MILITARY/INTERNATIONAL STUDENT TEXT
For Use in Preparing Tax Year 2003 Returns

VOLUNTEER ASSISTOR'S GUIDE

FOR USE IN IRS VOLUNTEER PROGRAMS

M-VITA Military Volunteer Income Tax Assistance

VECTA Volunteer Embassy and Consulate Tax Assistance

IRS
Department of the Treasury
Internal Revenue Service
Publication 678-M (Rev.2003)
Catalog Number 46676K
Course Number 3004 M

IRS VOLUNTEERS
www.irs.gov

The IRS Mission

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

IRS
Department of the Treasury
Internal Revenue Service
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Confidentiality Statement:
All tax information you receive from taxpayers in your VOLUNTEER capacity is strictly confidential and should not, under any circumstances, be disclosed to unauthorized individuals.

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Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1-800-THE-LOST (1-800-843-5678)** if you recognize a child.

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

WAGE AND INVESTMENT DIVISION

NOV 0 7 2003

WELCOME, VOLUNTEERS!

Through the assistance of trained volunteers from the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs, the Internal Revenue Service and its partners across the nation and abroad are able to offer free tax help to taxpayers having low-to-moderate income. As a volunteer, you will help prepare tax returns for a taxpayer segment which often includes seniors, disabled persons, people with limited English proficiency, and others who cannot afford professional tax assistance.

This publication will help you to acquire the skills to prepare basic tax returns. There are two tracks to certification – the Wage Earner and the Pension Earner. The Wage Earner track covers issues working individuals and families customarily face. The Pension Earner track contains more complex issues, those generally encountered by retired people and senior citizens. These tracks allow instructors to train volunteers in specific tax issues encountered at the volunteer sites. For instance, a TCE class might certify their volunteers on the Pension Earner track that does not include training on the Earned Income Tax Credit (EITC). If the instructor or the site coordinator anticipates that taxpayers coming into the site will be eligible for the EITC, he/she can also teach, test, and certify volunteers on the EITC chapter, a portion of the Wage Earner track.

I urge you to electronically file (*e-file*) the returns you prepare. Electronic filing (*e-filing*) uses automation to quickly check for errors or missing information. Consequently, *e-filed* returns have a higher accuracy rate than paper prepared returns. As technology changes the face of filing taxes, we recognize that it will impact every aspect of volunteer training. In fact, the 2003 edition of our volunteer training materials employs a new integrated training feature that bridges the gap between paper-based training of the past and web-based training of the future. We are working to make this training as convenient and versatile as possible.

In performing this service to your fellow taxpayers, I appreciate your steps to safeguard the personal and sensitive documents or files that you may encounter. Preserving the privacy of those persons you assist is key to the preservation of the integrity embedded in the VITA/TCE Programs.

I welcome your comments and recommendations about our training material. Your instructor or site coordinator can take your suggestions or you can write to us at the following address:

Internal Revenue Service
Stakeholder Partnerships, Education and Communication
SE:W:CAR:SPEC:PPD:E, Stop 45-WI
401 W. Peachtree Street, NW
Atlanta, GA 30308

Thank you in advance for your willingness to volunteer your own time to provide this much needed service to your neighbors and your community.

Sincerely,

Mark E. Pursley

Mark E. Pursley
Director, Stakeholder Partnerships,
Education and Communication

Important Tax Law Changes for 2003

Exemption amount increased. The amount each taxpayer can deduct for each exemption has increased from $3,000 to $3,050.

Standard deduction amount increased. The standard deduction (for taxpayers that do not itemize deductions on Schedule A (Form 1040)) is higher in 2003 than it was in 2002. In addition, the standard deduction for married taxpayers filing jointly is twice the amount for single filing status.

Married filing jointly & Qualifying Widow(er)	$9,500
Head of Household	$7,000
Single	$4,750
Married Filing separately	$4,750

Increase in 10% tax bracket. The 10% tax bracket has been increased from $6,000 to $7,000 ($12,000 to $14,000) for joint filers.

Increase in 15% bracket for married filing jointly status. The 15% tax bracket has been increased to twice that of single filers.

Marginal tax rates reduced. The rates are reduced to 25%, 28%, 33%, and 35% retroactively effective January 1, 2003.

Capital gains rate reduced. The rate has reduced from 20% to 15% (from 10% to 5% for taxpayers in the 10 and 15 percent brackets) effective on or after May 6, 2003 through December 31, 2008. In 2008, the capital gains rate will drop to 0% for lower-income tax taxpayers. The lower rates will apply to both regular tax and alternative minimum tax.

Certain dividends taxed at capital gains rates. The same rates apply to both foreign and domestic companies' dividends. Lower-income taxpayers will pay 5% on dividends paid between January 1, 2003 and December 31, 2007 and 0% in 2008. Taxpayers in tax brackets above 15 % would pay 15 % on dividends paid between January 1, 2003 and December 31, 2008.

Standard mileage rate. The standard mileage rate for the cost of operating a car in 2003 is 36 cents a mile for all business miles. The 2003 rate for use of a vehicle for medical care and moving expenses is 12 cents a mile.

Household employer's income reporting requirement. In 2003, household employers are required to issue a Form W-2 to employees whose earnings are $1400 or more.

Lifetime learning credit. Beginning in 2003, the amount of the qualified tuition and related expenses you may take into account in figuring your lifetime learning credit increases from $5,000 to $10,000. The credit will equal 20% of qualified expenses, with the maximum credit being $2,000.

Student loan interest deduction. Beginning in 2003, the modified adjusted gross income ranges for phasing out the student loan interest deduction may be adjusted annual for inflation.

Child tax credit increased. The child tax credit has been increased to $1,000 for 2003. An early refund of the 2003 Child Tax Credit was issued to eligible taxpayers who claimed the child tax credit on their 2002 tax return and had a qualifying child that was born after 1986. Taxpayers that received the "early refund" Advance Child Tax Credit payment must include the amount received when calculating the 2003 Child Tax Credit.

Earned Income Credit (EIC) Limits: For 2003, the investment, earned income, and adjustment gross income for the EIC are:

Investment income is $2,600 or less.

Total earned income must be at least $1 but less than:

- $33,692 ($34,692 if married filing jointly) and more than one qualifying child.
- $29,666 ($30,666 if married filing jointly) and one qualifying child.
- $11,230 ($12,230 if married filing jointly) and no qualifying child.

Adjusted gross income less than:

- $33,692 ($34,692 if married filing jointly) and more than one qualifying child.
- $29,666 ($30,666 if married filing jointly) and one qualifying child.
- $11,230 ($12,230 if married filing jointly) and no qualifying child.

Child and dependent care credit. Significant changes to the child and dependent care credit take effect in 2003.

The credit amount can be as much as 35% (previously 30%) of qualifying expenses.

The maximum adjusted gross income amount that qualifies for the highest rate increases to $15,000 (previously $10,000).

The limit on the amount of qualifying expenses increases to $3,000 for one qualifying individual and $6,000 for two or more qualifying individuals.

The amount of income that is treated as having been earned by a spouse who is either a full-time student or not able to care for himself or herself increases. This amount increases to $250 a month if there is one qualifying individual and $500 a month if there are two or more qualifying individuals.

Tax benefit for adoption. The adoption credit and the exclusion from income of benefits under an adoption assistance program for the adoption of a child with special needs is $10,160 regardless of the amount of qualified adoption expenses. The modified adjusted gross income limit will be adjusted annually for inflation.

Traditional Individual Retirement Account (IRA) income limits. The amount of income taxpayers can have and not be affected by the deduction phase-out increases. The amounts vary depending on filing status and impacts taxpayers that have a traditional IRA and are covered by a retirement plan at work. For further information go to www.irs.gov.

Deemed IRAs. For plan years beginning after 2002, a qualified employer plan (retirement plan) can maintain a separate account or annuity under the Plan (a deemed IRA) to receive voluntary employee contributions. An employee's account can be treated as a **traditional IRA** or a **Roth IRA.**

The Health Coverage Tax Credit (HCTC). The HCTC was introduced by the Trade Act of 2002 to assist certain taxpayers. Potentially eligible taxpayers receive a HCTC Program Kit in the mail. This credit is primarily available to workers who have lost their jobs due to the effects of international trade and taxpayers over age 55 who receive benefits from the Pension Benefit Guaranty Corporation. Calculation of the credit is outside of the scope of the volunteer programs. For further information go to www.irs.gov

Increase in Alternative Minimum Tax Exemption. Increased to $40,250 for single and head of household taxpayers; $58,000 for Married Filing Jointly and Qualified Widow(er)s; and $29,000 for Married Filing Separately taxpayers.

INTRODUCTION AND ADMINISTRATIVE GUIDELINES

Welcome to the Internal Revenue Service's (IRS) Military Volunteer Income Tax Assistance (M-VITA) and Volunteer Embassy and Consulate Tax Assistance (VECTA) Programs. As an IRS volunteer you provide a tremendous service to the American public and to your community. You are about to embark on a very challenging and rewarding task as an important player in the process.

Every year thousands of volunteers nationally and internationally assist millions of taxpayers with their federal income tax return. We've taken great care to improve our products and incorporate changes recommended by our volunteer community. In this section, we explain general training requirements and highlight important administrative requirements and enhancements.

TAX YEAR 2003 ADMINISTRATIVE ENHANCEMENTS

Site Identification Number (Site IDN). Your site IDN is a 8-digit number preceded by the "letter P" that must be entered on all returns (Forms 1040, 1040A, and 1040EZ) you prepare—both paper and electronic. Your site coordinator provides this number along with other necessary guidelines for completing the return.

The Site identification number should appear in the "Paid Preparer's Use Only" section of the return and will be discussed in detail in Lesson 6, Finishing the Return.

Evaluation Process. A new procedure is in place for student evaluation of the M-VITA/VECTA training and course material. Beginning with training for filing season 2004, a new evaluation form is included in your training materials. It is a scannable form designed for IRS employees but we believe it provides the questions we need to evaluate both your training and our course materials. Your instructor will give you specific instructions on completing the form. If you are taking this course self-study, please contact your local IRS SPEC office or your site manager for details. Your instructor will also give you information on how to complete this form on the internet and transmit directly to the vendor who will compile the evaluations.

IMPORTANT REQUIREMENTS

Valid Social Security Number: One of the primary reasons for the rejection of a return or a delay in processing a return is an incorrect SSN. It is important, therefore, that you check the accuracy of each SSN, as well as the spelling of the name associated with the number.

***e-file*:** Each year the IRS contracts with a software developer to provide tax return preparation software. All returns prepared using the software should be electronically filed and not mailed to the applicable IRS Processing Center. **Exception:** When a return is filed electronically with the IRS and you encounter unworkable rejects.

SCOPE AND SEQUENCE

Most taxpayers are either wage earners or pension earners. Therefore, we have organized this training material in four modules: basic, wage earner, pension earner, military and international specific. There are instances where a site serves both wage earners and pension earners. Your instructor has worked closely with the coordinator(s) at the site where you will assist taxpayers to determine which lessons you should learn.

Basic Module

All volunteers must complete the following lessons and the applicable lesson(s) from the Military and International specific module.

Introduction

Lesson 1 — Getting Started
  Military Segments
      Dependency Exemptions
      Exemption For A Foreign Spouse
      Filing Status
  International Segments
      Exemption For Foreign Spouse Or Dependent
      Filing Status Issue

Lesson 2 — Income
  Military Segments
      Income
      Other Income
  International Segments
      Worldwide Income
      Self-Employment Tax
      Rental Income And Expenses

Lesson 3 — Adjustments

- Military Segment
  - Moving Expenses

Lesson 4 — Standard And Itemized Deductions, And Tax Computation

- Military Segments
  - Travel Expenses
  - Miscellaneous Itemized Deductions
- International Segment
  - Business Travel Expenses

Lesson 5 — Miscellaneous Credits

- International Segment
  - Foreign Tax Credit

Lesson 6 — Finishing The Return

- Military Segment
  - Finishing and Filing The Return

Wage Earner Module

Volunteers who will be assisting wage earners need to complete the following lessons:

Lesson 7 — Credit For Child And Dependent Care Expenses

Lesson 8 — Education Credits

Lesson 9 — Earned Income Credit

Lesson 10 — Child Tax Credit

Pension Earner Module

Volunteers who will be assisting pension earners are required to complete the following lessons:

Lesson 11 — Sale of Stock

Lesson 12 — Sale of Home

Lesson 13 — Pensions

- Military Segment
  - Thrift Savings Plan

Lesson 14 — Credit For The Elderly Or The Disabled

Military and International Specific Lessons

Volunteers must complete the Military and International specific module if applicable.

Lesson 15 — Foreign Earned Income Exclusion

Lesson 16 — Tax Options For Combat Zone Participants

Lesson 17 — Aliens

Lesson 18 — Home Leave

Proof Copies of Forms

Forms imprinted with “draft” were current as of the date this publication was sent to print. Final forms may have changes. Be sure to compare the final forms with those in this publication. The Internet (www.irs.gov) provides access to the final form.

Testing

All volunteers must take the applicable tests to show that they can complete returns accurately. You may use this text and all reference materials to complete the test. Volunteers who do not pass the test may take the appropriate retest. Instructions on taking and grading the test are in the Test and Retest Booklets.

Exercises and Exhibits

It is important that you take the time to complete the exercises to achieve the objectives in each lesson. Studies have shown that long-term retention of information increases dramatically if you put pencil to paper in responding to questions and problems. The Volunteer Assistor’s Guide is your learning tool and you may mark it up in any way you wish.

Note: Answers to all exercises are available at the end of the lesson.

Each exercise is separated from the rest of the text by a border design. Write out your answer to each exercise, and then check it immediately against the answer provided. If your answer is different, work the problem again. If you need additional reinforcement, review any parts of the text that apply.

The exercises are designed to give you practice, to emphasize what we think is important, and to help you complete your training successfully.

The coursebook contains a large number of exhibits of the various tax forms and schedules. These exhibits are numbered starting at the beginning of each lesson. Many of the exercises contain exhibits of blank forms, or part of the form, that you must complete.

Lesson Features

Introduction and Objectives

There is a brief **Introduction** to each lesson or segment. This will give you an overview of the topic to be covered, as well as an idea of how you will most likely be asked to apply the information when helping taxpayers. There will be a list of **Objectives**, when appropriate, that clearly defines the key points for mastery of the topic. They not only help you focus your reading, but also help you check for understanding.

Summing Up This Section, Segment, or Lesson

This boxed feature appears at the end of each lesson/segment. It provides you with a summary of the main points covered in the lesson. Used together, the lesson summaries provide a comprehensive overview of the course content.

Sidebar Features

Sidebar features appear in the outer margins (left and right) of the text. These boxed features emphasize important points presented in the lesson, or provide additional, related information. **Potential Pitfalls** point out commonly made errors and indicate ways to avoid these errors. **Alert!** identifies pending legislation, tax law changes, or tax forms changes that were expected, but not enacted.

CONFIDENTIALITY AND INTEGRITY

Taxpayers come to you for help. To provide appropriate assistance, you will be asking very personal questions about the taxpayers and their families, their sources of income, and their expenses. Taxpayers will give this information only if they trust and have confidence in you. **To maintain the taxpayer's trust and confidence, DO NOT disclose any personal tax information you learn as a result of the assistance you provide.**

Taxpayers can be amazingly frank about their personal lives. When taxpayers share extremely personal information with you, this creates a responsibility for you not to discuss the information with other taxpayers or fellow volunteers. Never use a taxpayer's name in the presence of other taxpayers.

However, volunteers may discuss tax situations with other taxpayers and volunteers. For example, a volunteer may refer to a situation (not a taxpayer) and ask or give advice about the appropriate tax treatment for that specific situation.

The M-VITA and VECTA Programs offer free tax assistance. You cannot accept payment nor any type of gratuity for preparing a federal tax return or for other tax-related assistance that you provide. If you accept payment for preparing a tax return, you are considered a "paid preparer." Paid preparers are legally liable under federal law for the returns they prepare; volunteers are not.

ALERT ⚠

CONFIDENTIALITY AND INTEGRITY

All tax information you receive from taxpayers in your VOLUNTEER capacity is strictly confidential and should not, under any circumstances, be disclosed to unauthorized individuals. See your site coordinator for additional information.

An important aspect of integrity for volunteer assistors is declining to prepare a tax return when there is a question about the validity of the information supplied by a taxpayer. Some individuals may attempt to defraud the government by filing false tax returns.

Volunteers who are not comfortable with the information provided by a taxpayer because of any reason, should discuss their concerns with their Site Coordinator or other individual in charge of the site.

QUALITY OF SERVICE

The goal of the M-VITA and VECTA Programs is to provide high quality service. The following list suggests some ways to ensure that each return is prepared correctly:

- Where possible prepare the return using electronic filing software.
- If preparing a paper return, use a calculator to check your math.
- Refer to your Publication 17, other IRS publications and job aids for help with complicated topics.
- Use the checklists and worksheets provided.
- Consult with other, more experienced, volunteers.
- Call the Volunteer Hotline (1-800-829-8482).

Volunteer Hotline

There is a toll-free hotline available for M-VITA and VECTA volunteer use only. This hotline is a source of tax information for volunteers. When you use the hotline, identify yourself as a M-VITA or VECTA volunteer.

The hotline number is 1-800-829-8482 (829-VITA). **Do not give this number to taxpayers.** This service is generally available between February 1 and April 15th.

Do not use this hotline to order forms or schedules. Instead, contact your IRS Territory Manager.

EFFECTIVE INTERVIEWING

To complete accurate returns, you must ask certain questions about the taxpayers and their families. It is important to set the appropriate climate to obtain this information.

It is also important to be sensitive to the needs of all taxpayers you assist, especially those with disabilities. All references to taxpayers with disabilities should reflect the individuality, equality and dignity of the person.

Refrain from using such terms as “handicapped, physically or mentally challenged, differently challenged”. It would be better to use:

Person(s) with a disability;

Persons who are blind; persons who are visually impaired;

Persons who are deaf; persons who are hearing impaired or hard of hearing;

Persons who use a wheelchair;

Persons who are physically disabled; or, persons with mental retardation.

Steps to Effective Interviewing:

1. Make necessary introductions and engage in small talk.
2. Preface what will take place during the interview.
3. Share your intentions and any hopeful results/benefits for the taxpayer.
4. Allow the taxpayer to share any expectations, needs, and/or concerns.
5. Respond with active listening skills.
    - **A.** Create a "safe" climate.
    - **B.** Remember your nonverbal listening clues.
    - **C.** Listen, then respond by:
        1. restating,
        2. paraphrasing, (and/or)
        3. encouraging
6. Ask the first key tax question, creating an awareness about why the tax information is needed.
    - **A.** Make no assumptions.
    - **B.** Ask no leading questions.
    - **C.** Ask, "What have you brought with you today?"
7. Continue to ask questions. Define any terms that may be unfamiliar to the taxpayer.
8. Check your own comfort level.
9. Respond to any misunderstandings.
10. Continue with effective questioning and active listening.
11. Overcome any communication barriers.
    - **A.** Stay on track. ("I hear you."/repeat question)
    - **B.** Allow adequate response time.
    - **C**. Avoid making assumptions.
    - **D.** Deal with taxpayers.
        1. Silent ("tell me more about...")
        2. Upset (paraphrase)
    - **E.** Concentrate.

12. **12.** Indicate the taxpayer's next steps. Inform the taxpayer about the M-VITA and VECTA Programs and stress the benefits of accurate recordkeeping.

    A. Express confidence in having completed an accurate tax return.

    B. Part cordially.

WHAT IF . . . ?

Use these questions and answers to provide quick and accurate information to taxpayers who have administrative questions.

1. What if a taxpayer or dependent does not have a social security number?

Taxpayers who do not have a social security number must apply for one by using Form SS-5, Application for a Social Security Card. This form is available from the Social Security Administration and U.S. Citizens must show proof of age, identity, and citizenship when they apply for a social security number. Individuals who are age 18 or older must apply at the Social Security Administration office in person rather than by mail.

2. What if the taxpayer needs an IRS form or publication?

Most IRS offices and many post offices and libraries have IRS forms that taxpayers may take or photocopy. They also have the instruction booklets for specific forms and publications. Remind the taxpayer that forms can also be ordered by calling the IRS on 1-800-829-3676 (1-800-TAX FORM) or from a fax machine dial (703) 487-4160.

IRS offers tax products and information on the Internet. The IRS Internet site provides instant access to federal income tax forms, instructions, publications, and information on free tax assistance programs, electronic tax filing, and more 24 hours a day. Current and prior year federal tax products and information are available for downloading.

By Internet:

1. World Wide Web – www.irs.gov
2. FTP – ftp.irs.ustreas.gov
3. Telnet – iris.irs.ustreas.gov

3. What if the taxpayers move?

Taxpayers should use Form 8822, *Change of Address,* to notify the IRS of any change of address. If the taxpayers plan to move after sending the return and before a refund is received, they should notify their old post office and the IRS of their new address. (See item #4 for information on how to order Form 8822.)

4. Which address should taxpayers use, their street address or their post office box?

If the post office delivers mail to the post office box rather than to a street address, enter the P.O. box number on the line for the present home address.

5. What if the taxpayer needs a copy of a prior year return?

To obtain a copy of a prior-year return, taxpayers should complete Form 4506, *Request for Copy or Transcript of Tax Form,* and mail it, with the required fee, to the Internal Revenue service center where the return was filed. As an alternative, a transcript of a prior-year return may be obtained, also using Form 4506. There is no charge for the transcript. A transcript shows most line items from the original return, including accompanying forms and schedules.

6. What if the taxpayer wants to make a voluntary contribution to reduce the public debt?

Voluntary contributions to reduce the public debt should be made payable to "Bureau of the Public Debt." The contribution may be sent in the tax return envelope. If the taxpayer is making a payment of tax due, as well as a contribution, there should be two checks or money orders in the tax-return envelope—one to pay the tax due and one to make the voluntary contribution. Voluntary contributions to reduce the public debt are considered charitable contributions and may be entered as an itemized deduction on Schedule A of Form 1040 in the year paid.

7. How long should taxpayers keep their tax returns?

Taxpayers should keep a copy of the tax return, worksheets used, and records of all items appearing on it (such as 1099 forms) 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. They should keep forms W-2 until the Social Security Administration has recorded the earnings reflected on the forms. Keep property records (including those on a home) as long as they are needed to figure the basis of the original or replacement property. Closing statements for a home should be kept until the home is sold. Brokerage statements showing the purchase price of stock should be kept until the stock is sold. Also, contributions to nondeductible IRAs should be kept until all IRA funds are withdrawn. Calculations determining the nontaxable portion of pension income should be kept until all of the pension income is taxable. For additional recordkeeping information, see Publication 552, *Recordkeeping for Individuals.*

8. What is On-Line filing?

On-line filing allows a taxpayer to file their tax return from home through an Internet Web site or third-party transmitter. Information about filing from home is included in many commercial tax preparation software packages. Also, many software companies offer tax preparation and electronic filing software that can be downloaded from the Web; or they provide the option for individuals to prepare their returns while logged on to the Internet.

All that is needed is a personal computer (PC), software and a modem to send the return data. On-line filing accommodates the same basic forms and schedules as electronic filing. The taxpayer is responsible for sending their signature document (Form 8453-OL) accompanying paper documents to IRS after they receive notification from the Internet on-line provider or transmitter that their return has been accepted by IRS. If IRS rejects the return, the taxpayer will either have to correct the information and retransmit the return or print it and send it as a paper return to IRS. Credit card and direct debit payment options are available for balance due returns.

9. Are there any publications or forms that can assist a taxpayer that owes prior year taxes or previously had their refund offset to satisfy another's debt?

IRS offers various publications and forms that are specific to these issues.

The IRS Collection Process, Publication 594, explains a taxpayers right and responsibility regarding payment of federal taxes. Installment Agreement Request, Form 9465, gives the taxpayer the option to pay a balance due through monthly installment payments.

Innocent Spouse Relief, Publication 971, addresses how one spouse may request relief from past taxes due solely based on the other spouse's debt. Request for Innocent Spouse Relief, Form 8857, explains various forms of relief and who may qualify.

Injured Spouse Claim and Allocation, Form 8379, allows a taxpayer to request relief from their spouse's past due federal debts including back child support and past due taxes. An injured spouse can get a refund for his or her share of the overpayment that would be used to pay the past due amount.

Additional information on these topics can be obtained by contacting the IRS at 1-800-829-1040, accessing their web page at www.irs.gov, or by visiting a Tax Assistance Center in your area.

10. Your Civil Rights Are Protected

Publication 4053, explains that under no circumstances will the Internal Revenue Service tolerate discrimination by its employees, grantees, contractors, and/or subcontractors. These provisions extend to VITA and TCE Programs. Publication 4053 or other IRS Civil Rights information should be displayed or made available to all taxpayers.

WHERE IS THE TOPIC?

The following pages show forms 1040EZ, 1040A, and 1040. For a discussion about what to put on a line, turn to the lesson in this text that is shown in the circle.

FORM 1040EZ

Form **1040EZ**

Department of the Treasury—Internal Revenue Service

Income Tax Return for Single and Joint Filers With No Dependents **2003**

OMB No. 1545-0675

Label
(See page 14.)
Use the IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial | Last name ⑥ | **Your social security number**

If a joint return, spouse's first name and initial | Last name | **Spouse's social security number**

Home address (number and street). If you have a P.O. box, see page 14. | Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.

▲ Important! ▲
You **must** enter your SSN(s) above.

Presidential Election Campaign (page 14)

Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if a joint return, want $3 to go to this fund? . . . . . . ▶

You ☐ **Yes** ☐ **No** **Spouse** ☐ **Yes** ☐ **No**

Income

Attach Form(s) W-2 here. Enclose, but do not attach, any payment.

Note. You **must** check Yes or No.

1	Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.		1	②
2	Taxable interest. If the total is over $1,500, you cannot use Form 1040EZ.		2	②
3	Unemployment compensation and Alaska Permanent Fund dividends (see page 16).		3	②
4	Add lines 1, 2, and 3. This is your **adjusted gross income.**		4	
5	Can your parents (or someone else) claim you on their return? **Yes.** ☐ Enter amount from worksheet on back. **No.** ☐ If **single,** enter $7,800. If **married filing jointly,** enter $15,600. See back for explanation.		5	⑤
6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your **taxable income.**	▶	6	

Payments and tax

7	Federal income tax withheld from box 2 of your Form(s) W-2.		7	⑥
8	**Earned income credit (EIC).**		8	⑨
9	Add lines 7 and 8. These are your **total payments.**	▶	9	⑥
10	**Tax.** Use the amount on **line 6 above** to find your tax in the tax table on pages 25–29 of the booklet. Then, enter the tax from the table on this line.		10	④

Refund

Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d.

11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your **refund.** ▶ 11a ⑥

▶ **b** Routing number ☐☐☐☐☐☐☐☐☐ ▶ **c** Type: ☐ Checking ☐ Savings ⑥

▶ **d** Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Amount you owe

12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the **amount you owe.** For details on how to pay, see page 22. ▶ 12

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 22)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign here

Joint return? See page 13.
Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature ⑥ | Date | Your occupation | Daytime phone number ( )

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation

Paid preparer's use only

Preparer's signature ⑥ | Date | ENTER SITE IDENTIFICATION NUMBER ➤ | Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code | EIN | Phone no. ( )

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 24. Cat. No. 11329W Form **1040EZ** (2003)

FORM 1040A

Form **1040A** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2003** IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0085

Label (See page 21.)

LABEL HERE

Use the IRS label. Otherwise, please print or type.

Your first name and initial	Last name ⑥	**Your social security number**
If a joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Home address (number and street). If you have a P.O. box, see page 22.	Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, see page 22.		

▲ Important! ▲
You **must** enter your SSN(s) above.

Presidential Election Campaign (See page 22.)
Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want $3 to go to this fund? . . . ► You ☐ Yes ☐ No Spouse ☐ Yes ☐ No

Filing status ① Check only one box.
1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ►
4 ☐ Head of household (with qualifying person). (See page 23.) If the qualifying person is a child but not your dependent, enter this child's name here. ► ____________
5 ☐ Qualifying widow(er) with dependent child (See page 24.)

Exemptions ①

6a ☐ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a.
b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c **Dependents:**

If more than six dependents, see page 24.

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see page 25)
			☐
			☐
			☐
			☐
			☐
			☐

No. of children on 6c who:
- **lived with you** ____
- **did not live with you due to divorce or separation (see page 26)** ____

Dependents on 6c not entered above ____

d Total number of exemptions claimed. **Add numbers on lines above** ☐

Income

Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 27.

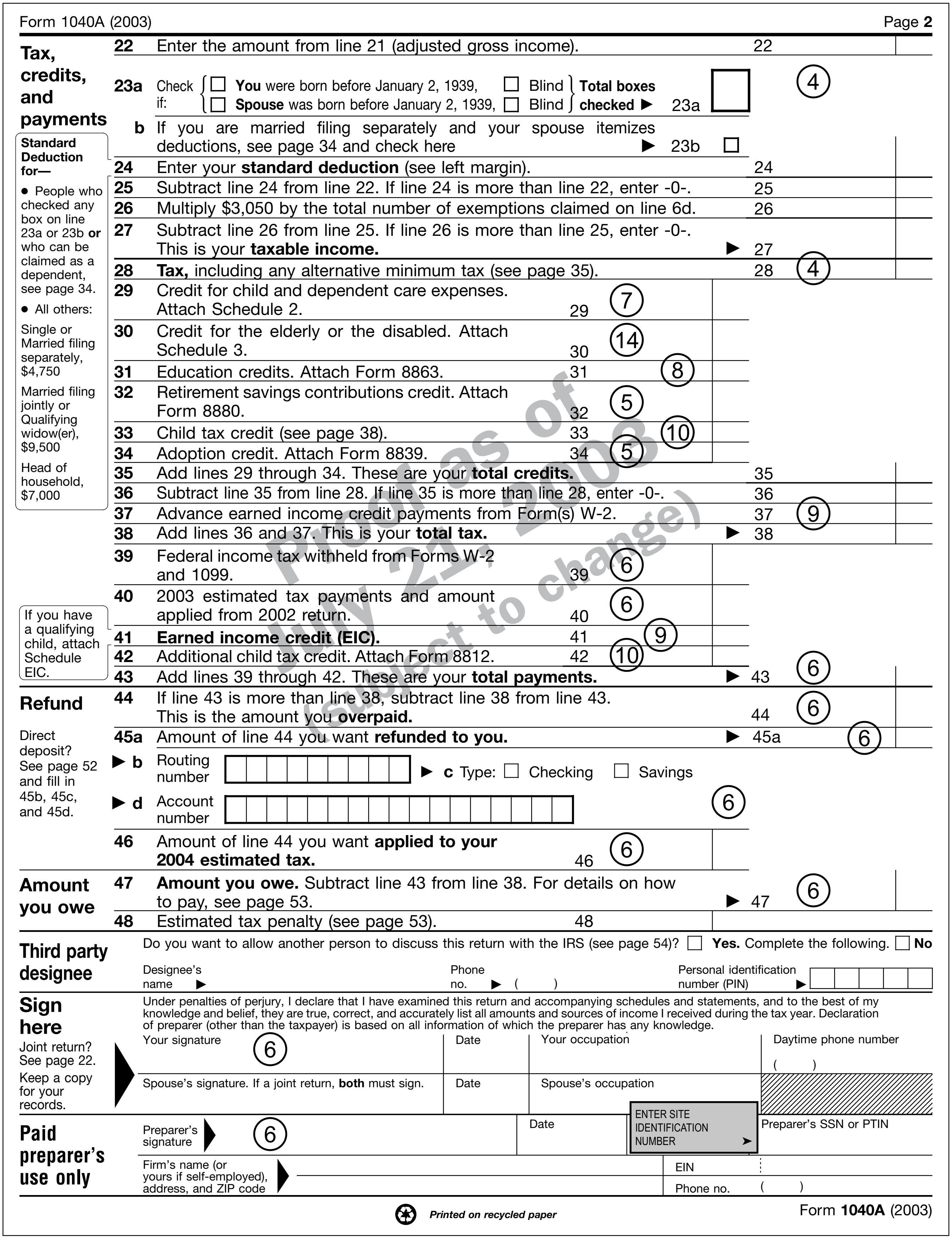
Enclose, but do not attach, any payment.

7	Wages, salaries, tips, etc. Attach Form(s) W-2.		7 ②
8a	**Taxable** interest. Attach Schedule 1 if required.		8a ②
b	**Tax-exempt** interest. **Do not** include on line 8a.	8b ②	
9a	Ordinary dividends. Attach Schedule 1 if required.		9a
b	Qualified dividends (see page XX).	9b	
10a	Capital gain distributions (see page 27).		10a ②
b	Post-May 5 capital gain distributions (see page 27).	10b	
11a	IRA distributions. 11a ⑬	11b Taxable amount (see page 27).	11b
12a	Pensions and annuities. 12a ⑬	12b Taxable amount (see page 28).	12b
13	Unemployment compensation and Alaska Permanent Fund dividends.		13 ②
14a	Social security benefits. 14a ⑬	14b Taxable amount (see page 30).	14b
15	Add lines 7 through 14b (far right column). This is your **total income.** ►		15

Adjusted gross income ③

16	Educator expenses (see page 30).	16	
17	IRA deduction (see page 30).	17	
18	Student loan interest deduction (see page 33).	18	
19	Tuition and fees deduction (see page 33).	19	
20	Add lines 16 through 19. These are your **total adjustments.**		20
21	Subtract line 20 from line 15. This is your **adjusted gross income.** ►		21

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 57. Cat. No. 11327A Form **1040A** (2003)



Form 1040A (2003) Page **2**

Tax, credits, and payments

22 Enter the amount from line 21 (adjusted gross income). 22

23a Check if: ☐ **You** were born before January 2, 1939, ☐ Blind ☐ **Spouse** was born before January 2, 1939, ☐ Blind **Total boxes checked** ▶ 23a ☐ ④

b If you are married filing separately and your spouse itemizes deductions, see page 34 and check here ▶ 23b ☐

Standard Deduction for—

- People who checked any box on line 23a or 23b **or** who can be claimed as a dependent, see page 34.
- All others:

Single or Married filing separately, $4,750

Married filing jointly or Qualifying widow(er), $9,500

Head of household, $7,000

24 Enter your **standard deduction** (see left margin). 24

25 Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-. 25

26 Multiply $3,050 by the total number of exemptions claimed on line 6d. 26

27 Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your **taxable income.** ▶ 27

28 **Tax,** including any alternative minimum tax (see page 35). 28 ④

29 Credit for child and dependent care expenses. Attach Schedule 2. 29 ⑦

30 Credit for the elderly or the disabled. Attach Schedule 3. 30 ⑭

31 Education credits. Attach Form 8863. 31 ⑧

32 Retirement savings contributions credit. Attach Form 8880. 32 ⑤

33 Child tax credit (see page 38). 33 ⑩

34 Adoption credit. Attach Form 8839. 34 ⑤

35 Add lines 29 through 34. These are your **total credits.** 35

36 Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-. 36

37 Advance earned income credit payments from Form(s) W-2. 37 ⑨

38 Add lines 36 and 37. This is your **total tax.** ▶ 38

39 Federal income tax withheld from Forms W-2 and 1099. 39 ⑥

40 2003 estimated tax payments and amount applied from 2002 return. 40 ⑥

If you have a qualifying child, attach Schedule EIC.

41 **Earned income credit (EIC).** 41 ⑨

42 Additional child tax credit. Attach Form 8812. 42 ⑩

43 Add lines 39 through 42. These are your **total payments.** ▶ 43 ⑥

Refund

44 If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you **overpaid.** 44 ⑥

45a Amount of line 44 you want **refunded to you.** ▶ 45a ⑥

Direct deposit? See page 52 and fill in 45b, 45c, and 45d.

▶ b Routing number ☐☐☐☐☐☐☐☐☐ ▶ **c** Type: ☐ Checking ☐ Savings

▶ d Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ ⑥

46 Amount of line 44 you want **applied to your 2004 estimated tax.** 46 ⑥

Amount you owe

47 **Amount you owe.** Subtract line 43 from line 38. For details on how to pay, see page 53. ▶ 47 ⑥

48 Estimated tax penalty (see page 53). 48

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 54)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign here

Joint return? See page 22.

Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature ⑥ Date Your occupation Daytime phone number ( )

Spouse's signature. If a joint return, **both** must sign. Date Spouse's occupation

Paid preparer's use only

Preparer's signature ⑥ Date ENTER SITE IDENTIFICATION NUMBER ➤ Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code EIN Phone no. ( )

Printed on recycled paper Form **1040A** (2003)

FORM 1040

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2003**
IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2003, or other tax year beginning , 2003, ending , 20
OMB No. 1545-0074

Label

(See instructions on page 21.)

Use the IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial | Last name ⑥ | **Your social security number**

If a joint return, spouse's first name and initial | Last name | **Spouse's social security number**

Home address (number and street). If you have a P.O. box, see page 21. | Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 21.

▲ **Important!** ▲
You **must** enter your SSN(s) above.

Presidential Election Campaign (See page 21.)
Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want $3 to go to this fund? . . . ▶
You ☐ **Yes** ☐ **No** Spouse ☐ **Yes** ☐ **No**

Filing Status

Check only one box. ①

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 21.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child. (See page 21.)

Exemptions

①

6a ☐ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a
b ☐ **Spouse**
c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see page 22)
			☐
			☐
			☐
			☐
			☐

If more than five dependents, see page 22.

d Total number of exemptions claimed

No. of boxes checked on 6a and 6b
No. of children on 6c who:
- **lived with you**
- **did not live with you due to divorce or separation (see page 22)**

Dependents on 6c not entered above
Add numbers on lines above ▶

Income

Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 23.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

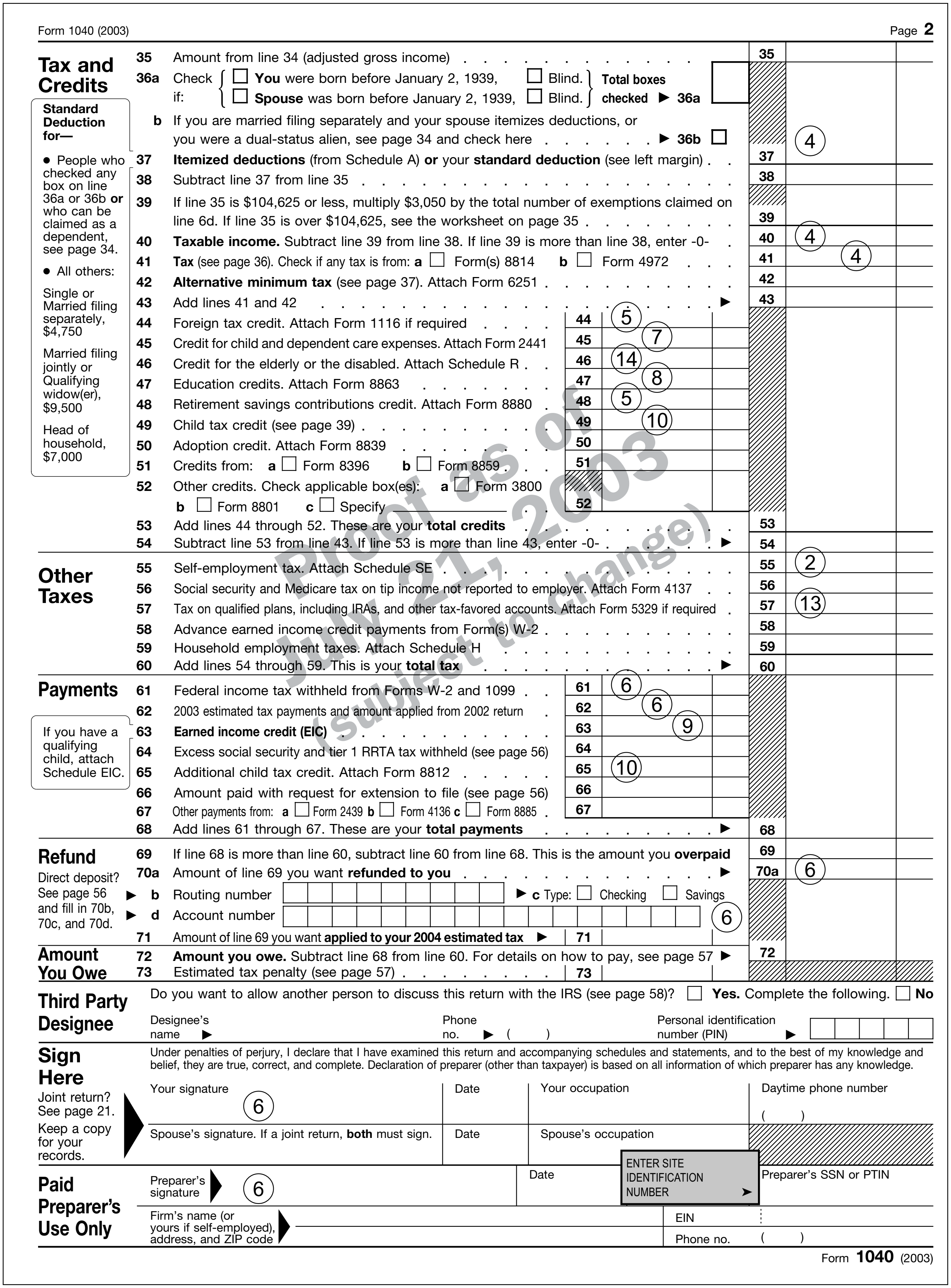
7	Wages, salaries, tips, etc. Attach Form(s) W-2			7	②
8a	**Taxable** interest. Attach Schedule B if required			8a	②
b	**Tax-exempt** interest. **Do not** include on line 8a	8b			②
9a	Ordinary dividends. Attach Schedule B if required			9a	
b	Qualified dividends (see page 25)	9b			②
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 25)			10	
11	Alimony received			11	
12	Business income or (loss). Attach Schedule C or C-EZ			12	②
13a	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐			13a	
b	If box on 13a is checked, enter post-May 5 capital gain distributions	13b			
14	Other gains or (losses). Attach Form 4797			14	
15a	IRA distributions	15a	⑬	b Taxable amount (see page 25) 15b	
16a	Pensions and annuities	16a		b Taxable amount (see page 25) 16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			17	
18	Farm income or (loss). Attach Schedule F			18	
19	Unemployment compensation			19	②
20a	Social security benefits	20a	⑬	b Taxable amount (see page 27) 20b	
21	Other income. List type and amount (see page 29)			21	②
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶			22	

Adjusted Gross Income

23	Educator expenses (see page 29)	23	③		
24	IRA deduction (see page 29)	24	③		
25	Student loan interest deduction (see page 31)	25	③		
26	Tuition and fees deduction (see page 32)	26			
27	Moving expenses. Attach Form 3903	27	③		
28	One-half of self-employment tax. Attach Schedule SE	28			
29	Self-employed health insurance deduction (see page 33)	29			
30	Self-employed SEP, SIMPLE, and qualified plans	30			
31	Penalty on early withdrawal of savings	31			
32a	Alimony paid b Recipient's SSN ▶	32a			
33	Add lines 23 through 32a			33	
34	Subtract line 33 from line 22. This is your **adjusted gross income** ▶			34	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 76. Cat. No. 11320B Form **1040** (2003)

FORM 1040



Form 1040 (2003) Page **2**

Tax and Credits	35	Amount from line 34 (adjusted gross income)			35	
	36a	Check if: ☐ **You** were born before January 2, 1939, ☐ Blind. ☐ **Spouse** was born before January 2, 1939, ☐ Blind. } **Total boxes checked** ▶ **36a** ☐				
	b	If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 34 and check here . . . . . . ▶ **36b** ☐				
Standard Deduction for— • People who checked any box on line 36a or 36b **or** who can be claimed as a dependent, see page 34. • All others: Single or Married filing separately, $4,750 Married filing jointly or Qualifying widow(er), $9,500 Head of household, $7,000	37	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin) . .			37	④
	38	Subtract line 37 from line 35			38	
	39	If line 35 is $104,625 or less, multiply $3,050 by the total number of exemptions claimed on line 6d. If line 35 is over $104,625, see the worksheet on page 35			39	
	40	**Taxable income.** Subtract line 39 from line 38. If line 39 is more than line 38, enter -0- .			40	④
	41	**Tax** (see page 36). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 . . .			41	④
	42	**Alternative minimum tax** (see page 37). Attach Form 6251			42	
	43	Add lines 41 and 42 . . . . ▶			43	
	44	Foreign tax credit. Attach Form 1116 if required	44	⑤		
	45	Credit for child and dependent care expenses. Attach Form 2441	45	⑦		
	46	Credit for the elderly or the disabled. Attach Schedule R . .	46	⑭		
	47	Education credits. Attach Form 8863	47	⑧		
	48	Retirement savings contributions credit. Attach Form 8880 .	48	⑤		
	49	Child tax credit (see page 39)	49	⑩		
	50	Adoption credit. Attach Form 8839	50			
	51	Credits from: **a** ☐ Form 8396 **b** ☐ Form 8859 . .	51			
	52	Other credits. Check applicable box(es): **a** ☐ Form 3800 **b** ☐ Form 8801 **c** ☐ Specify ________	52			
	53	Add lines 44 through 52. These are your **total credits**			53	
	54	Subtract line 53 from line 43. If line 53 is more than line 43, enter -0- . . . . . . ▶			54	
Other Taxes	55	Self-employment tax. Attach Schedule SE			55	②
	56	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137 . .			56	
	57	Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required .			57	⑬
	58	Advance earned income credit payments from Form(s) W-2			58	
	59	Household employment taxes. Attach Schedule H			59	
	60	Add lines 54 through 59. This is your **total tax** . . . . ▶			60	
Payments	61	Federal income tax withheld from Forms W-2 and 1099 . .	61	⑥		
	62	2003 estimated tax payments and amount applied from 2002 return .	62	⑥		
If you have a qualifying child, attach Schedule EIC.	63	**Earned income credit (EIC)**	63	⑨		
	64	Excess social security and tier 1 RRTA tax withheld (see page 56)	64			
	65	Additional child tax credit. Attach Form 8812	65	⑩		
	66	Amount paid with request for extension to file (see page 56)	66			
	67	Other payments from: **a** ☐ Form 2439 **b** ☐ Form 4136 **c** ☐ Form 8885 .	67			
	68	Add lines 61 through 67. These are your **total payments** . . . . ▶			68	
Refund	69	If line 68 is more than line 60, subtract line 60 from line 68. This is the amount you **overpaid**			69	
Direct deposit? See page 56 and fill in 70b, 70c, and 70d.	70a	Amount of line 69 you want **refunded to you** . . . . ▶			70a	⑥
▶	b	Routing number ☐☐☐☐☐☐☐☐☐ ▶ **c** Type: ☐ Checking ☐ Savings				
▶	d	Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ ⑥				
	71	Amount of line 69 you want **applied to your 2004 estimated tax** ▶	71			
Amount You Owe	72	**Amount you owe.** Subtract line 68 from line 60. For details on how to pay, see page 57 ▶			72	
	73	Estimated tax penalty (see page 57)	73			

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see page 58)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ (   ) Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign Here

Joint return? See page 21.

Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature ⑥	Date	Your occupation	Daytime phone number ( )
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	

Paid Preparer's Use Only

Preparer's signature ▶ ⑥	Date	ENTER SITE IDENTIFICATION NUMBER ➤	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code ▶		EIN	
		Phone no.	( )

Form **1040** (2003)

TAXWISE HINTS

Each year the Internal Revenue Service contracts with a tax preparation software vendor to provide free software to our volunteers. You will find TAXWISE hints integrated throughout the text. They are located just before "Summing Up This Lesson" or "Summing Up This Segment". They are also located, when appropriate, in the Military/International segments.

▶▶ SUMMING UP THIS LESSON ◀◀

▶ Remember that the information used to prepare an individual's income tax return must be treated as confidential.

▶ Use the Steps for effective interviewing.

STUDENT NOTES

GETTING STARTED

INTRODUCTION AND OBJECTIVES

In this lesson you will learn what you need to know when you begin to prepare an individual's federal income tax return. Please note that two of the objectives concern the importance of insuring that the taxpayer's (or dependent's) name and social security number (SSN) match IRS records.

Every U.S Federal tax return that is filed must have each person identified by a number. Each person refers to the taxpayer, the taxpayer's spouse if the taxpayer is married, and any dependent claimed on the return. The identifying number will be a social security number for those persons who qualify to be issued one. All others must have an individual taxpayer identification number (ITIN).

After completing this lesson you should be able to:

- Explain the importance of requiring a social security card for the tax preparation.
- Determine which taxpayers need an Individual Taxpayer Identification Number (ITIN)
- Use the 5 tests for a qualifying dependent.
- Apply the requirements for each of the five filing statuses.
- Select the correct filing status.
- Determine who must file.
- Determine who should file.
- Select the appropriate tax form to use.

SOCIAL SECURITY NUMBER

It is extremely important that each person use the correct social security number. The most accurate information is usually located on the taxpayer's original social security card. Each year hundreds of thousands of returns are delayed in processing or credit/deductions disallowed because names and social security numbers do not match Social Security Administration (SSA) records. To prevent processing delays in paper returns and rejected electronically filed returns, volunteers must check the accuracy of each Social Security number, as well as the spelling of the name associated with the number. If a tax-

POTENTIAL PITFALLS

Canadians have a number that is like a social security number, but it is for their old age pension. Do not use this number on a U.S. tax return. Canadians often have both a U.S. and Canadian Social Security Number.

payer does not have a valid SSN, direct them to Form SS-5, Social Security Number Application. This form should be submitted to the nearest Social Security Administration Office. Explain to him/her that they **must** have a number before you can assist them with filing the tax return.

To do this volunteers should ask for one of the following documents for each individual on the return.

- Social Security Card (original or copy)
- SSA 1099 benefit statements
- SSA letter

Note: Driver's licenses and passport may not depict the name or number as it appears on SSA records.

INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS

Important Note: ITIN information will be provided as a separate supplement. For additional information see your instructor or IRS coordinator.

SUMMING UP THIS LESSON

- All taxpayers and dependents listed on a tax return must have an identification number.
- An Identification Number can be either a SSN or an ITIN.
- Use caution when completing the entity section of the tax return.

PERSONAL AND DEPENDENCY EXEMPTIONS

After completing this section, you will be able to:

- **Define** *personal exemption*.
- **Define** *dependency exemption*.
- **Use** the five tests to determine a qualifying dependent.

There are two kinds of exemptions: personal and dependency. While both exemptions are worth the same amount, different rules apply to each type.

Personal exemptions are allowed to the taxpayer and to the taxpayer's spouse.

Dependency exemptions are allowed to the taxpayer for qualifying dependents who meet five specific tests.

The taxpayer can usually deduct the **exemption amount** ($3,050 for 2003) when figuring taxable income.

PERSONAL EXEMPTIONS

The Taxpayer

The taxpayer can claim a personal exemption for himself or herself unless the taxpayer is eligible to be claimed as a dependent on another person's return. If this is true, the taxpayer cannot claim an exemption for himself or herself, even if the other taxpayer does not actually claim the dependency exemption.

The Spouse

Generally, if the taxpayer's spouse is claimed as a dependent on another person's return, the taxpayer cannot claim the spouse's exemption on his or her return. (One spouse is never considered the dependent of the other.)

To claim an exemption for a spouse, the taxpayers must be married by December 31, the last day of the year. If the taxpayer files a separate return, he or she can claim the exemption for his or her spouse only if his or her spouse had no gross income (defined later) and was not the dependent of another taxpayer. This is true even if the other taxpayer does not actually claim the taxpayer's spouse's exemption. If a taxpayer is divorced or legally separated at the end of the tax year, he or she cannot claim his or her (former) spouse's exemption.

ALERT ⚠

For 2003 the exemption amount increased to $3,050.

If the taxpayer's spouse died during the year and the taxpayer did not remarry by December 31, the taxpayer can generally claim the personal exemption for the deceased spouse. This exemption can be claimed only if the taxpayer was not divorced or legally separated from his or her spouse on the date of the death and would have been able to claim the exemption under regular circumstances.

DEPENDENCY EXEMPTIONS

A **dependent** is a person, other than the taxpayer or spouse, who entitles the taxpayer to claim a dependency exemption. A taxpayer can claim a dependency exemption only if **all five** of the following dependency tests are met.

1. Member of Household or Relationship
2. Citizen or Resident
3. Joint Return
4. Gross Income
5. Support

1. The Member of Household or Relationship Test

To meet this test, the person must either:

A. Live with the taxpayer for the entire year as a member of his or her household, or

B. Be related to the taxpayer in one of the ways listed later, under *Relatives who do not have to live with the taxpayer.*

Note:

A person away on temporary absences is considered to live and be a member of the household the entire year. Temporary absences include attending school, taking vacations, hospital stays due to illness, and military service. In addition, the relationship must not violate local law.

Relatives who do not have to live with the taxpayer

A person related to the taxpayer in any of the following ways does not have to live with the taxpayer the entire year as a member of his or her household to meet this test.

- Child, grandchild, great grandchild, etc. (A legally adopted child is considered the taxpayer's child)
- Stepchild
- Brother, sister, half brother, half sister, stepbrother, stepsister
- Parent, grandparent, or other direct ancestor, but not foster parent
- Stepmother or stepfather
- Brother or sister of your father or mother
- Son or daughter of your brother or sister
- Father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law

If a child was born alive during the year and meets the dependency tests, the taxpayer can take the exemption, even if the child lived only for a moment. No exemption is allowed for a stillborn child. State or local laws determine if a child was born alive or stillborn.

A legally adopted child is considered to be the taxpayer's child. If an adoption is finalized and the child begins living with the taxpayer on or before December 31, member of the household test is met.

If a foster child has lived with the taxpayer for the entire year (except for temporary absences) and the taxpayer cares for the child as his or her own, the child is treated as the taxpayer's own child.

A person who died during the year and was a member of the taxpayer's household until death meets the member of household test.

A cousin must live with the taxpayer for the entire year (except for temporary absences) to meet the member of household test. A cousin *does not* meet the relationship test.

