance a wide range of public services. The following is the breakdown of total outlays for fiscal year 1993*:

1. Social security, Medicare, and other retirement: \$500 billion. These programs were 35% of total outlays. These programs provide income support for the retired and disabled and medical care for the elderly.

2. National defense, veterans, and foreign affairs: \$344 billion. About 20% of total outlays were to equip, modernize, and pay our armed forces and to fund other national defense activities; nearly 3% went for veterans benefits and services; and about 1% went for international activities, including military and economic assistance to foreign countries and the maintenance of U.S. embassies abroad.

3. Net interest: \$199 billion. About 14% of total outlays were for net interest payments on the public debt.

4. Physical, human, and community development: \$119 billion. About 8% of total outlays were for agriculture; natural resources and environmental programs; transportation programs; aid for elementary and secondary education and direct assistance to college students; job training programs; deposit insurance, commerce and housing credit, and community development; and space, energy, and general science programs.

5. Social programs: \$254 billion. The Federal Government spent 11% of total outlays to fund Medicaid, food stamps, aid

to families with dependent children, supplemental security income, and related programs. About 6% was spent for health research and public health programs, unemployment compensation, assisted housing, and social services.

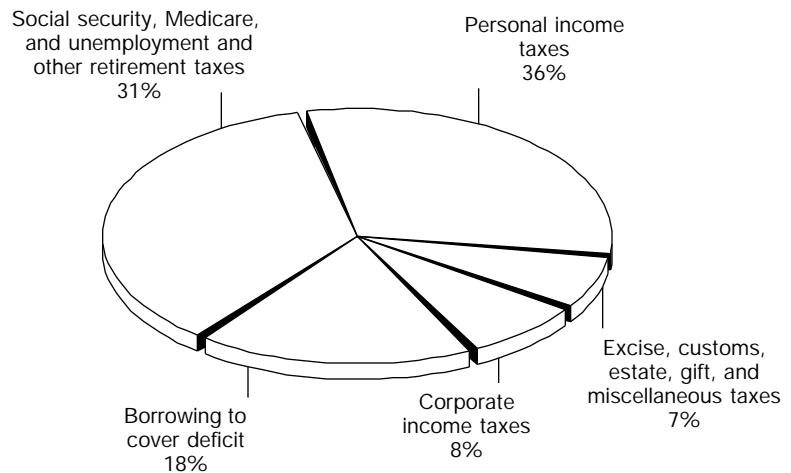
6. Law enforcement and general government: \$28 billion. About 2% of total outlays were for judicial activities, Federal law enforcement, and prisons; and to provide for the general costs of the Federal Government, including the collection of taxes and legislative activities.

Note: The above outlay amounts do not total to \$1,408 billion due to rounding.

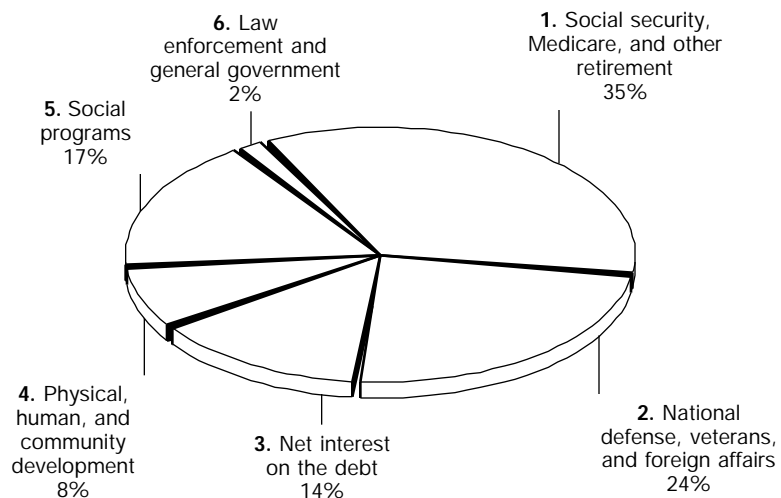
These pie charts show the relative sizes of the major categories of Federal income and outlays for fiscal year 1993.

Income and Outlays

Where the Income Came From:



What the Outlays Were:



* The percentages on this page exclude undistributed offsetting receipts, which were -\$37 billion in fiscal year 1993. In the budget, these receipts are offset against spending in figuring the outlay totals shown above. These receipts are primarily for the U.S. Government's share of its employee retirement programs and rents and royalties on the Outer Continental Shelf.