2. Citizen or Resident Test

To meet this test, a person must be for some part of the year:

- a U.S. citizen or resident, or
- a resident of Canada or Mexico.

Children usually are citizens or residents of the country of their parents. A child born in a foreign country can be recognized as a U.S. citizen for tax purposes if either parent is a U.S. citizen.

If a taxpayer (who is a U.S. citizen) legally adopts a child who is not a U.S. citizen or resident, and the other dependency tests are met, the taxpayer can take the exemption if the taxpayer's home is the child's main home and the child is a member of the household for the entire tax year.

3. Joint Return Test

To meet this test, generally, the taxpayer's dependent cannot file a joint return. However, the joint return test does not apply if a joint return is filed by the dependent and his or her spouse ***merely as a claim for refund*** and no tax liability would exist for either spouse on separate returns.

4. The Gross Income Test

A taxpayer cannot take an exemption for a person whose gross income equals or exceeds the **exemption amount**. The exemption amount for 2003 is $3,050.

Gross income is all *taxable* income in the form of money, goods, property, and services. It includes all unemployment compensation and certain scholarships. It does not include welfare benefits or nontaxable social security benefits.

There are two exceptions to the gross income test. The gross income test does not apply if:

- the taxpayer's child is under 19 years of age at the end of the year, or
- the taxpayer's child is under 24 years of age at the end of the year and is a full-time student

To be considered a student, the taxpayer's child must attend school full-time for some part of each of five calendar months of the year. The five months need not be consecutive in order to qualify. School generally does not include night schools, on-the-job training courses, or correspondence schools.

5. The Support Test

The support test requires that the taxpayer provide more than half of a person's total support for the entire year in order to claim that person as a dependent.

There are two exceptions to the support test:

- Multiple support, and
- Children of divorced or separated parents

(Both of these exceptions will be covered later in this section.)

To determine if the taxpayer provided more than half of the dependent's support, compare the amount that the taxpayer contributed to the person's support with the entire amount of support the person received from all sources. (Exhibit 1 provides a worksheet for figuring whether the taxpayer provided more than half of a dependent's support.)

State benefit payments like welfare, food stamps, and housing are considered support provided by the state, not by the parent, regardless of how the parent actually spends the funds.

Support provided for the dependent includes support paid from these sources: amounts withdrawn from savings; borrowed amounts, such as student loans and car loans; and tax-exempt income, including social security benefits, life insurance proceeds, nontaxable pensions, gifts, and tax-exempt interest.

Only the amount of a dependent's own funds that is actually spent on support is counted. Scholarships received by fulltime students are not included in total support.

Do not include in support any amounts that are:

- paid from a dependent's own funds for income and social security taxes,
- paid as life insurance premiums, or
- not spent, but saved or invested.

Total support items include food, clothing, shelter at fair rental value, education, medical and dental care, recreation, and transportation. Some support items, like food and rent, benefit more than one member of a household. Divide the value of these support items among the number of household members that benefit. Capital items like furniture, appliances, or autos should be included in support if the items are solely for the dependent's own use or benefit.

Example 1

Alexis, age 20, lived all year with her parents and younger sister in an apartment. Alexis earned $4,000 from her part-time job. She saved $1,000 for college and $500 was withheld for income and social security taxes. Alexis spent the remaining $2,500 on clothing, transportation, and recreation.

Alexis provided $2,500 of her own support. The college savings will not be counted as support until the money is spent. The funds used to pay income and social security tax are not considered to be support.

In order for Alexis' parents to claim her as a dependent, they must provide additional support of more than $2,500. Included in support items are one-fourth of the family's rent, utilities, grocery bills, and any additional amounts paid for Alexis' medical expenses and education.

Exhibit 1

Worksheet for Determining Support

Funds Belonging to the Person You Supported	
1) Total funds belonging to the person you supported, including income received (taxable and nontaxable) and amounts borrowed during the year, plus the amount in savings and other accounts at the beginning of the year	$
2) Amount used for support	$
3) Amount used for other purposes	$
4) Amount in savings and other accounts at end of the year	$
(The total of lines 2, 3, and 4 should equal line 1)	$
Expenses for Entire Household (where the person you supported lived)	
5) Lodging (Complete item a or b)	
a) Rent paid	$
b) If not rented, show fair rental value of home. If the person you supported owned the home, include this amount in line 19.	$
6) Food	$
7) Utilities (heat, light, water, etc. not included in line 5a or 5b)	$
8) Repairs (not included in line 5a or 5b)	$
9) Other. Do not include expenses of maintaining home, such as mortgage interest, real estate taxes, and insurance.	$
10) Total household expenses (Add lines 5 through 9)	$
11) Total number of persons who lived in household	
Expenses for the Person You Supported	
12) Each person's part of household expenses (line 10 divided by line 11)	$
13) Clothing	$
14) Education	$
15) Medical, dental	$
16) Travel, recreation	$
17) Other (specify)	$
18) Total cost of support for the year (Add lines 12 through 17)	$
Did You Provide More Than Half?	
19) Amount the person provided for own support (line 2, plus line 5b if the person you supported owned the home)	$
20) Amount others provided for the person's support. Include amounts provided by state, local, and other welfare societies or agencies. Do not include any amounts included on line 1.	$
21) Amount you provided for the person's support (line 18 minus lines 19 and 20)	$
22) 50% of line 18	$

Is line 21 more than line 22?
Yes. You meet the support test for the person. If the other exemption tests are met, you may claim an exemption for the person.
No. You do not meet the support test for the person. You cannot claim an exemption for the person unless you can do so under a multiple support agreement. See *Multiple Support,* later.

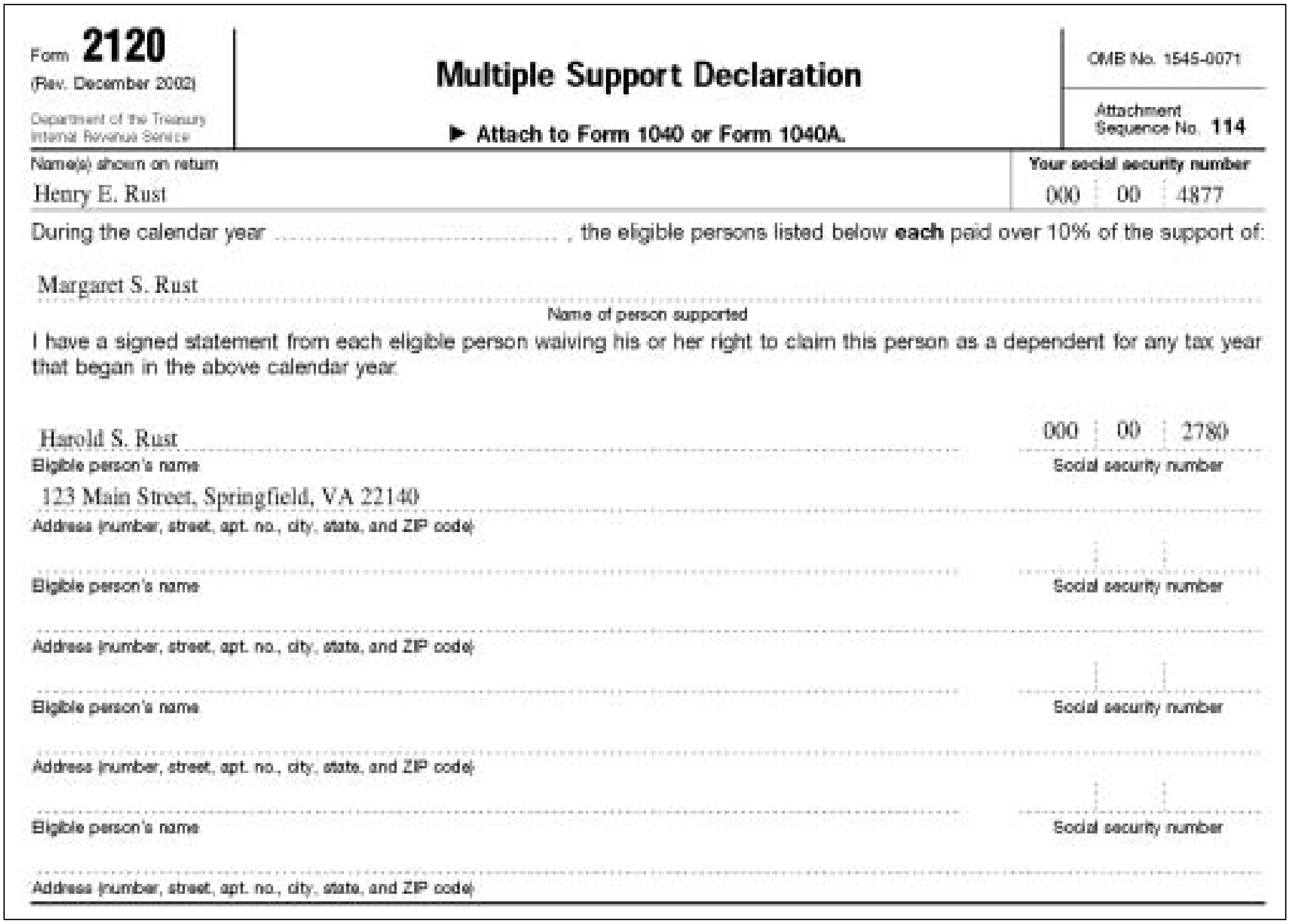
Multiple Support

Sometimes, no one person provides more than half of an individual's support, but two or more persons together do. In this situation, anyone who separately provides over 10 percent of the person's total support and meets the other tests can claim the exemption for the dependent. Nonetheless, only one person can claim the exemption. All other persons who provided more than 10 percent of the support and who meet the other tests must sign a written statement agreeing not to claim the exemption for that year. **Form 2120**, *Multiple Support Declaration,* is used to identify each of the others not claiming the exemption. The person who claims the exemption attaches Form(s) 2120 to his or her current year's tax return and must keep for his records the signed statement from the person agreeing not to claim the exemption.

Example 2

Henry E. and Harold S. Rust each provide more than 10 percent of the total support of their mother Margaret S. Rust, but neither provides more than 50 percent. Together, Henry and Harold provide more than 50 percent. They decide that Henry will claim the exemption this year. Exhibit 2 shows the completed Form 2120 that Henry will attach to his return.

Exhibit 2 Henry's Form 2120



Form **2120**
(Rev. December 2002)
Department of the Treasury
Internal Revenue Service

Multiple Support Declaration

► **Attach to Form 1040 or Form 1040A.**

OMB No. 1545-0071

Attachment Sequence No. **114**

Name(s) shown on return: Henry E. Rust

Your social security number: 000 00 4877

During the calendar year .... , the eligible persons listed below **each** paid over 10% of the support of:

Margaret S. Rust
Name of person supported

I have a signed statement from each eligible person waiving his or her right to claim this person as a dependent for any tax year that began in the above calendar year.

Harold S. Rust
Eligible person's name

000 00 2780
Social security number

123 Main Street, Springfield, VA 22140
Address (number, street, apt. no., city, state, and ZIP code)

Eligible person's name

Social security number

Address (number, street, apt. no., city, state, and ZIP code)

Eligible person's name

Social security number

Address (number, street, apt. no., city, state, and ZIP code)

Eligible person's name

Social security number

Address (number, street, apt. no., city, state, and ZIP code)

Children of Divorced or Separated Parents

The parent who has custody of the child for the greater part of the year (the custodial parent) will generally be considered as having provided over half of the child's support ***if all of the following conditions are met***.

- The child received over half of his or her total support from one or both parents.
- The parents are divorced, legally separated, separated under a written separation agreement, or have lived apart at all times during the last six months of the calendar year.
- The child was in the custody of one or both parents for more than half of the calendar year.

The custodial parent ***will not*** be considered as having provided over half of the child's support if any of the following conditions exist.

- Over half of the support of the child is considered to have been received from a third party, such as a relative or friend.
- The custodial parent signed Form 8332, *Release of Claim to Exemption for Child of Divorced or Separated Parents*, or a similar statement, that allows the noncustodial parent to claim the exemption (this statement must be attached to the noncustodial parent's return).
- A decree or agreement that went into effect after 1984 unconditionally states that the noncustodial parent can claim the child as a dependent.
- A qualified pre-1985 agreement provides that the noncustodial parent shall be entitled to the exemption for the child and the noncustodial parent contributed at least $600 toward the child's support during the tax year, unless the pre-1985 agreement is modified after 1984 to specify that this provision will not apply.

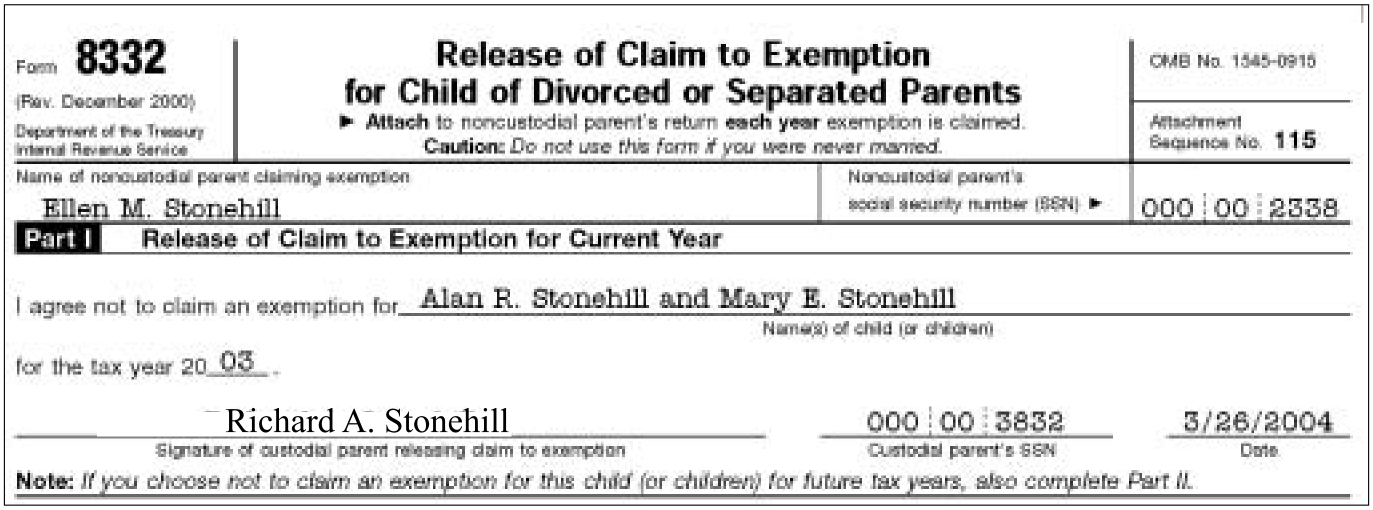
Example 3

Ellen M. and Richard A. Stonehill are divorced. Under the terms of the 1984 divorce, Richard has custody of their two children, Alan R. and Mary E. The divorce decree specifies that Ellen can claim the dependency exemptions. Ellen provided $1,500 of support for each child. Assuming all other tests are met, Ellen can claim both children as dependents.

If Ellen had provided only $500 of support for each child, she could not claim dependency exemptions for the two children. To claim the exemptions, she must provide at least $600 of support for each child.

If the divorce occurred after 1984 and Richard and Ellen had agreed that Ellen would claim the dependency exemptions for the children, Ellen would attach Form 8332 or a similar statement to her tax return. Exhibit 3 shows a completed Form 8332 for Ellen.

Exhibit 3 Ellen's Form 8332



Form **8332**
(Rev. December 2000)
Department of the Treasury
Internal Revenue Service

Release of Claim to Exemption for Child of Divorced or Separated Parents

► **Attach** to noncustodial parent's return **each year** exemption is claimed.
Caution: *Do not use this form if you were never married.*

OMB No. 1545-0915
Attachment Sequence No. **115**

Name of noncustodial parent claiming exemption: Ellen M. Stonehill

Noncustodial parent's social security number (SSN) ► 000 00 2338

Part I **Release of Claim to Exemption for Current Year**

I agree not to claim an exemption for Alan R. Stonehill and Mary E. Stonehill
Name(s) of child (or children)

for the tax year 2003.

Richard A. Stonehill
Signature of custodial parent releasing claim to exemption

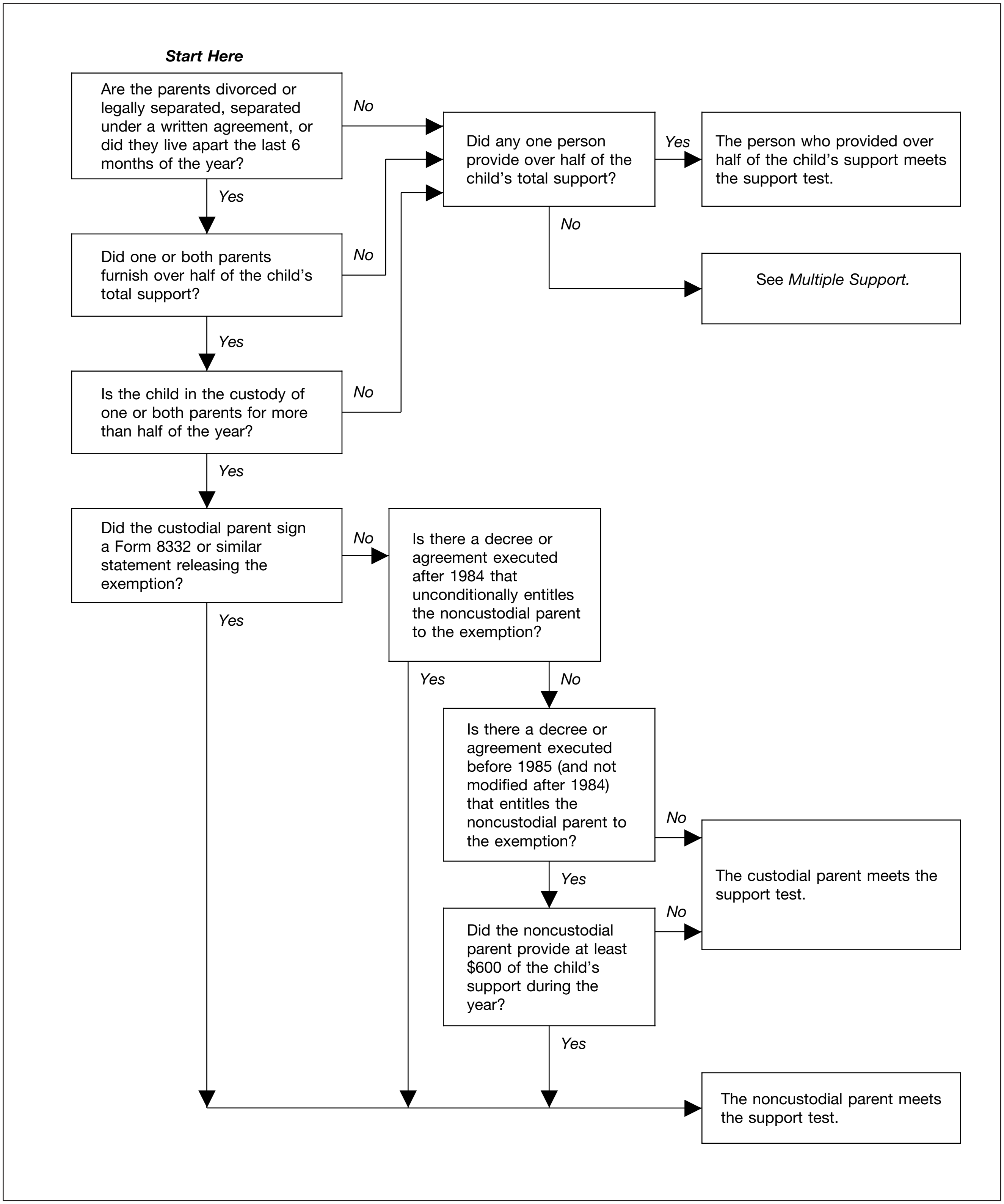
000 00 3832
Custodial parent's SSN

3/26/2004
Date

Note: *If you choose not to claim an exemption for this child (or children) for future tax years, also complete Part II.*

Exhibit 4

Support Test for Children of Divorced or Separated Parents

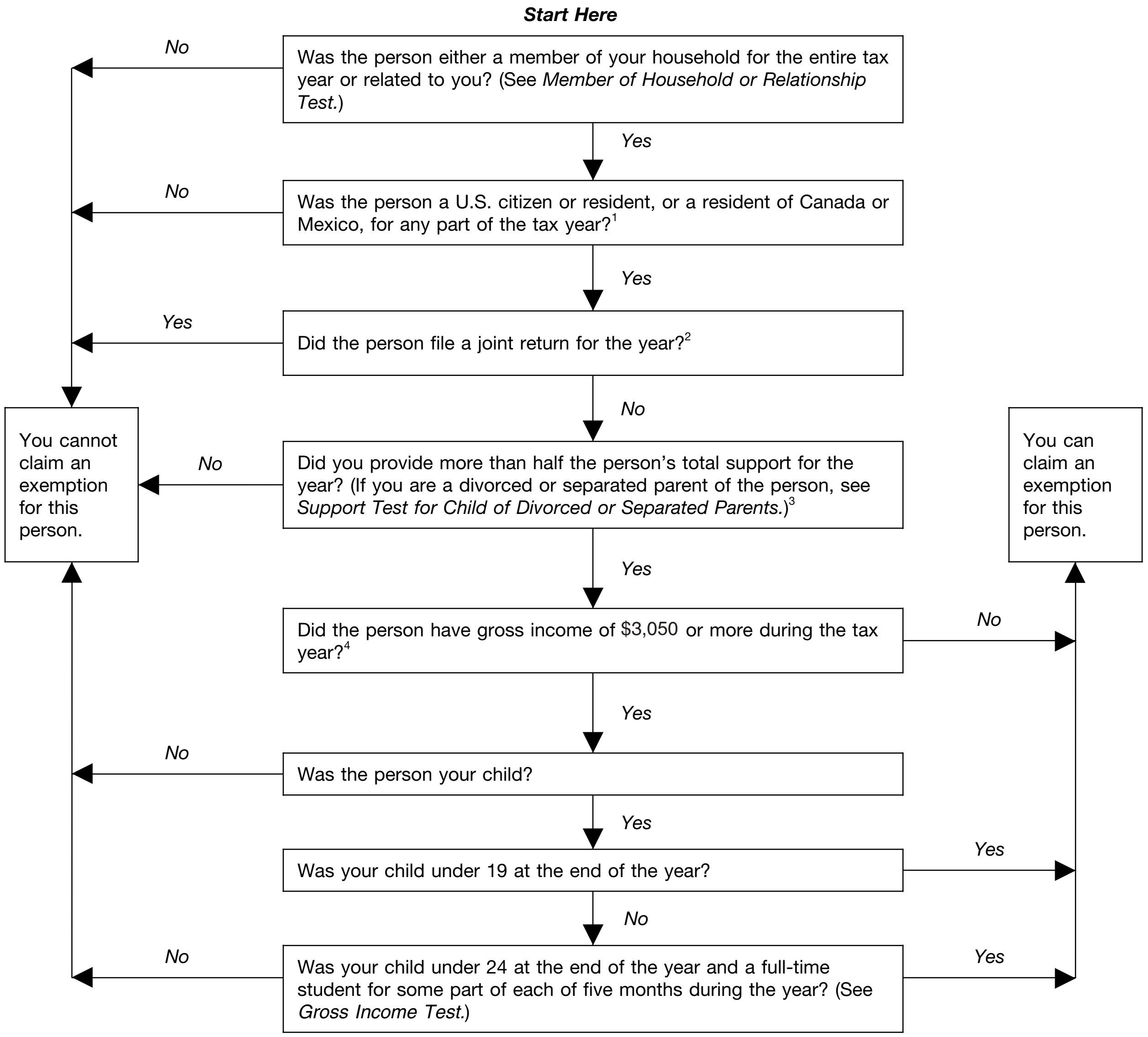


DETERMINING THE NUMBER OF EXEMPTIONS TO CLAIM

When determining the number of exemptions to claim, first look at the personal exemptions and then review each of the tests for dependency exemptions. There are many factors to consider as well as several major exceptions.

REMEMBER: ***Do not claim an exemption for a person who can be claimed on another return.***

Exhibit 5 Can You Claim an Exemption for a Dependent?



[1] If the person was your legally adopted child and lived in your home as a member of your household for the entire tax year, answer "yes" to this question.

[2] If neither the person nor the person's spouse is required to file a return, but they file a joint return only to claim a refund of tax withheld, answer "no" to this question.

[3] Answer "yes" to this question if you meet the multiple support requirements under *Multiple Support Agreement.*

[4] Gross income for this purpose does not include income received by a permanently disabled individual at a sheltered workshop.

COMPLETING THE EXEMPTION SECTION OF FORMS 1040A AND 1040

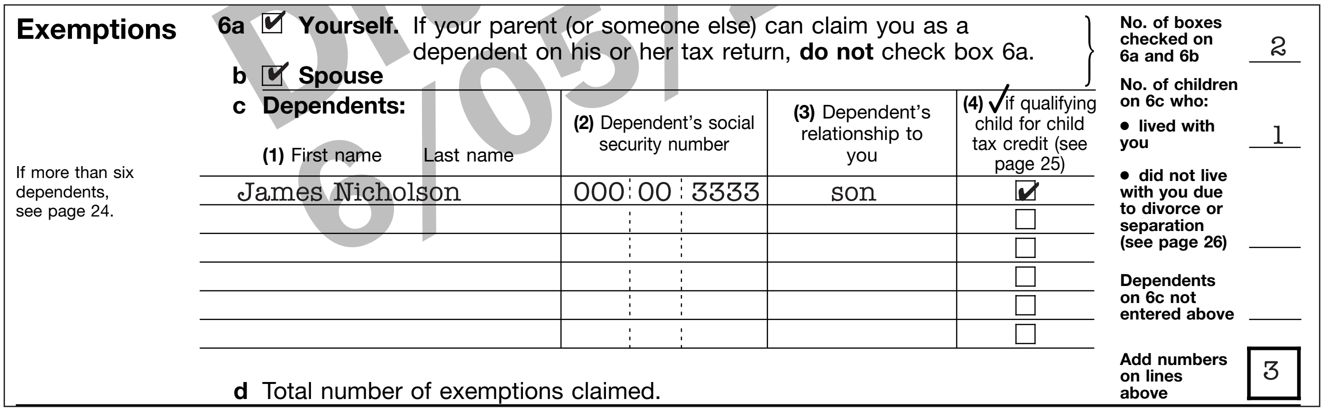
Exemptions are claimed on lines 6a through 6d. The taxpayer's personal exemption is claimed on line 6a. The personal exemption for the taxpayer's spouse is claimed on line 6b. The total of lines 6a and 6b is entered on the line in the right-hand margin. The dependency exemptions are claimed on line 6c. The columns on line 6c are self explanatory. In column 3, enter the specific relationship for each dependent: son, daughter, grandson, granddaughter, etc. Column 4 is checked if the taxpayer's dependent is also a qualifying child for the child tax credit (see lesson 10). The line 6c exemptions are totaled on the three right-hand-margin lines that relate to:

- Children who lived with the taxpayer,
- Children who did not live with the taxpayer due to divorce or separation, and
- Other dependents not entered on the lines above.

Line 6d shows the total number of exemptions (See Exhibit 6).

Exhibit 6

Form 1040/1040A, page 1



Exemptions

6a ☑ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a.

b ☑ **Spouse**

No. of boxes checked on 6a and 6b 2

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see page 25)
James Nicholson	000 00 3333	son	☑
			☐
			☐
			☐
			☐
			☐

If more than six dependents, see page 24.

No. of children on 6c who:

- **lived with you** 1
- **did not live with you due to divorce or separation (see page 26)** ____

Dependents on 6c not entered above ____

d Total number of exemptions claimed.

Add numbers on lines above 3

TaxWise Hints

If you are claiming Child Tax Credit (CTC), Earned Income Credit, and/or Dependent Care (DC), you must enter the date of birth for qualifying children and "X" the EIC and/or DC box(es). CTC is automatically calculated for you.

▶ ▶ Summing Up This Section ◀ ◀

There are two types of exemptions: personal and dependency. Each exemption reduces taxable income by $3,050 in 2003.

A personal exemption can be claimed for a taxpayer and spouse if neither the taxpayer nor the spouse can be claimed on another taxpayer's return.

To claim a dependency exemption, the dependent must meet all of 5 tests.

1. The Member of Household or Relationship Test.
2. The Citizen or Resident Test.
3. The Joint Return Test.
4. The Gross Income Test.
5. The Support Test.

There are two exceptions to the gross income test.

- ▶ Taxpayers' children under age 19.
- ▶ Taxpayers' children under age 24 who are full-time students.

There are two exceptions to the support test.

- ▶ The multiple-support agreement.
- ▶ Children of divorced or separated parents.

Exercises

1. Janice is 18 years old and a full-time student. She can be claimed as a dependent on her parents' tax return. Janice will file Form 1040EZ to report income from her summer job. How many personal exemptions can Janice claim on her return?

____

2. Tom Brown supports his wife's uncle, Jim (her mother's brother), who lives in another city. The Browns file a joint return. Can the Browns claim Jim as a dependent if all other tests are met?

____

3. Ruth filed a joint return with her husband whom she married in November. They claimed two personal exemptions on their return. Ruth had no income; her husband had $10,600 income. Can Ruth's father, who supported her and paid for the wedding, claim her as a dependent on his return? ____________________

4. Joe is 65 years old and lives with his son and daughter-in-law. In 2003, Joe's taxable pension income was $4,700. Can Joe's son and daughter-in-law claim a dependency exemption for Joe if all other tests are met? ____________________________________

5. Randy's son, Paul, earned $4,300 last year. Paul is 18 years old and started college in September 2003. Is the gross income test met? ____

6. Traci's mother received $3,500 in social security payments and $600 in interest. Traci paid $1,500 for her food and $500 for her medical bills. Her mother paid $2,400 for lodging, $300 for recreation, $150 for clothes, $100 for transportation, $400 for life insurance premiums, and $200 for a television set.

A. What is the total support for Traci's mother? _____________

B. How much did Traci contribute toward her mother's support?

____

C. How much did Traci's mother contribute toward her support?

____

D. Can Traci claim a dependency exemption for her mother?

____

7. Mrs. Wiley has three children, Mark, Tim, and Mary. Each child contributes toward Mrs. Wiley's support. Mark provides 45 percent, Tim, 35 percent, and Mary, 10 percent.

A. Which, if any, of her children can claim a dependency exemption for Mrs. Wiley under a multiple-support agreement?
____

B. If Mark is to claim the dependency exemption, who must sign a statement waiving his/her right to claim Mrs. Wiley as a dependent? _______________________________________

8. Under the terms of Peter's pre-1985 divorce decree, his former wife has custody of their child. The decree states that Peter can claim the exemption. He provided $700 toward the child's support. Can he claim the exemption? ________________________

Exercise 1

0

Exercise 2

Yes; Jim is related by blood to Mrs. Brown.

Exercise 3

No, the husband has a filing requirement

Exercise 4

No; His gross income equals or exceeds the exemption amount of $3,050.

Exercise 5

Yes; Paul is under the age of 19.

Exercise 6

A. $5,150 ($1,500 + $500 + $2,400 + $300 + $150 + $100 + $200) Note that life insurance premiums are not considered support.

B. $2,000 ($1,500 + $500)

C. $3,150 ($2,400 + $300 + $150 + $100 + $200) Note that life insurance premiums are not considered support.

D. No; she did not pass the Gross Income Test.

Exercise 7

A. Mark or Tim are eligible to claim the exemption. Both provide more than 10 percent of Mrs. Wiley's support. Mary is not eligible since she does not provide more than 10 percent of the support.

B. Only Tim must sign. Mary is not eligible to take the exemption. Therefore, she does not have to sign a waiver.

Exercise 8

Yes; Peter provided at least $600 in support.

DEPENDENCY EXEMPTIONS

Lesson 1
Military Segment

INTRODUCTION AND OBJECTIVE

The basic segment explained the tests that must be met before a person can be claimed as a dependent. In this segment you will find more information about the support and citizen or resident tests to help you assist members of the Armed Forces.

SUPPORT TEST

Armed Forces Member as a Dependent

A person who has been in the Armed Forces for the entire year cannot be claimed as a dependent because the support test will not have been met. A person in the Armed Forces for only part of the year can be claimed as a dependent if all the dependency tests are met. All amounts received from the Armed Forces that are used for the person's support must be taken into account.

If a person is appointed to one of the Armed Forces academies and is at the academy all year, he or she cannot be a dependent. An appointee at the academy for only part of the year may qualify as a dependent if all the tests are met.

Exercise 1

Kathleen Simmons is 18 and single. Kathleen graduated from high school in June 2003 and entered the U.S. Air Force in September 2003. Kathleen provided $3,400 (wages of $2,400 and $1,000 for other items provided by the Air Force) for her own support, and her parents provided $3,600. Can Kathleen's parents claim a dependency exemption for her for 2003?

Answer____

Armed Forces Member Claiming a Dependent

If a member of the military has authorized a dependency allotment and the allotment is used to support dependents who did not live with him or her for reasons other than divorce or separation, the member can claim the exemptions if all the dependency tests are met.

Example

Army Pvt. Gary Fairfield authorized a dependency allotment for his mother. She used the amount received to support herself and Gary's 10-year-old sister. Gary provided no other funds for their support. If the allotment provides more than half of their total support for the year and all other dependency tests are met, Gary can claim exemptions for both his mother and his sister, even though the allotment was authorized for his mother only.

Exercise 2

Cpl. Jim Mills authorized a dependency allotment for his son, John. The allotment ($150 a month) was in effect for all of 2003. How much support should Cpl. Mills consider he provided for John in 2003?

Answer____

CITIZEN OR RESIDENT TEST

To meet the citizen or resident test, the taxpayer's dependent must be a U.S. citizen, a U.S. resident, or a resident of Canada or Mexico for some part of the calendar year in which the taxpayer's tax year begins.

Exercise 3

The wife of Col. William Bates is a Greek citizen. Her sister, Athena, who is also a Greek citizen, lived in the Bates' home in Greece for the entire tax year. Col. Bates provided more than 50% of Athena's total support.

a. Can Col. Bates claim his sister-in-law as a dependent?

Answer ____

b. What would be your answer to (a) if Athena were a Canadian citizen living in the Bates' home in Greece for the entire year?

Answer ____

Children are usually citizens or residents of the country of their parents. If you were a U.S. citizen when your child was born, the child may be a U.S. citizen although the other parent was a nonresident alien and the child was born in a foreign country.

A U.S. citizen who has legally adopted a child who is not a U.S. citizen or resident can claim the child as a dependent if the other dependency tests are met and if, for the entire tax year:

1. The taxpayer's home is the child's main home, and
2. The child is a member of the taxpayer's household.

Exercise 4

Sgt. John Ranger, a U.S. citizen who has been in the U.S. Army for 13 years, is stationed in Germany. His wife is a German citizen who has never lived in the United States. Their 2-year-old son was born in Germany. Sgt. Ranger's stepdaughter, a German citizen whom Sgt. Ranger has not adopted, also lives with them. The Rangers provide total support for the two children. How many dependency exemptions can Sgt. Ranger claim on a joint return?

Answer____

▶ ▶ SUMMING UP THIS SEGMENT ◀ ◀

In this segment you have learned how the support and citizen or resident tests for the dependency exemption apply to some military situations.

DEPENDENCY EXEMPTIONS

ANSWERS TO EXERCISES

1. Yes. The support test is met.

2. $1,800.

3. **a.** No. His sister-in-law was not a citizen or resident of the United States at any time during the year.

b. No. Athena would have to reside in Canada for at least some part of the year to qualify.

4. One. The stepdaughter does not qualify as a U.S. citizen or resident. The son qualifies because his father is a U.S. citizen.

EXEMPTION FOR A FOREIGN SPOUSE

INTRODUCTION AND OBJECTIVES

There are special tax laws and filing procedures that must be followed in order to prepare to file federal income tax returns accurately for citizens or residents of the United States who have spouses who are nonresident aliens. When we are finished with this segment you will be able to determine if a taxpayer is entitled to claim the personal exemption for a foreign spouse.

PERSONAL EXEMPTIONS

Each taxpayer is allowed a personal exemption (unless the taxpayer is claimed by someone else). On a Married Filing Separate return a spouse's personal exemption may be claimed by the taxpayer if the spouse had no gross income and is not claimed by anyone else. **Remember: a spouse is never the dependent of the taxpayer.**

If your spouse is a nonresident alien, he or she can choose to file a joint return with you (see Lesson 4, Travel Expenses, for more information). If the nonresident alien spouse makes this choice, they will be treated like a resident alien for tax purposes. This means that they will have to include all of their worldwide income on the joint U.S. tax return. Your spouse does **not** have to be from Canada or Mexico to make this choice.

Example 1

Pat Simpson, a U.S. citizen, is married to Frank, a nonresident alien. Pat and Frank make the choice to treat Frank as a resident alien by attaching a statement to their joint return. Pat and Frank must report their worldwide income for the year they make the choice and for all later years unless the choice is ended or suspended. Although Pat and Frank must file a joint return for the year they make the choice, they can file either joint or separate returns for later years. If your nonresident alien spouse does not choose to be treated as a resident alien, you may be able to claim an exemption for the spouse on a married filing separate return. The nonresident spouse must not have any gross income for U.S. tax purposes and cannot be the dependent of another U.S. taxpayer. The spouse must have a Taxpayer Identification Number.

▶▶ SUMMING UP THIS SEGMENT ◀◀

- ▶ In general, a taxpayer can claim an exemption for a nonresident alien spouse if he or she chooses to file a joint return with them and be taxed as a resident alien.
- ▶ A taxpayer can claim a nonresident alien spouse on his or her married filing separate return if the nonresident alien spouse has no income for U.S. tax purposes and is not the dependent of another U.S. taxpayer.
- ▶ Every person claimed on a return must have a Taxpayer Identification Number.

EXEMPTION FOR FOREIGN SPOUSE OR DEPENDENT

INTRODUCTION AND OBJECTIVES

This lesson will explain the special rules that may affect a taxpayer's ability to claim a foreign spouse and/or dependent on their return.

After completing this lesson, you should be able to:

- Determine whether the taxpayer is a non-resident alien or resident alien
- Differentiate between a resident for tax purposes and a resident for immigration purposes
- Apply the dependency test for taxpayer living overseas

PERSONAL AND DEPENDENCY EXEMPTIONS

Each taxpayer is allowed a personal exemption (unless the taxpayer is claimed by someone else). On a Married Filing Separate return a spouse's personal exemption may be claimed by the taxpayer if the spouse had no gross income and is not claimed by anyone else. Remember: a spouse is never the dependent of the taxpayer.

The five dependency tests are essentially the same for taxpayers living overseas.

Citizenship Test. To meet this test a person must be a U.S. citizen or national, or a resident of the U.S., Canada or Mexico for some part of the tax year. If a U.S. citizen marries a nonresident alien, any child born to them may be entitled to U.S. citizenship. In most instances the U.S. parent will register the child with the U.S. Embassy or Consulate closest to where they live. If the child may claim U.S. citizenship, the child meets the citizenship test for dependency purposes, even though the family is living in a foreign country. Proof of citizenship is not required to be atttached to the return. But if the item is questioned by the IRS, the U.S. citizen parent will have to obtain the necessary documentation from the U.S. government.

Example 2

Betty Glinn, a U.S. citizen, is married to Giovanni Glinn, an Italian citizen. They are currently living in Rome. Their daughter, Patricia, meets the citizenship test for dependency since she is entitled to U.S. citizenship because of her U.S. parent.

Occasionally, you will encounter a situation where a U.S. citizen adopts a child who is not a U.S. citizen. In those circumstances, the adopted child can meet the citizenship test if he or she lives with the U.S. citizen parent for the entire tax year (except for temporary absences).

DETERMINING ALIEN STATUS

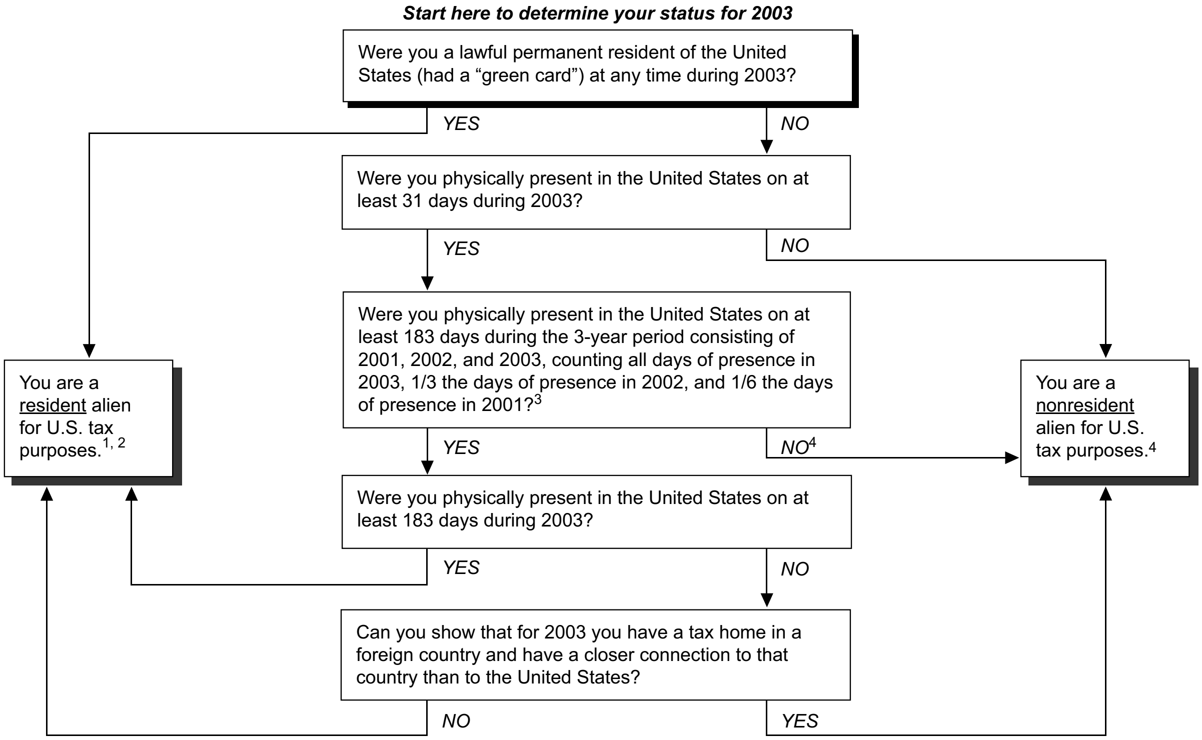
Throughout this course material, we refer to U.S. citizens or resident aliens. In order to apply the tax law correctly, you need to determine alien status.

The first issue that must be decided is whether the taxpayer is a nonresident alien. If he/she is a nonresident alien then the taxpayer must be referred to get specialized help. Your training covers only the tax law as it applies to a citizen or a resident alien so this determination is very important. Remember that we are discussing taxes here. A resident for tax purposes is not necessarily a resident for immigration purposes.

The following is an excerpt from Publication 519 (U.S. Tax Guide for Aliens). This section discusses the rules for determining alien status. These issues are complex. In this lesson, we will use examples to review the differences between resident and non-resident aliens.

Glance or read over the following material, especially the flow chart, and get a feel for what is involved.

Exhibit 1. Nonresident Alien or Resident Alien?



[1] If this is your first or last year of residency, you may have a dual status for the year. See *Dual Status Aliens* in Pub. 519.

[2] In some circumstances you may still be considered a nonresident alien under an income tax treaty between the U.S. and your country. Check the provisions of the treaty carefully.

[3] Do not count the days you were unable to leave the United States because of a medical condition that arose while you were in the United States.

[4] If you meet the substantial presence test for 2004, you may be able to choose treatment as a U.S. resident alien for part of 2003. For details, see *Substantial Presence Test* under *Resident Aliens* and *First-Year Choice* under *Dual-Status Aliens* in Pub 519.

If the taxpayer is an alien (not a U.S. citizen), he or she is considered a nonresident alien unless he or she meets either the green card test or the substantial presence test.

Green Card Test

You are a resident for tax purposes if you are a lawful permanent resident of the United States at **any time** during the calendar year. (However, see ***Dual Status,*** later.) This is known as the “green card” test. You are a lawful permanent resident of the United States at any time if you have been given the privilege, according to the immigration laws, of residing permanently in the United States as an immigrant. You generally have this status if the Bureau of Citizenship and Immigration Services (BCIS) has issued you an alien registration card, also known as a “green card.” You continue to have resident status under this test unless it is taken away from you or is administratively or judicially determined to have been abandoned.

Substantial Presence Test

You will be considered a U.S. resident for tax purposes if you meet the substantial presence test for the calendar year. To meet this test, you must be physically present in the United States on at least:

1. 31 days during the current year, and
2. 183 days during the 3-year period that includes the current year and the two years immediately before that, counting:
    a. All the days you were present in the current year (2003) and
    b. 1/3 of the days you were present in the first year before the current year (2002) and
    c. 1/6 of the days you were present in the second year before the current year (2001).

Example 1

You were physically present in the United States on 120 days in each of the years 2001, 2002, and 2003. To determine if you meet the substantial presence test for 2003, count the full 120 days of presence in 2003, 40 days in 2002 (1/3 of 120), and 20 days in 2001 (1/6 of 120). Since the total for the 3-year period is 180 days, you are not considered a resident under the substantial presence test for 2003.

The term United States includes the following:

1. All 50 states and the District of Columbia
2. The territorial waters of the United States, and
3. The seabed and subsoil of those submarine areas that are adjacent to the U.S. territorial waters and over which the United States has exclusive rights under international law to explore and exploit natural resources.

The term does not include U.S. possessions and territories or U.S. air space.

Days of Presence in the United States

You are treated as present in the United States on any day if you are physically present in the country at any time during the day. However, there are exceptions to this rule. Do not count the following as days of presence in the United States for the substantial presence test:

1. Days you regularly commute to work in the United States from a residence in Canada or Mexico.
2. Days you are in the United States for less than 24 hours when you are in transit between two places outside the United States.
3. Days you were unable to leave the United States because of a medical condition that developed while you were in the United States.

4. Days you were an exempt individual.

Regular commuters from Canada or Mexico. Do not count the days on which you regularly commute to work in the United States from your residence in Canada or Mexico. You are considered to commute regularly if you commute to work in the United States on ***more than*** 75 percent of the workdays during your working period.

For this purpose, commute means to travel to work and return to your residence within a 24-hour period. ***Workdays*** are the days on which you work in the United States or Canada or Mexico. ***Working period*** means the period beginning with the first day in 2003 which you are physically present in the United States to work. If your work requires you to be present in the United States only on a seasonal or cyclical basis, your working period begins on the first day of the season or cycle on which you are present in the United States to work and ends on the last day of the season or cycle on which you are in the United States to work. Thus, you may have more than one working period in 2003, and your working period may begin in one calendar year and end in the following calendar year.

Exempt individual. For the substantial presence test, do not count days for which you are an exempt individual. The term "exempt individual " does not refer to someone exempt from U.S. tax, but to anyone in the following categories.

1. An individual temporarily present in the United States as a foreign government-related individual.
2. A teacher or trainee, temporarily present in the United States under a "J" or "Q" visa, who substantially complies with the requirements of the visa.
3. A student, temporarily present in the United States under an "F," "J," "M," or "Q" visa, who substantially complies with the requirements of the visa.
4. A professional athlete temporarily in the United States to compete in a charitable sports event.

After reviewing the rules above, if there are still questions, refer the taxpayer to Publication 519 or to the IRS Information line for alien status determination.

DUAL STATUS

In general, for the first and last year of resident alien status the taxpayer will be considered a "dual status" alien (both resident and nonresident) and special rules apply. Generally, dual status aliens should be referred to the IRS or paid tax professional.

▶▶ SUMMING UP THIS SEGMENT ◀◀

A **resident alien is treated the same as a citizen for tax purposes**. The main issues are:

1. Does the taxpayer have a "green card"? If so, then the taxpayer will be considered a resident alien and will meet the citizenship test.
2. Has the taxpayer been here in the U.S. long enough to qualify for the substantial presence test? If so, then the taxpayer is considered a resident alien on a year by year basis (this applies even though the person may be considered "illegal") and would meet the citizenship test.
3. Remember that certain people are "exempt individuals" and do not count days toward the substantial presence test. They will not be treated as a resident and will not meet the citizenship test for dependency.

FILING STATUS

SINGLE

A taxpayer is considered **single** if, on the last day of the year, either of the following is true.

- The taxpayer was never married.
- The taxpayer was legally separated, according to state law, under a decree of divorce or separate maintenance.

A taxpayer can also be considered **single** if the taxpayer was widowed before January 1, 2003, and did not remarry in 2003. However, the taxpayer may be able to use another filing status that will give a lower tax. See *Head of Household* and *Qualifying Widow(er) with Dependent Child,* later.

POTENTIAL PITFALLS ⚠

A common-law marriage is recognized for federal tax purposes if the marriage is recognized by the state where the taxpayers now live or in the state in which the common-law marriage was entered. Legal advice may be required to determine if a common-law marriage exists.

MARRIED FILING A JOINT RETURN

Taxpayers may use the **married filing jointly** status if they are married. They are considered married if, on the last day of the year, one of the following applies:

- They are married and live together as husband and wife.
- They live together in a common-law marriage recognized in the state where they now live or in the state where the common-law marriage began.
- They are married and live apart but are not legally separated under a decree of divorce or separate maintenance.
- They are separated under an interlocutory (not final) divorce decree.
- The taxpayer's spouse died during the year and the taxpayer has not remarried.

If taxpayers file a joint return, combine the husband's and wife's tax items (for example, income) on the same return. Both the husband and wife must sign the return and both are responsible for any tax owed on that return. Taxpayers can choose the married filing joint status even if only one spouse has income.

Taxpayers filing a joint return generally have a lower tax than their combined tax for any other filing status.

MARRIED FILING A SEPARATE RETURN

Taxpayers who are married may choose to file separately. The husband and wife report their own incomes and deductions on separate returns. Taxpayers may choose the **married filing separately** status even if one spouse had no income.

If the taxpayers live in a community property state, they must follow state law to determine their separate income. For more information, see Publication 555, *Community Property*.

If a married couple files separately and one spouse itemizes deductions, the other spouse must also itemize deductions because he or she cannot take the standard deduction. See Lesson 4 for more information on itemized deductions.

Taxpayers filing separate returns generally have a higher tax than when filing jointly. Occasionally, however, separate returns may result in a lower tax. If you think this might be the case, compute the tax liability for (a) married filing jointly and (b) married filing separately. Choose the filing status that results in the lower tax.

When a married taxpayer files separately, the taxpayer must show his or her spouse's name and social security number on the return in the label section or line 6a.

HEAD OF HOUSEHOLD

In general, the **head of household** status is for unmarried taxpayers (or those considered unmarried) who pay more than half the cost of keeping up a home for a qualified relative during the year.

Generally, taxpayers who file under the **head of household** filing status have a lower tax than if they file as single. If they qualify, taxpayers should use the head of household status instead of the single status.

Head of Household Qualifications

1. The taxpayer must be unmarried (single, divorced, or legally separated) on the last day of the year

OR

The taxpayer must meet the tests for married persons living apart with dependent children (explained later in this lesson)

AND

2. The taxpayer must have paid more than half the cost of keeping up a home that was the main home for more than half the year (except for temporary absences) of any of the following:

A. The taxpayer's unmarried child who must have lived with the taxpayer but does not have to have been the taxpayer's dependent,

B. The taxpayer's foster child who must have lived with the taxpayer and must have been the taxpayer's dependent (To qualify as a dependent, a foster child must live with the taxpayer for the entire tax year.), or

C. Certain relatives (see the list at the end of this discussion) who lived with the taxpayer and who were the taxpayer's dependents.

EXCEPTION: The taxpayer may claim head of household filing status if the taxpayer's parent is claimed as a dependent, even if the parent does not live with the taxpayer. However, the taxpayer must pay more than half the cost of maintaining the parent's home for the entire year.

D. The taxpayer's married child—who must have lived with the taxpayer and who must have been the taxpayer's dependent unless:

- The child is not a dependent because the taxpayer signed a written declaration allowing the noncustodial parent to claim the child as a dependent, or
- The child is not a dependent because the noncustodial parent provides at least $600 of support for the child and claims the child as a dependent under a pre-1985 divorce decree or agreement.

"Child" includes:

- Grandchild; stepchild; adopted child

"Relative" includes:

- Parent, grandparent
- Brother, sister, stepbrother, stepsister
- Half brother, half sister
- Stepmother, stepfather
- Mother-in-law, father-in-law
- Brother-in-law, sister-in-law
- Son-in-law, daughter-in-law

AND (if related by blood)

- Uncle, or aunt, nephew, or niece

"Relative" does not include cousins and more distant relatives.

Keeping Up the Home

The taxpayer must pay more than half the cost of keeping up the home. The cost of keeping up a home includes: rent, mortgage interest, real estate taxes, insurance on the home, repairs, utilities, domestic help, and food eaten in the home. Welfare payments are not considered amounts that the taxpayer furnishes to keep up a home.

The home must have been the main home for more than half the year except for temporary absences. Temporary absences include those for school, vacation, illness, business, or military service.

The following chart may help you decide who is eligible to claim head of household filing status.

Exhibit 7

Qualifying Relations for Head of Household

Relationship to Taxpayer	Must Live with Taxpayer?	Must be Taxpayer's Dependent?
1. Unmarried child, grandchild, or step child	Yes	No
2. Married child, grandchild, or step child	Yes	Yes*
3. Foster child	Yes***	Yes
4. Mother or father	No	Yes
5. Other relatives	Yes**	Yes

Exceptions:

* The married child does not have to be the taxpayer's dependent if a noncustodial parent claims the child as a dependent under the rules for children of divorced or separated parents.

** Cousins and more distant relatives do not qualify as "relatives" in determining head of household status.

NOTE: The taxpayer's home must be the main home of the relative for more than half the year. The relative cannot be a person who files a joint return.

***The foster child must live with the taxpayer for the entire year.

Married Persons Living Apart With Dependent Children

Some married taxpayers who live apart from their spouses may be considered unmarried for tax purposes. If so, these taxpayers are permitted to file as head of household and receive the benefit of lower tax amounts.

A married taxpayer can file as head of household if:

1. The taxpayer files a separate return,
2. The taxpayer paid more than half the cost of keeping up his or her home for the year,
3. The taxpayer's spouse did not live in the home during the last six months of the year,
4. The taxpayer's home was the main home of the taxpayer's child, stepchild, or adopted child for more than half of the year or of the taxpayer's foster child for the entire year, and
5. The taxpayer claims the child, stepchild, adopted child, or foster child as a dependent, unless one of the following exceptions for divorced or separated parents applies:
    - the taxpayer signed a statement allowing the noncustodial parent to claim the child as a dependent, or
    - the noncustodial parent provided at least $600 for the child's support and can claim the dependent under a pre-1985 agreement.

Reporting Head of Household Filing Status

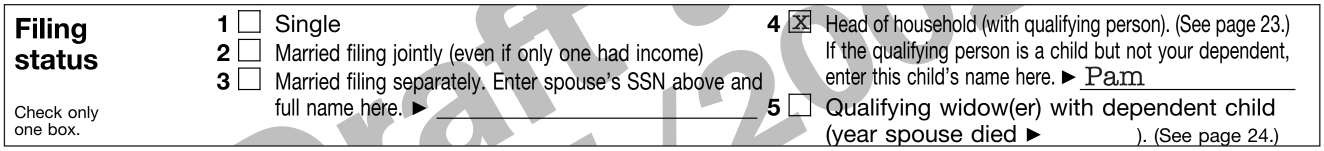
Taxpayers must enter the name of the person who qualifies them for the head of household status. If the person is a dependent, enter the dependent's name on line 6c of the exemption section of the tax return. If the qualifying person is not a dependent, enter the name of the nondependent person on line 4 in the filing status section of the tax return.

Example 4

Samantha is divorced and provided over half the cost of keeping up a home. Her five-year-old daughter, Pam, lived with her for seven months last year. Samantha does not claim Pam as a dependent; her ex-husband does.

Samantha may use head of household status. Samantha must write Pam's name in the space on Form 1040 or 1040A, on line 4.

Exhibit 8 Samantha's Form 1040A, page 1



Filing status

Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ►
4 ☒ Head of household (with qualifying person). (See page 23.) If the qualifying person is a child but not your dependent, enter this child's name here. ► Pam
5 ☐ Qualifying widow(er) with dependent child (year spouse died ►). (See page 24.)

QUALIFYING WIDOW(ER) WITH DEPENDENT CHILD

A widow or widower, with one or more dependent children, may be able to use the **qualifying widow(er)** with dependent child filing status. This filing status yields the lowest tax (the same tax for married filing jointly).

If the taxpayer's spouse died during 2001 or 2002 and the taxpayer did not remarry before the end of 2003, the taxpayer may be able to file as a qualifying widow(er) with dependent child. To qualify, the taxpayer must:

- Have been entitled to file a joint return for the year the spouse died (It does not matter whether or not a joint return was actually filed.),

AND

- Have a child, foster child, adopted child, or stepchild who qualifies as the taxpayer's dependent for the year,

AND

- Have furnished over half the cost of keeping up a home that was the main home of the child for the entire year.

An "adopted child" includes a child placed with the taxpayer by an authorized placement agency for legal adoption.

Social Security survivor benefits received on behalf of the child are considered to be amounts furnished by the child, not by the parent.

In the year a taxpayer's spouse dies, if the taxpayer does not remarry, he or she can use the married filing jointly filing status or married filing separately filing status and can claim an exemption for the deceased spouse. For two years after the year of death, the taxpayer may file as a qualifying widow(er) with dependent child, but may not claim an exemption for the deceased spouse. After the second year following the year of death, the taxpayer can no longer use the qualifying widow(er) filing status. The taxpayer may use either the head of household or single filing status depending on his or her situation then.

The following chart may help you decide which filing status to use for a taxpayer with a qualifying dependent if the spouse is deceased and the taxpayer has not remarried.

Exhibit 9

Filing Status After Death of Spouse

Tax Year	Filing Status	Exemption for Deceased Spouse?
1. Year of Death	Married (joint)	Yes
	OR	
	Married (separate)	Yes
2. First Year after death	Qualifying widow(er)*	No
3. Second year after death	Qualifying widow(er)*	No
4. After the second year after death	Head of household**	No
	OR	
	Single	No

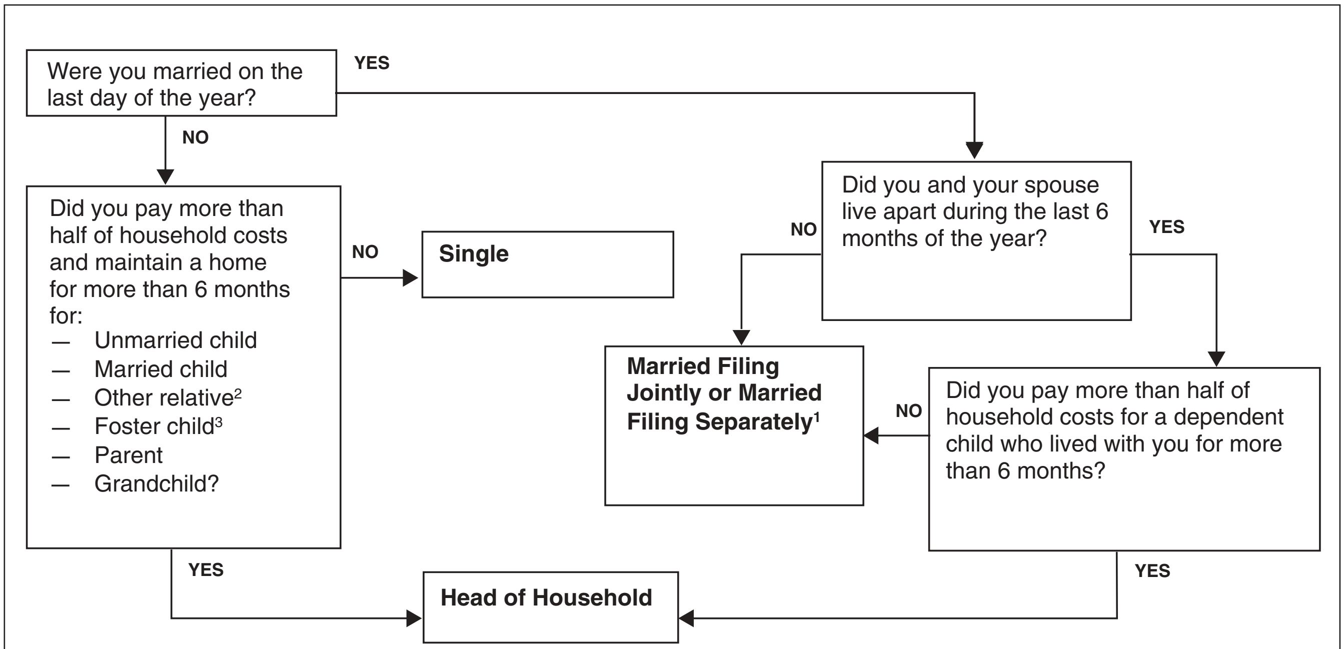
* With a qualifying dependent.

** With a qualifying relative.

Taxpayers who use the qualifying widow(er) status must list the year of the spouse's death on line 5 of Form 1040A or 1040.

You may find the following flowchart helpful in determining the correct filing status.

Exhibit 10 Determination of Filing Status



[1] Qualifying Widow(er) - If you paid over half of the household costs for a dependent child, you can use this filing status for 2 years after the year of death of spouse.

[2] Parent, grandparent, brother, sister, stepbrother, stepsister, half brother, half sister, stepmother, stepfather, mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law AND (if related by blood) uncle or aunt, nephew or niece.

[3] The foster child must live with the taxpayer for the entire year and the taxpayer cares for the child as his or her own.

TAXWISE HINTS

When using TaxWise to prepare a tax return, you will need to have the Social Security Number of anyone who qualifies the taxpayer for Head of Household filing status and is not the taxpayer's dependent.

For Qualifying Widow(er) filing status, you must enter the year of death of the deceased spouse.

For Married Filing Separate status, you will need the spouse's full name and Social Security number.

▶ ▶ Summing Up This Section ◀ ◀

When completing their tax returns, taxpayers can use one of five filing statuses:

Tax Status
(from lowest tax to highest tax)

1. Married filing jointly*
2. Qualifying widow(er) with dependent child*
3. Head of household
4. Single
5. Married filing separately

* Numbers 1 and 2 yield the same (lowest) tax.

Filing status is indicated on lines 1 through 5 of Forms 1040A and 1040. Selecting the correct filing status is one of the most important aspects of completing a tax return because the filing status factors in how much tax will be due. Remember that filing status requirements do not change, regardless of the tax form used. If a taxpayer is qualified to use more than one filing status, choose the one that will result in the lowest tax.

Exercises

9. Carol and Roger were married in 2002. They are not divorced, but lived apart all of 2003. They are not legally separated under a decree of divorce or separate maintenance. They have no children. Can they use the married filing jointly status? ________

10. Martin does not know which filing status to use. You ask if he is married. He answers that he got divorced in December but supported his wife all year and has not remarried. Can Martin and his ex-wife file a joint return? ____________________________

11. Ginger is single and paid more than half the cost of keeping up her home. Her grandmother lived with her all year. Ginger claims her grandmother as a dependent. What is Ginger's filing status? ____

12. Bill is single and lives alone. He paid over half the cost of maintaining a home for his father for the entire year. He claims his father as a dependent. What is Bill's filing status? __________

13. Franklin is single and lives alone. He paid over half the cost of maintaining a separate home for his father. He does not claim his father as a dependent. What is Franklin's filing status?

____

14. Mrs. Calvin tells you that she is divorced and that her 21-year-old unmarried son lived with her all year. She paid for their rent and food and provided over half of her son's total support. She cannot claim her son as a dependent because he earned $4,000 and is not a student. Her son used his earnings to pay for his car, clothing, and entertainment. Can Mrs. Calvin file as head of household? ______________________________________

15. Kathy lived with her unemployed roommate, Sandra, for the entire year. Kathy had to pay more than half of the cost of keeping up their apartment. Can Kathy file as head of household?

____

16. Jack has lived apart from his wife for several years. Their children live with his wife but Jack pays over half the children's support. What filing status can Jack use? ___________________

17. Lily left her husband in August 2003. She took her children with her. She supported the children during all of 2003 and will claim them as dependents. Lily will not file a joint return with her husband. Which filing status should Lily use in 2003? ___

18. Rose and her husband separated in October 2003, but were still married on December 31, 2003. What filing status can she use?

____

19. Dick's wife died in 2001. Dick has not remarried. Dick provides all of the support for his two dependent children. What will be Dick's filing status for 2004? _______________________________

Exercise 9

Yes

Exercise 10

No

Exercise 11

Head of household

Exercise 12

Head of household

Exercise 13

Single

Exercise 14

Yes

Exercise 15

No; Sandra is not a qualifying person.

Exercise 16

Married filing jointly or married filing separately.

Exercise 17

Married filing separately; she lived with her husband during part of the last six months of 2003.

Exercise 18

Either married filing jointly or married filing separately.

Exercise 19

Head of household; he could claim qualifying widower for 2002 and 2003 only.

STUDENT NOTES

FILING STATUS

INTRODUCTION AND OBJECTIVES

As you have learned, many areas of a tax return are directly tied to the filing status of the taxpayer. After completing this segment you will be able to apply special rules for Head of Household status when the spouse is a nonresident alien.

HEAD OF HOUSEHOLD (H OF H)

Because of the complexity of this issue errors often occur. In general, in order to claim Head of Household status, the taxpayer must be unmarried or considered unmarried on the last day of the year and pay more than half the cost of keeping up a home, for over six months, that includes the taxpayer and a qualifying individual.

SPECIAL RULE

For Head of Household purposes, "you are considered unmarried if your spouse was a nonresident alien at any time during the year, and you do not choose to treat your spouse as a resident alien." All of the other qualifications for Head of Household must also be met.

Example 1

Raul is in the U.S. Army in Japan. His wife and children live with him and he is able to claim the children as dependents. Raul's wife (a citizen of Japan) chooses not to be treated as a resident alien. Even though Raul is married, he can claim Head of Household status because of the rule above. If Raul had not passed all of the other qualifications for Head of Household, he would have to file as a married person (either as Married Filing Separate or Married Filing Joint).

▶▶ SUMMING UP THIS SEGMENT ◀◀

- ▶ The taxpayer may be considered unmarried if the spouse was a nonresident alien at any time during the year and the taxpayer does not choose to treat the spouse as a resident alien.

STUDENT NOTES

FILING STATUS ISSUES

Lesson 1

International Segment

INTRODUCTION AND OBJECTIVES

This lesson will explain additional factors to consider in selecting the married filing joint and head of household filing status for taxpayers who are U.S. citizens or resident aliens. The criteria for selecting the married filing separate, single and head of household filing status are the same as discussed in the basic text.

At the end of this segment, you will be able to:

- Determine the correct filing status for resident aliens.
- Explain how to treat a nonresident alien's spouse as a resident.

MARRIED NON-RESIDENTS FILING JOINTLY

In order to file Married Filing Jointly, the taxpayers must be married on the last day of the tax year and agree to file a joint return. However, “A joint return generally cannot be made if either spouse is a nonresident alien at any time during the tax year ” (Pub 17).

Treating Non-Resident Spouse as a U.S. Resident

If, at the end of the tax year, the taxpayer is married and one spouse is a U.S. citizen or a resident alien and the other spouse is a nonresident alien, the taxpayer can elect to treat the non-resident spouse as a U.S. resident. This includes situations in which one spouse is a nonresident alien at the beginning of the tax year, but a resident alien at the end of the year, and the other spouse is a nonresident alien at the end of the year.

If this choice is made, the taxpayer and spouse are treated for income tax purposes as residents for the entire tax year. For example, neither the taxpayer nor the spouse can claim tax treaty benefits as a resident of a foreign country for a tax year for which the choice is in effect. Taxpayers must file a joint income tax return for the year the choice is made,but the taxpayer and spouse can file joint or separate returns in later years.

Example 1

Debra Green, a U.S. citizen for all of tax year 2003, is married to Charles, a nonresident alien. Debra and Charles make the choice to treat Charles as a resident alien by attaching a statement to their joint return for 2003. Debra and Charles must report their world-wide income in 2003 and later years unless the choice is ended or suspended. Although they must file a joint return for 2003, they can file joint or separate returns for later years.

Example 2

Jim and Judy Adams are married and both are nonresident aliens. In June 2003, Jim became a resident alien and remained a resident for the rest of the year. Jim and Judy both choose to be treated as resident aliens by attaching a statement to the 2003 joint return. Jim and Judy must report their world-wide income in 2003 and later years unless the choice is ended or suspended. They must file a joint return for 2003, but they can file either joint or separate returns for later years.

THE "CHOICE" DECLARATION

A statement containing the following information must be signed by both spouses and attached to the joint return for the first tax year for which the choice applies.

1. A declaration that one spouse was a nonresident alien and the other spouse a U.S. citizen or resident alien on the last day of the tax year, and that the taxpayer and spouse chose to be treated as U.S. residents for the entire tax year, and
2. The name, address, and social security number or ITIN of each spouse. (If one spouse died,include the name and address of the person making the choice for the deceased spouse.)

The choice can also be made by filing a joint amended return. Publication 54 contains specifics on this option.

Suspending the Choice

The choice to be treated as a resident alien does not apply to any later tax year if neither spouse is a U.S. citizen or resident alien at any time during the tax year.

Example 3

Dick Brown was a resident alien on December 31, 2000, and married to Judy, a nonresident alien. They chose to treat Judy as a resident alien and filed joint returns for tax years 2000 and 2001. On January 10, 2002, Dick became a nonresident alien. Judy had remained a nonresident alien throughout the period. Dick and Judy can file joint or separate returns for 2002. However, since neither Dick nor Judy is a resident alien at any time during 2003, their choice is suspended for that year. If either has U.S. source income or foreign source income effectively connected with a U.S. trade or business in 2003, they must file separate returns as nonresident aliens. If Dick becomes a resident alien again in 2004, their choice is no longer suspended.

Ending the Choice

Once made, the choice to be treated as a resident applies to all later years unless suspended or ended in one of the ways shown below. If the choice is ended for any of these reasons, neither spouse can make a choice in any later tax year.

Revocation	• Either spouse can revoke the choice for any tax year.
	• The revocation must be made by the due date for filing the tax return for that year.
	• The spouse who revokes must attach a signed statement declaring that the choice is being revoked. If the spouse revoking the choice does not have to file a return and does not file a claim for refund, send the statement to the Internal Revenue Service Center where the last joint return was filed.
	• The statement revoking the choice must include the following:
	  • The name, address, and social security number (or taxpayer identification number) of each spouse.
	  • The name and address of any person who is revoking the choice for a deceased spouse.
	  • A list of any states, foreign countries, and possessions that have community property laws in which either spouse is domiciled or where real property is located from which either spouse receives income.

Death	• The death of either spouse ends the choice, beginning with the first tax year following the year the spouse died. • If the surviving spouse is a U.S. citizen or resident and is entitled to the joint tax rates as a surviving spouse, the choice will not end until the close of the last year for which these joint rates may be used. • If both spouses die in the same tax year, the choice ends on the first day after the close of the tax year in which the spouses died.
Divorce or Legal Separation	• A divorce or legal separation ends the choice as of the beginning of the tax year in which the legal separation occurs.
Inadequate records	• The Internal Revenue Service can end the choice for any tax year that either spouse has failed to keep adequate books, records, and other information necessary to determine the correct income tax liability, or to provide adequate access to those records.

HEAD OF HOUSEHOLD

In general, in order to claim Head of Household status, the taxpayer must:

1. Be unmarried or considered unmarried on the last day of the year and
2. Have paid more than half the cost of keeping up a home for the year and
3. Have a qualifying person in the home for more than half the year.

These general rules for discussed in the basic text and in more detail in Publication 17.

A U.S. citizen or resident alien (for all 12 months of the tax year) is considered unmarried for if their spouse was a nonresident alien at any time during the year and the taxpayer did not make one of the choices discussed earlier in this segment to treat their spouse as a resident alien for the entire year.

STUDENT NOTES

STUDENT NOTES

WHO MUST FILE—WHO SHOULD FILE

WHO MUST FILE

To decide who must file a tax return, you will need to know the individual's:

- filing status,
- age,
- gross income,

and if:

- special taxes might be owed on different types of income,
- some of the income is excludable or exempt,
- the individual can be claimed as a dependent on another's tax return,
- the individual is blind, or
- the individual received advance earned income credit payments.

You may not be familiar with some of the terms used on the list. These terms will be explained in later lessons. For now, concentrate on learning how to use the charts and checklists.

How to Use the Charts and Flowcharts

You will use a set of charts to determine who must file. An individual who cannot be claimed as a dependent on another taxpayer's return will use *Chart A—For Most People*. Based on the individual's circumstances, a person who can be claimed as a dependent on another taxpayer's return will use one of the other charts. *Chart C—Other Situations When You Must File* should be reviewed for every individual.

Exhibit 11

Chart A—For Most People

If your filing status is...	AND at the end of 2003 you were*	THEN file a return if your gross income** was at least...
Single	Under 65	$ 7,800
	65 or older	8,950
Married filing jointly***	under 65 (both spouses)	$15,600
	65 or older (one spouse)	16,550
	65 or older (both spouses)	17,500
Married filing separately	Any age	$ 3,050***
Head of household (see page 19)	Under age 65	$10,050
	65 or older	11,200
Qualifying Widow(er) with dependent child (see page 19)	Under 65	$12,550
	65 or older	13,500

* If you turned age 65 on January 1, 2003, you are considered to be age 65 at the end of 2003

** **Gross Income** means all income you received in the form of money, goods, property, and services that are not exempt from tax including any income from sources outside the United States (even if you may exclude part or all of it). **Do not** include social security benefits unless you are married filing a separate return and you lived with your spouse at any time in 2003.

*** If you did not live with your spouse at the end of 2003 (or on the date your spouse died) and your gross income was at least $3,050, you must file a return regardless of your age.

POTENTIAL PITFALLS

If a checklist or chart indicates that a person must file a return, he or she should do so even if no tax is owed. If a minor child must file a return but cannot do so, the child's parent or guardian must complete and sign a return for the child.

Exhibit 12

Chart B—For Children and Other Dependents

See the instructions for line 6c that begin on page 21 to find out if someone can claim you as a dependent.

If your parent (or someone else) can claim you as a dependent, use this chart to see if you must file a return.

In this chart, **unearned income** includes taxable interest, ordinary dividends, and capital gain distributions. **Earned income** includes wages, tips, and taxable scholarship and fellowship grants. **Gross income** is the total of your unearned and earned income.

CAUTION If your gross income was $3,050 or more, you usually cannot be claimed as a dependent unless you were under age 19 **or** a student and under age 24. For details, see **Test 4—Income** on page 22.

Single dependents. Were you **either** age 65 or older **or** blind?

☐ **No.** You must file a return if **any** of the following apply.

- Your **unearned income** was over $750.
- Your **earned income** was over $4,750.
- Your **gross income** was more than the **larger** of—
  - $750 or
  - Your earned income (up to $4,500) plus $250.

☐ **Yes.** You must file a return if **any** of the following apply.

- Your earned income was over $1,900 ($3,050 if 65 or older **and** blind).
- Your earned income was over $5,900 ($7,050 if 65 or older **and** blind).
- Your gross income was more than—

The larger of:	**Plus**	**This amount:**
• $750 or • Your earned income (up to $4,500) plus $250.	}	$1,150 ($2,300 if 65 or older **and** blind)

Married dependents. Were you **either** age 65 or older **or** blind?

☐ **No.** You must file a return if **any** of the following apply.

- Your unearned income was over $750.
- Your earned income was over $4,750.
- Your gross income was at least $5 and your spouse files a separate return and itemizes deductions.
- Your gross income was more than the **larger** of—
  - $750 or
  - Your earned income (up to $4,500) plus $250.

☐ **Yes.** You must file a return if **any** of the following apply.

- Your unearned income was over $1,700 ($2,650 if 65 or older **and** blind.)
- Your earned income was over $5,700 ($6,650 if 65 or older **and** blind.)
- Your gross income was at least $5 and your spouse files a separate return and itemizes deductions.
- Your gross income was more than—

The larger of:	**Plus**	**This amount:**
• $750 or • Your earned income (up to $4,500) plus $250.	}	$950 ($1,900 if 65 or older **and** blind)

DEPENDENTS WHO MUST OR SHOULD FILE A RETURN—CHECKLIST

The dependents listed in the following checklist must or should file a return.

Exhibit 13

Checklist—Children and Other Dependents

- A married dependent with at least $5 of income whose spouse itemizes deductions on a separate return on Form 1040 must file a return.
- A dependent with at least $400 of net self-employment income must file a return. (**Self-employment income** is earned income from a trade, business, farming or profession that is not paid by an employer. For example, seamstresses and lawn-care workers who work for themselves (and not for someone else) are considered self-employed.
- A dependent who is not required to file but had income tax withheld should file a return to get a refund.
- A dependent who has to pay a tax, such as the alternative minimum tax, must file a return.

OTHER SITUATIONS

Remember to review the *Chart C—Other Situations When You Must File* chart after you use the other charts.

Exhibit 14

Chart C — Other Situations When You Must File

You must file a return if any of the four conditions below apply for 2003.

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,
   - Recapture taxes (see the instructions for lines 41 and 60 that begin on pages 33 and 40), or
   - Tax on a qualified plan, including an individual retirement arrangement (IRA), or other tax-favored account. But if you are filing a return only because you owe this tax, you can file Form 5329 by itself.
2. You received any advance earned income credit (EIC) payments from your employer. These payments are shown in box 9 of your Form W-2.
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.

WHO SHOULD FILE A RETURN?

The charts, noted previously in this lesson, may indicate that an individual does not have to file a tax return. However, in three instances, individuals *should* file a return:

- to claim a refund of withheld taxes,
- to claim a earned income credit, and
- to claim the additional child tax credit.

HELPING THOSE WHO DON'T NEED TO FILE

The Reduce Unnecessary Filing Program (RUF) is intended to help certain individuals determine their need to file a federal income tax return. Use Form 9452, *Filing Assistance Program Worksheet,* to help potential unnecessary filers determine whether or not they need to file.

Thank you for helping to save time and effort for your VITA and TCE clients and for helping to reduce the cost to all taxpayers of procesing unnecessary returns by helping your clients with Form 9452 and related materials, as needed.

TAXWISE HINT

After completing the tax return refer back to the Main Information screen and select the appropriate tax form.

▶▶ SUMMING UP THIS SECTION ◀◀

Use the charts provided in this section to determine who *must* and who *should* file a tax return.

Exercises

20. Emily is married and has one dependent child. She has not lived with her husband since May and is head of household. She is under 65 and not blind. Her gross income from wages is $15,000. Is she required to file a tax return? ________________

21. Larry and Zelda are married but will not file a joint return. Both are under 65 and not blind. Larry's gross income from wages is $30,150. Zelda's gross income is $3,500.

A. Is Larry required to file? ______________________________

B. Is Zelda required to file? ______________________________

Exercise 20

Yes

Exercise 21

A. Yes

B. Yes

WHICH FORM TO USE?

FORM 1040EZ

Form 1040EZ is for single and joint filers with no dependents. The form is no longer designed to be read by an optical scanning machine. The form instructions booklet has a worksheet for taxpayers who can be claimed as dependents.

FORM 1040A

Form 1040A is a two-page form. Page 1 of the form shows the filing status, exemptions, income, and adjusted gross income. Page 2 of the form shows the standard deduction, exemption amount, taxable income, tax, credits, payments, amount owed or refund, and signature. Form 1040A may have four schedules. Use **Schedule 1** to report interest and/or dividend income that is more than $1,500. Use **Schedule 2** to report child and dependent care expenses and to figure the credit. Claim the credit for the elderly or the disabled on **Schedule 3**. This credit is explained in Lesson 14. If the taxpayer can take the earned income credit and has a qualifying child, use **Schedule EIC** to give information about that child. Schedule EIC is discussed and illustrated in Lesson 9.

FORM 1040

Form 1040 is a two-page form. Page 1 of the form shows the filing status, exemptions, income, and adjusted gross income. Page 2 shows the standard deduction or itemized deductions, the exemption amount, taxable income, tax, credits, other taxes, payments, and the amount owed or refund due.

IRS E-FILE

IRS *e-file* offers quick and easy options to traditional paper returns. These options include filing electronically through an authorized tax practitioner, over the telephone, and by personal computer. For those expecting a refund, these options all offer Direct Deposit to a bank account. For those with a balance due, paying is made easier with the option of payment by credit card or a direct debit to their bank account.

Why *e-file?* Because IRS *e-file* makes filing faster and more accurate and gets the taxpayer their refund in half the usual time....even faster with Direct Deposit!

As a volunteer, you should become familiar with these options as there will be occasions when you are called upon to answer questions from taxpayers regarding one or more of them. You may even have the opportunity to volunteer at a VITA or TCE site that has been set up to offer electronic tax filing. If so, you will receive additional specialized training on using return preparation software and on other procedures unique to this type of site.

TeleFile

Eligible 1040EZ filers, single or married filing jointly, who receive a TeleFile tax booklet and have the same address as the previous year, can file their federal income taxes by using a touch tone telephone and dialing a toll-free telephone number found in the tax booklet. (Note: Taxpayers in Georgia, Indiana, Kentucky, Maryland, Oklahoma, Oregon, or West Virginia have the option to TeleFile both their federal **and** state tax returns in the same toll-free telephone call.)

Here's how it works: the taxpayer completes the TeleFile Tax Record found in the booklet before making the call. The call, which prompts the taxpayer through recorded instructions, takes less than ten minutes. The TeleFile system calculates the tax and refund (or balance due) and then files the tax return. If the taxpayer requests Direct Deposit, a refund can be issued in as little as 10 days. **TeleFile is completely paperless; no forms are mailed to IRS, not even W-2s!** The taxpayer "signs" the return with a special Customer Service Number (CSN) provided in the booklet.

TeleFile is available 24 hours a day, seven days a week, through August 15. It is also available to users of TDD/TTY equipment. Credit card and direct debit payment options are available for balance due returns.

Because TeleFile is so easy to use, and because it is completely paperless, its use should be encouraged at every VITA and TCE site that encounters an eligible taxpayer with a TeleFile tax booklet. Even if there is no touch tone telephone available at the site, you should do everything possible to convince the taxpayer to file from home, or wherever a touch tone phone is available.

INCOME

Lesson 2

INTRODUCTION AND OBJECTIVES

In this lesson you will learn to distinguish between taxable and nontaxable income. You will also learn where to report the different types of income. In addition, you will learn to make income entries on Forms 1040EZ, 1040A, and 1040.

This lesson will help you achieve the following objectives.

- Determine what is taxable and nontaxable income.
- Determine where to report income on Forms 1040, 1040A, and 1040EZ.
- Identify who can file Schedule C-EZ.
- Identify who must file Schedule SE.

TAXABLE AND NONTAXABLE INCOME

Taxable income is any income that is subject to tax. It must be reported on a tax return, unless the amount is so small that the individual is not required to file a return.

The following types of income are taxable:

- Wages, salaries, bonuses, and commissions
- Certain fringe benefits
- Tips and other compensation for personal services
- Interest*
- Dividends
- Refunds of state and local taxes**
- Alimony received or separate maintenance payments received
- Business income
- Hobby income (a hobby loss is not deductible)
- Capital gains
- Gain from the sale of property
- Pensions and annuities (part may be nontaxable)
- IRA distributions (part or all may be nontaxable)
- Rents received
- Royalties

- Estate or trust income
- Supplemental unemployment benefits
- Unemployment compensation
- Railroad retirement benefits (part may be taxable)
- Social security benefits (part may be taxable)
- Jury duty pay
- Executors' fees
- Gambling winnings (including lotteries, contests, raffles, etc.)
- Nonqualifying scholarships and fellowships
- Payments for punitive damages and compensatory damages not attributable to physical injuries or sickness
- Certain long-term care benefits. If the taxpayer received copy B of Form 1099-LTC, refer him or her to a paid professional preparer because some of the benefits may be taxable.

*Some interest is not taxable (for example, interest on certain state and local bonds and on qualified Series EE and Series I savings bonds used to pay for higher education expenses).

**Refunds of state and local taxes are taxable only if the taxpayer itemized deductions in the year the taxes were paid and the individual's tax liability was REDUCED because of the deduction.

Nontaxable income is income that is exempt from tax. If a return must be filed, some types of nontaxable income will be shown on the return but will not be added into the amount of income subject to tax.

The following types of income are nontaxable:

- Child support
- Federal income tax refunds
- Certain dividends on life insurance
- Gifts, bequests, and inheritances (may be subject to other taxes)
- Insurance and certain other payments for physical injury and sickness
- Interest on certain Series EE and Series I savings bonds redeemed to pay for qualified higher education expenses
- Interest on certain state and local obligations (municipal bonds)
- Most life insurance proceeds paid upon death (and certain accelerated death benefits or payments received under a life insurance contract on the life of a terminally or chronically ill individual before the individual's death)
- Public assistance payments (certain TANF payments)
- Certain railroad retirement benefits (part may be exempt)
- Social security benefits (part may be exempt)

- Veterans' disability benefits
- Workers' compensation
- Qualified scholarships and fellowships
- Certain dependent care services provided by employer
- Interest on insurance dividends left with VA
- Certain employer-provided educational benefits (up to $5,250)
- Employer-provided assistance for qualifying adoption expenses. (Refer taxpayers with adoption expenses to a paid professional tax preparer and to Publication 968, *Tax Benefits for Adoption*)
- Restitution payments and excludable interest received by Holocaust victims, their heirs, or their estates, for persecutions are not taxable.
- Certain long-term care benefits. If the taxpayer received copy C of Form 1099-LTC, he or she is not the policyholder. The form is for information only and should be disregarded because none of the benefits are taxable to him or her. If the taxpayer received copy B of Form 1099-LTC, refer him or her to a paid professional preparer because some of the benefits may be taxable.

Example 1

Robert received the following income: wages, interest, child support, alimony, inheritance, workers' compensation, and lottery winnings.

The wages, interest, alimony, and lottery winnings are taxable income and will appear on Robert's tax return.

Child support, inheritance, and workers' compensation are nontaxable income and will not appear on Robert's tax return.

Exercise 1

Indicate whether the income listed is taxable or nontaxable.

Type of Income	Nontaxable	Taxable
1. Wages		
2. Dividends from stock		
3. Veterans' disability benefits		
4. Child Support		
5. Credit union dividends		
6. Cash bonuses		
7. Inheritances		
8. Tips		
9. Worker's compensation		
10. Veteran's life insurance dividends		

WHERE TO REPORT INCOME

Taxpayers can report only wages, salaries, tips, unemployment compensation, qualified state tuition program payments, Alaska Permanent Fund dividends, taxable scholarship and fellowship grants, and interest income of $1,500 or less on Form 1040EZ.

In addition to the types of income that can be reported on Form 1040EZ, ordinary and qualified dividends, capital gains distribution, interest income greater than $1,500, IRA distributions, pension and annuity income, and taxable social security and equivalent railroad retirement benefits can be reported on Form 1040A.

These and all other types of income can be reported on Form 1040.

ALERT ⚠

New line added to Forms 1040 and 1040A for qualified dividends.

Qualified dividends are eligible for the capital gains rates.

EARNED INCOME

Wages and Salaries

The total of wages, salaries, tips, and taxable scholarships and fellowships are reported on Form 1040EZ, line 1, Form 1040A or Form 1040, line 7.

Wages, salaries, and tips are primary examples of earned income received for services performed. Wages and salaries are compensation received. Tips are money and goods received as a gratuity by food servers, maids, porters, etc.

Form W-2. Form W-2, *Wages and Tax Statement,* reports the employee's earned income for the year. Employers should issue Form W-2 to every employee and a copy to the Social Security Administration. Box 1, *Wages, tips, and other compensation*, shows the amount of payments received in cash, goods and services, bonuses, supplemental unemployment benefits, awards, and taxable employee benefits. This amount should be included on the return.

An individual taxpayer or a couple filing jointly might have one or more Forms W-2s from various employers. When the taxpayer and/or spouse receive Forms W-2s from their employers, add the amounts from Box 1 of each Form W-2 and report the total amount on the return.

Generally, if a **household employee** earned less than $1,400 a year while working in the employer's home, the employer is not required to provide the taxpayer with a Form W-2 but, the income must be included on line 7 (Form 1040A or 1040) or line 1 (Form 1040EZ). However, a Form W-2 is required if the employer withheld federal income taxes.

If a taxpayer does not get a Form W-2, or if the one he or she gets is not correct, the taxpayer will have to contact his or her employer as soon as possible. Only an employer can **issue** a Form W-2 or a Form W-2c.

In the event that the employer prepared an incorrect W-2, a Form W2c, *Corrected Wage and Tax Statement*, should be issued. Use the W-2c amounts on the return. Be sure to attach the Form W-2c to the taxpayer's return.

All wage, salary, and tip income must be reported on the return, even if the employee did not receive a Form W-2.

If the taxpayer does not receive a Form W-2 by January 31, he or she should first contact the employer and find out if or when the Form W-2 was mailed. If after allowing a reasonable amount of time for the employer to issue or reissue the Form W-2, the Form W-2 still has not been received, he or she should contact the IRS for assistance at 1-800-829-1040, but not before February 15.

If after requesting a Form W-2 from the employer the taxpayer does not receive it by the due date of the return, he or she should file a Form 4852, *Substitute for Form W-2, Wage and Tax Statement or Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRA's, Insurance Contracts, Etc*.

The taxpayer should keep a copy of Form 4852 for his or her records and file a copy with the Social Security Administration to ensure proper social security credit.

POTENTIAL PITFALLS ⚠

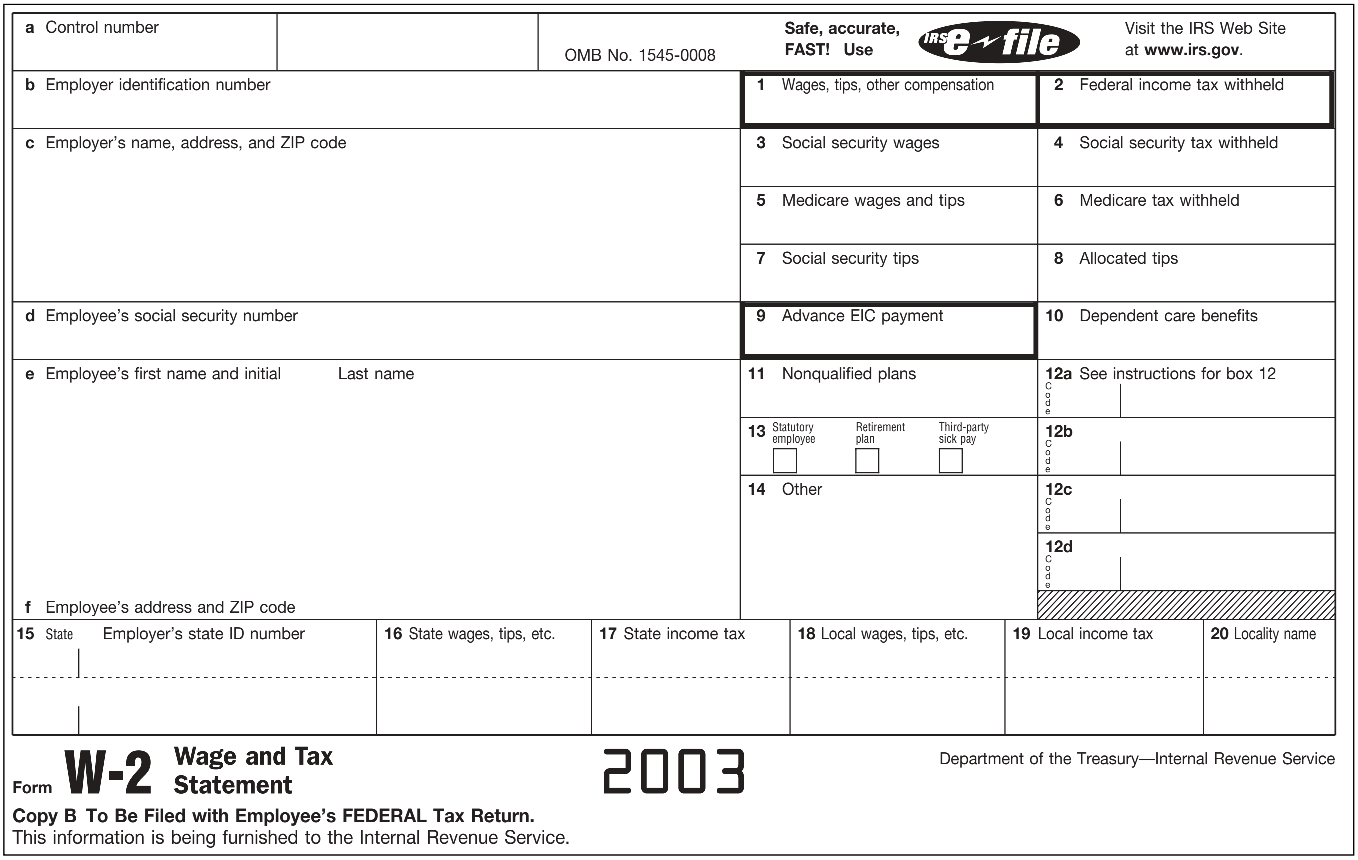
Volunteers should be alert to the following possible indications of fraudulent activity:

- Forms W-2 that are typed, handwritten or have noticeable corrections
- Form W-2 from a firm in the area that is different from other Forms W-2s issued by the same firm
- Suspicious person accompanying the taxpayer and observed on other occasions
- Multiple refunds directed to the same address or P.O. Box
- Employment or earnings, that are a basis for refundable credits, that are not well documented
- Similar returns (e.g. same amount of refund, or same number of dependents, or same number of Forms W-2s)

ALERT ⚠

In 2003, household employers are required to issue a Form W-2 to employees whose earnings are $1,400 or more.

Exhibit 1



a Control number

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number

1 Wages, tips, other compensation

2 Federal income tax withheld

c Employer's name, address, and ZIP code

3 Social security wages

4 Social security tax withheld

5 Medicare wages and tips

6 Medicare tax withheld

7 Social security tips

8 Allocated tips

d Employee's social security number

9 Advance EIC payment

10 Dependent care benefits

e Employee's first name and initial Last name

11 Nonqualified plans

12a See instructions for box 12 Code

13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐

12b Code

14 Other

12c Code

12d Code

f Employee's address and ZIP code

15 State	Employer's state ID number	**16** State wages, tips, etc.	**17** State income tax	**18** Local wages, tips, etc.	**19** Local income tax	**20** Locality name

Form **W-2** **Wage and Tax Statement** 2003

Department of the Treasury—Internal Revenue Service

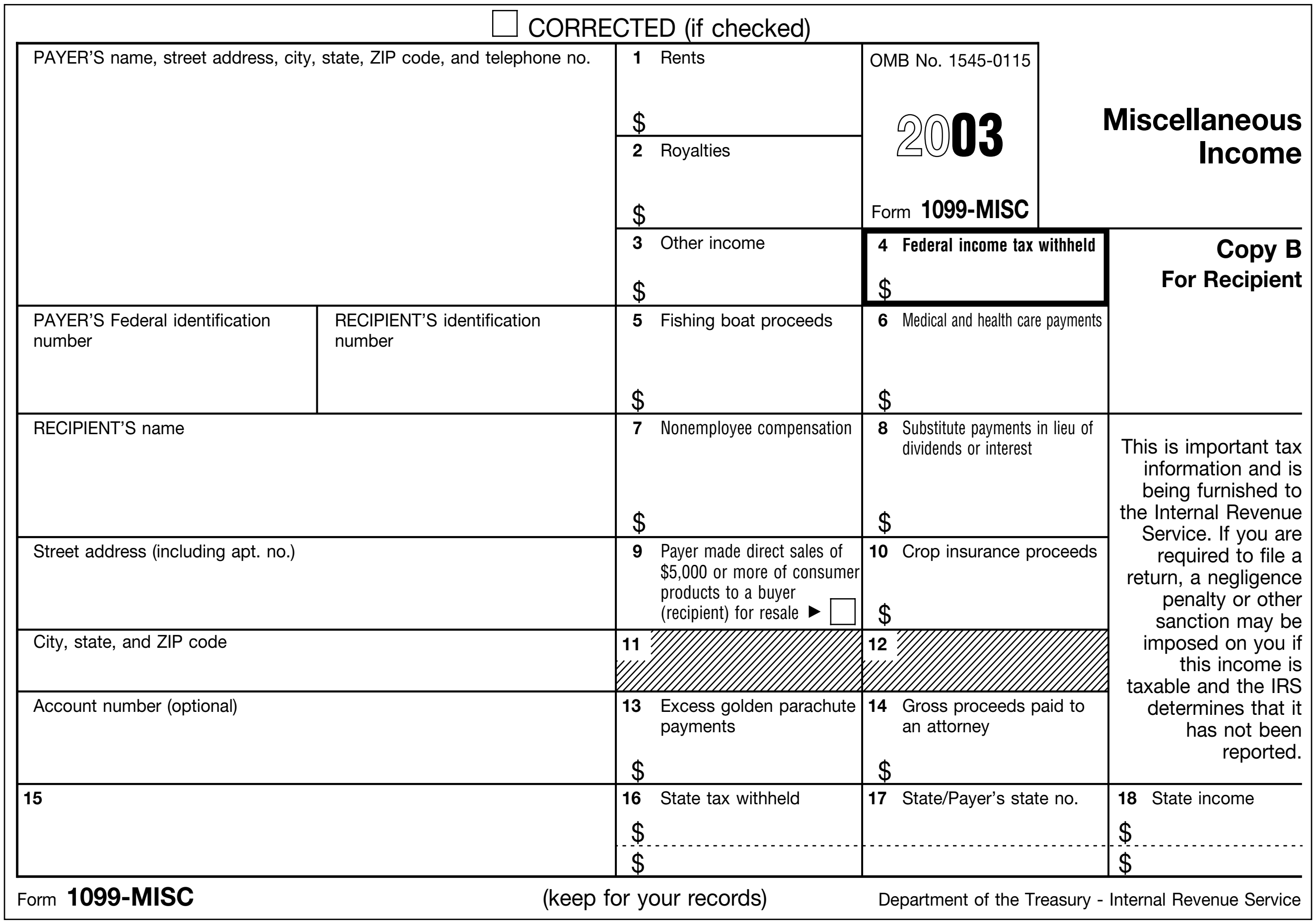
Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Form 1099-MISC. Taxpayers with earnings reported on Form 1099-MISC, Miscellaneous Income, may be considered self-employed. These amounts are reported on Schedule C-EZ or Schedule C. Net losses and profits are reported on line 12 of Form 1040. Self-employment income is discussed later in this lesson.

Some employers misclassify workers as independent contractors and report their earnings on Form 1099-MISC. Taxpayers who believe they have been misclassified should contact the IRS.

Exhibit 2

Reserved for 2003 Form 1099-MISC.



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

1 Rents $

2 Royalties $

OMB No. 1545-0115

2003

Form 1099-MISC

Miscellaneous Income

3 Other income $

4 **Federal income tax withheld** $

Copy B For Recipient

PAYER'S Federal identification number

RECIPIENT'S identification number

5 Fishing boat proceeds $

6 Medical and health care payments $

RECIPIENT'S name

7 Nonemployee compensation $

8 Substitute payments in lieu of dividends or interest $

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Street address (including apt. no.)

9 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale ▶ ☐

10 Crop insurance proceeds $

City, state, and ZIP code

11

12

Account number (optional)

13 Excess golden parachute payments $

14 Gross proceeds paid to an attorney $

15

16 State tax withheld $ $

17 State/Payer's state no.

18 State income $ $

Form 1099-MISC (keep for your records) Department of the Treasury - Internal Revenue Service

Tip Income

All tip income is taxable. Individuals who receive ***$20 or more per month in tips*** while working one job must report their tip income to their employer. Tips that are reported to employers are included with wages on Form W-2, box 1. If the taxpayer received tip income of $20 or more in a month and did not report all of those tips to the employer, he or she must report the social security and Medicare taxes on the unreported tips as additional tax on Form 1040. Form 4137, *Social Security and Medicare Tax on Unreported Tip Income*, should be used to compute and report the additional tax.

Individuals who receive ***less than $20 per month in tips*** while working one job do not have to report their tip income to their employer. Additionally, noncash tips (for example, tickets or passes) do not have to be reported to the employer. Tips of less than $20 per month or noncash tips are not subject to social security and Medicare taxes. However, this tip income is subject to federal income taxes and must be reported on line 7 of Form 1040 or Form 1040A, or line 1 of Form 1040EZ.

POTENTIAL PITFALLS ⚠

If the taxpayer fails to report tip income as required to the employer, the taxpayer may be subject to a penalty equal to 50% of the social security and Medicare taxes owed on unreported tips.

POTENTIAL PITFALLS

The following individuals cannot file Form 1040EZ or 1040A; they must file Form 1040:
(1) Individuals who received $20 or more in tips in any month while working for one employer and who did not report the full amount to the employer. (These tips are subject to social security and Medicare tax.) (2) Taxpayers whose Form W-2 has an amount entered in box 8, *Allocated tips,* that they must report as income. For more information, see Publication 531, *Reporting Tip Income.*

Allocated tips are tips an employer assigns to an employee. They are in addition to the tips the employee reported to the employer. The taxpayer may have allocated tips if he or she worked in a restaurant, cocktail lounge, or similar business that must allocate tips to employees.

Allocated tips are shown separately in box 8 of Form W-2. They are not included in the amount in box 1. The taxpayer must report allocated tips on his or her tax return unless either of the following exceptions applies.

1) The taxpayer kept a daily tip record, or other evidence that is as credible and as reliable as a daily tip record, as required. (See Pub. 531, Reporting Tip Income).
2) The taxpayer's tip record is incomplete, but it shows that his or her actual tips were more than the tips reported to his or her employer plus the allocated tips.

If either exception applies, report actual tips on the return. Do not report the allocated tips.

If the taxpayer is required to report allocated tips on the return, the amount on Form W-2, box 8, should be added to the amount in box 1. The total is reported on line 7 of Form 1040. Allocated tips cannot be reported on Form 1040EZ or 1040A, and are subject to social security and Medicare taxes. Form 4137 should be used to compute and report the additional tax.

The taxpayer should keep a copy for his or her records and file a copy with the local Social Security Administration to ensure proper social security credit.

Example 2

Fred works as a repairman during the week and as a barber on alternate Saturdays. His tips are less than $20 in any month and he does not report them to his employer. The amounts from box 1 on his Forms W-2 show income of $23,500 (repairman) and $1,950 (barber). His unreported tip income was $200.

Fred will report $25,650 on Form 1040A, line 7. This is the total of his Form W-2, box 1 income and his unreported tip income ($23,500 plus $1,950 plus $200).

If Fred reported his tip income to his employer, the tips would be included in box 1 of the Form W-2. The amount in box 1 of that Form W-2 would be $2,150 ($1,950 plus $200). Fred would still enter $25,650 on line 7 ($23,500 plus $2,150).

Scholarships and Fellowships

Some scholarships and fellowships may be partially taxable. If the taxpayer received a Form W-2 for the scholarship or fellowship, add the amount in box 1 to any other box 1 amounts. Enter the total on line 1, Form 1040EZ, or line 7, Form 1040A or 1040.

Even if the taxpayer did not receive a Form W-2 for the scholarship or fellowship, the taxable portion of the scholarship or fellowship must be reported. Add the taxable portion to other Form W-2, box 1 amounts and unreported tip income. Enter the total on line 7 (Form 1040 or 1040A) or line 1 (Form 1040EZ). Write "SCH" and the amount not reported on Form W-2 in the space to the left of line 7 or line 1, whichever applies.

Exercise 2

A. Mike worked two jobs. He was a quality inspector during the week and a bartender on the weekends. He reported all of his tip income ($3,000) to his employer. His Forms W-2, box 1, showed income of $21,000 (quality inspector) and $8,250 (bartender). What amount will Mike report on his Form 1040A, line 7? ______________________________

B. John works as a food server in an expensive restaurant. He tells you that he did not report his tip income of $18,100 to his employer. Can John file Form 1040A? ______________

C. Randy had several employers during the tax year. On February 3, 2004, he comes into the VITA site to have his return prepared. He tells you that he has not received the Form W-2 for XYZ Inc. What should you tell Randy? ____________

____

INTEREST INCOME

Money earns interest when it:

- is deposited in accounts in banks, savings and loans, credit unions,
- is used to buy certificates of deposit or bonds, or
- is lent to another person or business.

Interest income is considered unearned income. Money, not a person, is working to earn the income.

TAXABLE INTEREST INCOME

Savings Accounts

Interest is reported in the year that it is credited to the taxpayer's account and is available for withdrawal by the taxpayer. The taxpayer should report all interest received during the year, even if the interest is not entered in the taxpayer's passbook.

POTENTIAL PITFALLS ⚠

Some savings and loans, credit unions, cooperative banks, and mutual savings banks call their distributions "dividends." These "dividends" are really interest and are reported as interest. True dividends are different and will be discussed later in this lesson.

U.S. Savings Bonds

Interest on U.S. savings bonds is earned in one of two ways.

- Some bonds are issued at a "discount" and the interest earned equals the increase in the bond's value over a period of time.
- Some bonds pay interest at stated intervals of time.

Series EE and Series I Bonds. Series EE bonds are the most common type. They are issued at a discount; this means that the purchase price is less than the face value (the amount shown on the bond). The interest is the difference between the purchase price and the amount received when the bonds are redeemed (cashed in).

Series I bonds were first offered in 1998. They are issued at face value with a maturity period of 30 years. Interest on these bonds is paid when the bond is redeemed.

Taxpayers can choose one of two ways to report interest income from these bonds.

- Report the increase in value when the bond is cashed in or when the bond matures, whichever is earlier.
- Report the increase in the bond's value each year.

Generally, taxpayers must use the same method for all Series EE and Series I bonds they own.

If a U.S. savings bond is issued in the names of co-owners, such as the taxpayer and child, or the taxpayer and spouse, interest on the bond is generally taxable to the co-owner who purchased the bond. To determine who is responsible for paying the tax on a bond see the table below.

Exhibit 3

Who Pays Tax on U.S. Savings Bond Interest

IF...	THEN tax on the bond interest must be paid by...
You use your funds to buy a bond in your name and the name of another person as co-owners.	You.
You buy a bond in the name of another person, who is the sole owner of the bond.	The person for whom you bought the bond.
You and another person buy a bond as co-owners, each contributing part of the purchase price.	Both you and the other co-owner, in proportion to the amount each paid for the bond.
You and your spouse, who live in a community property state, buy a bond that is community property.	You and your spouse. If you file separate returns, both you and your spouse generally pay tax on one-half.

Example 3

Barbara owns a $500 U.S. Series EE savings bond. She paid $250 for the bond. When the bond matures, Barbara will receive $500. At the end of the first year, the bond was worth $265.

Barbara can report interest income in one of two ways.

- She can report $250 of interest income when the bond matures. This is the difference between the $500 value at maturity and the $250 she paid for the bond. Barbara would report interest income only once, at maturity.
- She can report $15 of interest income at the end of the first year. This is the increase in value at the end of the year ($265 minus $250). Barbara would report interest income each year until maturity.

Excludable Interest on U.S. Savings Bonds. Taxpayers may be able to exclude from income all or part of the interest received from certain qualified U.S. savings bonds. The taxpayer must have paid for qualified higher education expenses the same year the bonds are cashed. The bonds must be either Series EE bonds issued after 1989 or Series I bonds in the taxpayer's name or, if married, the taxpayer's name or spouse's name. The individual in whose name the bonds were issued must be 24 years of age or older before the bonds were issued. The taxpayer cannot file married filing separately.

Qualified higher education expenses include tuition and fees paid to an eligible educational institution for the bond owner, the bond owner's spouse, or the bond owner's dependent for whom the bond owner claims an exemption. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education.

Qualified expenses include any **contribution** to a qualified state tuition program or to a Coverdell ESA. (For more information, see Publication 970, *Tax Benefits for Higher Education*).

Use Form 8815, *Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989 (For Filers with Qualified Higher Education Expenses)*, to report the exclusion of interest income. The excludable amount is transferred from Form 8815 to Part I, line 3 of Schedule 1 (Form 1040A) or to Schedule B (Form 1040).

Series HH Bonds. The interest on these bonds is paid twice a year. Report the interest on these bonds in the year in which it is received.

Other U.S. Obligations. Interest on other U.S. obligations, such as U.S. Treasury notes and bonds, is fully taxable when received.

Savings Certificates, Money Market Certificates, and Other Deferred Interest Accounts

Interest that is paid at fixed intervals of one year or less is included in taxable income when it is received or when the taxpayer could receive it (that is, when it is credited to the account, even if it is not withdrawn) without paying a substantial penalty. If an account matures in one year or less and provides a single interest payment at maturity, include the interest in taxable income when the account matures and the interest is received.

Example 4

Duane has a six-month certificate of deposit (CD) that matures in January 2004. He will receive $75 in interest income.

Duane will report the interest income on the certificate of deposit on his 2004 tax return. It matures in one year or less with a single interest payment at maturity.

Certificates of Deposit with Maturities of Over One Year

If interest on a CD is deferred for more than one year, the taxpayer must include a part of the interest in income each year. The taxpayer should receive Form 1099-INT stating the amount to report.

Example 5

Deborah has a two-year CD that pays interest every three months. She bought the CD on March 1, 2003. It matures on February 29, 2005.

For 2003, Deborah reports the interest income earned from March through December. For 2004, she will report 12 months of interest. For 2005, she will report two months of interest.

Original Issue Discount. Long-term obligations that pay no interest before maturity are considered to be issued at a discount. **Original Issue Discount (OID)** is the amount by which the principal amount (redemption price at maturity) of a long-term debt instrument, such as a bond or note, exceeds its issue price. Taxpayers generally report a portion of the OID each year until the obligation matures.

Example 6

Roger purchased a $1,000 U.S. Treasury Zero Coupon Bond for $350. When the bond matures, Roger will receive $1,000. He will receive no interest income until the bond matures many years later.

The difference between the redemption amount ($1,000) and the issue price ($350) is the OID ($650). Each year until maturity, Roger must recognize part of the OID as taxable interest income.

Interest on Insurance Proceeds

Life insurance proceeds include interest. Taxpayers can receive life insurance policy benefits paid upon the death of the insured either in a lump sum or in installments. Generally, if the payments are received in installments, the portion that is interest must be included in the taxpayer's income. However, if the insured individual died before October 23, 1986, and was the taxpayer's spouse, the first $1,000 of interest income received each year is not taxed if the payments are received in installments. This exclusion does not apply if proceeds are left on deposit with the insurance company and only interest is paid.

Life insurance dividends generally are not taxable. These dividends may be used to reduce life insurance premiums due, purchase additional paid-up insurance, or earn interest. In general, the interest earned on life insurance dividends is taxable when it is credited to the taxpayer's account.

Interest on insurance dividends that have been left on deposit with the Department of Veterans Affairs (VA) is ***not*** taxable. Do not include this interest in taxable income.

COVERDELL ESA

Contributions to a Coverdell ESA are not deductible. Amounts in the ESA grow (tax deferred) until they are distributed. Generally, if the beneficiary has qualified education expenses that are greater than the distribution during the year, then no tax is due.

ALERT ⚠

Starting in 2003, Coverdell ESA distributions are no longer reported on Form 1099-R. They are reported on Form 1099-Q.

If the taxpayer received Form 1099-Q, showing a distribution from a Coverdell ESA, ask the taxpayer if the funds were used for qualified education expenses. Coverdell ESA qualified education expenses include elementary, secondary, and postsecondary (higher) education expenses.

If the entire amount of the distribution was spent on qualified elementary and secondary expenses, the distribution is tax-free. Tax-free distributions are not reported. If the taxpayer paid for qualified higher (postsecondary) education expenses, the taxpayer may be eligible for the Hope Credit or Lifetime Learning Credit, which may be more beneficial.

Refer the taxpayer/beneficiary to a paid professional tax preparer and/or Publication 970, *Tax Benefits for Higher Education,* if:

- The funds were not used for qualified education expenses.
- The distribution is more than the amount spent for qualified expenses.

- Part or all of the distribution is taxable and earnings must be computed.
- The taxpayer/beneficiary received other education benefits such as a distribution from a Qualified Tuition Program, employer provided educational assistance, or a scholarship, or used U.S. Savings Bonds to pay for qualified education expenses.
- If any amount needs to be reported, report it on Form 1040, line 21. Additional tax may be due. Use Part II of Form 5329, *Additional Taxes on Qualified Plans (including IRAs) and Other Tax Favored Accounts*, to figure any additional tax.

TAX-EXEMPT INTEREST

Certain types of interest are exempt from federal income tax. Bonds issued by the following entities generally pay **tax-exempt interest:**

- State and political subdivisions (county or city),
- District of Columbia, and
- U.S. possessions and political subdivisions.

Examples of tax-exempt bonds are those issued by:

- Port authorities
- Toll-road commissions
- Utility service authorities
- Community redevelopment agencies
- Qualified volunteer fire departments
- Amounts indicated on broker statements as tax-exempt interest or dividends

Although tax-exempt interest is not taxable, the taxpayer must report all tax-exempt interest on Form 1040, 1040A or 1040EZ.

Form 1099-INT

Interest income is reported to the taxpayer on Form 1099-INT, *Interest Income*. A copy of Form 1099-INT is also sent to the IRS.

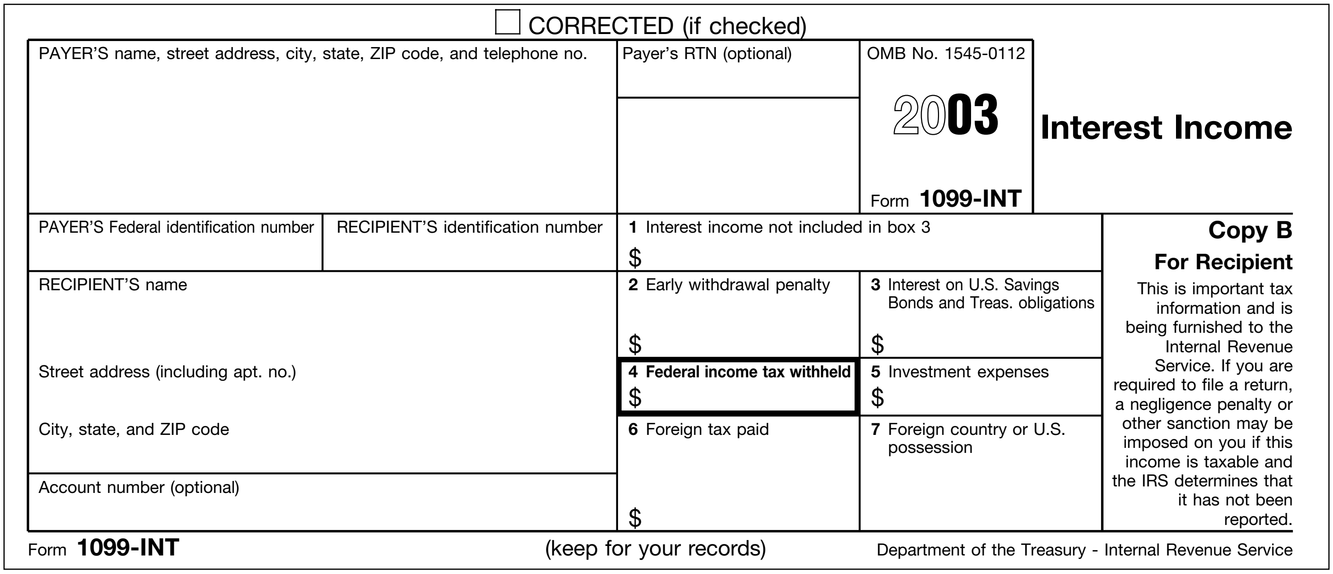
Box 1 shows taxable interest income from various institutions.

Some taxpayers withdraw funds from a time deposit before the maturity date of the account and, therefore, incur an interest penalty. The early withdrawal penalty is reported on Form 1099-INT in box 2. Report the total interest earned, shown in box 1 of Form 1099-INT, on line 8a of Form 1040. Do not subtract the penalty from the total interest. The early withdrawal penalty is an adjustment to income and is entered on line 31 of Form 1040.

Box 3 shows U.S. savings bond and Treasury obligations interest. Be sure to ask the taxpayer about this interest income. The amount shown on Form 1099-INT may be too high if the taxpayer was not the original owner of the bond or if the taxpayer has reported the interest income each year as it was earned.

Some Forms 1099-INT will have entries in box 4 indicating that federal income tax has been withheld from the interest paid. Be sure to include the amount shown in box 4 with other tax withheld on Form 1040A, line 39, or Form 1040, line 61.

Exhibit 4



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

Payer's RTN (optional)

OMB No. 1545-0112

2003

Form **1099-INT**

Interest Income

PAYER'S Federal identification number

RECIPIENT'S identification number

1 Interest income not included in box 3
$

Copy B

For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

RECIPIENT'S name

2 Early withdrawal penalty
$

3 Interest on U.S. Savings Bonds and Treas. obligations
$

Street address (including apt. no.)

4 Federal income tax withheld
$

5 Investment expenses
$

City, state, and ZIP code

6 Foreign tax paid
$

7 Foreign country or U.S. possession

Account number (optional)

Form **1099-INT** (keep for your records) Department of the Treasury - Internal Revenue Service

Form 1099-OID

Form 1099-OID, *Original Issue Discount*, reports the amount of Original Issue Discount income that a taxpayer should report as income for the year. A copy of Form 1099-OID is also sent to the IRS.

Box 1 shows the amount of interest (OID) for the year if the taxpayer bought the obligation at its original issue and held the issue all year.

Box 2 shows regular interest paid on the obligation other than the OID income.

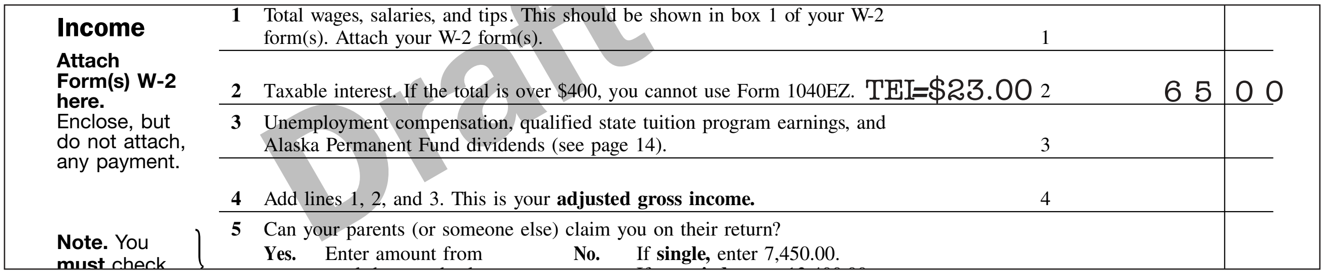
Reporting Interest Income

If the taxpayer is a **1040EZ** filer, taxable interest income is reported on line 2. 1040EZ filers should report tax-exempt interest by writing “TEI” and the amount of tax-exempt interest on line 2 as shown in the example below. Do not include tax-exempt interest in the *Dollars / Cents* portion of line 2. If the taxpayer’s interest income is more than $1500, he or she cannot file a Form 1040EZ.

Example 7

Jennifer received taxable interest income of $65 and tax-exempt interest income of $23. She would report her interest income on Form 1040EZ as shown in the exhibit below.

Exhibit 5 **Jennifer’s 1040EZ**



Income

Attach Form(s) W-2 here. Enclose, but do not attach, any payment.

1 Total wages, salaries, and tips. This should be shown in box 1 of your W-2 form(s). Attach your W-2 form(s). 1

2 Taxable interest. If the total is over $400, you cannot use Form 1040EZ. TEI=$23.00 2 65 00

3 Unemployment compensation, qualified state tuition program earnings, and Alaska Permanent Fund dividends (see page 14). 3

4 Add lines 1, 2, and 3. This is your **adjusted gross income.** 4

Note. You must check

5 Can your parents (or someone else) claim you on their return?

Yes. Enter amount from **No.** If **single,** enter 7,450.00.

Taxpayers who file **Forms 1040A or 1040**, report taxable interest income on line 8a and tax-exempt interest on line 8b.

If the taxpayer files Forms 1040A or 1040 and:

- Has interest income of more than $1500,
- Wants to claim an exclusion for savings bond interest in the same year that he or she paid for qualified higher education expenses, or
- Receives a Form 1099-INT for tax-exempt interest,

Schedule 1, Part I (1040A) or Schedule B, Part I (1040) must be completed, before making an entry on line 8a or 8b.

If the tax-exempt interest is shown on a Form 1099-INT, and a Schedule 1 or B must be filed, the taxpayer must include tax-exempt interest on Schedule 1 or B. It should be reported on line 1 but it should not be included in the total on line 2. Instead, under the last entry on line 1, a subtotal of all interest listed should be made. Below the subtotal, the taxpayer should write “Tax-exempt interest” and show the amount. Subtract it from the subtotal and the result should be entered on line 2.

On Schedule 1 or Schedule B, Part I, list the interest payers’ names and the various amounts received for each form, even if there are two or more forms from the same source.

Exercise 3

A. Randy and Ann have three Forms 1099-INT: Epping National Bank, $62; Epping Credit Union, $178; and Brenton Savings and Loan, $760.

1. How much interest income will be reported on Schedule 1 (Form 1040A)? ____

2. How much interest income will be reported on Form 1040A, line 8a?____

B. Catherine received $398 interest income this year. She files Form 1040EZ. How much interest income is reported on her return, and where is it reported? ________________________

____

C. Emily and Andrew file a joint return on Form 1040. They have the following interest income: City Savings and Loan (joint), $320; Third National Bank (Andrew), $100; U.S. Series HH Savings Bonds (joint), $45; and Welder's Credit Union (Emily), $30. ____

How much interest is reported on their Form 1040, and where is it reported? ____

DIVIDEND INCOME AND OTHER CORPORATE DISTRIBUTIONS

ALERT ⚠

In 2003, line 9b is added to Forms 1040 and 1040A for qualified dividends.

Dividends are payments made by corporations to shareholders. Dividends can also be paid through partnerships, estates, or trusts.

There are several types of corporate distributions, including ordinary and qualified dividends, capital gain distributions, nontaxable distributions, stock dividends, and others. Most dividends are paid in cash. Some dividends, however, are paid in property, services, or additional shares of stock. Only **ordinary and qualified dividends** can be reported on Form 1040A. Any other dividends or distributions received are reported on Form 1040. Taxpayers with dividend income may not use Form 1040EZ. Other types of dividends and distributions include the following:

- Dividend reinvestment — Through **dividend reinvestment**, instead of receiving cash (a dividend check), some stockholders ask the corporation to use their dividends to purchase more shares of the corporation's stock. The shareholders "reinvest" their dividends. The dividend is taxable at the time it would be paid if it were in cash.
- Capital gain distributions — Mutual funds (regulated investment companies) and real estate investment trusts (REITs) pass capital gains to their investors in the form of **capital gain distributions.** Capital gain distributions are treated as long-term capital gains, regardless of how long the taxpayer holds the shares. See Lesson 11, *Sale of Stock*, for more information on capital gains.

- Return of capital — A **return of capital** represents a return of part of the taxpayer's investment in the stock of the company. A return of capital reduces the basis of the stock and is not taxed until the taxpayer's basis in the stock is fully recovered. Any return of capital in excess of basis is treated as a capital gain and is reported on Schedule D, *Capital Gains and Losses.*
- Stock dividends — **Stock dividends** increase the taxpayer's number of shares in the company. Generally, stock dividends are not taxable.

Other types of nontaxable dividends are:

- Exempt-interest dividends paid by mutual funds (This interest is listed on Form 1040, line 8b.)
- Dividends on insurance policies, as long as they do not exceed the total of all net premiums paid by the taxpayer
- Dividends on veterans' insurance
- Certain patronage dividends

Reporting Dividends and Capital Gain Distributions

The payer reports dividends and certain other distributions on **Form 1099-DIV,** *Dividends and Distributions*.

Ordinary dividends are reported in box 1a of Form 1099-DIV. Add the amounts in box 1a from all the Forms 1099-DIV the taxpayer received. If the total is:

ALERT ⚠

In 2003, Line 1 of Form 1099-DIV was changed to Line 1a–Ordinary dividends and Line 1b–Qualified dividends.

- $1500 or less, enter the total on line 9a of Form 1040A or 1040.
- over $1500, complete Schedule 1 (Form 1040A), Part II, or Schedule B (Form 1040), Part II. Transfer the result to line 9a of Form 1040A or 1040.

On Schedule 1 or Schedule B enter the payer's name and the amount received for each Form 1099-DIV even if the same corporation used separate forms to report more than one distribution. If the taxpayer has a substitute Form 1099-DIV from a brokerage firm, it may show a total for dividends received. Enter the brokerage firm as the payer of the dividends and enter the total dividend amount. Do not list the dividends individually.

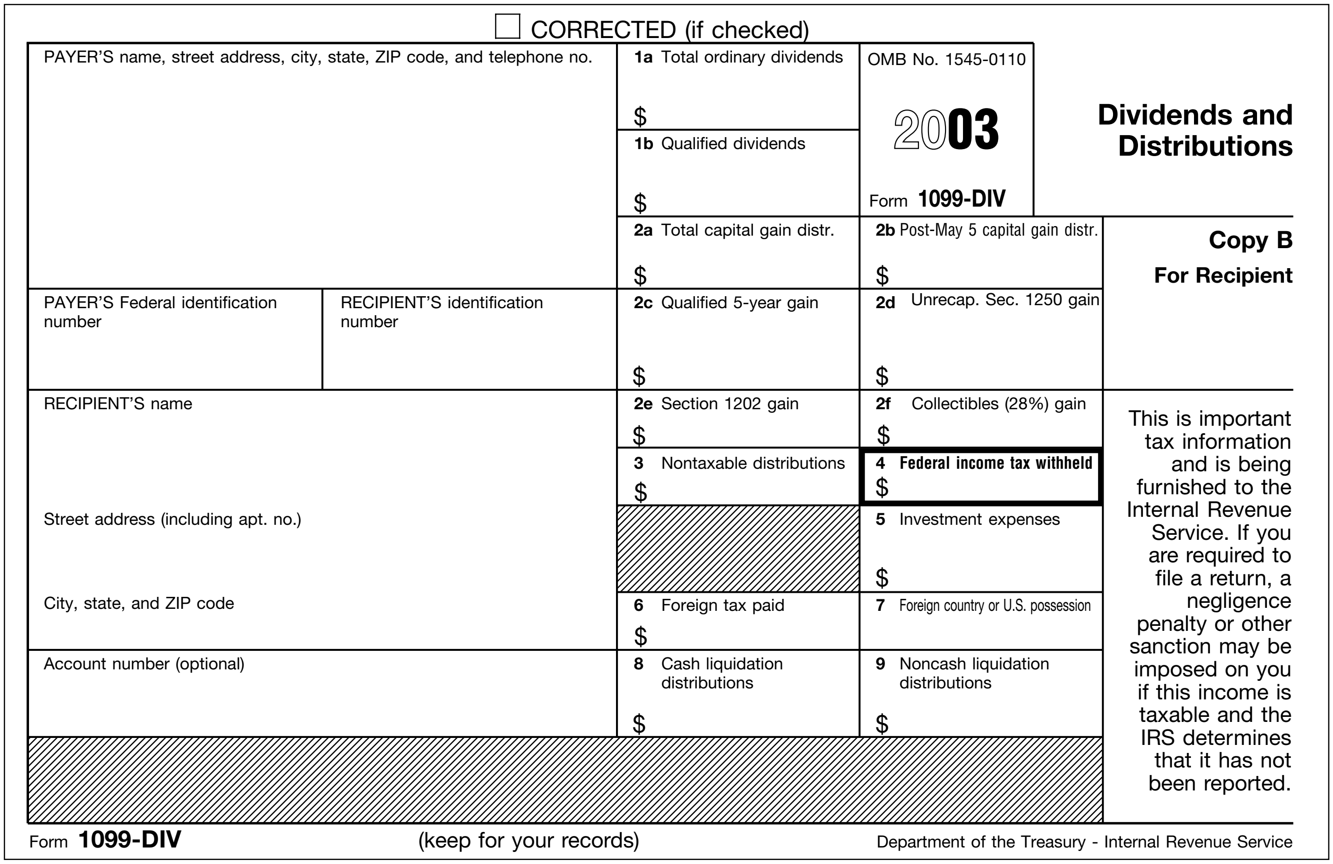
Some taxpayers receive dividend income from shares that the husband and wife own jointly. If they file a joint return, enter the total dividend in the appropriate place on the return. If they file separate tax returns, divide the dividend by two. Report half on the husband's return and half on the wife's return.

Capital gain distributions occur when a mutual fund (regulated investment company) sells assets for more than their cost, and the realized capital gain is distributed to the fund's shareholders. This should not be confused with a capital gain that occurs when the owner of a mutual fund or a capital asset sells shares in the fund or the asset for more than the cost and realizes a capital gain. For more information on capital gains and losses, see Lesson 11, *Sale of Stock*.

Payers report capital gain distributions in box 2a of Form 1099-DIV. Taxpayers can report capital gain distributions directly on Form 1040A or Form 1040 if:

- The only amounts the taxpayer has to report on Schedule D are capital gain distributions (box 2a),
- The taxpayer does not have any Post-May 5 capital gain distributions (box 2b), qualified 5-year gain (box 2c) unrecaptured section 1250 gain (box 2d), or section 1202 gain (box 2e), and
- If the taxpayer files Form 4952, *Investment Interest Expense Deduction*, the amount on line 4e of Form 4952 is not more than zero.

Exhibit 6



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

1a Total ordinary dividends $

1b Qualified dividends $

OMB No. 1545-0110

2003

Form **1099-DIV**

Dividends and Distributions

2a Total capital gain distr. $

2b Post-May 5 capital gain distr. $

Copy B

For Recipient

PAYER'S Federal identification number

RECIPIENT'S identification number

2c Qualified 5-year gain $

2d Unrecap. Sec. 1250 gain $

RECIPIENT'S name

2e Section 1202 gain $

2f Collectibles (28%) gain $

3 Nontaxable distributions $

4 **Federal income tax withheld** $

Street address (including apt. no.)

5 Investment expenses $

City, state, and ZIP code

6 Foreign tax paid $

7 Foreign country or U.S. possession

Account number (optional)

8 Cash liquidation distributions $

9 Noncash liquidation distributions $

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-DIV** (keep for your records) Department of the Treasury - Internal Revenue Service

If the taxpayer does not meet the requirements to report the capital gain distribution directly on Form 1040A or Form 1040, a Schedule D, *Capital Gains and Losses* must be filed. If a Schedule D is not required, the capital gain distributions can be reported directly on line 13a of Form 1040, or line 10 of Form 1040A. Capital gain distributions are not reported on Form 1040EZ.

If capital gain distributions are reported directly on Form 1040 or Form 1040A:

- Check the box next to line 13a, Form 1040 and
- Use the Capital Gain Tax Worksheet from either the Form 1040A or 1040 instruction booklet to compute tax.

The volunteer should be careful not to ignore other boxes on the Form 1099-DIV.

- Box 2c, *Qualified 5-year gain*. If the taxpayer has an entry in box 2c, see Lesson 11 for the proper treatment of the gain.
- Box 4, *Federal income tax withheld*. Be sure to include this amount on line 39 of Form 1040A or line 61 of Form 1040.
- Box 5, *Investment expenses*. If the taxpayer files Form 1040 and itemizes deductions on Schedule A, report the amount from box 5 as a miscellaneous itemized deduction subject to the 2%-of-adjusted-gross-income limit. (See *Itemized Deductions* in Lesson 4.)
- Box 6, *Foreign tax paid*. If the taxpayer has an entry in box 6, see Lesson 5 for the proper treatment of the tax. The taxpayer may be able to claim the Foreign Tax Credit.

A capital gain distribution is reported on a Schedule D when the taxpayer has more than capital gain distributions to report, for example when boxes 2b, 2d, 2e, 3, 8, or 9 have entries, or when the taxpayer has sold a capital asset. Capital gain distributions are always treated as long-term capital gains, regardless of how long the taxpayer holds the shares, and are reported on line 13, column (f) of the Schedule D. If the taxpayer has an entry in box 2b or 2c, then that number is reported on line 13 column (g).

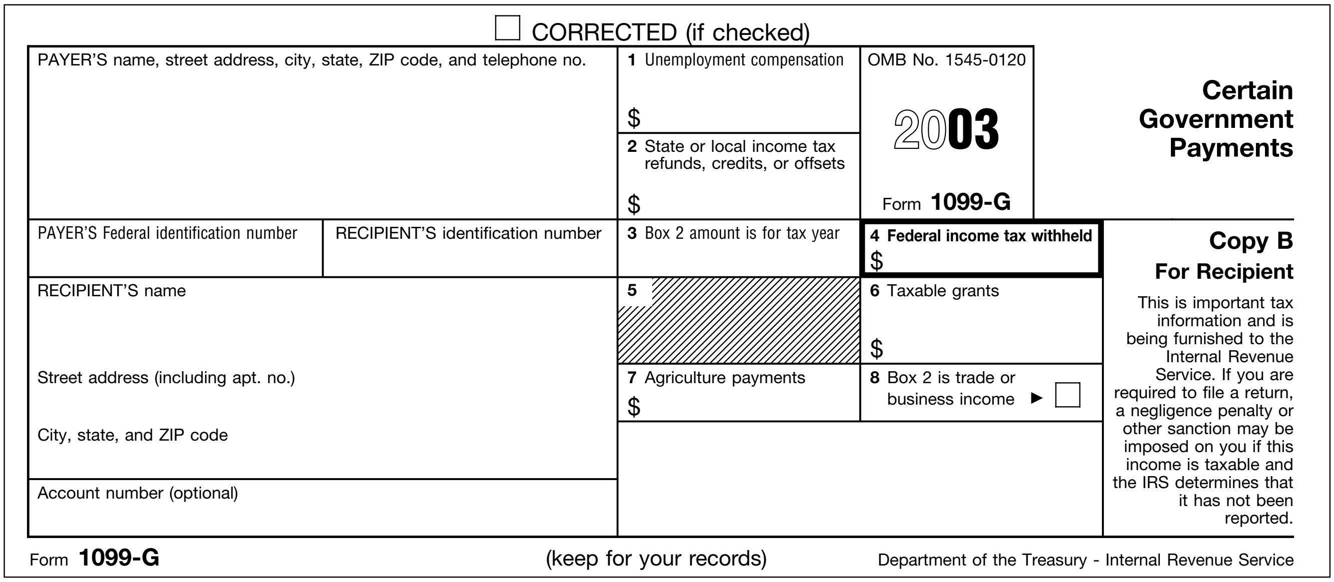
POTENTIAL PITFALLS ⚠

If the state or local income tax refund reflects any deductions, credits, or payments for years other than 2002, refer the taxpayer to a paid professional tax preparer.

STATE AND LOCAL TAX REFUNDS

Taxpayers who receive a refund of state or local taxes may receive a Form 1099-G, *Certain Government Payments*. If the taxpayer claimed the standard deduction on the 2002 return and received a refund of 2002 state or local tax, the taxpayer does not have to include the refund in taxable income for tax year 2003. However, if the taxpayer itemized deductions **and** received a state or local tax refund, the taxpayer may have to include part or all of the refund in taxable income in 2003. Use the *State and Local Income Tax Refund Worksheet—Line 10* in the Form 1040 instruction booklet to determine what part, if any, of the refund is taxable. Enter the taxable portion of state and local refunds on Form 1040, line 10.

Exhibit 7



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

1 Unemployment compensation
$

2 State or local income tax refunds, credits, or offsets
$

OMB No. 1545-0120

2003

Form 1099-G

Certain Government Payments

PAYER'S Federal identification number

RECIPIENT'S identification number

3 Box 2 amount is for tax year

4 Federal income tax withheld
$

Copy B

For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

RECIPIENT'S name

5

6 Taxable grants
$

Street address (including apt. no.)

7 Agriculture payments
$

8 Box 2 is trade or business income ► ☐

City, state, and ZIP code

Account number (optional)

Form **1099-G** (keep for your records) Department of the Treasury - Internal Revenue Service

ALIMONY RECEIVED

Alimony or separate maintenance payments made under a court decree are taxable income to the person receiving them. They are reported on Form 1040, line 11. The person making the payments deducts them on Form 1040, line 32a, as an adjustment to gross income.

Child support payments are not alimony. The person making the payments cannot deduct them. The person receiving child support payments does not have to include them in income.

INCOME FROM BUSINESS (OPTIONAL TOPIC)

Business income or loss is reported first on Schedule C (Form 1040), *Profit or Loss From Business*, or Schedule C-EZ, *Net Profit From Business*, and then transferred to Form 1040, line 12. Taxpayers who must file a Schedule C should see a paid professional tax preparer.

VITA and TCE volunteers who have received training on this topic, at the discretion of the site coordinator, may assist self-employed individuals who qualify to use Schedule C-EZ.

Who Can Use Schedule C-EZ

A taxpayer can use Schedule C-EZ only if he or she:

- Had business expenses of $2,500 or less,
- Uses the cash method of accounting,
- Did not have an inventory at any time during the year,
- Did not have a net loss from his or her business,
- Had only one business as a sole proprietor,

- Had no employees during the year,
- Is not required to file Form 4562, *Depreciation and Amortization,* for this business (See the instructions for Schedule C, line 13, to find out if the taxpayer must file.),
- Does not deduct expenses for business use of his or her home, and
- Does not have prior year unallowed passive activity losses from this business.

POTENTIAL PITFALLS ⚠

Many taxpayers erroneously report amounts from Form 1099-MISC, Miscellaneous Income, with wages or other income. This income should instead be reported on Schdule C or C-EZ and on Schedule SE, Self-Employment Tax. If the income is reported incorrectly, IRS may later issue a notice of proposed tax increase for the self-employment income and tax.

Completing Schedule C-EZ

Schedule C-EZ has three parts:

Part I: General Information

Part II: Figure Your Net Profit

Part III: Information on Your Vehicle

Part I: General Information

Part I is used to determine whether or not the taxpayer is eligible to use this form instead of Schedule C for reporting self-employment income. If all the criteria are met, the taxpayer then completes Part I.

Line B, Principal Business Code, is determined by looking at the code list in the *Instructions for Schedule C, Profit or Loss From Business*.

Line D, Employer ID Number, is a number that the Internal Revenue Service supplies to businesses and other professional activities. If the taxpayer does not have one, the space should be left blank. The taxpayer cannot use the taxpayer's social security number.

Part II: Figure Your Net Profit

Gross receipts are all receipts from a trade or business including income reported on a Form 1099-MISC, *Miscellaneous Income*. All items of taxable income actually or constructively received during the year are included. Gross receipts are entered on line 1.

Total expenses include the total amount of all deductible business expenses actually paid during the year. Examples of these expenses include advertising, car and truck expenses, commissions, insurance, interest, legal and professional services and fees, office expense, rent or lease expense, repairs and maintenance, supplies, taxes, travel, 50% of business meals and entertainment, and utilities (including telephone). Total expenses of $2,500 or less are entered on line 2.

If the taxpayer uses his or her car or truck for business purposes, he or she can deduct expenses related to using the car or truck. To determine the amount of car and truck expenses that can be deducted, the taxpayer must use either the:

- Standard Mileage Rate, or
- Actual Car Expenses.

ALERT ⚠

The 2003 rate for business use of your vehicle is 36 cents a mile.

Standard Mileage Rate. If the taxpayer can and does choose to use the standard mileage rate, business miles are multiplied by the applicable mileage rate and added to the deductible parking and tolls. Car expenses using the standard mileage rate are computed as follows:

Business miles incurred during the year × **36¢** per mile
\+ Parking and tolls incurred while on business

Actual Car Expenses. If the taxpayer chooses to use the actual car expenses, only the business portion of the expenses is deductible. Deductible expenses under the actual method are computed as follows:

1. Compute the percentage of business use:

$$\frac{\text{Business miles}}{\text{Total miles}} = \text{\% of business use}$$

2. Determine the deductible expenses:

(% of business use × total actual expenses)
\+ Parking and tolls incurred while on business

NOTE: If taxpayers depreciate their car or truck, or their total expenses are more than $2,500, they cannot use Schedule C-EZ and should be referred to a paid professional tax preparer.

Subtracting line 2 from line 1 and entering the net amount on line 3 determine net profit or loss.

If line 3 shows a profit, transfer this amount to Form 1040, line 12, and to Schedule SE, line 2 (except statutory employees). Attach Schedule C-EZ to Form 1040 in the correct sequence.

If line 3 is zero, show zero amount on Form 1040, line 12.

If line 3 shows a loss, the taxpayer cannot use Schedule C-EZ and should be referred to a paid professional tax preparer.

Part III: Information on Your Vehicle

Part III should be completed if the taxpayer is claiming car and truck expenses in Part II.

Exhibit 8

SCHEDULE C-EZ
(Form 1040)

Department of the Treasury
Internal Revenue Service

Net Profit From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.

▶ Attach to Form 1040 or 1041. ▶ See instructions on back.

OMB No. 1545-0074

2003

Attachment
Sequence No. **09A**

Name of proprietor

Social security number (SSN)

Part I General Information

You May Use Schedule C-EZ Instead of Schedule C Only If You:

- Had business expenses of $2,500 or less.
- Use the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as a sole proprietor.

And You:

- Had no employees during the year.
- Are not required to file **Form 4562,** Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, on page C-4 to find out if you must file.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

A Principal business or profession, including product or service

B **Enter code from pages C-7, 8, & 9** ▶

C Business name. If no separate business name, leave blank.

D **Employer ID number (EIN), if any**

E Business address (including suite or room no.). Address not required if same as on Form 1040, page 1.

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

Part II Figure Your Net Profit

1	**Gross receipts. Caution.** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see **Statutory Employees** in the instructions for Schedule C, line 1, on page C-3 and check here . . . . ▶ ☐	1	
2	**Total expenses** (see instructions). If more than $2,500, you **must** use Schedule C	2	
3	**Net profit.** Subtract line 2 from line 1. If less than zero, you **must** use Schedule C. Enter on **Form 1040, line 12,** and **also** on **Schedule SE, line 2.** (Statutory employees **do not** report this amount on Schedule SE, line 2. Estates and trusts, enter on Form 1041, line 3.)	3	

Part III Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 2.

4 When did you place your vehicle in service for business purposes? (month, day, year) ▶ ______/______/______ .

5 Of the total number of miles you drove your vehicle during 2003, enter the number of miles you used your vehicle for:

a Business ______________ **b** Commuting ______________ **c** Other ______________

6 Do you (or your spouse) have another vehicle available for personal use? . . . . ☐ **Yes** ☐ **No**

7 Was your vehicle available for personal use during off-duty hours? . . . . ☐ **Yes** ☐ **No**

8a Do you have evidence to support your deduction? . . . . ☐ **Yes** ☐ **No**

b If "Yes," is the evidence written? . . . . ☐ **Yes** ☐ **No**

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 14374D **Schedule C-EZ (Form 1040) 2003**

Self-Employment Tax

Self-employment tax is a social security tax for persons who work for themselves. It is similar to the social security tax and Medicare tax withheld from employees' wages.

Special exemptions from self-employment tax may apply to members of the clergy, members of certain religious sects, and certain nonclergy church employees.

The tax is computed on Schedule SE and transferred to the Form 1040 to be added to other taxes owed. The Schedule SE is attached to the Form 1040.

Who Must File Schedule SE

A taxpayer must file Schedule SE if he or she has:

- Net earnings from self-employment of $400 or more, other than church employee income (line 4 of Short Schedule SE),

OR

- Church employee income of $108.28 or more (line 5a of Long Schedule SE).

Exception: If the only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner AND the taxpayer has filed Form 4361, Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners, and has received IRS approval not to be taxed on these earnings, he or she does not have to file Schedule SE. Instead, write "Exempt—Form 4361" on Form 1040, line 55.

Most taxpayers will need to complete only Section A of Schedule SE, also known as the Short Schedule SE. Follow the chart on the form to determine whether the taxpayer qualifies to file the short form. Anyone who does not qualify and who must file the long form should be referred to a paid professional tax preparer.

If the taxpayer qualifies for the short form, enter the net profit from Schedule C-EZ, line 3, on lines 2 and 3 of the Schedule SE.

Follow the instructions on the form to determine net earnings from self-employment on line 4 and the self-employment tax on line 5.

Enter the amount from line 5 on Form 1040, line 55.

Deduction of Self-Employment Tax

Self-employed people may claim an adjustment to income of one-half of the social security and Medicare taxes they pay.

Enter the amount from Schedule SE, line 6, on Form 1040, line 28 as an adjustment to income.

Exhibit 9

SCHEDULE SE (Form 1040) Department of the Treasury Internal Revenue Service	**Self-Employment Tax** ▶ Attach to Form 1040. ▶ See Instructions for Schedule SE (Form 1040).	OMB No. 1545-0074 2003 Attachment Sequence No. 17
Name of person with **self-employment** income (as shown on Form 1040)	Social security number of person with **self-employment** income ▶	

Who Must File Schedule SE

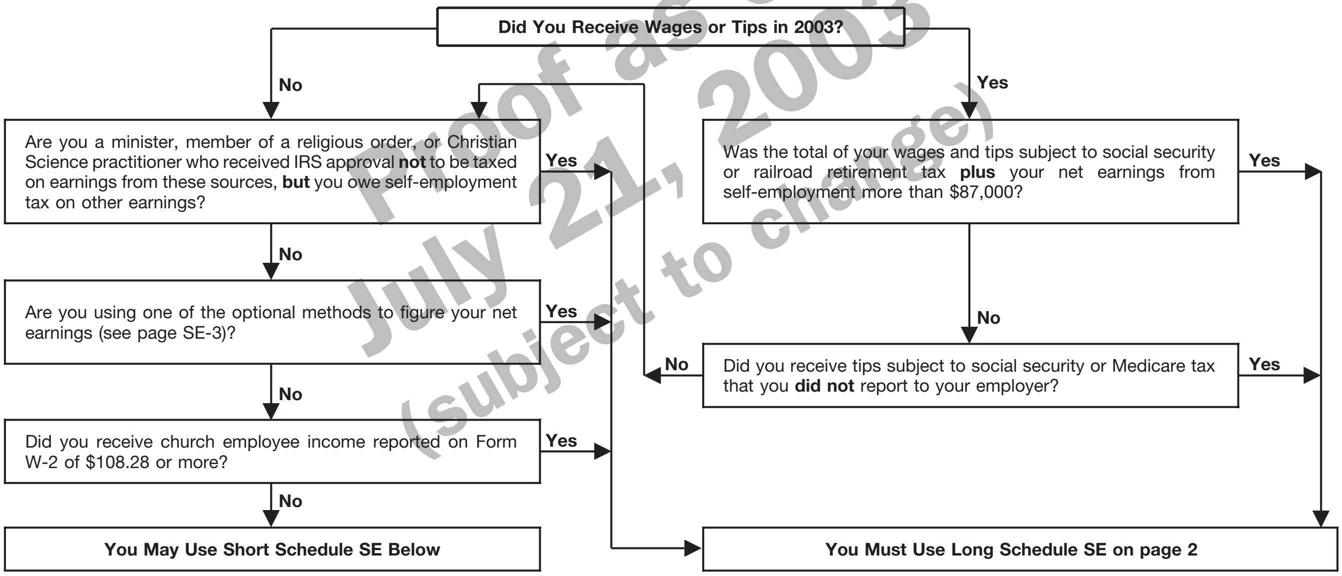
You must file Schedule SE if:

- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of $400 or more **or**
- You had church employee income of $108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income (see page SE-1).

Note. Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE (see page SE-3).

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt–Form 4361" on Form 1040, line 55.

May I Use Short Schedule SE or Must I Use Long Schedule SE?



Did You Receive Wages or Tips in 2003?

Are you a minister, member of a religious order, or Christian Science practitioner who received IRS approval **not** to be taxed on earnings from these sources, **but** you owe self-employment tax on other earnings?

Are you using one of the optional methods to figure your net earnings (see page SE-3)?

Did you receive church employee income reported on Form W-2 of $108.28 or more?

You May Use Short Schedule SE Below

Was the total of your wages and tips subject to social security or railroad retirement tax **plus** your net earnings from self-employment more than $87,000?

Did you receive tips subject to social security or Medicare tax that you **did not** report to your employer?

You Must Use Long Schedule SE on page 2

Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1	
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report	2	
3	Combine lines 1 and 2	3	
4	**Net earnings from self-employment.** Multiply line 3 by 92.35% (.9235). If less than $400, **do not** file this schedule; you do not owe self-employment tax ▶	4	
5	**Self-employment tax.** If the amount on line 4 is: • $87,000 or less, multiply line 4 by 15.3% (.153). Enter the result here and on **Form 1040, line 55.** • More than $87,000, multiply line 4 by 2.9% (.029). Then, add $10,788.00 to the result. Enter the total here and on **Form 1040, line 55.**	5	
6	**Deduction for one-half of self-employment tax.** Multiply line 5 by 50% (.5). Enter the result here and on **Form 1040, line 28** 6		

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11358Z **Schedule SE (Form 1040) 2003**

CAPITAL GAINS AND LOSSES

Both the sale of stock and the sale of a home are reported on Form 1040, line 13a. The amount entered on Form 1040, line 13a, is transferred from Schedule D (Form 1040), *Capital Gains and Losses*. See Lessons 11 and 12 for more information about these types of sales.

SALE OF BUSINESS PROPERTY

The sale or involuntary conversion of business property is reported on Form 1040, line 14. If taxpayers are reporting the sale of business property, they should be referred to a paid professional tax preparer.

PENSION AND ANNUITY INCOME

Generally, payers of pension and annuity income send Form 1099-R to the recipients. The total pension or annuity income is reported on Form 1040A, line 12a, or Form 1040, line 16a; the taxable portion is reported on line 12b (1040A) or 16b (1040). If all of the pension or annuity is taxable, make an entry on line 12b or 16b only.

For more information on pension and annuity income, see Lesson 13, *Pensions*.

POTENTIAL PITFALLS

Form 1099-R reports pension income, not earned income. Form 1099-R amounts are not included on line 7 of Form 1040. They are reported on Form 1040A, lines 12a and 12b or Form 1040, lines 16a and 16b. You will learn how to report pensions in Lesson 13, *Pensions*..

RENTS, ROYALTIES, PARTNERSHIPS, ESTATES, AND TRUSTS

Income from rental property, royalties, partnerships, estates, and/or trusts is reported on Form 1040, line 17. Refer any taxpayer who receives income from these sources to a paid professional tax preparer.

FARM INCOME

Farm income is reported on Form 1040, line 18. Advise taxpayers with farm income to see a paid professional tax preparer.

UNEMPLOYMENT COMPENSATION

Unemployment compensation includes benefits to unemployed individuals that a state or the District of Columbia paid from the Federal Unemployment Trust Fund. It is reported to the recipient on Form 1099-G, *Certain Government Payments.* All unemployment compensation is taxable. Transfer the amount in (See Exhibit 7) box 1 of Form 1099-G to line 3 of Form 1040EZ, line 13 of Form 1040A, or line 19 of Form 1040.

Supplemental benefits provided from an employer's fund to which the employee did not contribute are sometimes thought of as unemployment benefits also. They are reported to the employee on Form W-2. Include them on line 7 of Form 1040A or 1040, or on line 1 of Form 1040EZ.

TAXWISE HINTS

- When entering income for the taxpayer you have the following three choices:

  Go to Line 7 and click F9 ((Link),

  Click the right mouse and select “Link” or

  Click on add form and select “W-2”.

- All the information entered into TaxWise should be exactly what is on the W-2.

Note: TaxWise automatically rounds numbers.

- When an entry is made for Alimony paid, TaxWise requires the Social Security Number of the spouse receiving the alimony.
- Form 4852, Substitute for Form W-2, Wage and Tax Statement or Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRA’s, Insurance Contracts, etc. is available and can be completed in TaxWise.

▶ ▶ SUMMING UP THIS LESSON ◀ ◀

Form 1040EZ can be used to report only income from wages, salaries, tips, qualified tuition program earnings, Alaska Permanent Fund dividends, taxable scholarships and fellowship grants, interest of $1500 or less, and unemployment compensation.

You can report several types of income on Form 1040A:

- Wages, salaries, tips, scholarships and fellowship grants, qualified tuition program payments, and Alaska Permanent Fund dividends
- Interest income
- Dividend income
- Capital gain distributions
- Unemployment compensation

Use Form 1040A, Schedule 1, or Form 1040, Schedule B, to report:

- Interest and/or dividend income over $1500 and
- Interest from Series I and/or Series EE savings bonds, issued after 1989, that is excluded from taxable income.

Report any early withdrawal penalties on Form 1040, line 31, as an adjustment to income. Do not subtract penalties from interest income.

Report captial gain distributions directly on Form 1040, line 13a or Form 1040A, line 10, if the taxpayer is not required to file Schedule D.

State and local tax refunds are included in taxable income if:

- the taxpayer itemized deductions AND
- received a tax benefit by including the state and local tax in itemized deductions.

Alimony and separate maintenance payments are taxable income ot the person recieving these payments. The person paying these payments can subtract them as an adjustment to income.

▶ ▶ SUMMING UP THIS LESSON ◀ ◀
(*continued*)

Business income or loss is generally beyond the scope of VITA or TCE. However, in some cases, trained volunteers may help self-employed taxpayers who qualify to use Schedule C-EZ.

Taxpayers with net self-employment income of $400 or more must complete Schedule SE to compute self-employment tax.

Some nontaxable income is reported but is not included in taxable income:

- Tax-exempt interest
- Nontaxable portion of IRA distributions, including rollovers

Other income, such as prizes, awards, lottery winnings, and jury duty pay, is reported on line 21 of Form 1040, including the amount and description.

Volunteers should refer taxpayers with any of the following items to paid professional tax preparers:

- Sales of business property
- Income from rental property, royalties, partnerships, estates, or trusts
- Farm income

Exercise 1

1. Taxable
2. Taxable
3. Nontaxable
4. Nontaxable
5. Taxable
6. Taxable
7. Nontaxable
8. Taxable
9. Nontaxable
10. Nontaxable

Exercise 2

(A) Mike will report $29,250 on line 7. The tip income is included in the $8,250.

(B) No; John must file Form 1040 to pay social security and Medicare tax on his tip income.

(C) Randy should be advised to contact the employer and request that a Form W-2 be issued or reissued. If after waiting a reasonable amount of time, it still has not been received, Randy should contact the IRS (but not before February 15th).

Exercise 3

(A) 1. None

2. $1,000

(B) $398 is reported on line 2 of Form 1040EZ.

(C) $495 is reported on line 8a of Form 1040.

STUDENT NOTES

INCOME

INTRODUCTION AND OBJECTIVES

This segment discusses whether to include specific items in gross income. You should be aware, however, that certain items related to moving or travel expenses generally must be accounted for even if they are not considered income.

This lesson includes information about the combat zone exclusion. For additional tax benefits, see Lesson 16, *Tax Options for Combat Zone Participants*.

This segment will help you to achieve the following objectives:

1. Determine which items received by Armed Forces members are includible in gross income.
2. Determine if an amended return must be filed for a taxpayer who received medical separation pay.
3. Determine who qualifies for exclusion of pay from income because of service in a combat zone.
4. Identify qualifying items of military pay received for service in a combat zone.

FORM W-2

Includible military income will generally be the amount shown in box 1 of Form W-2, *Wage and Tax Statement*. If this amount differs from the last Leave and Earnings Statement for 2003, advise the person to contact his or her local accounting and finance or payroll office for an explanation.

The wages shown in box 1 of the 2003 Form W-2 should not include military pay excluded from an individual's income under the combat zone exclusion provisions. Tax exempt earned income, basic allowance for subsistence (BAS), basic allowance for housing (BAH), and certain in-kind allowances are no longer reported in box 12 of Form W-2.

INCLUDIBLE INCOME

Members of the Armed Forces receive many different types of pay and allowances. Some are includible in gross income while others are excludable from gross income. Includible items are subject to tax and must be reported on the taxpayer's tax return. Excludable items are not subject to tax, but may have to be shown on the tax return. The following items are includible in gross income, **unless** the pay is for service in a combat zone declared by an executive order of the President or in a qualified hazardous duty area declared by statute:

Accrued Leave Payment
Aviation Career Incentive Pay
Basic Pay
Continuation Pay
Diving Pay
Enlistment Bonus *
Flight Duty Pay
Foreign Duty Pay
Hostile Fire Pay
Imminent Danger Pay
Medical/Dental Officer Pay
Medical Separation Pay
Nuclear Qualified Officer Pay
Overseas Extension Bonus
Personal Money Allowance
Proficiency Pay
Reenlistment Bonus *
Responsibility Pay
Scholarships (AFHPSP)
Sea Duty Pay
Separation Pay
Student Loan Repayments
Veterinary Officer Pay

* Enlistment and reenlistment bonuses fall under the category of taxable income. Income tax will be deducted from these entitlements before they are paid to the service member. Income tax is withheld at a flat rate of 27% as bonuses are treated as supplemental wages. Service members will not need to account for enlistment and reenlistment bonuses separately when preparing their tax returns as the payments and withholdings will be reflected on their Form W-2. If a service member feels this information is incorrect they will need to contact their local accounting and finance or payroll office.

A reenlistment bonus may be tax free if the voluntary extension or reenlistment occurs in a month the service member served in a combat zone.

EXCLUDABLE INCOME

The following qualified military benefits do not have to be reported as income on Form 1040, 1040A, or 1040EZ. The exclusion applies whether the item is furnished in kind or is a reimbursement or allowance. The personal use of a vehicle cannot be excluded from gross income as a qualified military benefit.

Basic Allowance for Housing (BAH)

Basic Allowance for Subsistence (BAS)

Combat Zone Compensation (including hostile fire pay or imminent danger pay) (limited amount for officers)

Congressional Medal of Honor Pension

Death Allowances

Defense Counseling

Dislocation Allowances

Evacuation Allowance

Family Allowances

Group-term Life Insurance

Interment Allowance

Medical Benefits

Moving and Storage

Other Quarters Allowances

Overseas Housing Allowance (OHA)

Per Diem (Including reservist)

Professional Education

Qualified Hazardous Duty Pay

ROTC Educational and Subsistence Allowances

Survivor and Retirement Protection Plan Premiums Deducted from Military Retired Pay

Trailer Allowance

Veterans' Benefits

Note: If the person you are helping is a member of the Armed Forces and was provided a commuter highway vehicle (such as a van) by his or her employer in 2003, refer the taxpayer to Publication 525, Taxable and Nontaxable Income, and to a paid professional preparer.

MEDICAL SEPARATION PAY

Service members who have been separated from the service for years of service or medical reasons are given severance pay, which are taxable as wages. If any portion of their pay is subject to medical disability, only the Veteran's Affairs (VA) can make that determination and assign what percentage is attributable to medical disability pension due. This process takes several months and sometimes years. The service member will receive the total "pension" which is taxable until the VA makes the determination and sends the discharged service member a letter of determination.

Disability compensation is a monetary benefit paid to veterans who are disabled by injury or disease incurred or aggravated during active military service. The service of the veteran must have been terminated through separation or discharge under conditions that were other than dishonorable. Disability compensation varies with the degree of disability and the number of dependents, and is paid monthly. The benefits are not subject to federal or state income tax.

Once the letter of determination is received, any future pension payments will be off-set by that percentage and paid directly from the VA. The payments received directly from the VA are not taxable and will not be include in the Form W-2. However, the payments received prior to the letter of determination being issued have already been taxed and the letter also exempts that percentage of pay already received from taxes. The service member needs to file an amended return, if a return has already been filed, and attach a copy of the letter of determination to the Form 1040X.

The payment of military retirement pay, disability severance pay and separation incentive payments known as SSB and VSI (Special Separation Benefits and Voluntary Separation Incentives) also affects the amount of VA compensation paid.

Example

Anita Bennett, an active duty service member, was separated due to a medical condition in February 2002. At the time of her separation she was given medical separation pay or severance pay in the amount of $10,000.00. She receives a service pension in the amount of $3000 per month. Her 2002 Form W-2 showed $48,000 in wages of which $43,000 ($10,000 + ($3000 x 11 months)) was considered pension. She filed and claimed the full amount on her 2002 tax return. In 2003 the Veteran's Administration (VA) determined that due to her medical condition she was entitled to a VA disability pension of 50% from the date of her discharge. She receives her determination letter from the VA in March 2003, the tax return that includes her severance pay should be amended to exclude the 50% of the pension pay she received in 2002, $21,500.00 (($10,000 + 33,000) x 50%). She would attach a copy of the letter of determination to the amended return. She also will need to adjust her pension received January thru March 2003 by the 50%., the other months will reflect the correct taxable amount. In 2003 she will also need to attach a copy of the letter to her return to show why the amount is different from the Form W-2. The Form W-2 that she receives in 2004 and forward will show the correct amount of taxable wages.

COMBAT ZONE EXCLUSION

Members of the U.S. Armed Forces who serve in a combat zone (defined later) may exclude certain pay from their income. They do not have to receive the pay while in a combat zone, in a hospital, or in the same year they served in a combat zone. However, the entitlement to the pay must have fully accrued in a month during which they served in the combat zone or were hospitalized as a result of wounds, disease, or injury incurred while serving in the combat zone. The following military pay can be excluded from their income.

- Active duty pay earned in any month during which they served in a combat zone.
- Imminent danger/hostile fire pay
- A reenlistment bonus if the voluntary extension or reenlistment occurs in a month during which they served in a combat zone.
- Pay for accrued leave earned in any month during which they served in a combat zone. The Department of Defense must determine that the unused leave was earned during that period.
- Pay received for duties as a member of the Armed Forces in clubs, messes, post and station theaters, and other nonappropriated fund activities. The pay must be earned in a month during which they served in a combat zone.
- Awards for suggestions, inventions, or scientific achievements to which members are entitled to because of a submission they made in a month during which they served in a combat zone.
- Student loan repayments that are attributable to their period of service in a combat zone.

Retirement pay does not qualify for the combat zone exclusion.

Partial (month) service. Members of the U.S. Armed Forces who serve in a combat zone for one or more days during a particular month, are entitled to an exclusion for that entire month.

Combat Zone

A combat zone is any area the President of the United States designates by Executive Order as an area in which the U.S. Armed Forces are engaging or have engaged in combat. An area usually becomes a combat zone and ceases to be a combat zone on the dates the President designates by Executive Order.

Afghanistan area. By Executive Order No. 13239, Afghanistan (and airspace above) is designated as a combat zone beginning September 19, 2001.

Yemen area. Executive Order No. 13239 was extended to include Yemen as a designated combat zone beginning April 10, 2002.

The Kosovo area. By Executive Order No. 13119 and Public Law 106-21, the following locations (including air space above) were designated as a combat zone and a qualified hazardous duty area beginning March 24, 1999.

- Federal Republic of Yugoslavia (Serbia/Montenegro)
- Albania
- The Adriatic Sea

- The Ionian Sea—north of the 39th parallel (including all of the airspace in connection with the Kosovo operation.)

Persian Gulf area. By Executive Order No. 12744, the following locations (and airspace above) were designated as a combat zone beginning January 17, 1991.

- The Persian Gulf,
- The Red Sea,
- The Gulf of Oman,
- The part of the Arabian Sea that is north of 10 degrees north latitude and west of 68 degrees east longitude,
- The Gulf of Aden, and
- The total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates.

In addition, the Department of Defense has certified these locations for combat zone tax benefits due to their direct support of military operations, beginning on the listed dates:

In support of Operation Enduring Freedom (Afghanistan combat zone):

- Pakistan, Tajikistan and Jordan – September 19, 2001
- Incirlik Air Base, Turkey – September 21, 2001
- Kyrgyzstan and Uzbekistan – October 1, 2001
- Philippines – January 9, 2002
- Yemen – April 10, 2002
- Djibouti – July 1, 2002

In support of Operation Iraqi Freedom (Arabian Peninsula Areas combat zone):

- Israel and Turkey – January 1, 2003
- The Mediterranean

Qualified hazardous duty area. Beginning November 21, 1995, a qualified hazardous duty area in the former Yugoslavia is treated as if it were a combat zone. The qualified hazardous duty area includes:

- Bosnia and Herzegovina,
- Croatia, and
- Macedonia.

Members of the Armed Forces deployed overseas away from their permanent duty station in support of operations in a qualified hazardous duty area, or performing qualifying service outside the qualified hazardous duty area, are treated as if they are in a combat zone solely for the purposes of the extension of deadlines discussed in Lesson 16. These personnel are not entitled to other combat zone tax benefits.

Serving in a Combat Zone

Service in a combat zone includes any periods that military members are absent from duty because of sickness, wounds, or leave. If, as a result of serving in a combat zone, a person becomes a prisoner of war or is missing in action, that person is considered to be serving in the combat zone so long as he or she keeps that status for military pay purposes.

Qualifying service outside combat zone. Military service outside a combat zone is considered to be performed in a combat zone if:

- The service is in direct support of military operations in the combat zone, and
- The service qualifies a member for special military pay for duty subject to hostile fire or imminent danger.

Military pay received for this service will qualify for the combat zone exclusion if the other requirements are met.

Non-qualifying presence in combat zone. The following military service does not qualify as service in a combat zone.

- Presence in a combat zone while on leave from a duty station located outside the combat zone,
- Passage over or through a combat zone during a trip between 2 points that are outside a combat zone, and
- Presence in a combat zone solely for a member's personal convenience.

Note. Military Members are considered to be serving in a combat zone if they are either assigned on official temporary duty to a combat zone or they qualify for hostile fire/imminent danger pay while in a combat zone.

Amount of Exclusion

Enlisted members. Enlisted members, warrant officers, or commissioned warrant officers who serve in a combat zone during any part of a month, can exclude all of their military pay for that month from their income. They can also exclude military pay earned while they are hospitalized as a result of wounds, disease, or injury incurred in the combat zone. The exclusion of their military pay while they are hospitalized does not apply to any month that begins more than 2 years after the end of combat activities in that combat zone. Their hospitalization does not have to be in the combat zone.

Officers. Commissioned officers (including Limited Duty Officers), may exclude their pay according to the rules just discussed. However, the amount of their exclusion is limited to the highest rate of enlisted pay (plus imminent danger/hostile fire pay they received) for each month during any part of which they served in a combat zone or were hospitalized as a result of their service there.

Hospitalized while serving in the combat zone. If a member is hospitalized while serving in the combat zone, the wound, disease, or injury causing the hospitalization will be presumed to have been incurred while serving in the combat zone unless there is clear evidence to the contrary.

Example

Ron Brady is hospitalized for a specific disease after serving in a combat zone for 3 weeks, and the disease for which he is hospitalized has an incubation period of 2 to 4 weeks. The disease is presumed to have been incurred while he was serving in the combat zone. On the other hand, if the incubation period of the disease were one year, the disease would not have been incurred while he was serving in the combat zone.

Hospitalized after leaving the combat zone. In some cases the wound, disease, or injury may have been incurred while serving in the combat zone, even though the member was not hospitalized until after he/she left.

Example

Martha Marshall was hospitalized for a specific disease 3 weeks after she left the combat zone. The incubation period of the disease is from 2 to 4 weeks. The disease was considered incurred while serving in the combat zone.

COMMUNITY PROPERTY

The community property states are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Special rules apply to married persons who file separate returns or who were divorced during the tax year and were domiciled in a community property state.

For military personnel in community property states, the key word is "domicile." Domicile describes someone's legal, permanent residence. It is not always where the person presently lives.

Whether an item is subject to community property laws depends on the nature of the payment.

Armed Forces pay. State community property laws apply to active military pay. Generally, the character of the pay as separate to community income is determined by the marital status and domicile of the Armed Forces member and his or her spouse while the member is in active military service.

Armed Forces retired or retainer pay. Retired or retainer payments to a member of the Armed Forces may be subject to community property laws.

For more information, see Publication 555, *Community Property.*

Exercise 1

Which of the following should be included in gross income?

A. Basic Allowance for Subsistence (BAS)

B. Overseas Housing Allowance

C. Lump sum for accrued leave, paid on separation

D. Foreign language proficiency pay

E. Uniform allowance

F. Foreign duty pay

G. Reenlistment Bonus received while a service member was deployed to Qatar

H. Hazardous duty pay

I. Family Separation Allowance received while a service member was deployed to Italy

Answer ____

Exercise 2

Sergeant James Wells was medically separated, in November 2002, from active duty military service due to a medical condition that interfered with his ability to perform his military duties. James was entitled to and received $12,000 in medical separation pay. After taxes he received $8,640. Prior to his separation he submitted the required documentation to the Veteran's Affairs applying for disability pay. James filed his tax return in March 2003 and received a $567 refund. In August of 2003 James received his determination letter from VA informing him he was entitled to an $800 disability pension per month from the date of his discharge.

A. Does James need to file an amended tax return?

Answer ____

B. What amount of pay will James need to exclude from his pay when he files an amended tax return?

Answer ____

C. When will James start receiving his disability pension?

Answer ____

▶▶ SUMMING UP THIS SEGMENT ◀◀

You have learned that certain items received by members of the Armed Forces are included in their gross income. Certain other items are specifically excluded by law. Pay for service in a combat zone is not taxed for an enlisted member of the U.S. military. The amount of income that is not taxed for commissioned officers serving in a combat zone is limited to the highest rate of enlisted pay plus the amount of imminent danger pay per month.

ANSWERS TO EXERCISES

Exercise 1	C, D, F, and H
Exercise 2	A — yes B — $12,000 C — 15 months or March of 2004

STUDENT NOTES

OTHER INCOME

INTRODUCTION AND OBJECTIVES

In the first part of this lesson we discussed what the definition of gross income is. Included in this definition was self-employment income and rental income. In this segment we will learn how to handle self-employment income and what is required in order to prepare a tax return with a Schedule C-EZ. Many military members and their spouses may earn additional income as sole proprietors and not be aware of their responsibility to report it. In some cases, income received is reported to those individuals by means of Form 1099-MISC. In many cases no Form 1099-MISC is received, just cash or checks paid to the taxpayer. We will learn about rental income and how to report it.

When this segment is completed, we will be able to:

1. Determine when business income must be reported using Schedule C-EZ.
2 Determine when Schedule SE must be filed.
3. Explain when Schedule E must be filed.

DETERMINING WHICH TAX YEAR TO REPORT THE BUSINESS INCOME

Under the cash method, a self-employed taxpayer includes in his or her business gross income all items of income actually or constructively received during the tax year. If a taxpayer received property or services, he or she must include the fair market value of those items received in income.

Example

On December 30, 2002, a customer mailed a check for interior decorating services provided by Kathy (your taxpayer). Kathy received the check on January 2, 2003. Kathy must include the amount of the check in income for 2003.

Constructive receipt. You have constructive receipt of income when an amount is credited to your account or made available to you without restriction. You do not need to have possession of it. If you authorize someone to be your agent and receive income for you, you are treated as having received it when your agent received it.

Example

Interest is credited to your bank account in December 2003. You do not withdraw it or enter it into your passbook until 2004. You must include it in your gross income for 2003.

Delaying receipt of income. You cannot hold checks or postpone taking possession of similar property from one tax year to another to avoid paying tax on the income. You must report the income in the year the property is received or made available to you without restriction.

Example

Frances Jackson, a service contractor, was entitled to received a $10,000 payment on a contract in December 2003. She was told in December that her payment was available. At her request, she was not paid until January 2004. She must include this payment in her 2003 income because it was constructively received in 2003.

Checks. Receipt of a valid check by the end of the tax year is constructive receipt of income in that year, even if you cannot cash or deposit the check untl the following year.

Example

Mrs. Reed received a check for $500 on December 31, 2003, from a parent in her day care business. She could not deposit the check in her business account until January 2, 2004. She must include this fee in her income for 2003.

INCOME

Business income may be reported to taxpayers in various ways or even not at all. Some taxpayers receive informational returns such as the Form 1099-MISC other times it may be just a check or cash for services performed. Regardless of how income is received, self-employed taxpayers are responsible for recording the amount of income received, and related expenses, in their permanent books of record. Normally, the easiest record keeping is maintaining a separate business checking account.

From these records the taxpayer should be able to state to you the total gross receipts or sales for the year, any returns and allowances (although normally a cash based taxpayer should not have any of these since income is reported at the end of the year) and the Cost of Goods Sold. We will discuss deductions for expenses later in the lesson.

DEDUCTIONS FOR EXPENSES

In earlier chapters you learned about deductions from gross income. The same concept applies to business gross income. Self-employed taxpayers are allowed to deduct from income those “ordinary and necessary” expenses paid or incurred during the taxable year in carrying out a trade or business.

Auto Expenses

Business auto expenses can be calculated by either the actual cost method or the standard mileage method. The taxpayer usually makes the choice of which method to use the first year that the vehicle is used for the business. It is permissible to switch from the standard mileage method to the actual expense method; however, taxpayers generally are not permitted to switch from actual method to the standard mileage method.

The Standard Mileage Method is available for both owned and leased autos. However, the vehicle must not be used for hire (such as a taxi or shuttle van). The election to use the standard mileage method must generally be made in the year the auto is first used in business. In a later year the taxpayer may switch to the actual expense method but cannot claim any depreciation, if the vehicle is considered fully depreciated. In leased cars the standard mileage method must be for the entire lease period of the auto.

In 2003 the standard mileage rate is 36¢.

Expenses not included in the standard mileage allowance and deductible in addition to the standard mileage allowance are business parking fees and tolls, and interest on auto loan (business portion).

A taxpayer is limited to the actual expense method if any of the following are true:

1. ACRS or MACRS Depreciation has previously been claimed on the auto.
2. A section 179 expense has been claimed on the auto.
3. Any method of depreciation on the auto other than straight line over the estimated useful life of the auto.

Under this method the taxpayer determines the actual cost of those items listed under the standard mileage rate and deducts that amount. Both methods should be considered to determine which gives the most beneficial deduction to the taxpayer.

CRITERIA FOR FILING SCHEDULE C-EZ

In order to file the EZ version of the Schedule C the taxpayer must meet the criteria listed below:

1. Have less than $2,500 in business expenses
2. Use the Cash method of accounting
3. Have no inventory at any time during the year
4. Have positive net income (not have a net loss)
5. Operate only one business as a sole proprietor during the tax year
6. Have no employees during the year.

Example

Jerry owns and operates a one-person tax preparation business during the filing season. His income is $1,500 accounted for via the cash method; this is the only business he operated during the year. He has the following expenses, paper $400 and ink $200. Since Jerry's expenses total $600 Jerry has met all the requirements and therefore can use the Schedule C-EZ for reporting his business income.

Exercise 1

Jim is the civilian spouse of Lt. Carry Ann. He operates a business (sole proprietorship) as a lawyer. His gross income from business is $70,000. His total business expenses amount to $1,800. Can he use the Schedule C-EZ, yes or no?

Answer ______________________________

Exercise 2

Martha is the wife of Stuart, a Marine stationed in California. During the year Martha operates a sole proprietorship called Squared Away Child Care services. She comes to you for help with her return. A review of her records reflect the following:

Income:		$6,700
Expenses:		
Advertising	$600	
Car & Truck	$150	
Office Expense	$500	
Toys and Games	$200	
Telephone	$800	
Utilities	$300	
Total Expenses		$2,550
Net Income		$4,150

Can Martha file a Schedule C-EZ?

Answer ______________________________

SCHEDULE SE

If the net income on the Schedule C or Schedule C-EZ is $400 or more, you will need to file a Schedule SE. The Schedule SE calculates the self-employment tax, which is comprised of the Social Security and Medicare taxes.

SCHEDULE E

For the military, rental income and expenses is a frequent occurrence since many military members are not able to sell their homes when they get orders to relocate. Many homeowners rent out their old home. The income and the expenses from the rental of the property are recorded on Schedule E. This section will provide basic guidance on how to complete the Schedule E.

We will not discuss the calculation of depreciation. Depreciation is a complex subject. If the taxpayer provides you with the depreciation amount, you can enter it on the tax return. If the taxpayer does not know the depreciation amount, you may need to refer them to the military legal assistance office.

In the first year of the rental, you might have to divide the mortgage interest and real estate taxes between Schedule A and Schedule E. You simply divide the total mortgage interest and property taxes by twelve and multiply by the number of months the home was used for each purpose.

Example

Sgt. Judson lived in his home through September 2003. He received orders and rented his home out in October. Nine months of the mortgage interest and property taxes would go on his Schedule A and the other three months would go on the Schedule E. Remember, also, that three months of his property insurance is also a deductible item on Schedule E, even though this expense is not deductible when the home is his residence.

Other expenses that are deductible for rental property are: cleaning and maintenance, repairs, utilities that are paid for the tenant, legal and professional fees, management fees you pay a real estate company or individual to care for your property in your absence, auto and travel expense to check on the property, long distance phone calls, etc.

Once you deduct all of the expenses and the depreciation from the rent received, you may come up with a loss. The net income or loss from rental property is usually considered passive. If the taxpayer actively participates in the renting of the property (such as making decisions, determining who can rent the property), the loss is fully deductible.

▶▶ SUMMING UP THIS SEGMENT ◀◀

- ▶ Business income is reported on either a Schedule C or C-EZ.
- ▶ The Schedule C-EZ has limited use.
- ▶ Schedule SE is used to calculate the self-employment tax when the net business income exceeds $400.
- ▶ Schedule E is used to report rent and royalty income.

STUDENT NOTES

WORLDWIDE INCOME

Lesson 2

International Segment

INTRODUCTION AND OBJECTIVES

This lesson will provide insights into the misconception that a U.S. citizen or resident alien only file a U.S. tax return if he or she has income from the United States, especially if taxes are paid to another country.

At the end of this segment, you will be able to:

- Define worldwide income and compute the U.S. dollar value of a foreign currency if given an exchange rate table.
- Determine when to use average annual exchange figures.

WORLDWIDE INCOME

U.S. citizens and U.S. resident aliens are required to file a U.S. tax return based on their worldwide income. It has been a popular misconception that a person only has to file a U.S. tax return if he or she has income from the United States, especially if he or she pays taxes to another country. While U.S. citizens and U.S. resident aliens living abroad can claim tax benefits such as the foreign earned income exclusion and the foreign tax credit (later lessons), they have the same filing requirements as U.S. citizens living in the United States. This applies whether their income is from within or outside the U.S. Types of income, such as child support, which would not be taxed in the U.S., are generally not taxed if from outside the U.S. But, types of income which would be taxable if from within the U.S. are also taxable if from outside the U.S.

You may wish to refer to the lists of taxable and nontaxable income on the applicable pages of the basic Military Section of the text.

Example 1

In 2003, Joe Adams earned $40,000 while working in Austin, Texas, for XYZ Corporation. In September 2003, he transferred to their office in Stuttgart, Germany. While in Germany, he earned $30,000. His worldwide wages earned in 2003 would be $70,000. Line 7 of his Form 1040 would show $70,000.

Exercise 1

Marta Brener lives in Mussbach, Germany. Her 2003 income included $22,000 in wages earned in Germany. She earned $3,000 in interest from her U.S. bank and $2,000 unemployment compensation from the state of Iowa. What is Marta's worldwide gross income?

Exercise 2

Mary Carlton lives in Belgium. Her 2003 income included $10,000 in wages from her Belgian employer. She received $2,000 interest from her U.S. bank, $8,000 in alimony payments and $8,000 in child support payments from her ex-spouse. What is her worldwide gross income?

Exercise 3

Would Marta Brener (Exercise 1) have to file a U.S. tax return for 2003? Would Mary Carlton (Exercise 2) have to file a U.S. tax return?

Exchange Rates

Another question that you will frequently be asked is "What exchange rate do I use?" The exchange rates of foreign currencies to the U.S. tax dollar change on a daily basis. **All amounts on the U.S. tax return must be stated in U.S. dollars.** Since most taxpayers abroad receive some kind of income in foreign currency, you will find situations when you will need to convert foreign income into U.S. dollars in order to put these income amounts on the return. Most countries have a medium of currency compared to which the value of the dollar is larger. Very few countries have mediums compared to which the U.S. dollar is smaller. Exchange rates are stated in two ways: the foreign currency to the U.S. dollar, and the dollar's value in the foreign currency.

When making a conversion, you should make sure that the exchange rate is stated in foreign currency to one U.S. dollar. To convert a sum of money into U.S. dollars, you would divide the foreign currency by the exchange rate.

Example 2

If you received 3,000 Euros on a day that the exchange rate was 1.7115 Euros to $1 U.S., you would have $1,752.85 in equivalent

U.S. dollar value (3,000/1.7115 = 1,752.85). To convert a sum of money into U.S. dollars when the currency unit is larger in value, you can use the same process.

Example 3

Caryn received 200 Euros on a day that the exchange rate was .5514 Euros to one U.S. dollar. In U.S. dollars, she would have $362.71 (200/.5514 = 362.71).

Exercise 4

Convert the following amounts to U.S. dollars.

a. 36,000 Euros (1.7115 exchange rate) ________

b. 800 Euros (.5514 exchange rate) ____________

When to Convert. Now that you have information on how to calculate exchange rates, we now need to discuss what exchange rates to use. Actually, what exchange rate to use is determined by the date of the transactions; that is the date on the check or the date money is credited to the taxpayer's account. If the taxpayer has income which was received evenly throughout the year, he or she can use the average annual exchange rate if the foreign exchange rate was relatively stable during the year. The average annual exchange rate is available from IRS offices throughout the world generally starting around January 15.

IRS also distributes information to its worldwide offices concerning the quarterly exchange rates for various currencies.

Example 4

Edward Pasco worked in Dallas for Megacorp Incorporated from January until September 2003. On September 29, he was transferred to their Mexico City office where he will be working for 3 years. While in the U.S., Edward earned his salary in U.S. dollars. When he moved to Mexico, he was paid in Mexican pesos. Since he did not receive his salary in foreign currency throughout the year, he should not use the annual average exchange rate. He should use the average rates for October, November, and December.

Where to Obtain Exchange Rates

To obtain exchange rates, you can call the IRS International office at 215-516-2000, or the overseas IRS offices. The phone numbers of these offices are listed in Publication 54. You may also contact banks who provide international currency exchange services. Since a taxpayer "should use the rate that most nearly reflects the value of the foreign currency" (Publication 54) at the time he or she receives the income, the taxpayer may use an exchange rate that is different from the rates posted in our worldwide offices if he finds it to be a truer representation.

Exercise 5

Deborah Vance lives and works in Manila, Philippines. In 2003, she had the following income: 16,000 Filipino pesos in wages, 1,200 Filipino pesos interest income and $500 in U.S. interest from her U.S. bank. On June 7, 2003, she sold her car and made a profit of 2,000 Philippine pesos (fully taxable capital gain). Since these items are fully taxable, what is the total income to be reported on her U.S. tax return (in U.S. dollars)?

For this exercise assume that the 2003 average annual exchange rate for the Philippine peso is 40.25 pesos to 1.00

U.S. dollar and the exchange rate for June 7, 2003 was 32.55 pesos to 1.00 U.S. dollar.

Wages ______________________________
Interest _____________________________
Capital Gain __________________________
Total 2003 Income ____________________

Sometimes, you may get questions on exchanging money when there is "blocked income" or "soft currency". Questions on these issues should be referred to IRS. "Blocked income" refers to a situation where a taxpayer cannot convert foreign currency to U.S. dollars. This is generally due to local law or local government policy. There are special tax rules that exist when there is blocked income which allows a person to choose to put off reporting part of their income. "Soft currency" refers to a situation where a person can only convert back to U.S. dollars an amount that equals what he brought into that country in U.S. dollars.

▶▶ SUMMING UP THIS SEGMENT ◀◀

- ▶ U.S. citizens (and resident aliens) are taxed on worldwide income and must file U.S. tax returns even if all the income is from foreign sources.
- ▶ You have learned how to convert foreign currency to U.S. dollar equivalent values.
- ▶ Exchange rates used should reflect the closest accurate rate.

WORLDWIDE INCOME

ANSWERS TO EXERCISES

1. $27,000

2. $20,000

3. Yes. Yes.

4. a. $21,034.18

b. $1,450.85

5. Wages 16,000.00 ÷ 40.25 = $397.52

Interest 1,200.00 ÷ 40.25 = $29.81 from Philippines plus $500 interest from U.S. = $529.81

Capital Gain 2,000.00 ÷ 32.55 = $61.44

Total 2003 Income – $988.77

STUDENT NOTES

SELF-EMPLOYMENT TAX

Lesson 2

International Segment

INTRODUCTION AND OBJECTIVES

This lesson will explain when a self-employed taxpayer living abroad is subject to U.S. income tax requirements and their filing obligations.

At the end of the segment, you will be able to:

1. Determine who is a self-employed individual.
2. Compute the self-employment tax for a U.S. citizen or resident abroad.
3. Compute the deduction for self-employment tax.

EMPLOYEE OR SELF-EMPLOYED

A self-employed person is generally one who either:

1. Carries on a trade or business as a sole proprietor or independent contractor.
2. Is a member of a partnership that carries on a trade or business.
3. Otherwise in business for himself or herself.

SELF-EMPLOYMENT TAX

The self-employment tax is a social security tax for individuals who work for themselves. It is similar to the social security tax withheld from the pay of wage earners.

Social security benefits are available to individuals who are self-employed just as they are to wage earners. Payments of self-employment tax contribute to an individual's coverage under the social security system.

Income Limits. You must pay self-employment tax if you have net earnings from self-employment of $400 or more a year.

Self-employment tax consists of two parts, social security and medicare. For 2003, social security tax is paid on the first $87,000 of net income. The medicare tax is imposed on the full amount of net earnings.

Note: If your self-employment income is $400 or more, you must file a return even though your income is below the minimum amount for income tax filing purposes.

Effect of Foreign Earned Income Exclusion. You must take all of your earned income into account in figuring your self-employment tax, even though the income is exempt from income tax because of the foreign earned income exclusion.

Example 1

You are in business abroad as a consultant and qualify for the foreign earned income exclusion. Your foreign earned income is $70,000, business expenses $20,000, resulting in net earnings of $50,000. You must pay self-employment tax on the net income even though you excluded all of your earned income.

Exemption from U.S. Self-Employment Tax. The United States may reach agreements with foreign countries to eliminate dual coverage and dual contributions (taxes) to social security systems for the same work. As a general rule, self-employed persons who are subject to dual taxation will only be covered by the social security system of the country where they reside.

For more information, consult Publication 54, "Tax Guide for U.S. Citizens and Resident Aliens Abroad."

WHICH FORMS TO USE

Form 1040, U.S. Individual Income Tax Return, is used to report self-employment tax. Both income tax and self-employment tax are due at the same time. Schedule SE, Social Security Self-Employment Tax, is used to figure the tax. Even if the taxpayer is not otherwise required to file an income tax return, he or she must file both Form 1040 and Schedule SE to pay self-employment tax.

The Schedule SE includes a flowchart to determine if the short or long form is required.

COMPUTING THE SELF-EMPLOYMENT TAX

Although there are three methods available to compute self-employment tax, VITA volunteers will only use the regular method. Taxpayers who wish to use the other methods should seek paid professional assistance. There are no limits on who may use the regular method. Most taxpayers use this method.

Under the regular method, the net income from your business or profession is generally your net self-employment earnings from Schedules C, C-EZ, F. and K-1 (Form 1065).

If you have more than one trade or business, your net earnings from self-employment are the combined net earnings from each of your businesses. A loss in one business will reduce the income earned in another. You must claim all allowable deductions including depreciation when figuring your net earnings from self-employment.

Even though the income may be exempt from income tax because of foreign earned income exclusion, you must take all of your earned income into account in figuring your self-employment tax. Refer to Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, regarding the effect of the foreign earned income exclusion on U.S. self-employment tax.

Example 1

Susan J. Brown is sole proprietor of a dress shop, "Milady Fashions." Her Schedule C shows a net profit of $35,100. Susan's completed Schedule SE is shown at the end of this section.

If Susan were the proprietor of more than one business, she would have combined the profits and losses from all of them and filled out only one Schedule SE. If, in addition to operating her dress shop, Susan had worked for wages totaling $87,000 or more, she would have already paid the maximum amount of social security tax owed on her wages, but she would still be subject to the medicare portion (2.9%) of self employment tax. In this case, she would use the long Schedule SE.

The line numbers shown below in bold type refer to the line numbers on the sample filled-in Schedule SE on the following page.

Line 1. Since Susan has no earnings from farm self-employment, she leaves line 1 blank.

Line 2. Susan enters the net profit from her Schedule C, $35,100.

Line 3. Since Susan has no farm income, she enters the same amount on line 3.

Line 4. Multiply the amount of line 3 by .9235 and enter the result.

Line 5. Susan determines her self-employment tax by using the first option on Line 5. She multiplies $32,415 on Line 4 by 15.3%. She enters $4,959 on Line 5. This is her self-employment tax. She also enters this amount on Line 55 of Form 1040.

SCHEDULE SE
(Form 1040)
Department of the Treasury
Internal Revenue Service

Self-Employment Tax

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedule SE (Form 1040).**

OMB No. 1545-0074
2003
Attachment
Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040)	Social security number of person with **self-employment** income ▶

Who Must File Schedule SE

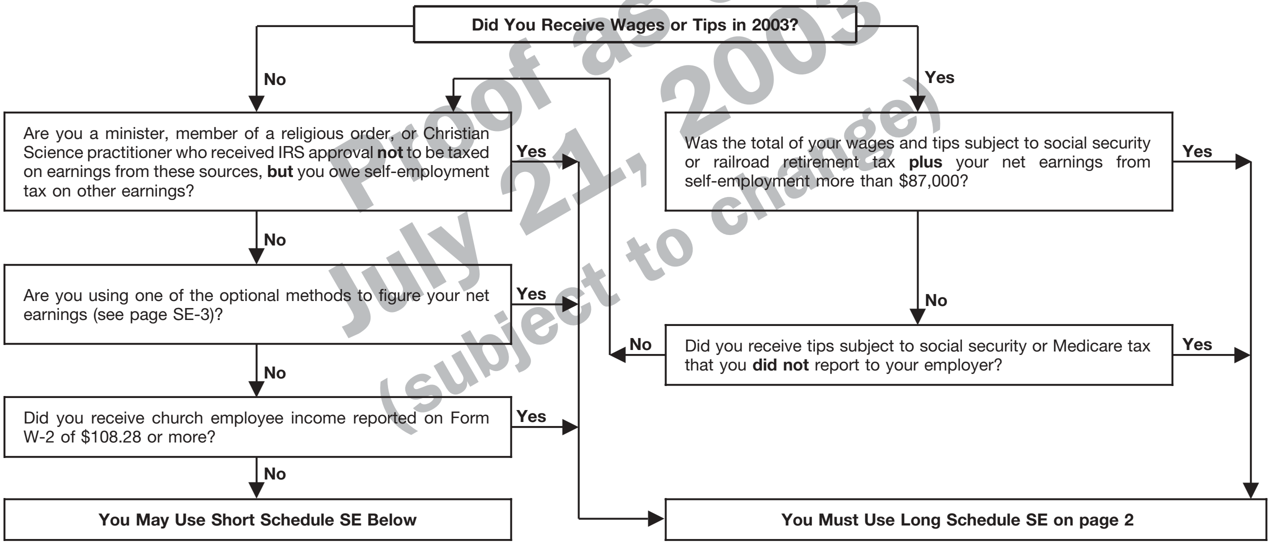
You must file Schedule SE if:

- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of $400 or more **or**
- You had church employee income of $108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income (see page SE-1).

Note. Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE (see page SE-3).

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt–Form 4361" on Form 1040, line 55.

May I Use Short Schedule SE or Must I Use Long Schedule SE?



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1	0
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report	2	$35,100
3	Combine lines 1 and 2	3	$35,100
4	**Net earnings from self-employment.** Multiply line 3 by 92.35% (.9235). If less than $400, **do not** file this schedule; you do not owe self-employment tax ▶	4	$32,415
5	**Self-employment tax.** If the amount on line 4 is: • $87,000 or less, multiply line 4 by 15.3% (.153). Enter the result here and on **Form 1040, line 55.** • More than $87,000, multiply line 4 by 2.9% (.029). Then, add $10,788.00 to the result. Enter the total here and on **Form 1040, line 55.**	5	$4,959
6	**Deduction for one-half of self-employment tax.** Multiply line 5 by 50% (.5). Enter the result here and on **Form 1040, line 28**	6	$2,480

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11358Z **Schedule SE (Form 1040) 2003**

This deduction for one-half of the SE tax will reduce Susan's income subject to income tax. However, if all of Susan's self-employment income qualifies for the foreign earned income exclusion, this deduction is allocable to the excluded income and must be included on line 42 the Form 2555. This prevents the deduction from reducing other taxable income. See the earlier chapter on foreign earned income exclusion for additional information.

▶ ▶ SUMMING UP THIS SEGMENT ◀ ◀

- As a volunteer assisting taxpayers abroad, you may be asked questions regarding self-employed tax. In this lesson you have learned how to determine if you are considered a self-employed individual and how to compute the self-employment tax.

SUMMARY EXERCISES

Exercise 1

You must pay self-employment tax if you have net earnings from self-employment of $ ______________ or more a year.

Exercise 2

John has a business abroad in 2003, as a private contractor and his self-employed income qualifies for the foreign earned income exclusion. His foreign earned income is $64,000, business expenses $19,000, and net earnings $45,000. Since his foreign earned income is completely excluded, is he liable for self-employment tax? If yes, what amount of income is subject to self-employment tax?

Exercise 3

The United States may reach agreements with foreign countries to eliminate dual coverage and dual contributions (taxes) to social security systems for the same work. These agreements may be applicable to self-employed persons.

True/False

Exercise 4

Janice Thompson is a self-employed baby-sitter overseas. She is a U.S. citizen living with her husband. He is a U.S. Army officer and also a U.S. citizen. She operates her sole proprietor babysitting service out of their off base apartment. She has no wage income. Her Schedule C shows a net profit of $9,500 in 2003. She qualifies for the foreign earned income exclusion. She receives no exemption from any agreement to exclude her self-employment tax.

Compute her self-employment tax for 2003 on the blank Schedule SE.

SCHEDULE SE
(Form 1040)
Department of the Treasury
Internal Revenue Service

Self-Employment Tax

► **Attach to Form 1040.** ► **See Instructions for Schedule SE (Form 1040).**

OMB No. 1545-0074
2003
Attachment
Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040)

Social security number of person with **self-employment** income ►

Who Must File Schedule SE

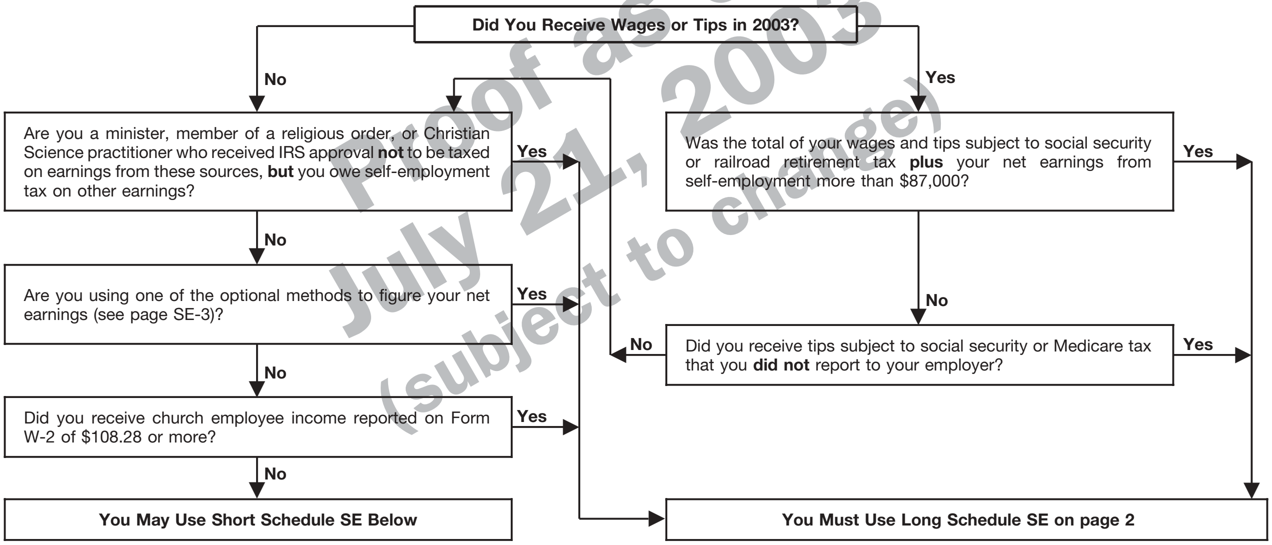
You must file Schedule SE if:

- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of $400 or more **or**
- You had church employee income of $108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income (see page SE-1).

Note. Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE (see page SE-3).

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt–Form 4361" on Form 1040, line 55.

May I Use Short Schedule SE or Must I Use Long Schedule SE?



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1 Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a **1**

2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report **2**

3 Combine lines 1 and 2 . . . . **3**

4 **Net earnings from self-employment.** Multiply line 3 by 92.35% (.9235). If less than $400, **do not** file this schedule; you do not owe self-employment tax . . . . ► **4**

5 **Self-employment tax.** If the amount on line 4 is:

- $87,000 or less, multiply line 4 by 15.3% (.153). Enter the result here and on **Form 1040, line 55.**
- More than $87,000, multiply line 4 by 2.9% (.029). Then, add $10,788.00 to the result. Enter the total here and on **Form 1040, line 55.**

} **5**

6 **Deduction for one-half of self-employment tax.** Multiply line 5 by 50% (.5). Enter the result here and on **Form 1040, line 28** **6**

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11358Z **Schedule SE (Form 1040) 2003**

SELF-EMPLOYMENT TAX

Lesson 2

ANSWERS TO EXERCISES

Exercise 1

$400

Exercise 2

Yes

John must take all of his earned income into account in figuring his self-employment tax, even though the income is exempt from income tax because of the foreign earned income exclusion. John's $45,000 net earnings are subject to self-employment tax in 2003.

Exercise 3

True. Agreements may apply to self-employed persons.

SCHEDULE SE
(Form 1040)
Department of the Treasury
Internal Revenue Service

Self-Employment Tax

► **Attach to Form 1040.** ► **See Instructions for Schedule SE (Form 1040).**

OMB No. 1545-0074
2003
Attachment Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040): Janice Thompson

Social security number of person with **self-employment** income ►

Who Must File Schedule SE

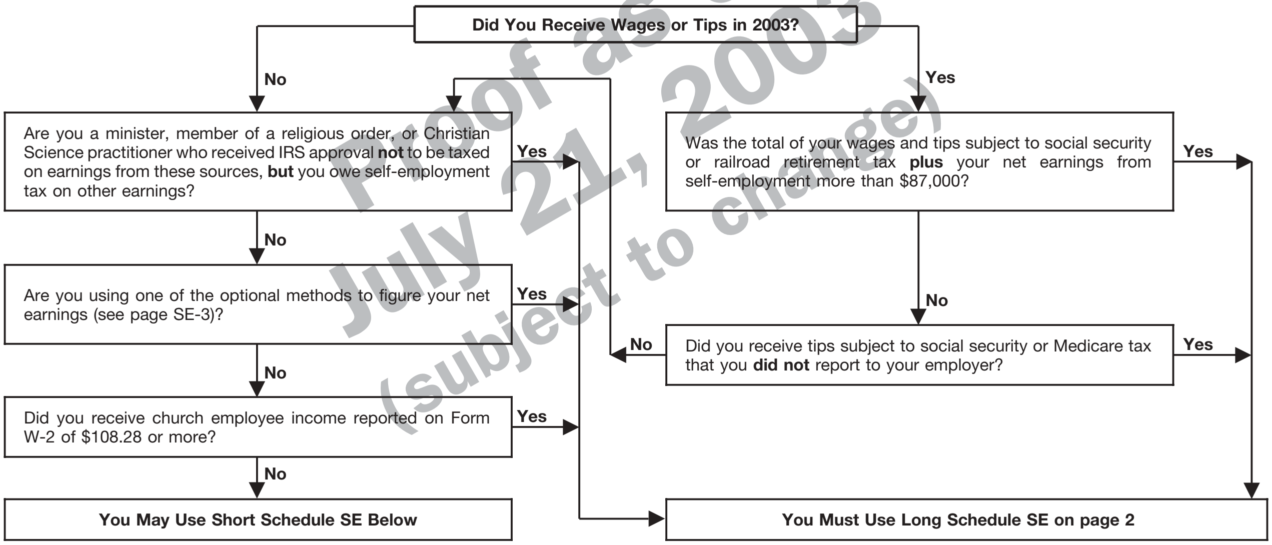
You must file Schedule SE if:

- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of $400 or more **or**
- You had church employee income of $108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income (see page SE-1).

Note. Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE (see page SE-3).

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt–Form 4361" on Form 1040, line 55.

May I Use Short Schedule SE or Must I Use Long Schedule SE?



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1	0
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report	2	$9,500
3	Combine lines 1 and 2	3	$9,500
4	**Net earnings from self-employment.** Multiply line 3 by 92.35% (.9235). If less than $400, **do not** file this schedule; you do not owe self-employment tax ►	4	$8,773
5	**Self-employment tax.** If the amount on line 4 is: • $87,000 or less, multiply line 4 by 15.3% (.153). Enter the result here and on **Form 1040, line 55.** • More than $87,000, multiply line 4 by 2.9% (.029). Then, add $10,788.00 to the result. Enter the total here and on **Form 1040, line 55.**	5	$1,342
6	**Deduction for one-half of self-employment tax.** Multiply line 5 by 50% (.5). Enter the result here and on **Form 1040, line 28** 6 $671		

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STUDENT NOTES

RENTAL INCOME AND EXPENSES

Lesson 2

International Segment

INTRODUCTION AND OBJECTIVES

This lesson will explain the rental income reporting requirements for U.S. citizens and resident aliens. Generally, you must include in gross income all amounts received from rental properties, including rental receipts received from your former residence. Both United States citizens and resident aliens must report rental income, regardless whether the rental property is located in the United States or in a foreign country.

At the end of the segment, you will be able to:

1. Determine how to report rental income.
2. Determine how to report rental expenses.
3. Determine how to report rental income when property is used for personal purposes either part of the year or during the entire year.
4. Determine how to compute deductible depreciation expense.
5. Identify the application of at-risk and passive activity rules.

NOTE: The information and explanation of this issue is beyond the usual scope of Volunteer training. An exception has been made to serve the military and other Volunteers living abroad due to limited access to both resources and the professional preparers.

WHICH FORMS TO USE

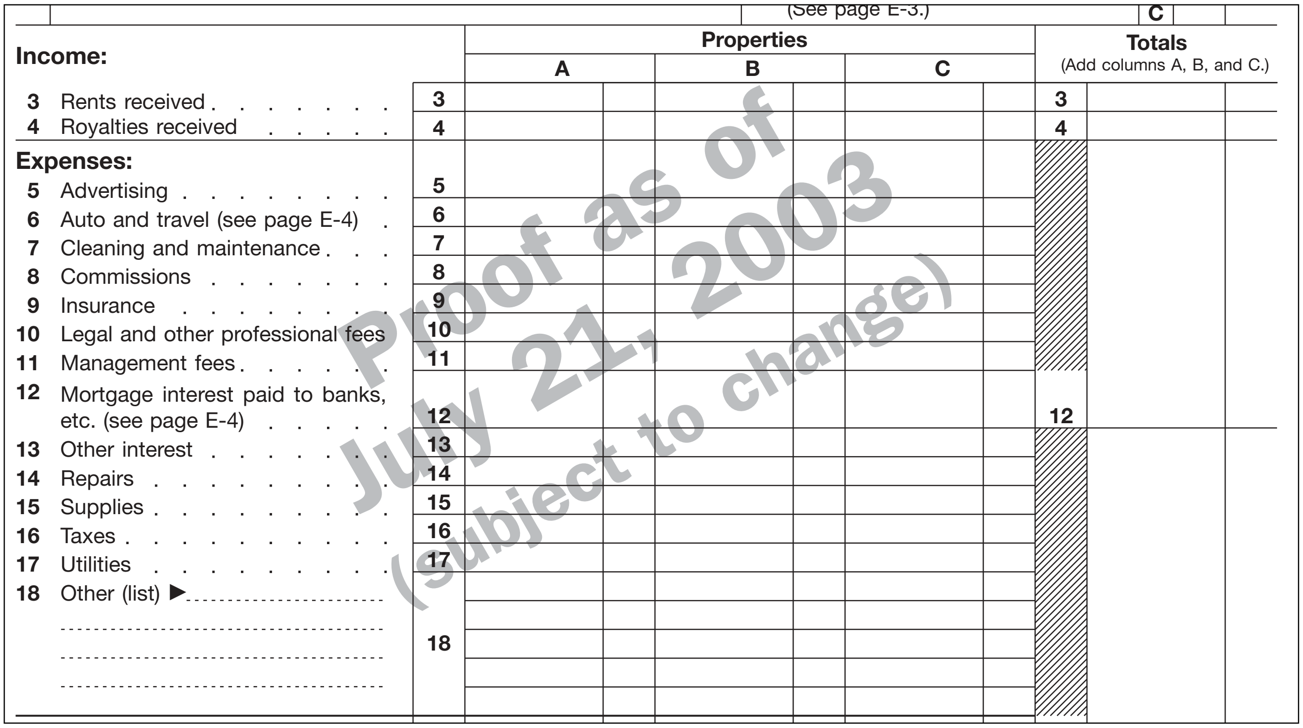
Rental income and expenses are reported on Schedule E (Form 1040), Supplemental Income Schedule, Part 1. Additional information on rental income can be found in Publication 527, “Residential Rental Property,” and Publication 946, “How to Depreciate Property.”

RENTAL INCOME

Rental income may include other payments in addition to the normal and ordinary rents received. Include in gross rental income advance rent, security deposits, payments for canceling a lease, expenses paid by the tenant, and the fair market value of property or services received in exchange for rental payments. The security deposit is not included when the taxpayer plans on returning the deposit at the end of the lease. A taxpayer using the cash basis of accounting, reports the income when actually received. Taxpayers using the accrual accounting method report the income in the year they are entitled to receive payments.

The deductible rental expenses are reported on the Schedule E, Part I, (see Exhibit 1) lines 5 through 18.

Exhibit 1 **Form 1040 Schedule E**



		(See page E-3.)			C	
Income:		**Properties** A	B	C		**Totals** (Add columns A, B, and C.)
3 Rents received	3				3	
4 Royalties received	4				4	
Expenses:						
5 Advertising	5				▨	
6 Auto and travel (see page E-4)	6				▨	
7 Cleaning and maintenance	7				▨	
8 Commissions	8				▨	
9 Insurance	9				▨	
10 Legal and other professional fees	10				▨	
11 Management fees	11				▨	
12 Mortgage interest paid to banks, etc. (see page E-4)	12				12	
13 Other interest	13				▨	
14 Repairs	14				▨	
15 Supplies	15				▨	
16 Taxes	16				▨	
17 Utilities	17				▨	
18 Other (list) ▶	18				▨	

Deductible expenses include any ordinary and necessary expenses, such as expenses for repairs, maintenance, certain operating expenses and depreciation.

Repairs vs. Improvements. The cost of a repair is a current year deduction, however, the cost of an improvement must be depreciated over the useful life of the improvement. The distinction between a repair and an improvement is that a repair keeps the property in good operating condition, whereas an improvement materially adds to the life or value of the property or adapts it to new uses. The following chart helps illustrate the difference between repairs and improvements.

REPAIRS	IMPROVEMENTS
Painting	Adding a Room
Fixing Gutters	Putting up a Fence
Repairing Driveways	Putting in plumbing or wiring
Replacing Window Glass	Replacing hot water tank
Repairing the Roof	Putting on a new roof

Since an improvement is a capital expenditure and must be depreciated, the total cost including material, labor, and installation increases the basis of the property. Depreciation will be discussed later in this chapter.

Other Expenses. Some of the other ordinary expenses that may be deducted from gross rental income include salary and wages, utilities, rental of equipment, insurance premiums, interest expense (mortgage interest), advertising, taxes, and commissions paid for collecting rental income. If any part of the property tax is for local benefits, such as putting in streets and sidewalks, that portion of the property tax is added to the basis of the property rather than deducted as an ordinary expense. Insurance premiums paid in advance must be prorated over the period covered by the policy by both the cash basis and accrual basis taxpayer. If the rental is a condominium or cooperative, the maintenance fee is deductible. See Publication 527, *Residential Rental Property*, for taxes and interest deductions on cooperatives. Generally, mortgage interest expense is fully deductible. However, if the taxpayer has interest expense other than mortgage interest, refer him or her to the Internal Revenue Service or a professional preparer.

Ordinary and necessary travel and transportation expenses attributable to the production of rental income are deductible. If a personal automobile is used, the taxpayer may use the standard mileage rate for business mileage. The standard mileage rate is 36 cents per mile for the year 2003. When using the standard mileage rate, parking fees and tolls may also be deducted. The standard mileage rate method (MACRS) may be selected on a yearly basis. However, if changing to actual expense after using the standard mileage method, accelerated depreciation may not be used. In order to claim depreciation under the actual expense method for transportation expenses, the vehicle must be used more than 50 percent for business, including for the production of rental income. If the travel incurred on behalf of a rental property is into or outside of the United States, the trip may have a dual purpose. Substantiation of the pleasure vs. business purpose and allocation of the expenses may be required. When a tenant does not pay the rent, the cash-basis landlord cannot take a deduction for the unpaid rent, since a deduction can never be taken for a payment that has never been included in income.

SPECIAL ALLOCATION

Special rules apply when rental property is used for personal purposes, or as a rental without the intent to make a profit. When renting part of the property, certain expenses must be divided between rental use and personal use. When figuring the division of expenses, the taxpayer may use any reasonable method. The most common methods used are based on the number of rooms in the dwelling or on the total area of the dwelling.

Example 1

Mary Alma rents one room in her house. The total square footage of her house is 1,000 square feet. The rental room measures 10 feet by 10 feet (100 square feet). She may deduct 10% of any allowable expense that benefited the renter. She may deduct 100% of any expenses that relate only to the rental portion of the house, such as painting the rented room.

Exercise 1

Mary Alma, in the example above, has the following expenses attributable to the entire property:

Taxes	$ 1,000
Utilities	$ 600
Mortgage Interest	$ 800
Depreciation	$ 500

Also wallpapering expense of $100 for the tenant's room only.

a. What are the allowable expense deductions on Schedule E?
Answer: ______________________________

b. What are the allowable expense deductions on Schedule A?
Answer: ______________________________

For property changed to rental use in the tax year other than the beginning of the year, the allocation of expenses should be made between the number of days in the year for personal use and the number of days for rental use.

Example 2

John Princeton is transferred overseas and begins renting out his residence on October 1, 2003. For 2003, he may deduct three-twelfths (25 percent) of his yearly expenses such as taxes, interest and utilities as rental expenses.

Vacation Home and Other Dwelling Units. Certain limitations apply to rental expenses for vacation homes or other dwellings that are used by the taxpayer for personal use during the year. A dwelling unit for this purpose includes a house, apartment, condominium, mobile home, boat or similar property. However, the limitation does not apply to hotel, motel, inn or similar dwelling unit. The limitation on deductions applies if a dwelling unit is used as a residence during the tax year for personal purposes for greater than:

1. 14 days or
2. 10 percent of the number of days during the tax year the property is rented at fair market value.

See Publication 527 for a discussion of the limitations.

Use as home before or after renting. If you use a dwelling unit as your main home before or after renting it, or trying to rent it, you may not have to count the days you use it as your main home as days of personal use.

12 months or more. If for 12 or more consecutive months, you rent or try to rent a dwelling unit at a fair rental price, some of the days on which you use the property as your main home are not counted as days of personal use.

Do not count as days of personal use the days you used the property as your main home.

a) During the year in which you began renting it or offering it for rent, but before you began renting it or offering it for rent, or

b) During the year in which you stopped renting it or offering it for rent, but after you stopped renting it or offering it for rent.

Example 3

On February 28, 2001, you moved out of the house you had lived in for 6 years because you accepted a job in another town. You rent your house at a fair rental price from March 15, 2001, to May 14, 2003. On June 1, 2003, you move back to town and move back into your house.

Your use of the house as your main home from January 1 to February 28, 2001, and from June 1 to December 31, 2003, is not counted as personal use.

Since these days are not counted as days of personal use the limitations on deductions discussed above do not apply.

Depreciation

The cost of property with a useful life of one year or more and used in a trade or business or held for the production of income is recovered by allowing an annual deduction called depreciation. The most common methods for the depreciation are called ACRS (Accelerated Cost Recovery System) for property placed in service after 1980 and before 1987 and MACRS (modified ACRS) for property placed in service after 1986. Both of these depreciation methods have an alternative method that may be chosen that generally increases the number of years the property is depreciated over and therefore decreases the annual deduction. The method used for property placed in service before 1981 is referred to as straight line or declining balance.

Depreciable property includes buildings, machinery, furniture, equipment and vehicles. As discussed earlier any cost for additions or improvements to the rental property must also be depreciated. Depreciation is allowed or allowable. What this means is, if you did not claim depreciation that you were entitled to claim in an earlier year you must still reduce your basis in the property by the amount of depreciation that you did not deduct. The depreciation deduction is determined by considering several factors. These factors are discussed next in this chapter. When depreciating real property the value of land is not depreciable.

Basis. The total of the yearly deductions for depreciation can never total more than the cost or other basis of the property. Generally, the cost (purchase price) of the property including the cost of improvements is the basis for depreciation. However, if the taxpayer acquired the property, other than buying it, the basis may be figured differently than using the original cost. An example is an acquisition through inheritance or gift. For further information on the basis of inherited or gifted property refer to Publication 551, Basis of Assets. When property is converted from personal use to rental use the basis is the lesser of the adjusted basis or fair market value (FMV) at the time of conversion.

Example 4

Jen and Tom purchased a house in 1985 for $85,000. In 2003, they were transferred overseas and decided to rent out their personal residence. The value in 2003 was $125,000. The basis for depreciation is $85,000. Assume that the value of land was excluded in determining the cost of the house.

Adjusted Basis. The basis of property must be increased or decreased to reflect certain adjustments before the depreciation deduction is computed. For example, to the purchase price of a home add the cost of any improvements, minus any casualty losses or depreciation previously deducted and minus the land value to find the adjusted basis. Since land can never be depreciated, an allocation between land and building must be done based generally on assessed value. Where property is acquired in a purchase along with a trade-in, the basis must be adjusted.

Example 5

Neil Bates traded in old appliances used for his rental property with an adjusted basis of $500 and got new appliances with a fair market value of $2,000. He paid $1,000.00 in cash, his basis for depreciation in the new appliances is $1,500 (the $500 adjusted basis plus the $1,000 cash).

Placed in Service. For depreciation purpose, property is considered placed in service when it is in a condition or state of readiness and availability for use. However, a depreciation deduction may not be claimed until the property is used in business or for the production of income.

Property Classes and Recovery Periods. The Accelerated Cost Recovery System (ACRS) and Modified Accelerated Cost Recovery System (MACRS) use the class life of depreciable property to determine the recovery period. If property is used as a personal residence before 1987 and converted to rental property after 1986, use the MACRS method to figure depreciation. Under MACRS, tangible property used in a rental activity generally falls into a 5-, 7-, or 27.5-year recovery period.

A home converted in 1998 to a rental property would be depreciated over a recovery period of 27.5 years. A stove also used in this same rental would be assigned a 7 year recovery period. Property, both real and personal, located outside the United States has a longer recovery period. Although the true physical life of the property may be less, under MACRS the recovery period is fixed. MACRS requires that a convention for half-year or mid-quarter be used. Under this special rule, in the year the property is placed in service the depreciation deduction is prorated. Publication 946, How to Depreciate Property, contains tables of depreciation with the conventions already incorporated. Examples of the tables are shown below.

MACRS charts

Table A

MACRS 5-Year Property

	Half-year convention	Mid-quarter convention			
Year		First quarter	Second quarter	Third quarter	Fourth quarter
1	20.00%	35.00%	25.00%	15.00%	5.00%
2	32.00	26.00	30.00	34.00	38.00
3	19.20	15.60	18.00	20.40	22.80
4	11.52	11.01	11.37	12.24	3.68

Table B

MACRS 7-Year Property

	Half-year convention	Mid-quarter convention			
Year		First quarter	Second quarter	Third quarter	Fourth quarter
1	14.29%	25.00%	17.85%	10.71	3.57%
2	24.49	21.43	23.47	25.51	27.55
3	17.49	15.31	16.76	18.22	19.68
4	12.49	10.93	11.97	13.02	14.06

Table I, II

Table 1

Residential Rental Property (27.5-year)

	Use the column for the month of taxable year placed in service											
Year	1	2	3	4	5	6	7	8	9	10	11	12
1	3.485%	3.182%	2.879%	2.576%	2.273%	1.970%	1.667%	1.364%	1.061%	0.758%	0.455%	0.152%
2	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%
3	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%
4	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%	3.636%

Table 2

Residential Rental Property (31.5-year)

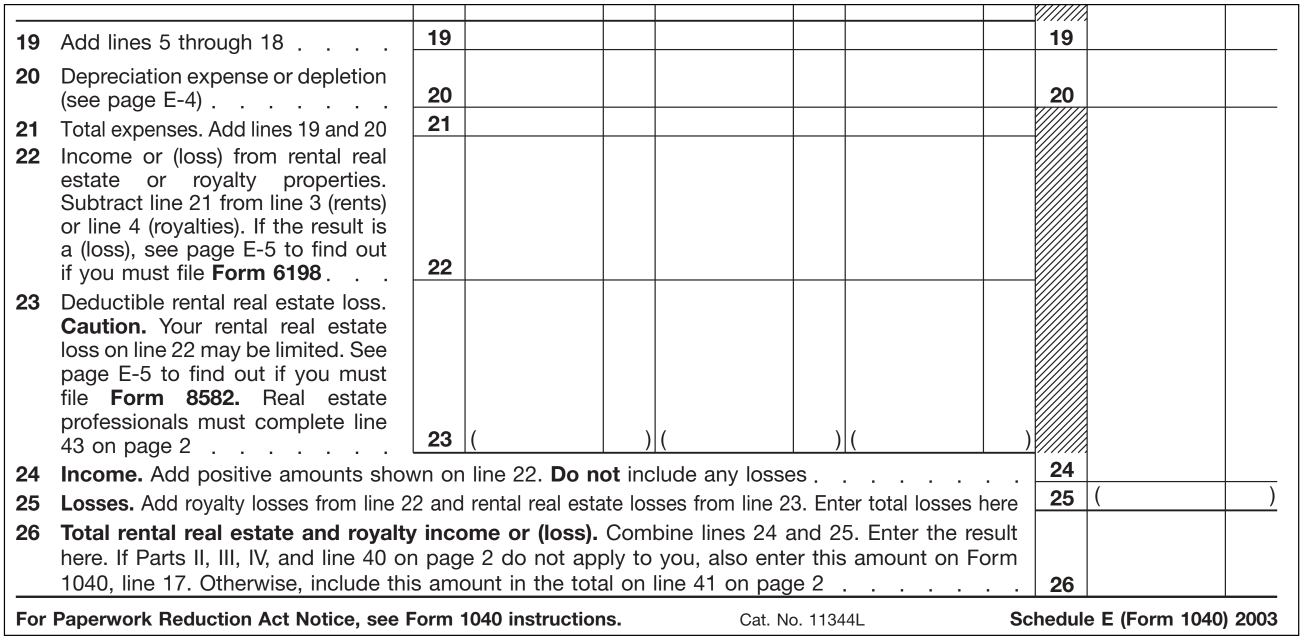
	Use the column for the month of taxable year placed in service											
Year	1	2	3	4	5	6	7	8	9	10	11	12
1	3.042%	2.778%	2.513%	2.249%	1.984%	1.720%	1.455%	1.190%	0.926%	0.661%	0.397%	0.132%
2	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%
3	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%
4	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%	3.175%

For property located outside of the United States, the taxpayer must use an alternative method of depreciation under MACRS. Therefore, residential rental property located in a foreign country would be depreciated over a 40-year recovery period.

REPORTING DEPRECIATION

The depreciation deduction is shown on line 20 of Schedule E (see Exhibit 2). Use Form 4562, Depreciation and Amortization only if you placed an asset in service in the current year, you depreciate listed property or you claim a Section 179 expense.

Exhibit 2 **Form 1040 Schedule E**



19 Add lines 5 through 18	**19**				**19**	
20 Depreciation expense or depletion (see page E-4)	**20**				**20**	
21 Total expenses. Add lines 19 and 20	**21**				▨	
22 Income or (loss) from rental real estate or royalty properties. Subtract line 21 from line 3 (rents) or line 4 (royalties). If the result is a (loss), see page E-5 to find out if you must file **Form 6198** . . .	**22**				▨	
23 Deductible rental real estate loss. **Caution.** Your rental real estate loss on line 22 may be limited. See page E-5 to find out if you must file **Form 8582.** Real estate professionals must complete line 43 on page 2	**23**	( )	( )	( )	▨	
24 **Income.** Add positive amounts shown on line 22. **Do not** include any losses					**24**	
25 **Losses.** Add royalty losses from line 22 and rental real estate losses from line 23. Enter total losses here					**25**	( )
26 **Total rental real estate and royalty income or (loss).** Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Form 1040, line 17. Otherwise, include this amount in the total on line 41 on page 2					**26**	

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At-Risk and Passive Loss

Very often rental property shows a net loss because the rental expenses are greater than the rental income. In this situation there are two potential restrictions on how much of the loss can offset other sources of income.

The first restriction is the at-risk rule. This rule provides that you can claim a loss for no more than you could actually lose from the activity. That is, you can claim a loss only up to the amount for which you are personally at-risk in the activity. Generally you are considered at-risk for the amount of cash and property contributed to the activity from which you are not protected against personal liability with the exception of casualty insurance.

The Tax Reform Act of 1986 added other limitations to deducting rental losses. Prior to the law, losses from passive activities could offset all other income (for example wages, interest, and dividends) without any restrictions. Rental activities, by definition of the law, are always considered to be a passive activity. The passive activity law states that passive activity losses can only be deducted from passive activity income. A passive activity is a trade or business being conducted without that taxpayer materially participating. Material participation may be defined by the regular continuous and substantial involvement of the taxpayer in the operation of the trade or business, where for rental property active participation does not require regular, continuous and substantial involvement. Active participation requires that the taxpayer participate in making management decisions or arranging for others to provide services in a significant and bona fide sense. Management decisions include approving new tenants, setting rental terms, approving capital or repair expenditures and similar decisions.
It is important to under stand the difference between active and

material participation as it pertains to rentals, because of a special $25,000 offset allowed for certain rental losses. Rental losses up to $25,000 ($12,500 for married taxpayers filing separate and living apart for the entire year) may be used to offset any and all nonpassive income if the taxpayer actively participates in the residential rental activity. The following list is an example of nonpassive income.

1. Salaries, wages, commissions or tips.
2. Self-Employment income from a trade or business in which the taxpayer materially participates (may be partnership, but not limited partnership income).
3. Distributive shares of income through pass-through entities (such as S corporations) that is not income from a passive activity.
4. Portfolio income (gross income from interest, dividends, annuities, or some royalties).

Example 6

Lynn Ferris, a United States citizen, lives in Europe and has wages paid by the U.S. Government of $25,000 and interest income of $100. She rented out her home located in the United States in 2003, and incurred $1,000 in rental loss. Although her sister collects the rent, Lynn makes all of the bottom line decisions as to whom, and, for what amount, the property will be rented. While Lynn is outside of the United States, she pays her sister to manage the property. The rental loss of $1,000 may be offset against her gross income of $25,100 because she is considered to be an active participant in the rental activity.

Phase-Out of Offset. The amount allowed to offset nonpassive income is reduced once the taxpayer's adjusted gross income exceeds $100,000 ($50,000 for married filing separately). It is completely phased out when AGI exceeds $150,000 ($75,000 for married filing separately). Refer taxpayers with an AGI over $100,000 to the Internal Revenue Service or a professional preparer.

REPORTING RENTAL LOSS

Form 8582, Passive Activity Loss Limitations is filed to summarize losses and income from all passive activities. Check the instructions for Form 1040 to determine if the taxpayer is required to file Form 8582 when he or she has rental losses. Generally, taxpayers who have only one passive loss generated from a rental activity and an adjusted income of less than $100,000 will not be required to file Form 8582. If any questions arise beyond the scope of this lesson regarding filing Form 8582, refer the taxpayer to the Internal Revenue Service or a professional preparer.

SELLING RENTAL PROPERTY

The sale of rental property is reported on Form 4797, Sales of Business Property. A gain is the amount realized minus the adjusted basis of the property.

Example 7

Pat Drake sold her rental property for $60,000. She had purchased the house for $30,000 and had claimed $10,000 for depreciation. Her gain is $40,000

The gain is figured as follows:

1. Selling price		$60,000
2. Less selling expenses		0
3. Amount realized		$60,000
4. Basis	$30,000	
5. Less depreciation	$10,000	
6. Adjusted basis	$20,000	$20,000
7. Gain (line 3 minus 6)		$40,000

The gain may be either capital gain or ordinary gain depending on the depreciation claimed. If part of the property was also used for personal uses, the sale is reported as two separate sales. A loss is the adjusted basis of the property minus the amount realized. A loss for any personal use of property cannot be deducted.

▶▶ SUMMING UP THIS SEGMENT ◀◀

As a volunteer, you will assist taxpayers who have rental properties. In this lesson you learned what qualified as rental income and rental expenses. You studied how to figure and report the following:

- The proration needed when the property is used both for personal and rental purposes.
- Depreciation expense.
- Rental losses.

ANSWERS

Exercise 1

a. $390 (10% of total expenses of $2,900=$290 plus $100 for wallpaper)

b. $1,620 (90% of martgage interest and taxes)

STUDENT NOTES

ADJUSTMENTS

Lesson 3

INTRODUCTION AND OBJECTIVES

In this lesson you will learn about adjustments to income. There are six adjustments covered in this lesson. They are educators expenses, traditional IRA deductions, student loan interest deduction, tuition and fees deduction, penalty on early withdrawal of savings, and alimony payments. Lesson 2 discusses an additional adjustment to income covered in the VITA/TCE training — one-half of self employment tax.

The remaining adjustments — moving expenses; self-employed health insurance deduction; and self-employed SEP, SIMPLE, and qualified plans — are not covered in traditional VITA/TCE training. Taxpayers who need assistance with these adjustments should be referred to a paid professional tax preparer.

After completing this lesson you should be able to:

- Calculate and accurately report adjustments to income.
- Identify which IRA contributions are within the scope of the VITA/TCE program.
- Identify contribution limits for IRAs.

ADJUSTMENTS TO INCOME

Adjustments are subtractions from total income. Total income minus adjustments results in **adjusted gross income (AGI)**, an important number for tax purposes. Adjusted gross income is used to figure some limitations. In addition, it is used to figure income tax in some states.

Taxpayers cannot take any adjustments to income on Form 1040EZ. On Form 1040EZ total income and adjusted gross income are the same. Form 1040A filers can take adjustments for educator expenses, contributions to a traditional IRA, the student loan interest deduction, and tuition and fees payments. Form 1040 filers can take any of the adjustments for which they are eligible.

DEDUCTION FOR EDUCATOR EXPENSES

If the taxpayer is an eligible educator, he or she can deduct as an adjustment to income up to $250 in qualified expenses. The taxpayer can deduct these expenses even if he or she does not itemize deductions on Schedule A (Form 1040). This adjustment to income is for expenses paid or incurred in 2003. If both the taxpayer and spouse are eligible educators and choose to file a joint tax return, they may deduct up to $500 ($250 each) of qualified expenses. Prior to 2002 these expenses were deductible only as miscellaneous itemized deductions.

Eligible educator

The taxpayer is an eligible educator if, for the tax year, he or she is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide, and he or she works at least 900 hours during a school year in a school that provides elementary or secondary education as determined under state law.

Qualified expenses

Qualified expenses are the ***unreimbursed expenses*** paid or incurred for books, supplies, computer equipment (including related software and services), other equipment and supplementary materials that the taxpayer uses in his or her classroom. For courses in health and physical education, expenses for supplies are qualified expenses only if they are related to athletics.

To be deductible as an adjustment to income, the qualified expenses must be more than the following amounts for the tax year:

- The interest on qualified U.S. savings bonds that the taxpayer excluded from income because he or she paid qualified higher education expenses.
- Any distributions from a qualified tuition program that the taxpayer excluded from income, or
- Any tax-free withdrawals by the taxpayer from a Coverdell education savings account.

The educator expense can be claimed on Form 1040, line 23 or Form 1040A, line 16.

Example 1

Joe and Mary will file a joint return for 2003. Joe is a high school math teacher and incurred $500 in qualified unreimbursed expenses. Mary is a grade school principal and incurred $200 in qualified unreimbursed expenses. Both Joe and Mary meet the definition of eligible educators. They will claim $450 ($250 for Joe and $200 for Mary) on Form 1040, line 23.

INDIVIDUAL RETIREMENT ARRANGEMENTS

An **Individual Retirement Arrangement (IRA)** is a tax-sheltered savings plan set up by the taxpayer, generally for retirement income. This lesson discusses only **traditional IRAs** (IRAs other than Roth IRAs, SIMPLE IRAs, or Coverdell education savings accounts (ESAs). Contributions to the nontraditional IRAs are not deductible as adjustments to income.

Information on nontraditional IRAs can be found in Publication 590, *Individual Retirement Arrangements (IRAs)*.

Contributions to a traditional IRA can be either deductible or nondeductible. Earnings and gains on the contributions are not taxed until withdrawn from the traditional IRA account.

Example 2

Anna contributed a total of $2,500 over the last two years to her traditional IRA account. During 2003 she earned $140 of interest on her traditional IRA. All of the interest was added to her traditional IRA savings account.

Anna will not have to pay tax on the interest until she withdraws it from her traditional IRA account.

Contributions

Anyone under 70 1/2 years of age (at the end of the tax year) who has taxable compensation can contribute to a traditional IRA. If both the taxpayer and spouse have compensation and both are under age 701/2, each can set up an IRA. However, they cannot participate in the same IRA — they must have separate accounts.

Compensation includes wages, salaries, commissions, tips, bonuses, professional fees, and earnings from self-employment. Alimony or separate maintenance payments that are included in total income are also compensation for traditional IRA purposes. Compensation ***does not include*** interest, rents, dividends, pension and annuity income, deferred compensation received, or income you can exclude.

General Contribution Limits

The most that can be contributed for any year to a traditional IRA is the lesser of:

- $3,000 ($3,500 if age 50 or older), or
- Compensation that is includible in gross income for the year.

If a taxpayer has more than one traditional IRA, the taxpayer must combine all of the traditional IRAs and treat them as one when figuring the amount that can be contributed for the year.

Example 3

Dan, a college student, working part time earned $1,500 in 2003. His IRA contributions for 2003 are limited to $1,500 (the lesser of $3,000 or compensation includible in income for the year).

Example 4

George has three traditional IRA accounts. During 2003 he contributed $1,000 to each. His total IRA contributions for 2003 will be $3,000.

Deemed IRAs

ALERT ⚠

Deemed IRAs are new for tax year 2003.

Beginning in 2003, employers who provide qualified employer retirement plans can maintain a separate account or annuity under the plan to receive voluntary employee contributions. This separate account is referred to as a deemed IRA. A deemed IRA can be a traditional IRA or a Roth IRA, and the same limits apply whether they are deemed or not. If a taxpayer has both a regular IRA and a deemed IRA, the taxpayer can divide contributions between them in any manner, but total contributions to both cannot exceed the $3,000/$3,500 limit.

Spousal IRA limit

If taxpayers file a joint return and one spouse's compensation is less than that of the other spouse's compensation, the most that can be contributed for that spouse is the lesser of:

1) $3,000 ($3,500 if age 50 or older), or
2) The total compensation includible in the gross income of both spouses for the year, reduced by:
    a) IRA contributions for the spouse with the greater compensation,
    b) Any contribution for the year to a Roth IRA for the spouse with the greater compensation.

The total combined contributions to both traditional IRAs cannot exceed the lesser of:

- $6,000 ($7,000 if both individuals are age 50 or older), or
- The total taxable compensation of both spouses.

Example 5

Kristen, a full time student with no taxable compensation, marries Jeremy during the year. Neither will be 50 by the end of the year. For the year, Jeremy has taxable compensation of $30,000. He will contribute $3,000 to a traditional IRA. If he and Kristen file a joint return, each can contribute $3,000. This is because Kristen, who has no compensation, can add Jeremy's compensation, reduced by his IRA contribution ($30,000 - $3,000 = $27,000) to her own compensation (0) to figure her maximum contribution. In her case, $3,000 is her contribution limit, because $3,000 is less than $27,000 (her compensation for purposes of the figuring the spousal IRA).

Example 6

Tom and Darcy are married and both are 53. They both work and each has a traditional IRA. Tom earned $1,800 and Darcy earned $48,000 in 2003. Because of the spousal IRA limit rule, even though Tom earned less than $3,500, they can contribute up to $3,500 in each of their IRAs if they file a joint return. If they file separate returns, the amount that can be contributed to Tom's IRA is limited to $1,800 (his taxable compensation).

Excess Contributions

Generally, an excess contribution is the amount contributed to a traditional IRA that is more than the lesser of the:

1) Taxable compensation for the year, or
2) $3,000 ($3,500 if age 50 or older).

This limit applies whether the contributions are deductible or nondeductible. Contributions made in the year the taxpayer reaches age 70 1/2 and any later year are also excess contributions.

In general, if the excess contribution for a year and any earnings on it are not withdrawn by the due date of the tax return (including extensions), the taxpayer is subject to an additional 6% tax. The additional 6% tax must be paid each year on the excess amounts that remain in the traditional IRA at the end of the tax year. The tax cannot be more than 6% of the value of the IRA as of the end of the tax year. The excise tax is figured on Form 5329, *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts.*

A taxpayer who has taxable compensation, but can no longer contribute to a traditional IRA because of age (70 1/2 years or older) may continue to contribute to a spouse's traditional IRA until the year in which the spouse reaches 70 1/2.

Example 7

Eldridge is a 73-year-old attorney. He earned $12,000 during the year.

Eldridge had compensation for traditional IRA purposes but he cannot make an IRA contribution because he is 70 1/2 or older. If Eldridge files a joint return with his spouse who is 68 years old, he can still contribute up to $3,500 to his spouse's IRA.

Exercise 1

A. Liz receives alimony which is included in her total income. All of her other income is from interest and dividends. Can Liz make a traditional IRA contribution? Explain. ______________

____

B. David is 73 and works part time in a hardware store. David's wife, Mary, does not work outside of the home. Mary is 68. Can David make a traditional IRA contribution for Mary? Explain

____

C. Carla receives all her income from a rental property, interest income, and dividends. Can Carla make a traditional IRA contribution? Explain. ______________________________

____

D. Joy is 62 years old. Most of her income comes from a pension. However, Joy did earn $1,250 doing consumer testing. How much can Joy contribute to a traditional IRA? Explain.

____

____

Deductible IRA Contributions

Generally, you can deduct the lesser of the contributions to your traditional IRA for the year or the general limit (or the spousal IRA limit, if it applies).

The actual deductible amount for a traditional IRA depends on the following:

- Whether or not the taxpayer or taxpayer's spouse is covered by a retirement plan set up by an employer for any part of the year,
- The taxpayer's **modified adjusted gross income,** and
- The taxpayer's filing status.

Modified Adjusted Gross Income

Generally, **modified adjusted gross income** is the adjusted gross income without consideration of certain deductions. The modified adjusted gross income (MAGI) can be figured as follows:

AGI (Form 1040 Line 34) plus

- IRA deduction
- Student loan interest deduction
- Tuition and fees deduction
- Foreign earned income exclusion
- Foreign housing exclusion or deduction
- Exclusion of qualified savings bond interest shown on Form 8815

- Exclusion of employer-paid adoption expenses shown on Form 8839.

Not covered by an employer retirement plan.

A taxpayer whose filing status is single, head of household, or qualifying widow(er), and who is not covered by an employer retirement plan, can take a full traditional IRA deduction of either his or her taxable compensation or $3,000 (whichever amount is smaller). The $3,000 amount is increased to $3,500 if the taxpayer is age 50 or older.

Example 8

Cyril is single and 40 years of age. His modified adjusted gross income is $50,000. He is not covered by a retirement plan at work. Cyril's traditional IRA contribution of $3,000 is deductible.

Married taxpayers who file separate returns for a taxable year and who live apart at all times during the taxable year are treated as single and can take a full IRA deduction, if not covered by an employer plan. This is true even if the other spouse is covered by an employer retirement plan.

Married taxpayers who file jointly or separately may each be able to take the full IRA deduction of $3,000 ($3,500 if age 50 or older) or taxable compensation (whichever amount is smaller), if they had taxable compensation and both were not covered by an employer retirement plan. The total deduction for a joint return cannot exceed $6,000 ($7,000 if both individuals are age 50 or older). ***When determining the allowable deduction each spouse figures the deduction separately.***

Covered by an employer retirement plan.

If the taxpayer is covered by a retirement plan at work, the traditional IRA deduction will be reduced or eliminated, as shown in **Table 1,** depending on filing status and modified AGI.

NOTE: If Box 13, Retirement Plan, on Form W-2 is checked, the taxpayer is covered by an employer retirement plan. If taxpayers do not agree with the Form W-2 they must contact their employer. Volunteers cannot make a determination on whether or not a taxpayer is covered by an employer retirement plan. Refer taxpayers with questions on their employer retirement plans to their employer or Publication 590, Individual Retirement Arrangements (IRAs).

ALERT ⚠

For 2003, the MAGI limits increased for taxpayers covered by an employer retirement plan.

Table 1.
Traditional IRA Deduction Phaseout Chart
(If taxpayer is covered by an employer retirement plan)

	Allowable traditional IRA deduction is...		
	reduced if modified AGI is:		zero when modified AGI is:
Filing Status	**at least**	**but less than**	
Single or Head of household	$40,000	$50,000	$50,000 or more
Married filing jointly or Qualifying widow(er)	$60,000	$70,000	$70,000 or more
Married filing separately[1]	$0.01	$10,000	$10,000 or more

[1] If the taxpayer did not live with his or her spouse at any time during the year, his or her filing status is considered Single for this purpose.

Example 9

Emily, 36 years old, is single. Her modified AGI was $49,500. She is covered by a retirement plan at work. Emily's $3,000 traditional IRA contribution will be reduced or modified on her tax return because her modified AGI is between $40,000 and $50,000.

If either the taxpayer or the taxpayer's spouse is covered by an employer retirement plan, he or she may be entitled to only a partial deduction or no deduction at all, depending on filing status and modified adjusted gross income, as shown in **Table 2**.

Table 2.
Traditional IRA Deduction Phaseout Chart
(If taxpayer is not covered, but the spouse is)

	Allowable traditional IRA deduction is...		
	reduced if modified AGI is:		**zero when modified AGI is:**
Filing Status	**more than**	**but less than**	
Married filing jointly or Qualifying widow(er)	$150,000	$160,000	$160,000 or more
Married filing separately[1]	$0.01	$10,000	$10,000 or more

[1] The taxpayer is entitled to the full deduction if he or she did not live with their spouse at any time during the year.

Example 10

David and Ruth are filing a joint return. David earned $72,000 and is covered by his employer's retirement plan. Ruth, age 32, is a homemaker, and has no compensation. David, age 36, contributed $2,800 to his traditional IRA and $3,000 to a traditional IRA for Ruth.

Because David is covered by his employer's retirement plan, the modified AGI limits apply (Table 1). Based on Table 1, David is not allowed a deduction for his traditional IRA contributions. Because David made traditional IRA contributions for Ruth, they can take a deduction on the tax return for her IRA contributions. Ruth is not covered by an employer's retirement plan. Their compensation for IRA purposes is $72,000 and their modified AGI is not more than $150,000 (see Table 2).

POTENTIAL PITFALLS

When determining the allowable deduction, each spouse figures the deduction separately.

Example 11

Assume still that David earned $72,000 and is covered by his employer's retirement plan. Assume too that Ruth is employed; she earned $66,000 and she is not covered by her employer's retirement plan. David cannot deduct his traditional IRA contribution, but Ruth can deduct hers. The modified AGI limits that apply to David are shown in Table 1. Table 2 modified AGI limits apply to Ruth's deduction. Her deduction would not be reduced unless the couple's modified AGI was more than $150,000. It would not be eliminated unless their modified AGI was $160,000 or more.

Exercise 2

A. Angela and Joe are married and file a joint return. Joe, age 23, is covered by a retirement plan at work, but Angela, age 25, is not. Joe earned $25,000 and Angela earned $20,000; their modified AGI is $45,000. Is any portion of Angela's traditional IRA contribution deductible, and why? ____________________

____

B. Annette, age 26, is single. She earned $23,000, and her modified AGI is $24,500. She made a $500 contribution to a traditional IRA. Annette is covered by a retirement plan at work. Is any portion of her contribution deductible, and why? ________

____

C. Richard and Lynn are married and lived together during the year. They file separate returns. Richard is covered by a retirement plan at work. Lynn is not covered by a retirement plan at work. Richard, age 40, earned $17,000 and contributed $1,400 to a traditional IRA. Lynn, age 33, worked part-time and earned $4,500. She contributed $1,000 to a traditional IRA. Can Richard or Lynn deduct any of the IRA contributions, and why?____

____

When to Deduct Traditional IRS Contributions

Individuals may deduct traditional IRA contributions on their 2003 tax return if the contributions are made in 2003 or by April 15, 2004. Taxpayers may not deduct on their 2003 tax return contributions made in 2003 which were deducted on the 2002 tax return. The contributions do not have to be made before the return is filed. However, if the taxpayer deducts traditional IRA contributions on the 2003 tax return but does not make the traditional IRA contributions by April 15, 2004, for the exact amount deducted, the taxpayer must file an amended tax return.

Usng the Worksheet and Reporting the Deduction

Use the IRA Deduction Worksheet in the Form 1040A or Form 1040 instructions booklet to figure the traditional IRA deduction.

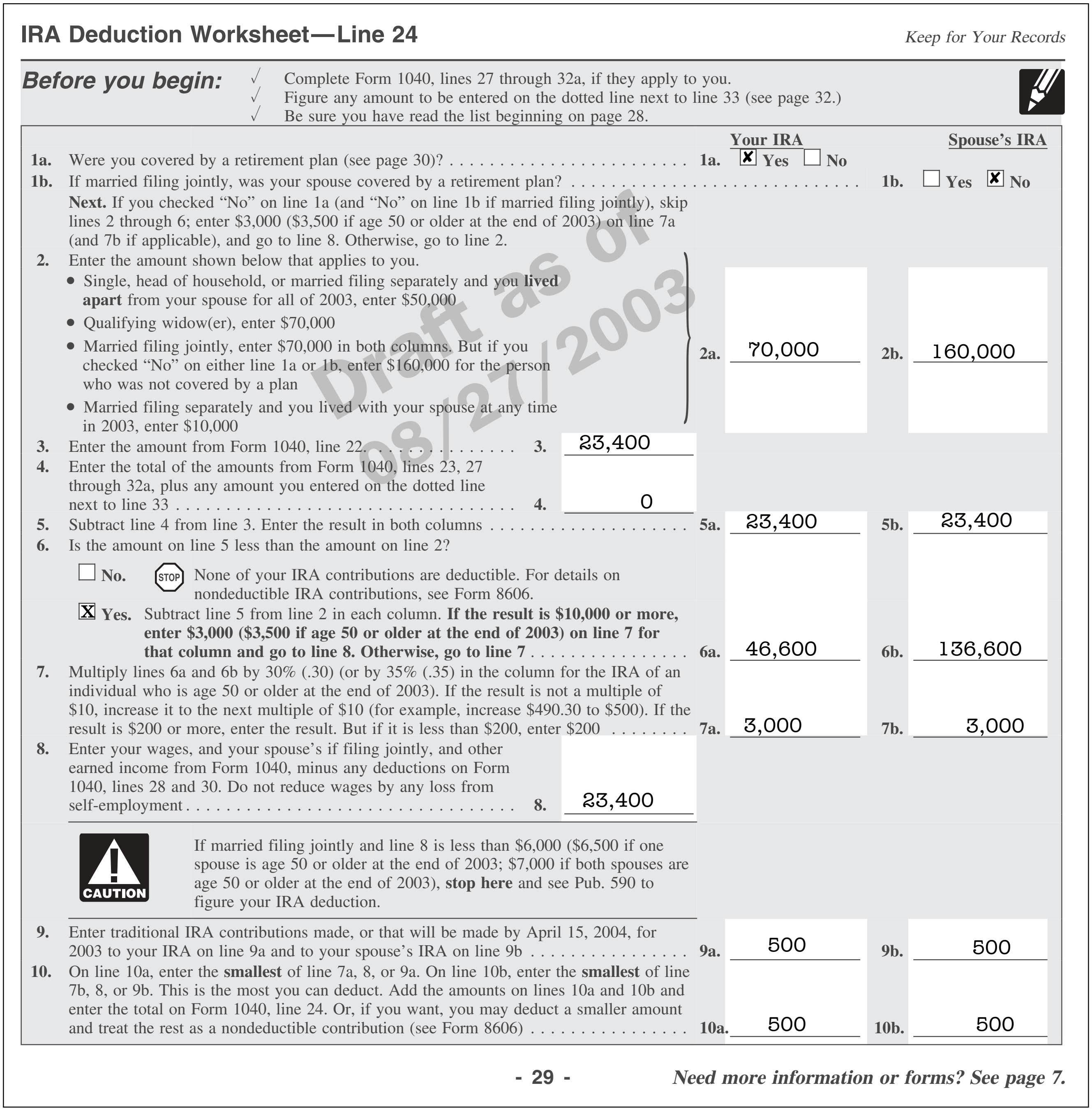
The traditional IRA deduction is reported on Form 1040A, line 17 or Form 1040, line 24. On joint returns when both spouses are making deductible traditional IRA contributions, enter the total contribution.

Example 12

Nick and Susan file a joint return. Both work, and Nick, age 27, was covered by a retirement plan, but Susan, age 25, was not. Nick earned $12,300 and Susan earned $10,990. Their total income (Form 1040, line 22) is $23,400. Nick and Susan each contributed $500 to a traditional IRA.

The completed worksheet is shown in Exhibit 1. The information for Nick is shown in the column for *Your IRA*. The information for Susan is shown in the column for *Spouse's IRA*.

Exhibit 1



IRA Deduction Worksheet—Line 24

Keep for Your Records

Before you begin:
√ Complete Form 1040, lines 27 through 32a, if they apply to you.
√ Figure any amount to be entered on the dotted line next to line 33 (see page 32.)
√ Be sure you have read the list beginning on page 28.

		Your IRA	Spouse's IRA
1a.	Were you covered by a retirement plan (see page 30)?	**1a.** ☒ Yes ☐ No	
1b.	If married filing jointly, was your spouse covered by a retirement plan?		**1b.** ☐ Yes ☒ No

Next. If you checked "No" on line 1a (and "No" on line 1b if married filing jointly), skip lines 2 through 6; enter $3,000 ($3,500 if age 50 or older at the end of 2003) on line 7a (and 7b if applicable), and go to line 8. Otherwise, go to line 2.

2. Enter the amount shown below that applies to you.
- Single, head of household, or married filing separately and you **lived apart** from your spouse for all of 2003, enter $50,000
- Qualifying widow(er), enter $70,000
- Married filing jointly, enter $70,000 in both columns. But if you checked "No" on either line 1a or 1b, enter $160,000 for the person who was not covered by a plan
- Married filing separately and you lived with your spouse at any time in 2003, enter $10,000

2a. 70,000 **2b.** 160,000

3. Enter the amount from Form 1040, line 22 . . . . **3.** 23,400

4. Enter the total of the amounts from Form 1040, lines 23, 27 through 32a, plus any amount you entered on the dotted line next to line 33 . . . . **4.** 0

5. Subtract line 4 from line 3. Enter the result in both columns **5a.** 23,400 **5b.** 23,400

6. Is the amount on line 5 less than the amount on line 2?

☐ **No.** STOP None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606.

☒ **Yes.** Subtract line 5 from line 2 in each column. **If the result is $10,000 or more, enter $3,000 ($3,500 if age 50 or older at the end of 2003) on line 7 for that column and go to line 8. Otherwise, go to line 7** **6a.** 46,600 **6b.** 136,600

7. Multiply lines 6a and 6b by 30% (.30) (or by 35% (.35) in the column for the IRA of an individual who is age 50 or older at the end of 2003). If the result is not a multiple of $10, increase it to the next multiple of $10 (for example, increase $490.30 to $500). If the result is $200 or more, enter the result. But if it is less than $200, enter $200 . . . . **7a.** 3,000 **7b.** 3,000

8. Enter your wages, and your spouse's if filing jointly, and other earned income from Form 1040, minus any deductions on Form 1040, lines 28 and 30. Do not reduce wages by any loss from self-employment **8.** 23,400

CAUTION If married filing jointly and line 8 is less than $6,000 ($6,500 if one spouse is age 50 or older at the end of 2003; $7,000 if both spouses are age 50 or older at the end of 2003), **stop here** and see Pub. 590 to figure your IRA deduction.

9. Enter traditional IRA contributions made, or that will be made by April 15, 2004, for 2003 to your IRA on line 9a and to your spouse's IRA on line 9b **9a.** 500 **9b.** 500

10. On line 10a, enter the **smallest** of line 7a, 8, or 9a. On line 10b, enter the **smallest** of line 7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b and enter the total on Form 1040, line 24. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606) **10a.** 500 **10b.** 500

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Need more information or forms? See page 7.

Nondeductible IRA Contributions

Although the deductible amount of traditional IRA contributions can be reduced or eliminated because of the modified adjusted gross income limitation, a taxpayer can make nondeductible contributions to new or existing traditional IRAs. Earnings and gains on these contributions are not taxed until they are distributed to the taxpayer.

The total traditional IRA contribution, whether deductible or nondeductible, cannot be more than the taxpayer's taxable compensation or $3,000 ($3,500 if age 50 or older), whichever amount is smaller.

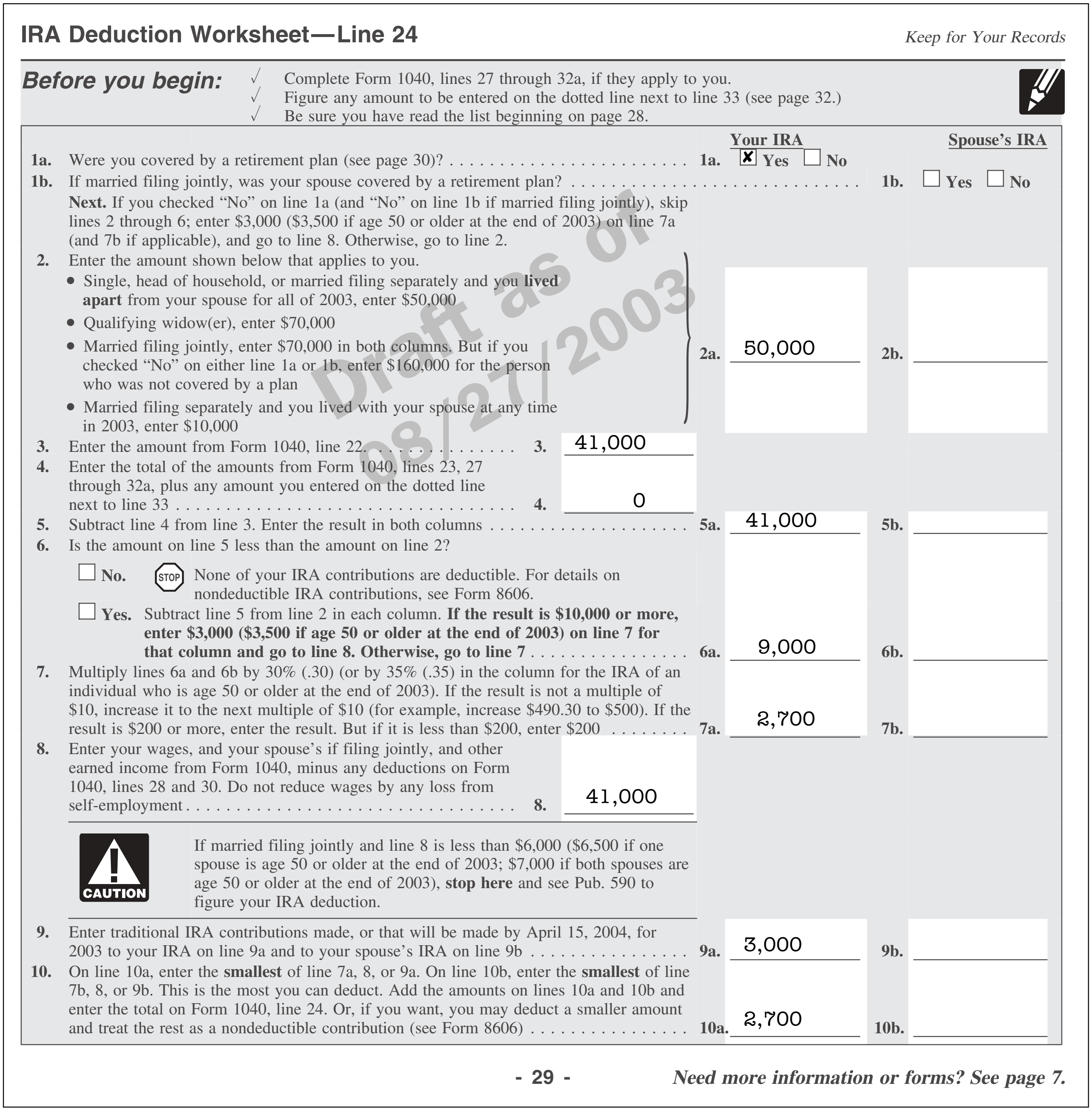
Taxpayers must complete Form 8606, *Nondeductible IRAs*, for each year that nondeductible contributions are made.

If taxpayers do not report nondeductible contributions, all of the contributions to a traditional IRA will be treated as deductible. This means all distributions will be taxed unless the taxpayer can show, with satisfactory evidence, that nondeductible contributions were made.

Example 13

Rachel, age 35, is single and wants to contribute the maximum amount possible to her traditional IRA. She is covered by her employer's retirement plan and her total income, Form 1040A Line 15, is $41,000. Her total basis in traditional IRAs from line 14 of her 2002 Form 8606 is $10,000. The completed IRA Deduction Worksheet and Form 8606 are shown in Exhibits 2 and 3.

Exhibit 2 **Rachel's IRA Deductions Worksheet**



IRA Deduction Worksheet—Line 24

Keep for Your Records

Before you begin:

√ Complete Form 1040, lines 27 through 32a, if they apply to you.
√ Figure any amount to be entered on the dotted line next to line 33 (see page 32.)
√ Be sure you have read the list beginning on page 28.

			Your IRA		**Spouse's IRA**
1a.	Were you covered by a retirement plan (see page 30)?	**1a.**	☒ Yes ☐ No		
1b.	If married filing jointly, was your spouse covered by a retirement plan?			**1b.**	☐ Yes ☐ No
	Next. If you checked "No" on line 1a (and "No" on line 1b if married filing jointly), skip lines 2 through 6; enter $3,000 ($3,500 if age 50 or older at the end of 2003) on line 7a (and 7b if applicable), and go to line 8. Otherwise, go to line 2.				
2.	Enter the amount shown below that applies to you. • Single, head of household, or married filing separately and you **lived apart** from your spouse for all of 2003, enter $50,000 • Qualifying widow(er), enter $70,000 • Married filing jointly, enter $70,000 in both columns. But if you checked "No" on either line 1a or 1b, enter $160,000 for the person who was not covered by a plan • Married filing separately and you lived with your spouse at any time in 2003, enter $10,000	**2a.**	50,000	**2b.**	
3.	Enter the amount from Form 1040, line 22 . . . . **3.** 41,000				
4.	Enter the total of the amounts from Form 1040, lines 23, 27 through 32a, plus any amount you entered on the dotted line next to line 33 . . . . **4.** 0				
5.	Subtract line 4 from line 3. Enter the result in both columns	**5a.**	41,000	**5b.**	
6.	Is the amount on line 5 less than the amount on line 2? ☐ **No.** STOP None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606. ☐ **Yes.** Subtract line 5 from line 2 in each column. **If the result is $10,000 or more, enter $3,000 ($3,500 if age 50 or older at the end of 2003) on line 7 for that column and go to line 8. Otherwise, go to line 7**	**6a.**	9,000	**6b.**	
7.	Multiply lines 6a and 6b by 30% (.30) (or by 35% (.35) in the column for the IRA of an individual who is age 50 or older at the end of 2003). If the result is not a multiple of $10, increase it to the next multiple of $10 (for example, increase $490.30 to $500). If the result is $200 or more, enter the result. But if it is less than $200, enter $200	**7a.**	2,700	**7b.**	
8.	Enter your wages, and your spouse's if filing jointly, and other earned income from Form 1040, minus any deductions on Form 1040, lines 28 and 30. Do not reduce wages by any loss from self-employment **8.** 41,000				
	CAUTION If married filing jointly and line 8 is less than $6,000 ($6,500 if one spouse is age 50 or older at the end of 2003; $7,000 if both spouses are age 50 or older at the end of 2003), **stop here** and see Pub. 590 to figure your IRA deduction.				
9.	Enter traditional IRA contributions made, or that will be made by April 15, 2004, for 2003 to your IRA on line 9a and to your spouse's IRA on line 9b	**9a.**	3,000	**9b.**	
10.	On line 10a, enter the **smallest** of line 7a, 8, or 9a. On line 10b, enter the **smallest** of line 7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b and enter the total on Form 1040, line 24. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)	**10a.**	2,700	**10b.**	

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Need more information or forms? See page 7.

Exhibit 3 Rachel's Form 8606

Form **8606**

Department of the Treasury
Internal Revenue Service

Nondeductible IRAs

► See separate instructions.

► Attach to Form 1040, Form 1040A, or Form 1040NR.

OMB No. 1545-1007

2003

Attachment Sequence No. **48**

Name. If married, file a separate form for each spouse required to file Form 8606. See page 5 of the instructions. Rachel Green

Your social security number 000 00 6220

Fill in Your Address Only if You Are Filing This Form by Itself and Not With Your Tax Return

Home address (number and street, or P.O. box if mail is not delivered to your home)

Apt. no.

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

Part I Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, SEP, and SIMPLE IRAs

Complete this part only if:

- You made nondeductible contributions to a traditional IRA for 2003,
- You took distributions from a traditional, SEP, or SIMPLE IRA in 2003 (other than a rollover, conversion, recharacterization, or return of certain contributions) **and** you made nondeductible contributions to a traditional IRA in 2003 or an earlier year, **or**
- You converted part, but not all, of your traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2003 (excluding any portion you recharacterized) **and** you made nondeductible contributions to a traditional IRA in 2003 or an earlier year.

1 Enter your nondeductible contributions to traditional IRAs for 2003, including those made for 2003 from January 1, 2004, through April 15, 2004 (see page 5 of the instructions) **1** 300

2 Enter your total basis in traditional IRAs (see page 6 of the instructions) **2** 10,000

3 Add lines 1 and 2 . . . . **3** 10,300

In 2003, did you take a distribution from traditional, SEP, or SIMPLE IRAs or make a Roth IRA conversion?

No ► Enter the amount from line 3 on line 14. Do not complete the rest of Part I.

Yes ► Go to line 4.

4 Enter those contributions included on line 1 that were made from January 1, 2004, through April 15, 2004 . . . . **4**

5 Subtract line 4 from line 3 . . . . **5**

6 Enter the value of **all** your traditional, SEP, and SIMPLE IRAs as of December 31, 2003, plus any outstanding rollovers (see page 6 of the instructions) **6**

7 Enter your distributions from traditional, SEP, and SIMPLE IRAs in 2003. **Do not** include rollovers, conversions to a Roth IRA, certain returned contributions, or recharacterizations of traditional IRA contributions (see page 6 of the instructions) **7**

8 Enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2003. **Do not** include amounts converted that you later recharacterized (see page 7 of the instructions). Also enter this amount on line 16 . . . . **8**

9 Add lines 6, 7, and 8 . . . . **9**

10 Divide line 5 by line 9. Enter the result as a decimal rounded to at least 3 places. If the result is 1.000 or more, enter "1.000" . . . **10** × .

11 Multiply line 8 by line 10. This is the nontaxable portion of the amount you converted to Roth IRAs. Also enter this amount on line 17 . . **11**

12 Multiply line 7 by line 10. This is the nontaxable portion of your distributions that you did not convert to a Roth IRA **12**

13 Add lines 11 and 12. This is the nontaxable portion of all your distributions **13**

14 Subtract line 13 from line 3. This is **your total basis in traditional IRAs for 2003 and earlier years** **14** 10,300

15 **Taxable amount.** Subtract line 12 from line 7. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b **15**

Note: *You may be subject to an additional 10% tax on the amount on line 15 if you were under age 59½ at the time of the distribution (see page 7 of the instructions).*

For Paperwork Reduction Act Notice, see page 8 of the instructions. Cat. No. 63966F Form **8606** (2003)

Exercise 3

Bill and Kathy are both employed and each earned $15,000 in 2003. Both Bill and Kathy are age 32. Bill was covered by an employer retirement plan but Kathy was not. In July 2003, Bill contributed $1,200 to his 2003 traditional IRA. In February 2004, he contributed $800 to his 2003 traditional IRA. Kathy contributed $400 to her 2003 traditional IRA. They file a joint return. Their total income on line 22 is $30,000. They have no other adjustments to income.

Complete their IRA deduction worksheet (Exhibit 4).

Additional Taxes and Penalties

Taxpayers are generally subject to additional taxes and penalties for:

- Contributing more to a traditional IRA than is allowed,
- Making traditional IRA withdrawals before age 59 1/2, and
- Not withdrawing enough traditional IRA funds after age 70 1/2.
- Investing in collectibles
- Prohibited transactions, such as borrowing money from one's own IRA or selling property to it.

There are penalties for overstating the amount of nondeductible contributions and for failure to file Form 8606, if required.

Credit for Qualified Retirement Savings Contribution

Refer to Lesson 5 to determine if a taxpayer is also eligible to receive the credit for qualified retirement savings contributions based on their contributions to an IRA.

Exhibit 4

Bill and Kathy's IRA Deductions Worksheet

IRA Deduction Worksheet—Line 24

Keep for Your Records

Before you begin:
- √ Complete Form 1040, lines 27 through 32a, if they apply to you.
- √ Figure any amount to be entered on the dotted line next to line 33 (see page 32.)
- √ Be sure you have read the list beginning on page 28.

		Your IRA	Spouse's IRA
1a.	Were you covered by a retirement plan (see page 30)?	**1a.** ☐ **Yes** ☐ **No**	
1b.	If married filing jointly, was your spouse covered by a retirement plan?		**1b.** ☐ **Yes** ☐ **No**
	Next. If you checked "No" on line 1a (and "No" on line 1b if married filing jointly), skip lines 2 through 6; enter $3,000 ($3,500 if age 50 or older at the end of 2003) on line 7a (and 7b if applicable), and go to line 8. Otherwise, go to line 2.		
2.	Enter the amount shown below that applies to you. • Single, head of household, or married filing separately and you **lived apart** from your spouse for all of 2003, enter $50,000 • Qualifying widow(er), enter $70,000 • Married filing jointly, enter $70,000 in both columns. But if you checked "No" on either line 1a or 1b, enter $160,000 for the person who was not covered by a plan • Married filing separately and you lived with your spouse at any time in 2003, enter $10,000	**2a.** ______	**2b.** ______
3.	Enter the amount from Form 1040, line 22 . . . **3.** ______		
4.	Enter the total of the amounts from Form 1040, lines 23, 27 through 32a, plus any amount you entered on the dotted line next to line 33 . . . **4.** ______		
5.	Subtract line 4 from line 3. Enter the result in both columns	**5a.** ______	**5b.** ______
6.	Is the amount on line 5 less than the amount on line 2? ☐ **No.** STOP None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606. ☐ **Yes.** Subtract line 5 from line 2 in each column. **If the result is $10,000 or more, enter $3,000 ($3,500 if age 50 or older at the end of 2003) on line 7 for that column and go to line 8. Otherwise, go to line 7**	**6a.** ______	**6b.** ______
7.	Multiply lines 6a and 6b by 30% (.30) (or by 35% (.35) in the column for the IRA of an individual who is age 50 or older at the end of 2003). If the result is not a multiple of $10, increase it to the next multiple of $10 (for example, increase $490.30 to $500). If the result is $200 or more, enter the result. But if it is less than $200, enter $200	**7a.** ______	**7b.** ______
8.	Enter your wages, and your spouse's if filing jointly, and other earned income from Form 1040, minus any deductions on Form 1040, lines 28 and 30. Do not reduce wages by any loss from self-employment . . . **8.** ______		
	CAUTION If married filing jointly and line 8 is less than $6,000 ($6,500 if one spouse is age 50 or older at the end of 2003; $7,000 if both spouses are age 50 or older at the end of 2003), **stop here** and see Pub. 590 to figure your IRA deduction.		
9.	Enter traditional IRA contributions made, or that will be made by April 15, 2004, for 2003 to your IRA on line 9a and to your spouse's IRA on line 9b	**9a.** ______	**9b.** ______
10.	On line 10a, enter the **smallest** of line 7a, 8, or 9a. On line 10b, enter the **smallest** of line 7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b and enter the total on Form 1040, line 24. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)	**10a.** ______	**10b.** ______

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Need more information or forms? See page 7.

STUDENT LOAN INTEREST DEDUCTION

If a taxpayer paid interest on a student loan in 2003, he or she may be able to deduct up to $2,500 of the interest paid.

If the taxpayer paid $600 or more in interest to a single lender, the taxpayer should receive a statement from the lender showing the amount of interest paid. This information will assist you in completing the student loan interest deduction.

Qualified Student Loan Interest

Generally, student loan interest is the interest paid during the year on a loan for qualified higher education expenses that were:

1. For the taxpayer, the taxpayer's spouse, or a person who was the taxpayer's dependent when the loan was obtained.
2. Paid within a reasonable period of time before or after obtaining the loan, and
3. For an eligible student.

Interest can be the interest paid during the life of the loan (voluntary and required interest payments), loan origination fees, capitalized interest, interest on revolving lines of credit, and interest on refinanced student loans.

Interest does not include interest on any of the following:

1. A loan from a related person.
2. A loan from a qualified employer plan.
3. A loan for which the taxpayer is not legally liable.

Who Can Claim the Deduction

Generally, a taxpayer can claim the deduction if all the following requirements are met:

1. Taxpayer cannot use married filing separately filing status.
2. Taxpayer cannot be claimed as a dependent on someone else's return.
3. The interest is on a loan to pay tuition and other qualified higher education expenses for the taxpayer, the taxpayer's spouse, or someone whom the taxpayer can claim as a dependent, when the loan was taken out.
4. The education expenses were paid or incurred within a reasonable period of time before or after the loan was taken out.
5. The person for whom the expenses were paid or incurred was an eligible student.

Qualified Higher Education Expenses

Generally, qualified higher education expenses include tuition and fees; room and board; books, supplies and equipment; and other necessary expenses.

These costs must be reduced by the following:

1. Employer provided educational assistance benefits.
2. Tax-free withdrawals from a Coverdell ESA.
3. Tax-free withdrawals from a qualified tuition program.
4. U.S. savings bond interest excluded from income because it is used to pay qualified higher education expenses.
5. Certain scholarships.
6. Veteran's educational assistance benefits.
7. Any other nontaxable payments (other than gifts, bequests, or inheritances) received for educational expenses.

Eligible educational institution

An eligible educational institution is any college, university, vocational school or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education. It includes virtually all accredited public, nonprofit, and privately owned profit-making postsecondary institutions.

For the student loan interest deduction only, an eligible educational institution also includes an institution conducting an internship or residency program leading to a degree or certificate from an institution of higher education, hospital, or health care facility that offers postgraduate training.

If a taxpayer does not know if the educational institution is an eligible institution, the taxpayer should contact the school.

Eligible student

An eligible student is a student who is enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential.

The standard for what is half the normal full-time work load is determined by each eligible educational institution.

Deduction Limits

The student loan interest deduction is generally the smaller of $2,500 or the interest payments paid in 2003.

This amount may be gradually reduced (phased out) or eliminated based on the taxpayer's filing status and modified adjusted gross income (MAGI). Table 3 depicts when the limits apply.

Table 3

Limit on Student Loan Interest Deduction		
If your filing status is	AND your modified AGI is	THEN...
Singe, head of household, or qualifying widow(er)	$50,000 or less	You can deduct all your interest, up to $2,500
	More than $50,000, but less than $65,000	Your deduction is limited
	$65,000 or more	You cannot claim this deduction.
Married filing jointly	$100,000 or less	You can deduct all your interest up to $2,500
	More than $100,000, but less than $130,000	Your deduction is limited
	$130,000 or more	You cannot claim this deduction.

Figuring the Deduction

Use the Student Loan Interest Deduction worksheet found in the Form 1040 or Form 1040A instructions to figure the deduction.

Claiming the Deduction

The student loan interest deduction is entered on Form 1040, line 25, or Form 1040A, line 18.

Example 14

During 2003, Rick paid $2,650 in qualified interest on his student loan. His total income, Form 1040, line 22, is $35,000. He has no other adjustments to his income. His completed student loan interest deduction worksheet, Exhibit 5, shows Rick is entitled to $2,500. Although his MAGI falls within the income limits, he is only entitled to a maximum $2,500 deduction.

Exhibit 5

Rick's 2003 Student Loan Interest Deduction Worksheet

Student Loan Interest Deduction Worksheet—Line 25

Keep for Your Records

Before you begin:

- √ Complete Form 1040, lines 27 through 32a, if they apply to you.
- √ Figure any amount to be entered on the dotted line next to line 33 (see page 32).
- √ See the instructions for line 25 that begin on this page.
- √ Be sure you have read the **Exception** above to see if you can use this worksheet instead of Pub. 970 to figure your deduction.

1. Enter the total interest you paid in 2003 on qualified student loans (defined above). **Do not** enter more than $2,500 . . . . **1.** 2,500

2. Enter the amount from Form 1040, line 22 . . . . **2.** 35,000

3. Enter the total of the amounts from Form 1040, lines 23, 24, 27 through 32a, plus any amount you entered on the dotted line next to line 33 . . . . **3.** 0

4. Subtract line 3 from line 2 . . . . **4.** 35,000

5. Enter the amount shown below for your filing status.
- Single, head of household, or qualifying widow(er)—$50,000
- Married filing jointly—$100,000

} **5.** 50,000

6. Is the amount on line 4 more than the amount on line 5?

☐ **No.** Skip lines 6 and 7, enter -0- on line 8, and go to line 9.

☐ **Yes.** Subtract line 5 from line 4 . . . . **6.**

7. Divide line 6 by $15,000 ($30,000 if married filing jointly). Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000 . . . . **7.** .

8. Multiply line 1 by line 7 . . . . **8.** 0

9. **Student loan interest deduction.** Subtract line 8 from line 1. Enter the result here and on Form 1040, line 25. **Do not** include this amount in figuring any other deduction on your return (such as on Schedule A, C, E, etc.) **9.** 2,500

TUITION AND FEES DEDUCTION

Taxpayers can deduct an amount equal to the qualified tuition and related expenses paid during the tax year as an adjustment to income. The adjustment is reported on Form 1040, line 26, or Form 1040A, line 19.

To claim the deduction the taxpayer must have incurred ***qualified expenses*** for an ***eligible student*** to attend an ***eligible educational institution*** during the tax year. In addition, the taxpayer must include on the tax return the name and taxpayer identification number of the qualified student.

Qualified Expenses

Qualified tuition and related expenses include tuition and fees required for enrollment or attendance at an eligible educational institution and generally include fees for:

- Course-related books, supplies and equipment, and

The fees must be paid to the institution as a condition of enrollment or attendance.

Qualified tuition and related expenses do not include the cost of:

- Insurance,
- Medical expenses (including student health fees),
- Room and board,
- Student activities.
- Transportation or similar personal, living or family expenses, even if the fees must be paid to the institution as a condition of enrollment or attendance.
- Athletic fees.
- Other expenses unrelated to an individual's academic course of instruction.

Eligible Student

The deduction can be claimed for the taxpayer, the taxpayer's spouse (if filing a joint return) and any dependent (for whom the taxpayer claims a dependency exemption).

Married taxpayers that file as married filing separately cannot take the deduction.

An individual who is the dependent of another taxpayer cannot claim the deduction.

Eligible Educational Institution

An eligible educational institution is generally any accredited public, nonprofit, or private postsecondary institution eligible to participate in the student aid programs administered by the

Department of Education. It includes virtually all accredited, public, nonprofit, and privately owned profit-making post secondary institutions.

If the taxpayer does not know if the educational institution is an eligible institution, he or she should contact the school.

Deduction Amount

The deduction amount is determined by the taxpayer's filing status and adjusted gross income. Table 4 depicts when the income limitations apply.

The total amount of qualified tuition and related expenses are reduced by:

- Distributions from qualified state tuition programs
- Distributions from Coverdell ESAs
- Interest from savings bonds used for higher education expenses

Table 4 Limit on Tuiton and Fees Deduction

IF your filing status is...	AND your modified AGI is...	THEN...
Single, Head of Household, or Qualifying widow(er)	Equal to or less than $65,000	You can deduct all of your qualified tuition and fees up to $3,000.
	More than $65,000	You cannot claim the credit
Married filing jointly	Equal to or less than $130,000	You can deduct all of your qualified tuition and fees up to $3,000
	More than $130,000	You cannot claim the credit.
Married filing separately	Any amount	You cannot claim the credit.

Modified adjusted gross income for purposes of the deduction for qualified tuition and related fees is adjusted gross income before the deduction for qualified tuition and related fees and after adding back the following:

- Foreign earned income exclusion,
- Foreign housing exclusion or deduction,
- Exclusion of income for bona fide residents of Guam, Puerto Rico, American Samoa, or the Northern Mariana Islands.

Figuring the Deduction

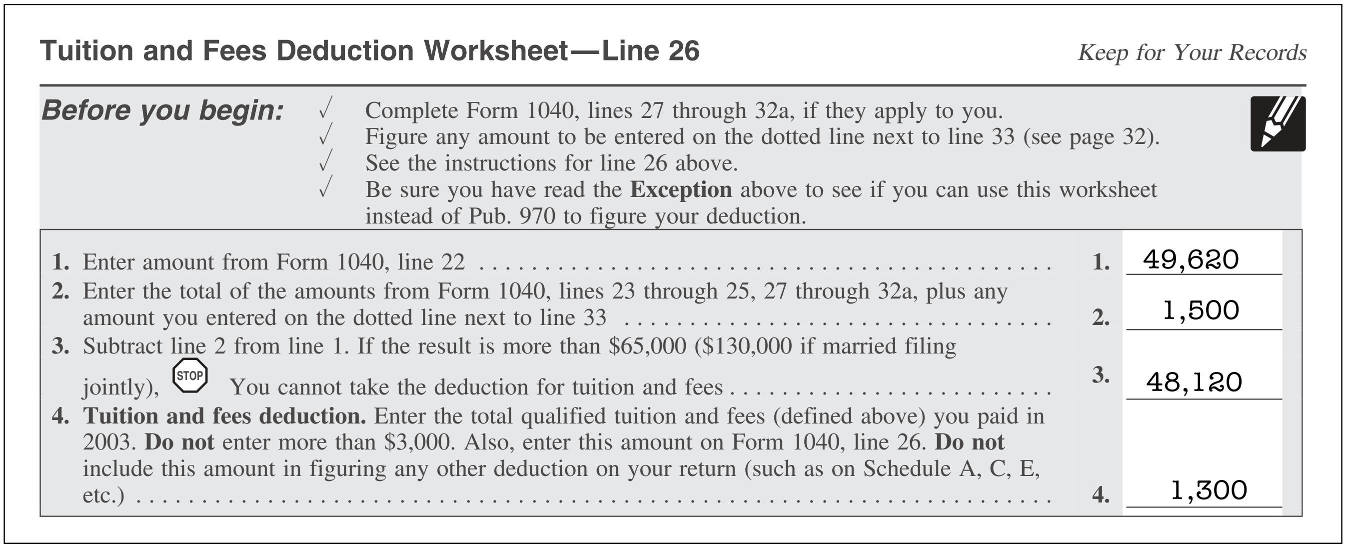
Use the Tuition and Fees Deduction worksheet found in the Form 1040 or Form 1040A instructions to figure the modified adjusted gross income and the resulting deduction amount.

Example 15

Luis and Priscilla file a joint return for 2003. Their 1040 line 22 total income is $49,620. In 2003, Priscilla paid $1,300 for classes taken at the local university. She had allowable IRA deductions of $1,500. Their allowable tuition and fees deduction is $1,300, shown in Exhibit 6.

Exhibit 6

Luis and Priscilla's Tuition and Fees Deduction Worksheet



Tuition and Fees Deduction Worksheet—Line 26 *Keep for Your Records*

Before you begin:
- √ Complete Form 1040, lines 27 through 32a, if they apply to you.
- √ Figure any amount to be entered on the dotted line next to line 33 (see page 32).
- √ See the instructions for line 26 above.
- √ Be sure you have read the **Exception** above to see if you can use this worksheet instead of Pub. 970 to figure your deduction.

1. Enter amount from Form 1040, line 22 . . . . **1.** 49,620

2. Enter the total of the amounts from Form 1040, lines 23 through 25, 27 through 32a, plus any amount you entered on the dotted line next to line 33 . . . . **2.** 1,500

3. Subtract line 2 from line 1. If the result is more than $65,000 ($130,000 if married filing jointly), STOP You cannot take the deduction for tuition and fees **3.** 48,120

4. **Tuition and fees deduction.** Enter the total qualified tuition and fees (defined above) you paid in 2003. **Do not** enter more than $3,000. Also, enter this amount on Form 1040, line 26. **Do not** include this amount in figuring any other deduction on your return (such as on Schedule A, C, E, etc.) **4.** 1,300

No Double Benefits

A taxpayer cannot:

- ■ Deduct qualified tuition and related expenses if the same expense is deductible on a different line of the return.
- ■ Claim the Hope credit or the lifetime learning credit for an individual in the same year as a deduction for qualified tuition and related expenses are claimed.
- ■ Claim a credit based on expenses paid with a tax-free scholarship, grant, or an employer-provided educational assistance.

ONE-HALF OF SELF-EMPLOYMENT TAX

Report on Form 1040, line 28, the adjustment for one-half of self-employment tax from Schedule SE. This subject was covered in Lesson 2, for volunteers who will be helping self-employed taxpayers.

PENALTY ON EARLY WITHDRAWAL OF SAVINGS

Depositors may withdraw funds from ordinary savings accounts any time they wish. However, if they withdraw funds from a time deposit (such as a certificate of deposit) before the maturity date, a penalty is charged. Form 1099-INT reports the interest earned as well as any early withdrawal penalties.

As you learned in Lesson 2, taxpayers must report the total amount of interest earned. They cannot subtract the early withdrawal penalty from the interest earned and report the difference. The early withdrawal penalty can be claimed as an adjustment only on Form 1040, line 31. The entire penalty is deducted, even if it is greater than the interest income.

Example 16

Arlene has one Form W-2 and one Form 1099-INT and no other income. Her Form 1099-INT shows both interest income and an early withdrawal penalty. Arlene does not pay alimony, and she did not make a contribution to a traditional IRA. She will not itemize deductions, and she cannot claim any tax credits. Normally, she would be able to file Form 1040A.

However, Arlene must file Form 1040 to claim the adjustment for the penalty on early withdrawal of savings.

ALIMONY PAID

As you learned in Lesson 2, alimony and separate maintenance payments are taxable to the person receiving these payments. The person paying the alimony or separate maintenance can claim it as an adjustment to income. This adjustment can be claimed only on Form 1040. The amount paid during the year and the recipient's social security number are entered on line 32a and 32b, respectively. Claim the adjustment only for amounts paid during the tax year.

Child support is not the same as alimony or separate maintenance payments. Child support is not taxable to the recipient and cannot be claimed as an adjustment by the payer.

JURY DUTY PAY GIVEN TO EMPLOYER

As you learned in Lesson 2, *Income,* jury duty pay received by taxpayers is included in other income on line 21 of Form 1040.

Some employees receive their regular wages from their employers when they are serving on a jury instead of working at their jobs. Often the jury duty pay the employees receive is turned over to their employers. The amount given to the employer may be claimed as an adjustment to income. On the dotted line next to line 33, write "jury pay" and the amount. Include jury duty pay with the adjustments claimed on lines 23 through 32a.

OTHER ADJUSTMENTS

The other adjustments that can be claimed on Form 1040 are beyond the scope of the VITA/TCE Program. Taxpayers who have adjustments that aren't discussed in this lesson should be advised to seek paid professional tax assistance.

TOTAL ADJUSTMENTS AND ADJUSTED GROSS INCOME

Add all adjustments and enter the total on Form 1040A, line 20, or Form 1040, line 33. Subtract the total adjustments from total income on Form 1040A, line 15, or Form 1040, line 22. Enter the result on Form 1040A, line 21, or Form 1040, line 34. This is **adjusted gross income** and is often referred to as **"AGI."** Adjusted gross income is used to compute some limitations, such as the medical and dental deduction on Schedule A and the credit for child and dependent care expenses.

TAXWISE HINTS

TaxWise will quickly complete any worksheets needed to determine adjustments to income.

There is one worksheet for educator expenses, student loan interest deduction, and tuition and fees deduction. You can link to this form from Form 1040, lines 23, 25, or 26.

Link to the Deductible and Non-deductible IRA Worksheet from Form 1040, line 24. Once the IRA contribution is input for the taxpayer (and spouse if married), TaxWise will complete the Form 8606, if necessary, and input the entry on Form 1040, line 24.

One half the self employment tax will be entered automatically when completing Schedule C or C-EZ.

The penalty on withdrawal from savings should be entered by linking to the Interest Received Worksheet. This worksheet is a link from Schedule B.

TaxWise breaks out the remaining adjustments. Simply input the appropriate amount.

▶ ▶ SUMMING UP THIS LESSON ◀ ◀

- An adjustment is an amount subtracted from total income.

The result is adjusted gross income.

- Adjustments covered in the VITA program are:

▶ Educator expenses

▶ Contributions to a traditional IRA

▶ Student loan interest deduction

▶ Tuition and fees paid

▶ One-half of self-employment tax paid (volunteers trained to prepare Schedule C-EZ and SE can assist taxpayers claiming this adjustment)

▶ Penalty on early withdrawal of savings

▶ Alimony paid

▶ Jury duty pay given to employer

- The adjustments for traditional IRA contributions, student loan interest deduction, tuition and fees deduction, and educator expenses deduction can be claimed either on Form 1040A or Form 1040. The other adjustments can be claimed on Form 1040 only.
- Persons 70 1/2 years of age or older by the end of the tax year cannot make traditional IRA contributions for that tax year.
- Traditional IRA contributions generally cannot be more than the taxpayer's taxable compensation or $3,000 ($3,500 if age 50 or older), whichever amount is smaller.
- Individuals who are not covered by retirement plans at work may make deductible IRA contributions regardless of their modified adjusted gross income. Taxpayers who are covered by retirement plans at work may deduct all, part, or none of their traditional IRA contributions depending on their modified adjusted gross income and filing status.
- Taxpayers may be subject to additional tax for contributing more to a traditional IRA than is allowed, making traditional IRA withdrawals before age 59 1/2, and not withdrawing enough traditional IRA funds after 70 1/2.

Exercise 1

(A) Yes; alimony is considered compensation for traditional IRA purposes.

(B) Yes; But only if they file a joint return.

(C) No; Carla has no compensation for traditional IRA purposes.

(D) $1,250; The lessor of taxable compensation or $13,500.

Exercise 2

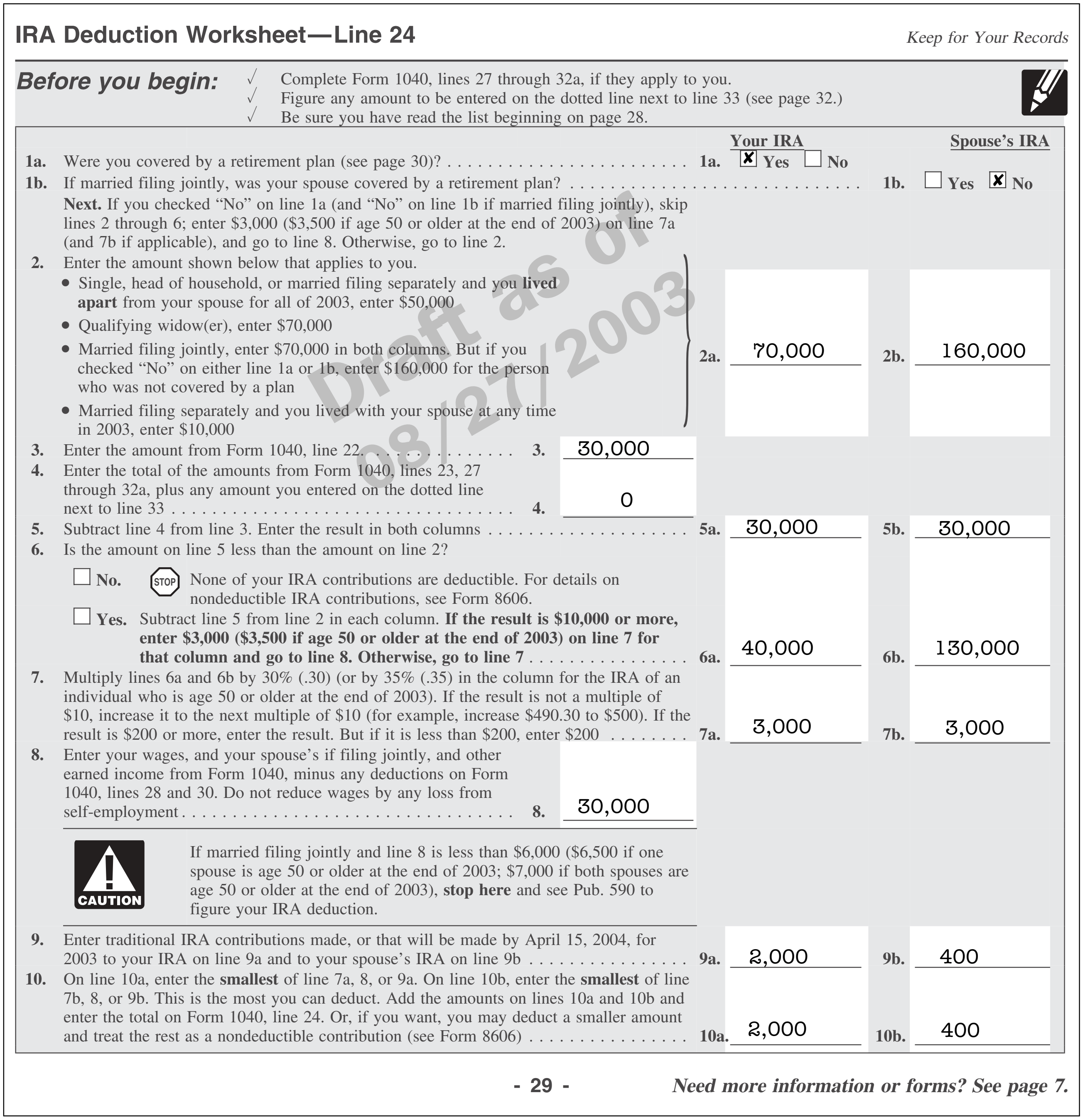
(A) Yes; all of her contribution up to $3,000 is deductible because their combined modified adjusted gross income is not more than $150,000.

(B) Yes; all of it is deductible because her modified adjusted gross income is less than $40,000.

(C) Richard may not deduct any of his contribution because his modified adjusted gross income is at least $10,000. Lynn will be able to deduct a portion of her IRA contribution because she is not covered by an employer-sponsored retirement plan and her income is less than $10,000.

Exercise 3

Bill and Kathy's IRA Deductions Worksheet



IRA Deduction Worksheet—Line 24

Keep for Your Records

Before you begin:
√ Complete Form 1040, lines 27 through 32a, if they apply to you.
√ Figure any amount to be entered on the dotted line next to line 33 (see page 32.)
√ Be sure you have read the list beginning on page 28.

			Your IRA		Spouse's IRA
1a.	Were you covered by a retirement plan (see page 30)?	**1a.**	☒ Yes ☐ No		
1b.	If married filing jointly, was your spouse covered by a retirement plan?			**1b.**	☐ Yes ☒ No
	Next. If you checked "No" on line 1a (and "No" on line 1b if married filing jointly), skip lines 2 through 6; enter $3,000 ($3,500 if age 50 or older at the end of 2003) on line 7a (and 7b if applicable), and go to line 8. Otherwise, go to line 2.				
2.	Enter the amount shown below that applies to you. • Single, head of household, or married filing separately and you **lived apart** from your spouse for all of 2003, enter $50,000 • Qualifying widow(er), enter $70,000 • Married filing jointly, enter $70,000 in both columns. But if you checked "No" on either line 1a or 1b, enter $160,000 for the person who was not covered by a plan • Married filing separately and you lived with your spouse at any time in 2003, enter $10,000	**2a.**	70,000	**2b.**	160,000
3.	Enter the amount from Form 1040, line 22 . . . **3.** 30,000				
4.	Enter the total of the amounts from Form 1040, lines 23, 27 through 32a, plus any amount you entered on the dotted line next to line 33 . . . **4.** 0				
5.	Subtract line 4 from line 3. Enter the result in both columns	**5a.**	30,000	**5b.**	30,000
6.	Is the amount on line 5 less than the amount on line 2? ☐ **No.** STOP None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606. ☐ **Yes.** Subtract line 5 from line 2 in each column. **If the result is $10,000 or more, enter $3,000 ($3,500 if age 50 or older at the end of 2003) on line 7 for that column and go to line 8. Otherwise, go to line 7**	**6a.**	40,000	**6b.**	130,000
7.	Multiply lines 6a and 6b by 30% (.30) (or by 35% (.35) in the column for the IRA of an individual who is age 50 or older at the end of 2003). If the result is not a multiple of $10, increase it to the next multiple of $10 (for example, increase $490.30 to $500). If the result is $200 or more, enter the result. But if it is less than $200, enter $200	**7a.**	3,000	**7b.**	3,000
8.	Enter your wages, and your spouse's if filing jointly, and other earned income from Form 1040, minus any deductions on Form 1040, lines 28 and 30. Do not reduce wages by any loss from self-employment . . . **8.** 30,000				
	CAUTION If married filing jointly and line 8 is less than $6,000 ($6,500 if one spouse is age 50 or older at the end of 2003; $7,000 if both spouses are age 50 or older at the end of 2003), **stop here** and see Pub. 590 to figure your IRA deduction.				
9.	Enter traditional IRA contributions made, or that will be made by April 15, 2004, for 2003 to your IRA on line 9a and to your spouse's IRA on line 9b	**9a.**	2,000	**9b.**	400
10.	On line 10a, enter the **smallest** of line 7a, 8, or 9a. On line 10b, enter the **smallest** of line 7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b and enter the total on Form 1040, line 24. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)	**10a.**	2,000	**10b.**	400

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Need more information or forms? See page 7.

STUDENT NOTES

MOVING EXPENSES

INTRODUCTION AND OBJECTIVES

This segment covers the moving expenses of military personnel. When a member of the Armed Forces is transferred to a new permanent duty station he or she may deduct certain moving expenses.

In preparing returns for the military, you will need to:

- Identify qualifying moves by assisting in determining if the move qualifies as a permanent change of station (PCS).
- Determine when allowances and reimbursements must be included in income.
- Identify deductible moving expenses.
- Compute the moving expense deduction using Form 3903, Moving Expenses, for moves within and outside the United States.

PERMANENT CHANGE OF STATION

For military moves, only expenses incurred as a result of a permanent change of station are deductible. A permanent change of station includes:

- A move from home to the area of the first post of duty.
- A move from one permanent post of duty to another.
- A move from the last post of duty to home or to a nearer point in the United States. The member must move within one year of ending active duty or within the period allowed under the Joint Travel Regulations.

Spouse and dependents. If a member of the Armed Forces deserts, is imprisoned, or dies, a permanent change of station for the spouse or dependents includes a move to the place of enlistment, the home of record, or any nearer point in the United States.

If the Armed Forces moves a member and his or her spouse or dependents to or from separate locations, the moves are treated as a single move to the member's post of duty. The qualified expenses of both moves are combined and deducted on the same tax return.

Exercise 1

Which of the following is a permanent change of station?

A. A move by an Air Force pilot to an airbase for a 6-month detail.

B. A move by an Army sergeant to his home 2 years after he ended active duty.

C. A move by a new enlistee from her home to her first post of duty.

Answer ____

REQUIREMENTS

The moving expense deduction includes only expenses that are reasonable for the circumstances of the move. For example, the costs of any side trips for sightseeing are not deductible. The cost of lavish and extravagant lodging also is not deductible.

Although civilians must meet a distance test and a time test to deduct moving expenses, members of the military can disregard such tests for moves required by a permanent change of station.

PAYMENTS IN KIND, ALLOWANCES, AND REIMBURSEMENTS

The service member must include in gross income any payments he or she receives from the government for a do-it-yourself (DITY) permanent change of station (PCS) move. A DITY move payment is based on government estimates of the cost to move household goods, not on actual expenses and receipts. The service member will receive a separate Form W-2 for the DITY payment. The amount in box 1 of the Form W-2 must be included on line 7 of Form 1040. He or she must also complete Form 3903 to compute total qualified moving expenses that can be deducted on line 27, Form 1040. These line 7 and line 27 entries on Form 1040 will report the income and applicable related expenses for the move on the Form 1040.

The service member does not include any of the following in his or her gross income.

- Moving or storage services furnished to the member.
- Non-taxable allowances such as:
  - Dislocation allowance
  - Temporary Lodging Allowance
  - Mileage Allowance in Lieu of Transportation
  - Per Diem Allowance

Generally, if total reimbursements or allowances received by the service member are more than his or her qualified moving expenses, the excess will be included with his or her wages in box 1 of Form W-2. However, if reimbursements or allowances (other than nontaxable allowances like the ones listed above) exceed the cost of moving and they are not included in the Form W-2, the service member must still include the excess on line 7 of Form 1040.

Use Form 3903 to deduct qualified expenses that exceed reimbursements and allowances (including nontaxable allowances like the ones listed above).

Exercise 2

A. A member of the Armed Forces must include in gross income all reimbursements, allowances, and the value of moving and storage services that the military organization furnishes. True or false?

Answer ____

B. If a member of the Armed Forces receives reimbursements or allowances (that are not excludable from gross income) in excess of the actual moving expenses, he or she must include in income only the amount that exceeds actual expenses. True or false?

Answer ____

DEDUCTIBLE MOVING EXPENSES

Any qualifying moving expenses that exceed allowances or reimbursements from the government are deductible.

Members of the military will need to determine whether they have excess expenses and, if so, whether the expenses are deductible on their federal tax return.

Qualifying moving expenses are:

- **The cost of moving household goods and personal effects,** including hauling a trailer and packing, storage, and insurance. It does not include the expense of moving furniture or other goods that the taxpayer bought on the way from the old home to the new home.
- **The cost of reasonable travel and lodging expenses** from the old home to the new home, including actual automobile expenses (or 12 cents per mile), airfare, and lodging for the taxpayer and members of his or her household. Members cannot deduct the cost of meals while traveling from the old home to the new home.

Foreign moves. A foreign move is one from the United States or its possessions to a foreign country or from one foreign country to another. It is not a move from a foreign country to the United States or its possessions.

Exercise 3

Which of the following are deductible moving expenses for Major Boone? (Assume the member received no reimbursements from the government.)

A. Payment to Fulton Construction Company for home improvements made to Major Boone's former home.

B. Security deposit to Towner Apartments on the Boones new apartment.

C. Commission to Mercer Real Estate for the sale of the Boones' former home.

D. Payment to Shelby Transport Company to ship a piano that the Boones bought on the way to their new home.

E. Cost of transporting Major Boone's second car to the new job location.

F. Payment for meals while on the way to the new permanent duty station.

Answer ____

REPORTING MOVING EXPENSES

Moving expenses are deductible as an adjustment to income on Form 1040, line 27. Only deductible expenses that are more than reimbursements and allowances can be claimed.

If the service member was not reimbursed, he or she can deduct allowable moving expenses either in the year incurred and paid or in the year they were paid.

If the member was reimbursed for expenses, he or she can deduct allowable expenses either in the year incurred or in the year paid

If the member uses the cash method of accounting, which is used by most individuals, he or she can choose to deduct moving expenses in the year of reimbursement if:

(l) The expenses were paid in a year before the year of reimbursement, or

(2) The expenses were paid in the year immediately after the year of reimbursement but by the due date, including extensions, for filing his or her return for the reimbursement year.

Moving expenses are reported on Form 3903, *Moving Expenses.* For more information, see Publication 521, *Moving Expenses.*

The following example illustrates applications of the rules discussed in this lesson.

Example

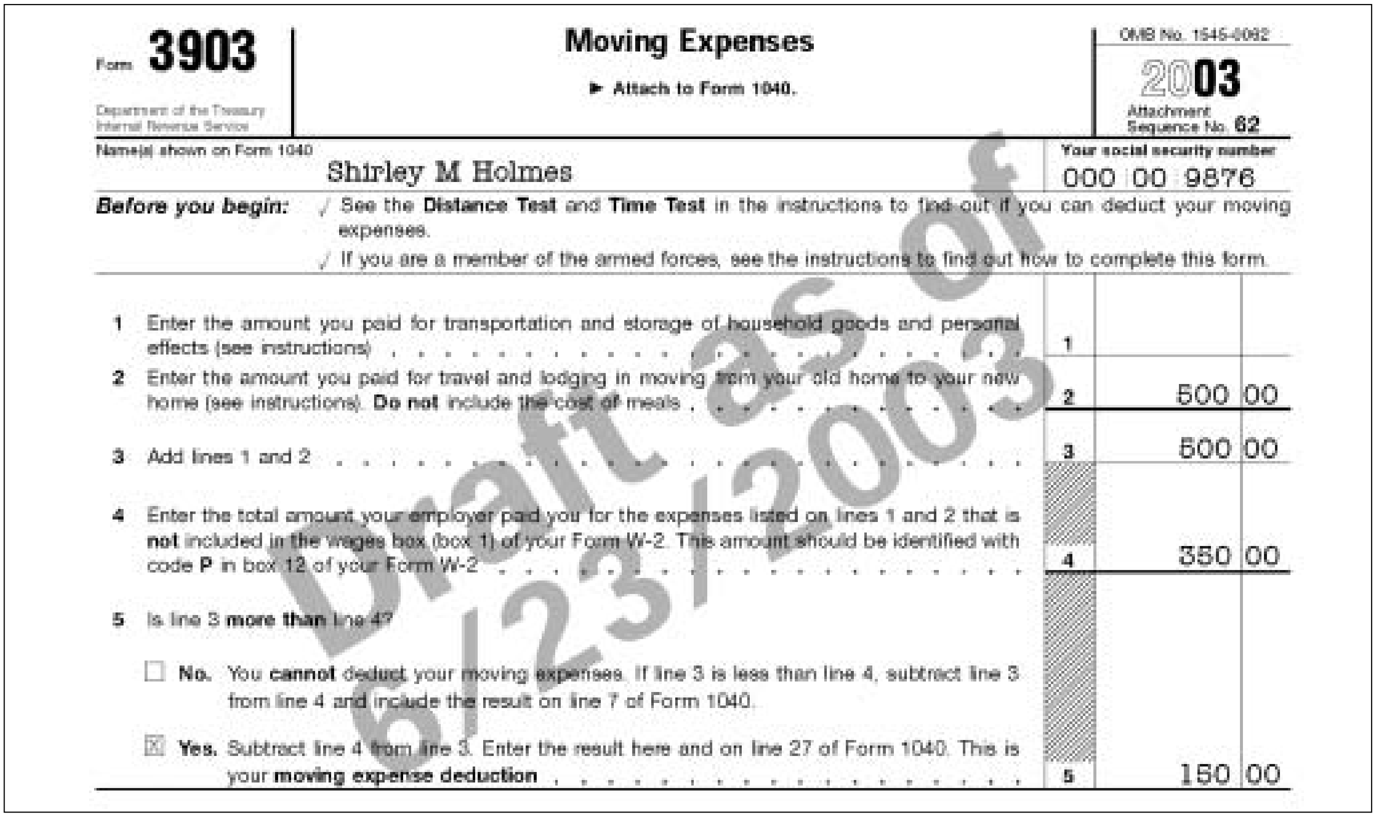
Capt. Shirley M. Holmes (SSN 000-00-9876) transferred in 2003 from one base to another. The government reimbursed her $350 for her travel and lodging expenses on the way to her new job location. The travel and lodging reimbursements were not reported as income on Form W-2. The $5,000 expense for transporting her household goods was furnished in kind by the military. No other reimbursements or allowances were made.

Capt. Holmes incurred the following expenses:

Travel and lodging en route – $500

The moving expense is computed on Form 3903 as follows:

Exhibit 1 **Form 3903**



Form **3903**

Department of the Treasury
Internal Revenue Service

Moving Expenses

► Attach to Form 1040.

OMB No. 1545-0062

2003

Attachment Sequence No. 62

Name(s) shown on Form 1040: Shirley M Holmes

Your social security number: 000 00 9876

Before you begin: ✓ See the **Distance Test** and **Time Test** in the instructions to find out if you can deduct your moving expenses.

✓ If you are a member of the armed forces, see the instructions to find out how to complete this form.

1	Enter the amount you paid for transportation and storage of household goods and personal effects (see instructions)	1	
2	Enter the amount you paid for travel and lodging in moving from your old home to your new home (see instructions). **Do not** include the cost of meals	2	500 00
3	Add lines 1 and 2	3	500 00
4	Enter the total amount your employer paid you for the expenses listed on lines 1 and 2 that is **not** included in the wages box (box 1) of your Form W-2. This amount should be identified with code **P** in box 12 of your Form W-2	4	350 00
5	Is line 3 **more than** line 4?		
	☐ **No.** You **cannot** deduct your moving expenses. If line 3 is less than line 4, subtract line 3 from line 4 and include the result on line 7 of Form 1040.		
	☒ **Yes.** Subtract line 4 from line 3. Enter the result here and on line 27 of Form 1040. This is your **moving expense deduction**	5	150 00

Note: The $5,000 expense for transporting her household goods was not included because the Armed Forces paid for this service.

The travel and lodging expenses for moving from the old home to the new home are shown on line 2 of Form 3903.

Reimbursements are shown on line 4.

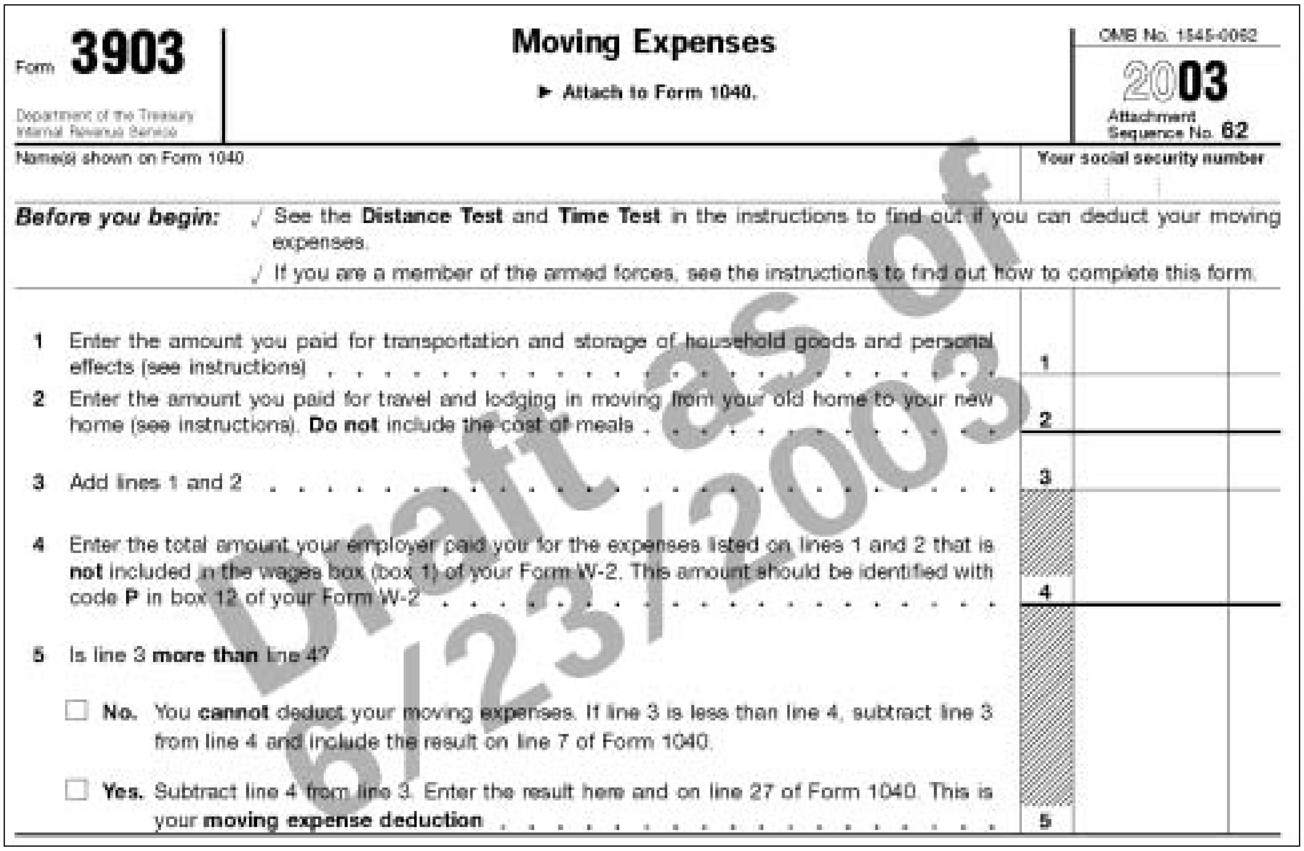
To figure the moving expense deduction on Form 3903, subtract the total reimbursements on line 4 from the amount on line 3. Check the "Yes" box and enter the result on line 5 and on Form 1040, line 27.

Exercise 4

Greg T. (SSN 000-00-4567) and Diane E. Coe are filing a joint return. Greg T. Coe, an airman in the Air Force, was transferred from Maxwell Air Force Base to Scott Air Force Base. The government reimbursed Greg $400 for travel expenses incurred on the way to his new job location. He also received a $1,000 dislocation allowance. The travel and lodging reimbursements and the dislocation allowance were not reported as wages on Form W-2. Using the following information furnished by the Coes, complete Form 3903.

Dislocation expenses:	$ 1,000
Travel and lodging en route:	$ 575
Meals en route:	$ 200
Security deposit for new apartment:	$ 350

Exhibit 2 **Form 3903**



Form **3903**

Department of the Treasury
Internal Revenue Service

Moving Expenses

► Attach to Form 1040.

OMB No. 1545-0062

2003

Attachment Sequence No. 62

Name(s) shown on Form 1040

Your social security number

Before you begin: ✓ See the **Distance Test** and **Time Test** in the instructions to find out if you can deduct your moving expenses.

✓ If you are a member of the armed forces, see the instructions to find out how to complete this form.

1	Enter the amount you paid for transportation and storage of household goods and personal effects (see instructions)	1	
2	Enter the amount you paid for travel and lodging in moving from your old home to your new home (see instructions). **Do not** include the cost of meals	2	
3	Add lines 1 and 2	3	
4	Enter the total amount your employer paid you for the expenses listed on lines 1 and 2 that is **not** included in the wages box (box 1) of your Form W-2. This amount should be identified with code **P** in box 12 of your Form W-2	4	
5	Is line 3 **more than** line 4? ☐ **No.** You **cannot** deduct your moving expenses. If line 3 is less than line 4, subtract line 3 from line 4 and include the result on line 7 of Form 1040. ☐ **Yes.** Subtract line 4 from line 3. Enter the result here and on line 27 of Form 1040. This is your **moving expense deduction**	5	

1. c.

2. **a.** False

b. True

3. e.

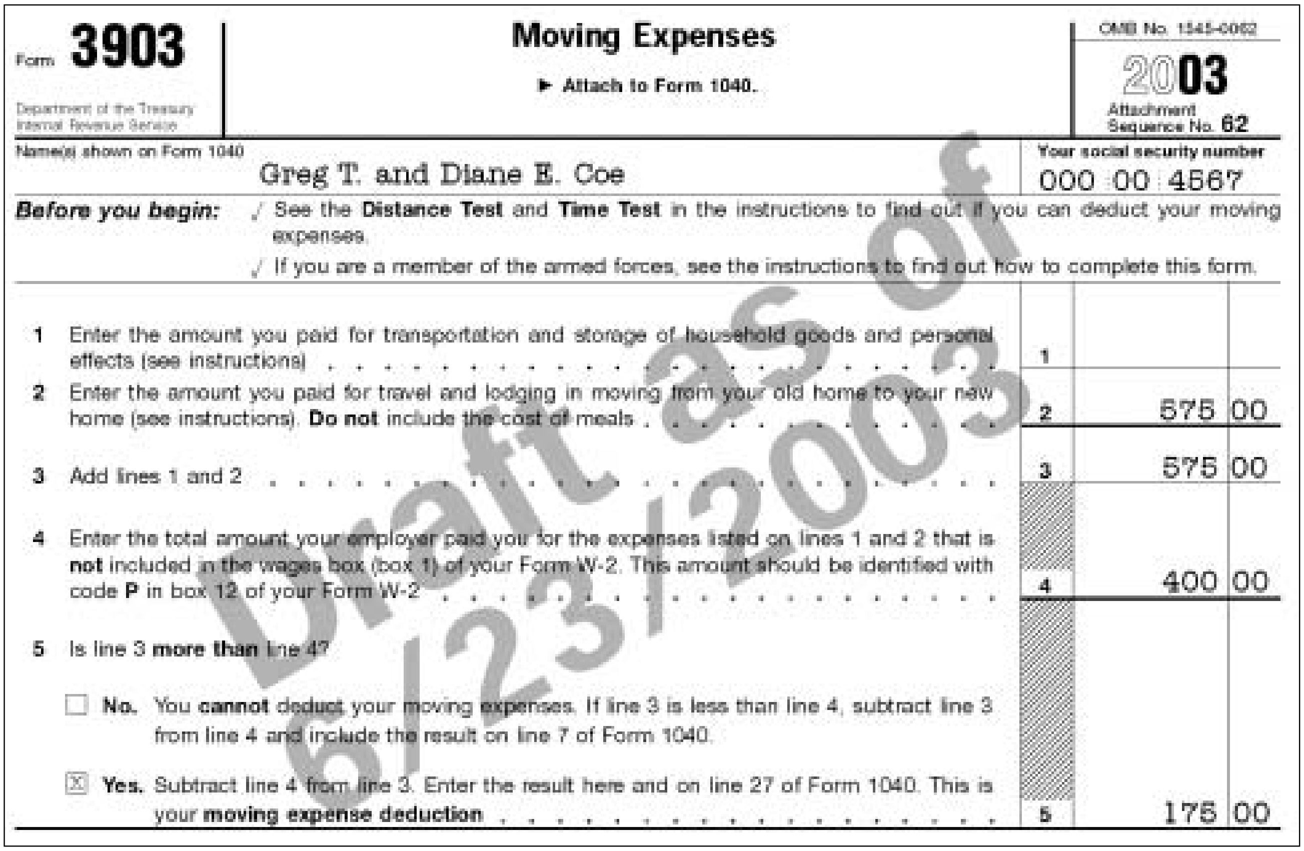
4. See completed Form 3903. The Coes are entitled to a $175 moving expense deduction. Only the travel and lodging en route can be claimed on Form 3903, line 2. The security deposit and the meals are not deductible expenses. In addition, the dislocation allowance is netted against dislocation expenses. Only if the dislocation expenses exceeded the dislocation allowance would the Coes have reported the difference as an additional moving expense on Form 3903.

▶▶ SUMMING UP THIS SEGMENT ◀◀

In this segment you learned what moves qualify for tax benefits, what expenses are deductible, and how to use Form 3903 to compute the moving expense deduction. These expenses are deductible as an adjustment to income on Form 1040, line 27.

Exhibit 2

Form 3903



Form **3903**

Department of the Treasury
Internal Revenue Service

Moving Expenses

► **Attach to Form 1040.**

OMB No. 1545-0062

2003

Attachment
Sequence No. **62**

Name(s) shown on Form 1040: Greg T. and Diane E. Coe

Your social security number: 000 00 4567

Before you begin:
- ✓ See the **Distance Test** and **Time Test** in the instructions to find out if you can deduct your moving expenses.
- ✓ If you are a member of the armed forces, see the instructions to find out how to complete this form.

1	Enter the amount you paid for transportation and storage of household goods and personal effects (see instructions)	1		
2	Enter the amount you paid for travel and lodging in moving from your old home to your new home (see instructions). **Do not** include the cost of meals	2	575	00
3	Add lines 1 and 2	3	575	00
4	Enter the total amount your employer paid you for the expenses listed on lines 1 and 2 that is **not** included in the wages box (box 1) of your Form W-2. This amount should be identified with code **P** in box 12 of your Form W-2	4	400	00
5	Is line 3 **more than** line 4?			
	☐ **No.** You **cannot** deduct your moving expenses. If line 3 is less than line 4, subtract line 3 from line 4 and include the result on line 7 of Form 1040.			
	☒ **Yes.** Subtract line 4 from line 3. Enter the result here and on line 27 of Form 1040. This is your **moving expense deduction**	5	175	00

STANDARD AND ITEMIZED DEDUCTIONS, AND TAX COMPUTATION

Lesson 4

INTRODUCTION AND OBJECTIVES

In this lesson you will learn about the standard deduction, itemized deductions and tax computations. You will learn which expenses can be included in itemized deductions. You will also learn when the taxpayer will use the tax tables and the Capital Gains Worksheet to compute their total tax.

After completing this lesson you should be able to:

- Identify the correct standard deduction.
- Calculate and accurately report itemized deductions on Schedule A.
- Identify the miscellaneous deductions reported on Schedule A, line 27.
- Review the Capital Gain Tax Worksheet.
- Explain the process to calculate and report tax liability.

STANDARD DEDUCTION

The **standard deduction** depends on:

- the taxpayer's filing status,
- whether the taxpayer (or the taxpayer's spouse) is 65 or older and/or blind, and
- whether the taxpayer can be claimed as a dependent on another taxpayer's return.

Based on the taxpayer's situation, you will figure the standard deduction by using one of the following:

- Standard deduction amount for the appropriate filing status from the appropriate tax form,
- *Standard Deduction Chart for People Age 65 or Older or Blind*, or
- *Standard Deduction Worksheet for Dependents*.

ALERT ⚠

In 2003, the basic standard deduction for married taxpayers filing jointly and qualifying widow(er)s has increased to $9,500 (double that of single filers).

The standard deduction for married filing separately has increased to $4,750 (one half of that for married filing jointly).

Example 1

Bob is 55 years old and is married to Janice, age 50. If they are filing a joint return and neither is blind, they can enter $9,500 on either Form 1040 or Form 1040A for their standard deduction amount.

Example 2

John is 73 years old, blind, and files a single tax return. To find his standard deduction, use the *Standard Deduction Chart for People Age 65 or Older or Blind.* His standard deduction is $7,050.

PERSONAL EXEMPTION IN CONNECTION WITH STANDARD DEDUCTION ON FORM 1040EZ

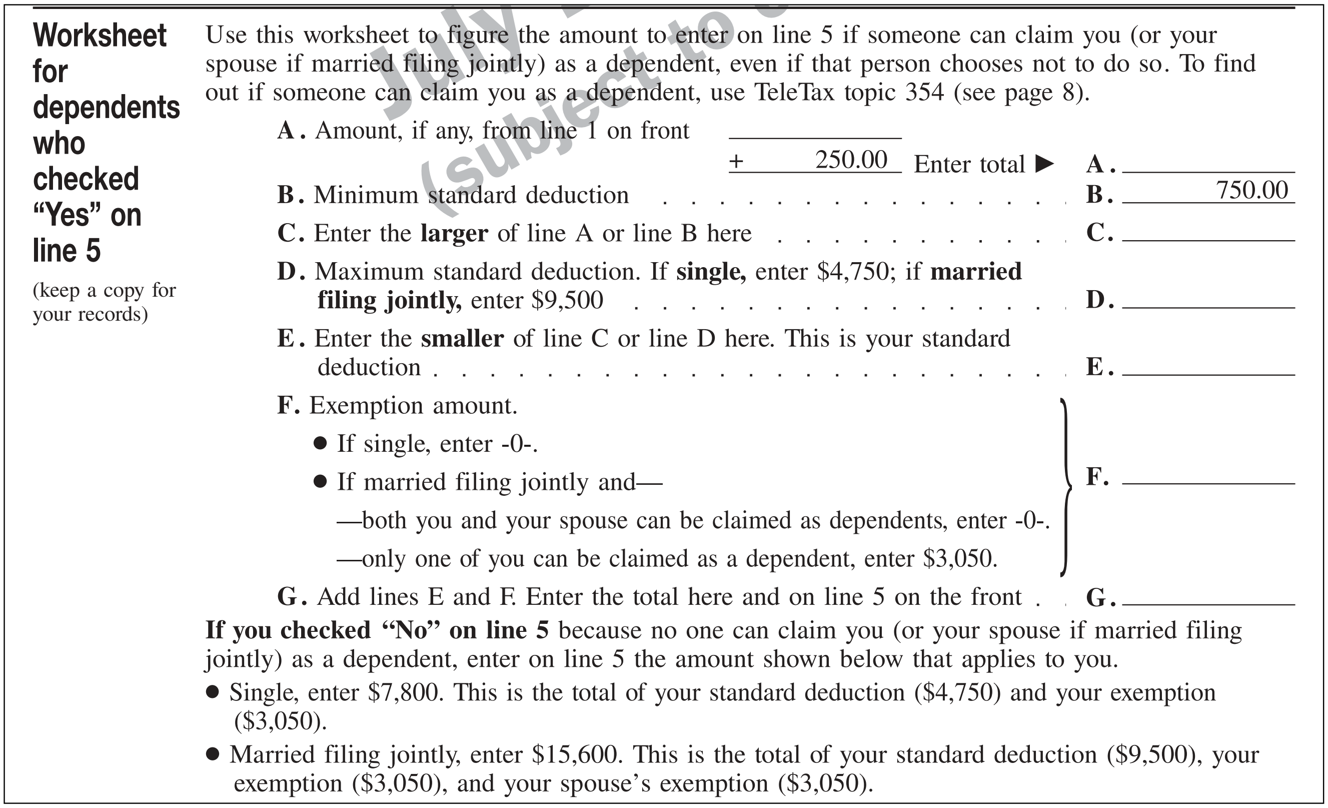
If the taxpayer (or his or her spouse, if married filing a joint return) can be claimed as a dependent on another taxpayer's return, check the *Yes* box on line 5 of the Form 1040EZ. To fill in the amount on line 5 for this taxpayer, you must then turn the form over and complete the worksheet (Exhibit 1 shows a blank worksheet from Form 1040EZ, page 2).

If the taxpayer (or his or her spouse, if filing a joint return) cannot be claimed as a dependent on another taxpayer's return, check the *No* box on line 5. Enter on line 5 the amount shown below that applies to the taxpayer (and spouse, if married filing jointly).

A. Single, enter $7,800. This is the total of the taxpayer's standard deduction ($4,750) and personal exemption ($3,050).

Exhibit 1

Form 1040EZ, Page 2



Worksheet for dependents who checked "Yes" on line 5

(keep a copy for your records)

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married filing jointly) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, use TeleTax topic 354 (see page 8).

A. Amount, if any, from line 1 on front ____________ + 250.00 Enter total ▶ **A.** ____________

B. Minimum standard deduction . . . . **B.** 750.00

C. Enter the **larger** of line A or line B here . . . . **C.** ____________

D. Maximum standard deduction. If **single,** enter $4,750; if **married filing jointly,** enter $9,500 . . . . **D.** ____________

E. Enter the **smaller** of line C or line D here. This is your standard deduction . . . . **E.** ____________

F. Exemption amount.

- If single, enter -0-.
- If married filing jointly and—
  - —both you and your spouse can be claimed as dependents, enter -0-.
  - —only one of you can be claimed as a dependent, enter $3,050.

} **F.** ____________

G. Add lines E and F. Enter the total here and on line 5 on the front . . **G.** ____________

If you checked "No" on line 5 because no one can claim you (or your spouse if married filing jointly) as a dependent, enter on line 5 the amount shown below that applies to you.

- Single, enter $7,800. This is the total of your standard deduction ($4,750) and your exemption ($3,050).
- Married filing jointly, enter $15,600. This is the total of your standard deduction ($9,500), your exemption ($3,050), and your spouse's exemption ($3,050).

B. Married, enter $15,600. This is the total of the taxpayer's and spouse's standard deduction ($9,500), exemption for the taxpayer ($3,050), and exemption for the taxpayer's spouse ($3,050).

Exercise 1

A. James is 37 years old. He has two children who live with him and he files as head of household. What is James' standard deduction? ______________________________

B. Malcom is 37 years old. He was divorced in 2003. He is blind and has no dependent children. What is Malcom's standard deduction? ______________________________

C. Carl is 67 years old and married to Sue, who is 59 years old. Neither is blind. If they file a joint return, what is their standard deduction? ______________________________

D. If they are filing separate returns, what is Carl's standard deduction? ______________________________

E. If they are filing separate returns, what is Sue's standard deduction? ______________________________

F. Shirley is 15 years old and is claimed as a dependent on her parents' tax return. She earned $1,500 during the summer and deposited it all into her savings account, where she earned $40 in interest. What is her standard deduction? ________________
____

POTENTIAL PITFALLS ⚠

Entering an incorrect standard deduction amount is a frequently made error on tax returns. Take care to report the correct standard deduction amount.

ITEMIZED DEDUCTIONS

Taxpayers can either claim the standard deduction or itemize their deductions. Both the standard deduction and itemized deductions reduce adjusted gross income. Most taxpayers choose the larger of their itemized deductions or the standard deduction. However, there are some exceptions:

- A married taxpayer filing a separate return cannot claim the standard deduction if the taxpayer's spouse itemizes deductions, and
- Nonresident aliens cannot claim the standard deduction.

When itemizing, you should complete the taxpayer's return through line 36 of Form 1040. Then figure itemized deductions on Schedule A.

POTENTIAL PITFALLS

Explain to taxpayers that they can only deduct expenses in the year they are paid. They cannot deduct expenses that are owed but not paid.

ALERT

The standard mileage rate for operating a vehicle for medical transportation is 12 cents a mile.

Medical and Dental Expenses

Claim medical and dental expenses paid in 2003 on lines 1 through 4 of Schedule A. Include expenses incurred for:

- the taxpayer and spouse,
- dependents claimed on the return, and
- others who could have been claimed as dependents except that they had gross income of $3,050 or more, or they filed a joint return.

If a child of divorced or separated parents is claimed as a dependent on either parent's return, each parent may deduct the medical expenses that he or she pays for the child.

Deductible expenses include:

- Prescription medicines and drugs (including insulin)
- Medical, dental, and nursing care, including amounts paid for unreimbursed qualified long-term care services
- Medical and hospital insurance premiums, including amounts paid for eligible long-term care (subject to certain limitations based on the insured person's age — see Exhibit 2, next page.)
- Prescription eyeglasses, hearing aids, crutches, wheelchairs, braces, and guide dogs
- Transportation for medical care at 12 cents a mile, or actual out-of-pocket expenses, plus parking fees and tolls
- Certain lodging expenses
- Certain home improvements made for medical care purposes or to make the home suitable for a disabled person
- Medicare A premiums for persons not enrolled in Social Security
- Medicare B
- Certain weight-loss programs to treat disease diagnosed by a physician, including obesity
- Unreimbursed costs of smoking-cessation programs, including the cost of prescription drugs designed to alleviate nicotine withdrawal
- Expenses for admission and transportation to a medical conference relating to the chronic disease of a dependent (if the costs are primarily for and essential to the medical care of the dependent).

Total medical and dental expenses must exceed 7.5 percent of a taxpayer's adjusted gross income (Form 1040, line 35) for Schedule A deduction.

Nondeductible expenses include:

- Medical expenses paid from a medical savings account (MSA). [Refer taxpayers with MSAs to Publication 969, *Medical Savings Accounts (MSAs)*, Publication 502, *Medical and Dental Expenses*, and a paid professional tax preparer.]
- Payroll tax paid for Medicare A
- Life insurance policy premiums
- Babysitting, child care, and nursing care for a healthy baby
- Illegal drugs
- Nonprescription drugs or medicines
- The cost of purchasing diet food items
- Nonprescription nicotine gum and patches designed to stop smoking
- Funeral, burial, or cremation costs
- Unnecessary cosmetic surgery (surgery that does not correct a congenital abnormality or an abnormality caused by injury or disease)
- Income protection policies, including nursing home policy premiums, if the policy ensures a maximum out-of-pocket expense per day
- Meals and lodging while attending a medical conference relating to the chronic disease of a dependent.

Eligible Long-Term Care Premiums

Exhibit 2

IF the person was, at the end of 2003, age . . .	THEN the most you may deduct is . . .
40 or under	$250
41-50	$470
51-60	$940
61-70	$2,510
71 or older	$3,130

These figures should always be checked against the figures in the instructions for the Form 1040, Schedule A.

Exercise 2

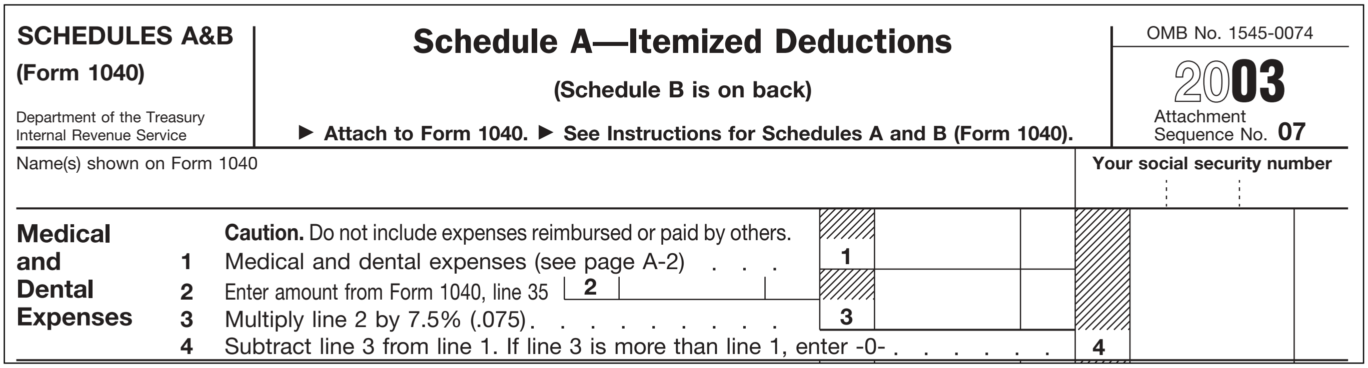
Sam and Paula Ferris file a joint return. Sam's social security number is 000-00-8612. Their adjusted gross income is $40,000. They paid the following medical bills:

Unreimbursed doctor's bills	$ 500
Unreimbursed orthodontist bill for braces	1,200
Hospital insurance premiums	300
Life insurance premiums	500
Unreimbursed prescription medicines	100
Vitamins	70
Hospital bill (before deducting $1,000) reimbursed by insurance company)	2,000
Smoking cessation program	150

Complete the *Medical and Dental Expenses* section of Schedule A for the Ferris family.

Exhibit 3

Schedule A



SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions
(Schedule B is on back)
▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074
2003
Attachment Sequence No. **07**

Name(s) shown on Form 1040

Your social security number

Medical and Dental Expenses		**Caution.** Do not include expenses reimbursed or paid by others.			
	1	Medical and dental expenses (see page A-2) . . .	1		
	2	Enter amount from Form 1040, line 35 | 2 |			
	3	Multiply line 2 by 7.5% (.075)	3		
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		4	

Taxes

To be deductible, a tax must be imposed on and paid by the taxpayer. Taxpayers **cannot** deduct:

- a tax that they do not owe, but pay for someone else,
- a tax that they owe, but someone else pays, or
- a tax that was not paid in 2003.

Report deductible taxes on lines 5 through 9 of Schedule A.

State, Local, and Foreign Income Taxes — Taxpayers can deduct income taxes paid to a state or local government or to a foreign government or tax any of its subdivisions. These taxes include tax withheld, estimated tax payments, and taxes paid in 2003 for an earlier year.

Real Estate Taxes — State, local, or foreign taxes on real property, such as the taxpayer's house or land, are deductible. Real estate taxes are deductible when paid. If the taxes are paid with a mortgage payment and held in escrow, do not deduct the taxes until they are paid by the bank or mortgage lender.

Assessments to pave a street or install lighting or a sewer generally are not deductible.

Personal Property Tax — Taxes that state and local governments charge on the value of personal property are deductible. A portion of the cost of personal vehicle registration may fall in this category.

Nondeductible Taxes — Many federal, state, and local government taxes are not deductible. The following taxes are not deductible:

- General sales tax
- Federal taxes-income tax, social security (FICA), Medicare, railroad retirement tax, gift tax, and excise taxes or customs duties
- Hunting licenses and dog licenses
- Water and sewer taxes
- Taxes on alcoholic beverages, cigarettes, and tobacco
- State, local, and federal taxes on gasoline, diesel, and other motor fuels used in a nonbusiness vehicle
- Utility taxes — telephone, gas, electricity, etc.

SPECIAL POPULATIONS

Members of the clergy and military personnel can deduct real estate taxes even if they receive a housing allowance that is excluded from income. Also, they can deduct allowable mortgage interest even if the interest was paid from a nontaxable housing allowance.

Interest

Interest is the amount that is paid in order to borrow money. Only taxpayers who are legally liable for the debt can deduct the interest in the year it is paid or accrued. Interest expenses are reported on lines 10 through 14 of Schedule A.

Home Mortgage Interest — The amount of mortgage interest that a taxpayer can deduct depends on the:

- date of the loan,
- amount of the loan, and
- use of the proceeds of the loan.

If the mortgage debt was incurred on or before October 13, 1987, and was secured by a main or second home, the interest on that debt is fully deductible, regardless of the amount of the loan or the use of the loan proceeds.

If the mortgage debt was incurred after October 13, 1987, and was secured by a main or second home, the interest is fully deductible if:

- the loans plus any grandfathered debt do not exceed $1 million ($500,000 if married filing separate returns), and
- the proceeds were used to buy, build, or improve the home or homes.

In addition to loans used to buy, build, or improve a main or second home, taxpayers can deduct interest on other loans secured by a main or second home, regardless of the use of the proceeds, if:

- the total of these loans does not exceed $100,000 ($50,000 if married filing separate returns), and
- the total amount of the secured debt is not more than the home's fair market value minus any outstanding acquisition debt and any grandfathered debt on the home.

Points. Certain charges paid by a borrower and/or a seller to a lender to secure a loan are called points. They are also called loan origination fees (including VA and FHA loan origination fees), maximum loan charges, premium charges, loan discount, or discount points.

Points paid only for the use of money are considered prepaid interest. This interest, even if it qualifies as home mortgage interest, must be spread over the life of the mortgage and is considered paid and deductible over that period unless it meets the following exception.

Exception. A taxpayer may fully deduct points in the year he or she pays them only if all of the following conditions apply.

- The taxpayer itemizes deductions.
- The taxpayer's loan is secured by his or her main home. (The main home is the one the taxpayer lives in most of the time.)
- Paying points is an established business practice in the area where the loan was made.
- The points paid were not more than the points generally charged in that area.
- The taxpayer uses the cash method of accounting. (The cash method means that the taxpayer reports income in the year received and deducts expenses in the year paid.)
- The points were not paid in place of amounts that ordinarily are stated separately on the settlement statement, such as appraisal fees, inspection fees, title fees, attorney fees, and property taxes.
- The taxpayer uses his or her loan to buy or build his or her main home.
- The points were computed as a percentage of the principal amount of the mortgage.
- The amount is clearly shown on the settlement statement (such as Form HUD-1) as points charged for the mortgage.
- The points may be shown as paid from either the taxpayer's or the seller's funds.

- The funds the taxpayer provided at or before closing, plus any points the seller paid, were at least as much as the points charged. The funds the taxpayer provided do not have to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds the taxpayer paid at or before closing for any purpose. The taxpayer cannot have borrowed these funds from his or her lender or mortgage broker.

Charges by the lender for specific services, such as appraisal fees, preparation costs, VA funding fees, or notary fees, may be called points. However, these charges are not considered interest and are not deductible.

Points paid by the seller are deductible as interest by the buyer.

Points paid to refinance a mortgage are generally not deductible in full in the year the taxpayer paid them (unless they are paid in connection with the improvement of a main home and the first seven statements, discussed earlier under Exception, are true).

Points paid in excess of those generally charged in the area and points paid to refinance a mortgage can be deducted over the life of the mortgage. Deduct points reported to the taxpayer on Form 1098 on line 10 of Schedule A (Form 1040). Deduct points not reported to the taxpayer on Form 1098 on line 12 of Schedule A (Form 1040).

Investment Interest. Interest that is paid on money borrowed to buy or carry property held for investment is called **investment interest.** Taxpayers with investment interest expense that exceeds investment income (interest and ordinary dividend income) should see a paid professional tax preparer.

Interest that cannot be deducted. Interest that cannot be deducted includes:

- Interest on car loans where the car is used for personal use and other personal loans,
- Credit investigation fees,
- Loan fees; aid for services necessary to get a loan,
- Interest on a debt the taxpayer is not legally liable to pay, and
- Finance charges on credit card purchases of personal items.

POTENTIAL PITFALLS ⚠

Personal interest cannot be claimed as an itemized deduction. Personal interest includes interest on car loans, credit card balances, and installment plan loans that are incurred for personal use or for personal expenses.

Exercise 3

John and Shannon file a joint return. During the year, they paid the bank $2,180 of interest on their home mortgage that was reported to them on Form 1098 (all qualified), $400 in credit card interest, $300 on installment loan, and $2,000 on a car loan. Complete the *Interest You Paid* section of Schedule A for John and Shannon.

Exhibit 4 **Schedule A**

Interest You Paid (See page A-3.)	**10**	Home mortgage interest and points reported to you on Form 1098	**10**			▨		
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ▶	**11**			▨		
Note. Personal interest is not deductible.	**12**	Points not reported to you on Form 1098. See page A-3 for special rules	**12**			▨		
	13	Investment interest. Attach Form 4952 if required. (See page A-3.)	**13**			▨		
	14	Add lines 10 through 13				**14**		

Contributions

Taxpayers can deduct contributions to organizations that are:

- Organized and operated exclusively for religious, charitable, educational, scientific, or literary purposes,
- Organizations that work to prevent cruelty to children or animals, and
- Organizations that foster national or international amateur sports competition if they do not provide athletic facilities or equipment.

To be deductible, contributions must be made to an organization, not an individual. *Qualifying organizations* include:

- Churches, synagogues, temples, mosques, Salvation Army, Red Cross, CARE, United Way, Boy Scouts, Girl Scouts, World Wildlife Fund, etc.,
- Fraternal orders (if used for the purposes listed above),
- Nonprofit schools and hospitals,
- Nonprofit medical research organizations,
- Veterans' groups and certain cultural groups, and
- Federal, state, and local governments (if the gifts are exclusively for public purposes).

Nonqualifying organizations include:

- Business organizations, such as the Chamber of Commerce,
- Civic leagues and associations,

- Political organizations and candidates,
- Social clubs,
- Foreign organizations,
- Homeowners' associations, and
- Communist organizations.

Deductible items include:

- Money gifts,
- Dues, fees, and assessments paid to qualified organizations above the value of the benefits received (not country clubs or other social organizations),
- Fair market value of used clothing, furniture,
- Cost and upkeep of uniforms that have no general use but must be worn while performing donated services,
- Unreimbursed transportation expenses that relate directly to the services the taxpayer gave the qualified organization, including bus fare, parking fees, tolls, and either the actual cost of gas and oil or a standard mileage charge of 14 cents per mile, and
- The part of a contribution above the fair market value for items such as merchandise and tickets to charity balls or sporting events.

Nondeductible items include:

- Cost of raffle, bingo, or lottery tickets,
- Tuition,
- Value of a person's time or service,
- Blood donated to a blood bank or the Red Cross,
- Car depreciation, insurance, general repairs, or maintenance,
- Direct contributions to an individual,
- Sickness or burial expenses for members of a fraternal society, and
- The part of a contribution that personally benefits the taxpayer (such as the fair market value of the meal eaten at a charity dinner).

Report cash and check contributions on Schedule A, line 15. Contributions other than cash or check are entered on line 16. Taxpayers with noncash contributions exceeding $500 should see a paid professional tax preparer.

The taxpayer must keep records to prove the amount of the cash and noncash contributions he or she makes during the year.

POTENTIAL PITFALLS

If the taxpayer makes a contribution to a qualifying organization that is more than $75 and is partly for goods or services, the qualifying organization must give the taxpayer a written statement. For more information, see Publication 526, *Charitable Contributions*.

A taxpayer can claim a deduction for any single contribution of $250 or more **only** if he or she has a written acknowledgment of the contribution from the qualifying organization. You do not have to see the written acknowledgement, but you should ask the taxpayer if they have one.

Exercise 4

Rose contributed $600 to St. Martin's Church (church gave letter verifying amount). $32 to the Girl Scouts, and $40 to a family whose house burned. She purchased $50 worth of lottery tickets and spent $100 playing bingo at her church. She donated used furniture with a fair market value of $200 to Goodwill.

Complete the *Gifts to Charity* section of Schedule A for Rose.

Exhibit 5

Schedule A

Gifts to Charity	**15**	Gifts by cash or check. If you made any gift of $250 or more, see page A-4	▨ **15**			▨		
If you made a gift and got a benefit for it, see page A-4.	**16**	Other than by cash or check. If any gift of $250 or more, see page A-4. You **must** attach Form 8283 if over $500	▨ **16**			▨		
	17	Carryover from prior year	**17**			▨		
	18	Add lines 15 through 17				**18**		

Casualty and Theft Losses

A casualty occurs when property is damaged as a result of a sudden, unexpected, or unusual event such as fire, storm, shipwreck, flood, earthquake, or automobile accident. Theft is the unlawful taking and removing of money or property with the intent to deprive the owner of it. Theft does not include the mere disappearance of money or property.

A casualty or theft may result in a gain if the insurance proceeds or other reimbursements exceed the adjusted basis of destroyed or stolen property.

Usually, however, a casualty or theft results in a loss. Part of a casualty or theft loss may be deductible if the taxpayer can prove that the casualty or theft occurred to property that the taxpayer owned. The taxpayer must also prove the dollar amount of the loss.

Miscellaneous Itemized Deductions

Certain employee expenses, expenses of producing income, and other qualifying expenses are reported as miscellaneous itemized deductions on Schedule A. Miscellaneous itemized deductions that exceed 2% of adjusted gross income are deductible. There are some miscellaneous itemized deductions that are deductible, regardless of a taxpayer's adjusted gross income.

Examples of deductions that are subject to the 2% limit and that are reported on lines 20 through 26 of Schedule A are:

- Union dues and fees,
- Professional society dues,
- Uniforms not adaptable to general use,
- Small tools and supplies,
- Professional books, magazines, journals,
- Employment-related educational expenses,
- Expenses of looking for a new job,
- Investment counsel fees,
- Investment expenses,
- Tax counsel and assistance,
- Fees paid to an IRA custodian, and
- Safe deposit box rental for investment documents.
- Unrecovered after-tax pension contributions (see Lesson 13).

Examples of deductions that are not subject to the 2% limit and that are reported on line 27 of Schedule A are:

- Gambling losses to the extent of gambling winnings, and
- Work-related expenses for an individual with a disability, such as attendant-care services at the individual's place of work, that are necessary for the person to work.

Nondeductible expenses include:

- Burial or funeral expenses,
- Wedding expenses,
- Fees and licenses, such as car and marriage licenses and dog tags,
- Fines and penalties, such as parking tickets,
- Home repairs, insurance, and rent,
- Illegal bribes and kickbacks,
- Insurance premiums (except medical insurance premiums),
- Losses from the sale of a taxpayer's home, furniture, or personal car,
- Lost or misplaced cash or property,
- Personal legal expenses, and
- Commuting expenses to and from work.

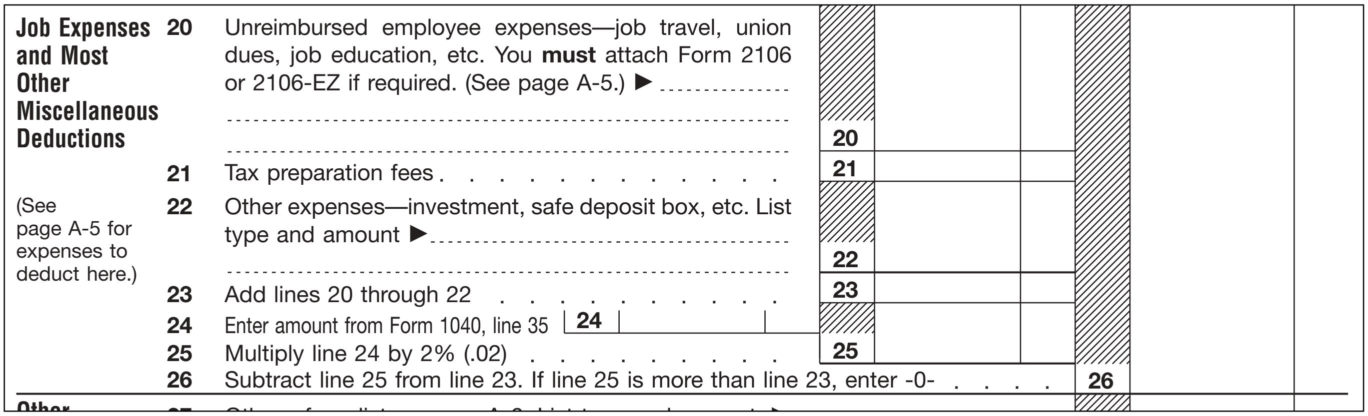
Exercise 5

Robert is a janitor. His adjusted gross income is $20,000. He wants to deduct the following items on his tax return:

2003 income tax preparation fee	$ 100
Safe deposit box rental (used to keep bonds)	75
Life insurance premiums	300
Investment expenses	70
Loss on sale of personal home	800
Investment journals and newsletters	250
Investment advisory fees	200
Attorney fees for preparation of will	100

Complete Robert's Schedule A, line 20 through 26.

Exhibit 6 Schedule A



Job Expenses and Most Other Miscellaneous Deductions

(See page A-5 for expenses to deduct here.)

20 Unreimbursed employee expenses—job travel, union dues, job education, etc. You **must** attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶ 20

21 Tax preparation fees 21

22 Other expenses—investment, safe deposit box, etc. List type and amount ▶ 22

23 Add lines 20 through 22 23

24 Enter amount from Form 1040, line 35 24

25 Multiply line 24 by 2% (.02) 25

26 Subtract line 25 from line 23. If line 25 is more than line 23, enter -0- 26

TOTAL ITEMIZED DEDUCTIONS

Schedule A, line 28, is *Total Itemized Deductions.* It is the sum of lines 4, 9, 14, 18, 19, 26, and 27.

Compare the amount on line 28 to the standard deduction, and enter the larger of the two on Form 1040, line 38.

Exercise 6

Seth A. and Karen Yale's adjusted gross income is $28,000. Seth's social security number is 000-00-1039. They gave you a list of their itemized deductions. They received no insurance reimbursement for medical expenses. They purchased their home in 1989, and a commercial mortgage company holds the mortgage. They have not refinanced the mortgage or increased the principal balance since they bought their home. They are both under age 65 and not blind. Neither can be claimed as a dependent by another taxpayer.

Unreimbursed medical expenses:

Medical insurance premiums	$480
Hospital	600
Doctors and dentists	820
Vitamins	75
Prescription drugs	300
Insulin	120

Taxes:

State income tax	$1,200
Federal income tax	2,400
Real estate tax	780

Interest:

Interest on mortgage (reported on Form 1098)	$4,500
Car loan	900
Credit cards	102

Contributions:

Church (gave Yales' letter verifying this amount)	$850
Bingo costs	60
American Cancer Society	130
Canned goods donated to a food drive	15
Fair market value of donated used clothing	60

Miscellaneous:

Union dues	$90
IRA custodial fee	10
Traffic fine	70
Investment expenses	20

Complete Seth and Karen's Schedule A.

Exhibit 7

Schedule A

SCHEDULES A&B
(Form 1040)

Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions

(Schedule B is on back)

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedules A and B (Form 1040).**

OMB No. 1545-0074

2003

Attachment
Sequence No. **07**

Name(s) shown on Form 1040

Your social security number

Medical and Dental Expenses		**Caution.** Do not include expenses reimbursed or paid by others.		
	1	Medical and dental expenses (see page A-2) . . .	1	
	2	Enter amount from Form 1040, line 35 [2]		
	3	Multiply line 2 by 7.5% (.075)	3	
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		4
Taxes You Paid (See page A-2.)	5	State and local income taxes	5	
	6	Real estate taxes (see page A-2)	6	
	7	Personal property taxes	7	
	8	Other taxes. List type and amount ▶	8	
	9	Add lines 5 through 8		9
Interest You Paid (See page A-3.)	10	Home mortgage interest and points reported to you on Form 1098	10	
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ▶	11	
Note. Personal interest is not deductible.	12	Points not reported to you on Form 1098. See page A-3 for special rules	12	
	13	Investment interest. Attach Form 4952 if required. (See page A-3.)	13	
	14	Add lines 10 through 13		14
Gifts to Charity If you made a gift and got a benefit for it, see page A-4.	15	Gifts by cash or check. If you made any gift of $250 or more, see page A-4	15	
	16	Other than by cash or check. If any gift of $250 or more, see page A-4. You **must** attach Form 8283 if over $500	16	
	17	Carryover from prior year	17	
	18	Add lines 15 through 17		18
Casualty and Theft Losses	19	Casualty or theft loss(es). Attach Form 4684. (See page A-5.)		19
Job Expenses and Most Other Miscellaneous Deductions	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. You **must** attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶	20	
	21	Tax preparation fees	21	
(See page A-5 for expenses to deduct here.)	22	Other expenses—investment, safe deposit box, etc. List type and amount ▶	22	
	23	Add lines 20 through 22	23	
	24	Enter amount from Form 1040, line 35 [24]		
	25	Multiply line 24 by 2% (.02)	25	
	26	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-		26
Other Miscellaneous Deductions	27	Other—from list on page A-6. List type and amount ▶		27
Total Itemized Deductions	28	Is Form 1040, line 35, over $139,500 (over $69,750 if married filing separately)? ☐ **No.** Your deduction is not limited. Add the amounts in the far right column for lines 4 through 27. Also, enter this amount on Form 1040, line 37. ☐ **Yes.** Your deduction may be limited. See page A-6 for the amount to enter.	▶	28

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11330X **Schedule A (Form 1040) 2003**

Once you have determined the standard deduction, compare it to the total itemized deductions. In most cases, you will enter the larger of the two amounts on Form 1040, line 37. Subtract line 37 from line 35 and enter the result on line 38. Then subtract the exemption deduction (line 39) to compute the taxable income.

If the taxpayer has capital gain distributions that are reported directly on Form 1040 or Form 1040A, the taxpayer should use the Capital Gain Tax Worksheet to determine if the tax is less.

The taxpayer should:

- Check the box next to line 13a, Form 1040 and
- Use the Capital Gain Tax Worksheet (Exhibit 8) from either the Form 1040A or 1040 instruction booklet to compute tax.

Example 3

Marjorie is a single taxpayer with taxable income of $46,250. She files Form 1040 and does not have to file a Schedule D. In 2003, she received capital gain distributions of $798 from XYZ Investments. Marjorie pays less tax by using Capital Gain Tax Worksheet (Exhibit 8).

Exhibit 8 Marjorie's Qualified Dividends Capital Gain Tax Worksheet

Qualified Dividends and Capital Gain Tax Worksheet—Line 41

Keep for Your Records

Before you begin:

√ Be sure you do not have to file Schedule D (see the instructions for Form 1040, line 13a, that begin on page 23).

√ Be sure you checked the box on line 13a of Form 1040.

1.	Enter the amount from Form 1040, line 40		46,250	
2.	Enter the amount from Form 1040, line 9b	0		
3.	Enter the amount from Form 1040, line 13a	798		
4.	Add lines 2 and 3	798		
5.	If you are claiming investment interest expense on Form 4952, enter the amount from line 4g; otherwise enter -0-	0		
6.	Subtract line 5 from line 4. If zero or less, enter -0-		798	
7.	Subtract line 6 from line 1. If zero or less, enter -0-		45,452	
8.	Enter the **smaller** of: • The amount on line 1 or • $56,800 if married filing jointly or qualifying widow(er), $28,400 if single or married filing separately, or $38,050 if head of household.		28,400	
9.	Is the amount on line 7 equal to or more than the amount on line 8? ☐ **Yes.** Skip lines 9 through 15; go to line 16 and check the ''No'' box. ☐ **No.** Enter the amount from line 7			
10.	Subtract line 9 from line 8			
11.	Add Form 1040, line 13b, and line 2 above			
12.	Enter the **smaller** of line 10 or line 11			
13.	Multiply line 12 by 5% (.05)			
14.	Subtract line 12 from line 10. If zero, go to line 16			
15.	Multiply line 14 by 10% (.10)			
16.	Are the amounts on lines 6 and 10 the same? ☐ **Yes.** Skip lines 16 through 25; go to line 26. ☐ **No.** Enter the **smaller** of line 1 or line 6		798	
17.	Enter the amount from line 10 (if line 10 is blank, enter -0-)		0	
18.	Subtract line 17 from line 16		798	
19.	Add Form 1040, line 13b, and line 2 above	0		
20.	Enter the amount from line 12 (if line 12 is blank, enter -0-)	0		
21.	Subtract line 20 from line 19	0		
22.	Enter the **smaller** of line 18 or line 21		0	
23.	Multiply line 22 by 15% (.15)			0
24.	Subtract line 22 from line 18. If zero, go to line 26		798	
25.	Multiply line 24 by 20% (.20)			160
26.	Figure the tax on the amount on line 7. Use the Tax Table or Tax Rate Schedules, whichever applies			8,179
27.	Add lines 13, 15, 23, 25, and 26			8,339
28.	Figure the tax on the amount on line 1. Use the Tax Table or Tax Rate Schedules, whichever applies			8,379
29.	**Tax on all taxable income.** Enter the **smaller** of line 27 or line 28 here and on Form 1040, line 41			8,339

- 35 - ***Need more information or forms? See page 7.***

FINDING THE TAX

Taxpayers with taxable income of less than $100,000 use the Tax Table to find their tax. However, children under 14 years of age who have more than $1,500 of investment income (interest, dividends, etc.) might not be able to use the Tax Table. Their income might have to be taxed at the parents' tax rate. These taxpayers should be referred to a paid professional tax preparer.

The Tax Table is in the back of this book. The tax is based on the person's filing status and taxable income. To find the tax, use the **taxable income** from the tax forms (1040EZ, line 6; 1040A, line 27; and 1040, line 40), and:

- locate the income bracket for the taxable income,
- read across that line until you reach the column for the appropriate filing status, and
- find the amount where the taxable income and filing status meet. This is the tax liability.

If the taxable income is the same as the ending amount in an income bracket, go to the next bracket to find the tax.

Qualifying widows(ers) use the married filing jointly column.

Enter the tax on Form 1040EZ, line 10, Form 1040A, line 28, or Form 1040, line 41.

Double check the amount entered. **Common errors** include:

- Using the wrong standard deduction,
- Incorrectly figuring the exemption amount,
- Using an amount other than taxable income to find the tax,
- Picking up the wrong number from the Tax Table, and
- Transposing the numbers when entering the tax amount.

TAXWISE HINT

If a taxpayer wants to determine whether the standard or itemized deduction is best for him or her, input Schedule A information. TaxWise will automatically select the deduction that is more beneficial.

▶ ▶ SUMMING UP THIS LESSON ◀ ◀

Both the standard deduction (or total itemized deductions, if greater) and exemption amounts are subtracted from adjusted gross income to arrive at taxable income.

The standard deduction depends upon:

- filing status,
- age, eyesight, and
- whether the taxpayer can be claimed as a dependent on another taxpayer's return.

Determine the standard deduction by using the:

- Standard Deduction amount for the appropriate filing status from the appropriate tax form,
- *Standard Deduction Chart for People Age 65 or Older or Blind,* or
- *Standard Deduction Worksheet for Dependents*

Itemized deductions are specifically allowed by law. Claim itemized deductions on Schedule A (Form 1040).

Itemized deductions include:

- Medical and dental expenses
- Taxes paid
- Home mortgage and certain investment interest paid
- Charitable contributions
- Casualty and theft losses
- Miscellaneous itemized deductions.

Medical and dental expenses that exceed 7.5 percent of adjusted gross income are deductible.

To be deductible as a charitable contribution, a donation of $250 or more must be acknowledged in writing by the charitable organization that received the donation.

Most miscellaneous itemized deductions that exceed 2% of adjusted gross income are deductible. However, there are certain miscellaneous itemized deductions that are fully deductible, regardless of gross income.

If deducted investment interest expense exceeds investment income, refer the taxpayer to a paid professional tax preparer.

If you are uncertain whether an expense qualifies as a deduction, do not guess. Refer the taxpayer to a paid professional tax preparer.

▶ ▶ SUMMING UP THIS LESSON ◀ ◀
(continued)

Most taxpayers compare their total itemized deductions to their standard deduction and enter the larger amount on Form 1040, line 37.

Do not use the Tax Table for taxpayers with taxable income of $100,000 or more

Common errors include:

- Using the wrong standard deduction,
- Incorrectly figuring the exemption amount,
- Using an amount other than taxable income to find the tax,
- Picking up the wrong number from the Tax Table, and
- Transposing the numbers when entering the tax amount.

STUDENT NOTES

STANDARD AND ITEMIZED DEDUCTIONS AND TAX COMPUTATION

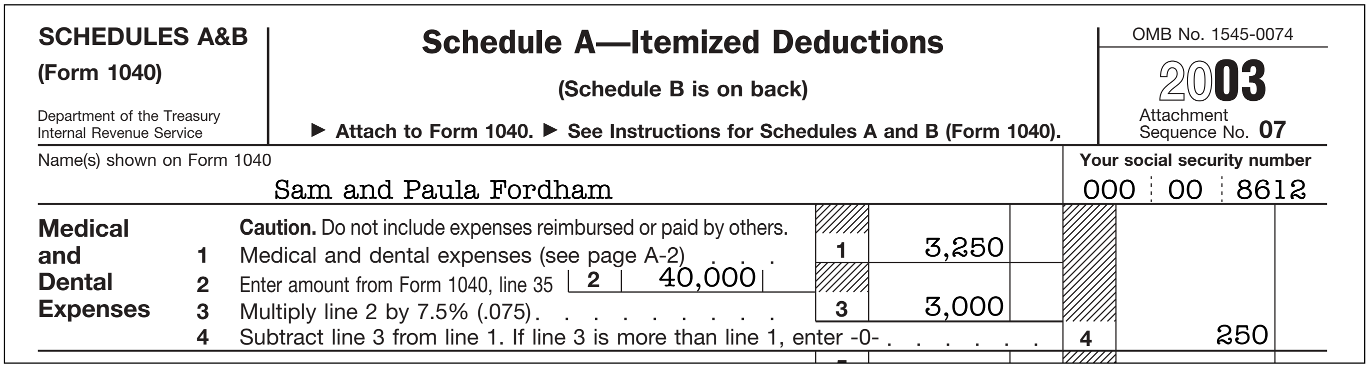
ANSWERS TO EXERCISES

Exercise 1

(A) $7,000
(B) $5,900
(C) $10,450
(D) $5,700
(E) $4,750
(F) $1,750

Exercise 2

Sam and Paula's Schedule A



SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions
(Schedule B is on back)
▶ **Attach to Form 1040.** ▶ **See Instructions for Schedules A and B (Form 1040).**

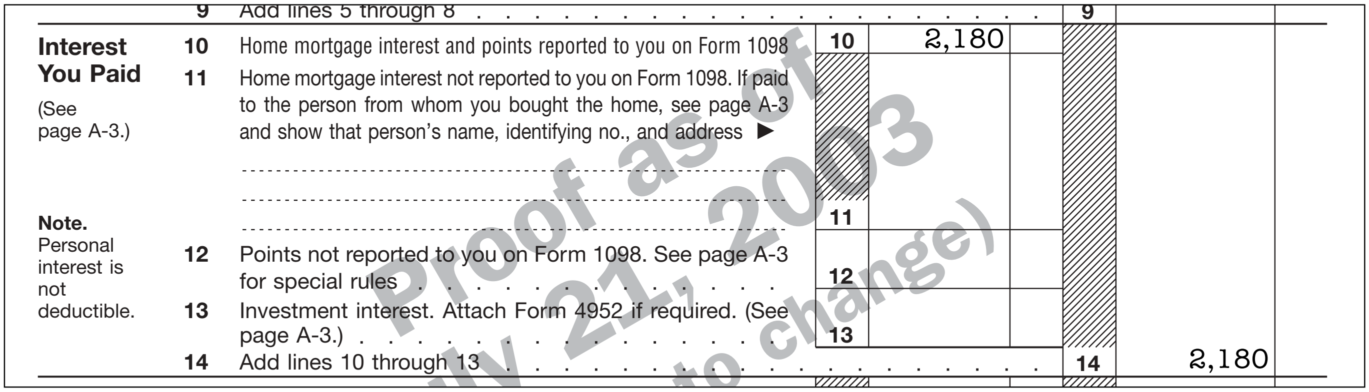
OMB No. 1545-0074
2003
Attachment Sequence No. **07**

Name(s) shown on Form 1040: Sam and Paula Fordham
Your social security number: 000 00 8612

Medical and Dental Expenses		**Caution.** Do not include expenses reimbursed or paid by others.				
	1	Medical and dental expenses (see page A-2)	1	3,250		
	2	Enter amount from Form 1040, line 35 | 2 | 40,000				
	3	Multiply line 2 by 7.5% (.075).	3	3,000		
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	250

Exercise 3

John and Shanon's Schedule A



	9	Add lines 5 through 8			9	
Interest You Paid (See page A-3.)	10	Home mortgage interest and points reported to you on Form 1098	10	2,180		
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ▶	11			
Note. Personal interest is not deductible.	12	Points not reported to you on Form 1098. See page A-3 for special rules	12			
	13	Investment interest. Attach Form 4952 if required. (See page A-3.)	13			
	14	Add lines 10 through 13			14	2,180

STANDARD AND ITEMIZED DEDUCTIONS AND TAX COMPUTATION

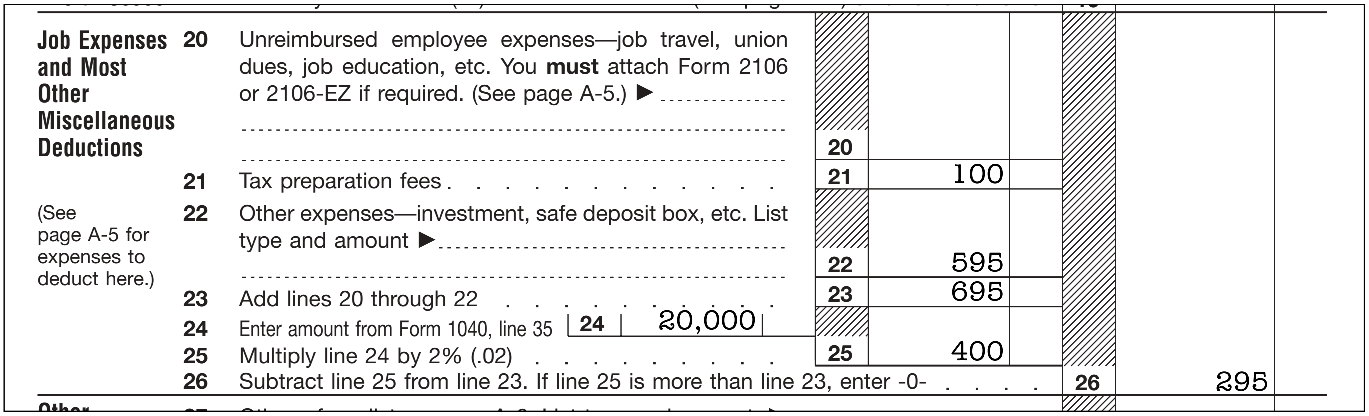
ANSWERS TO EXERCISES

Exercise 4

Line 15	$632
Line 16	$200
Line 18	$832

Exercise 5

Robert's Schedule A



Job Expenses and Most Other Miscellaneous Deductions	**20**	Unreimbursed employee expenses—job travel, union dues, job education, etc. You **must** attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶	**20**			
	21	Tax preparation fees	**21**	100		
(See page A-5 for expenses to deduct here.)	**22**	Other expenses—investment, safe deposit box, etc. List type and amount ▶	**22**	595		
	23	Add lines 20 through 22	**23**	695		
	24	Enter amount from Form 1040, line 35 **24** 20,000				
	25	Multiply line 24 by 2% (.02)	**25**	400		
	26	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-			**26**	295

STANDARD AND ITEMIZED DEDUCTIONS AND TAX COMPUTATION

ANSWERS TO EXERCISES

Exercise 6 Schedule A

SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service

Schedule A—Itemized Deductions

(Schedule B is on back)

▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074
2003
Attachment Sequence No. **07**

Name(s) shown on Form 1040: Seth and Karen Yale

Your social security number: 000 00 1039

Medical and Dental Expenses		**Caution.** Do not include expenses reimbursed or paid by others.				
	1	Medical and dental expenses (see page A-2)	1	2,320		
	2	Enter amount from Form 1040, line 35 | 2 | 28,000				
	3	Multiply line 2 by 7.5% (.075)	3	2,100		
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	220
Taxes You Paid (See page A-2.)	5	State and local income taxes	5	1,200		
	6	Real estate taxes (see page A-2)	6	780		
	7	Personal property taxes	7			
	8	Other taxes. List type and amount ▶	8			
	9	Add lines 5 through 8			9	1,980
Interest You Paid (See page A-3.)	10	Home mortgage interest and points reported to you on Form 1098	10	4,500		
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ▶	11			
Note. Personal interest is not deductible.	12	Points not reported to you on Form 1098. See page A-3 for special rules	12			
	13	Investment interest. Attach Form 4952 if required. (See page A-3.)	13			
	14	Add lines 10 through 13			14	4,500
Gifts to Charity	15	Gifts by cash or check. If you made any gift of $250 or more, see page A-4	15	980		
If you made a gift and got a benefit for it, see page A-4.	16	Other than by cash or check. If any gift of $250 or more, see page A-4. You **must** attach Form 8283 if over $500	16	75		
	17	Carryover from prior year	17			
	18	Add lines 15 through 17			18	1,055
Casualty and Theft Losses	19	Casualty or theft loss(es). Attach Form 4684. (See page A-5.)			19	
Job Expenses and Most Other Miscellaneous Deductions	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. You **must** attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶	20	90		
	21	Tax preparation fees	21			
(See page A-5 for expenses to deduct here.)	22	Other expenses—investment, safe deposit box, etc. List type and amount ▶	22	30		
	23	Add lines 20 through 22	23	120		
	24	Enter amount from Form 1040, line 35 | 24 | 20,000				
	25	Multiply line 24 by 2% (.02)	25	560		
	26	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-			26	0
Other Miscellaneous Deductions	27	Other—from list on page A-6. List type and amount ▶			27	
Total Itemized Deductions	28	Is Form 1040, line 35, over $139,500 (over $69,750 if married filing separately)? ☐ **No.** Your deduction is not limited. Add the amounts in the far right column for lines 4 through 27. Also, enter this amount on Form 1040, line 37. ☐ **Yes.** Your deduction may be limited. See page A-6 for the amount to enter.			▶ 28	

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11330X **Schedule A (Form 1040) 2003**

STUDENT NOTES

TRAVEL EXPENSES

INTRODUCTION AND OBJECTIVES

This segment identifies and explains how to apply the rules concerning travel and transportation expenses for members of the Armed Forces.

When we have concluded this segment you will be able to identify travel and transportation expenses (including meals) deductible by Armed Forces personnel.

GENERAL INFORMATION

Fully reimbursed employee business expenses, such as travel and transportation expenses, generally are not reported on your tax return if an adequate accounting is made to the employer and any excess reimbursement is required to be returned to the employer.

Armed Forces employees must substantiate their expenses to the federal government and return any excess reimbursement. The records must be adequate and complete. Adequate records include documents such as receipts and checks, account books, diaries, trip sheets, or similar items. To be considered adequate, the records should show the business purpose, time, place, and amount of the expense. If automobile expenses are involved, the records must include the total miles driven and total business miles driven.

FORM 1040

Deductible employee business expenses are reported generally on Form 2106, *Employee Business Expense*s, and can only be taken as an itemized deduction on Schedule A, Form 1040. Only expenses that exceed 2% of adjusted gross income (AGI) can be deducted.

Excess reimbursements for employee business expenses that are not returned to the employer must be included in income on line 7 of Form 1040. These reimbursements do not include any "qualified military benefit," such as per diem.

FORM W-2

If the employee is reimbursed under a plan that requires the employee to adequately account for all business connected expenses and return any funds that are more than the substantiated expenses, the reimbursement should not be included as income in Box 1 of Form W-2. Therefore, the employee cannot deduct these expenses.

Temporary duty (TDY) and temporary additional duty (TAD) allowances for travel and transportation are not reported as income on Form W-2. If there are excess expenses on some trips and the employee wants to claim them as employee business expenses, the employee must report all TAD and TDY trip expenses incurred during the year on Form 2106 and include all TAD and TDY allowances received as reimbursements.

FORM 2106

To claim unreimbursed job related expenses, such as travel or transportation expenses, Armed Forces personnel must complete Form 2106 and attach it to their Form 1040. Form 2106 will not have to be used if the Armed Forces member is claiming only unreimbursed employee business expenses for professional dues, subscriptions to professional journals, educational expenses, and uniform expenses. These expenses are reported on line 20 on Schedule A as miscellaneous itemized deductions subject to the 2% AGI limit.

Example 1

Capt. Glendale traveled from his duty station in California to Washington, DC, for a conference. He was away for 5 days. The Army advanced Capt. Glendale $700 for the trip. Capt. Glendale's actual expenses were $625. When he filed his travel voucher with the Army, he returned the excess of $75. The captain does not have to complete Form 2106.

Remember, if the Armed Forces member does not claim reimbursement for expenses that he or she is entitled to, no deduction for those expenses is allowed.

MEALS

The cost of meals can be an employee business expense. This includes meals while on business travel away from home and for business-related entertainment. The deduction for meals is generally limited to 50% of the actual expenses.

The deduction is taken on Form 2106 where the 50% limit is applied before the amount is carried to line 20 on Schedule A where it is subject to the 2% AGI limit.

If the employee is fully reimbursed for the meals under an accountable plan that excludes reimbursement from gross income, there is no amount to deduct and, therefore, no amount subject to the 50% limit. For information on using the standard meal allowance instead of actual expenses, see Publication 463, *Travel, Entertainment, Gift, and Car Expenses.*

TRAVEL EXPENSES

To be deductible, travel expenses must be ordinary and necessary expenses of traveling away from home temporarily for your job and must be greater than the total of any advances, allowances, and reimbursements you receive for such expenses. "Ordinary" expenses are customary or usual in the employee's field, trade, business, or profession. "Necessary" expenses are appropriate or helpful in the employee's job or business. Such expenses include airfares, the costs of operating and maintaining a car, and meals and lodging. For a more complete list, see Publication 463.

Deductible travel expenses are reported on Form 2106 (or Form 2106-EZ, if you qualify) and are deductible as a miscellaneous itemized deduction on Schedule A of Form 1040.

Away From Home

For costs other than local transportation to be deductible, the traveler must be away from home. The term "away from home" has a special meaning for tax purposes.

"Home," for this purpose, generally is the taxpayer's main place of business or post of duty. This includes the entire city or general area where his or her business or work is located, regardless of where the taxpayer or his or her family lives. For the military, "home" is the permanent duty station. A naval officer assigned to permanent duty aboard a ship that has regular eating and living facilities has a tax home aboard ship for travel expense purposes.

"Away from home" means away for a period substantially longer than an ordinary day's work, during which taxpayers need time off for sleep or rest to meet the demands of work.

(For examples, see *Traveling away from home* in Publication 463.) Members of the Armed Forces are away from home if they are away from their permanent duty stations long enough to require significant rest or sleep in order to be able to conduct and complete their duties.

Note: Away from home assignments that last, or are realistically expected to last more than one year are not temporary in nature. Therefore, taxpayers cannot deduct travel expenses incurred while on an assignment of more than one year. See Publication 463, for more details.

No Deduction for Personal Expenses

For travel expenses to be deductible, there must be a work-related purpose for the travel. The taxpayer may not deduct expenses for personal travel, such as vacations, sightseeing, entertaining, or family visits.

Allowable Expenses

Common travel expenses for a member of the Armed Forces include:

- Expenses incurred while on TDY or TAD if away from home (ship, base, or station).
- Expenses of a reservist attending drills away from home overnight.
- Meals and lodging of a reservist temporarily called to active duty.
- Travel expenses, including meals and lodging, incurred in connection with deductible educational activities.
- Travel expenses incurred when carrying on official business while on “No Cost” (to the government) orders.

Mess bills afloat are not deductible by an officer assigned to permanent duty aboard a ship. Bills may be deductible as travel expenses by individuals and members of mobile units in a travel or TAD status while away from their permanent ships or stations.

Travel expense deductions are available to air squadron personnel when away from the squadron’s home base on TAD and to Army personnel when on field duty or maneuvers in a TDY status. Air squadron personnel and members of staffs permanently embarked on ships on extended deployments may not deduct expenses of living aboard ships as travel expenses.

Officers assigned permanent duty afloat may deduct the cost of meals and lodging incurred while on travel or TAD ashore if the ship is not berthed at the temporary duty station, or if the ship is berthed at the temporary duty station but quarters aboard are not available. No deduction is permitted for meals or lodging furnished or available in kind at the place of TAD, even if they are not used.

RESERVISTS

Unreimbursed travel expenses, including meals and lodging, are deductible for military reservists who, under competent orders and with or without compensation, must remain away from their main place of business to perform authorized drills and training duty.

Temporary active duty. Reservists temporarily called to active duty may deduct meals and lodging while on active duty if they kept their regular job while on active duty, returned to it after release, and were stationed away from the general area of that job or business. These expenses are deductible only if the reservists pay for meals and lodging at their official military post and only to the extent the expenses exceed BAH and BAS.

Exercise 1

A. Sgt. Martin's permanent duty station is in Korea. His wife and children could not accompany him and have remained at their home in the United States. Can he deduct the cost of his meals and lodging?

Answer ____

B. Can Sgt. Martin, in the circumstances above, deduct the cost of meals and lodging for his wife and children?

Answer ____

C. Can Sgt. Martin take a deduction for the cost of returning home to visit his family?

Answer ____

EDUCATIONAL EXPENSES

In Lesson 8, Education Credits, you will learn about deductions for educational expenses. Taxpayers cannot deduct as a business expense the cost of travel that in itself constitutes a form of education. If educational expenses qualify for a deduction under the rules given in Lesson 8, travel for that education is travel for a business purpose, and the unreimbursed transportation and meals and lodging expenses may be deducted according to the relevant rules discussed in this lesson.

Example 2

Airman Drake is sent from his permanent duty station to a technical school 500 miles away to learn the latest uses of computers for diagnosing engine performance and maintenance requirements. If his expenses for travel exceed the allowances and reimbursements he receives, he can take the excess as a miscellaneous itemized deduction, subject to the 2% AGI limit.

Lesson 8 will explain which other educational expenses can be deducted.

Exercise 2

Which of the following can be taken as deductions?

A. Travel expenses in excess of allowances and reimbursements when the taxpayer is on TAD trips.

B. Mess bills of an officer permanently assigned to a ship.

C. Meals that are not lavish or extravagant, but cost more than allowances or reimbursements while the taxpayer attends assigned schooling away from his or her permanent station.

D. Laundry expenses the taxpayer incurs while traveling on TAD and for which no allowance or reimbursement is received.

Answer ____

LOCAL TRANSPORTATION EXPENSES

Local transportation expenses are generally the expenses of getting from one work place to another while not traveling away from home. Such expenses include the costs of operating and maintaining a car, but not meals and lodging. If taxpayers are required during their time on duty to go from one place to another (for example, as a courier or to attend meetings) without being away from home, their unreimbursed transportation expenses are deductible. When they must use their own vehicle, they can deduct transportation expenses. You may be able to use the standard mileage rate to figure the deductible costs of operating your car for business purposes. Beginning January 1, 2003, the standard mileage rate is **36 cents a mile** for all business miles driven on or after that date. This rate is adjusted periodically for inflation. Commuting expenses are usually not deductible. However, you may be able to deduct certain daily transportation expenses, as explained next, under *Temporary Work Location.*

TEMPORARY WORK LOCATION

A taxpayer can deduct local transportation expenses.

Local transportation expenses include the ordinary and necessary costs of all of the following.

- Getting from one workplace to another in the course of the taxpayer's business or profession when he or she is traveling within the city or general area that is his or her tax home.
- Visiting clients or customers.
- Going to a business meeting away from the taxpayer's regular workplace.
- Getting from the taxpayer's home to a temporary workplace when he or she has one or more regular places of work. These temporary workplaces can be either within the area of his or her tax home or outside that area.

Local business transportation does **not** include expenses the taxpayer has while traveling away from home overnight. Those expenses are deductible as travel expenses.

If the taxpayer's employment at a work location is realistically expected to last (and does in fact last) for one year or less, the employment is temporary unless there are facts and circumstances that would indicate otherwise. If the taxpayer's employment at a work location is realistically expected to last for more than one year or if there is no realistic expectation that the employment will last for one year or less, the employment is not temporary, regardless of whether it actually lasts for more than one year. If employment at a work location initially is realistically expected to last for one year or less, but at some later date the employment is expected to last for more than one year, that employment will be treated as temporary (unless there are facts and circumstances that would indicate otherwise) until the taxpayer's expectation changes. It will not be treated as temporary after the date the taxpayer determines it will last for more than one year.

▶▶ SUMMING UP THIS SEGMENT ◀◀

In this lesson, you have learned that:

- ▶ Travel and transportation expenses can be taken as miscellaneous itemized deductions on Schedule A, subject to the 2% AGI limit.
- ▶ Travel expenses for meals, lodging, and incidentals must be incurred while temporarily away from home on business to be deductible. Assignments that last, or are realistically expected to last more than one year are not considered temporary.
- ▶ Commuting and other personal expenses are not deductible.
- ▶ Travel costs associated with deductible educational expenses are treated like other business travel costs.
- ▶ Form 2106 and Schedule A (Form 1040) are used to figure and claim the itemized deduction for employee business expenses that exceed reimbursement.

TRAVEL EXPENSES

ANSWERS TO EXERCISES

1. **a.** No.

- **b.** No.
- **c.** No

2. a., c., and d.

MISCELLANEOUS ITEMIZED DEDUCTIONS

INTRODUCTION AND OBJECTIVE

As you learned earlier in this lesson, certain miscellaneous itemized deductions, which includes unreimbursed employee business expenses and investment expenses, are deductible only if the total itemized deductions are more than 2% of the taxpayer's adjusted gross income (AGI). All deductible miscellaneous itemized deductions discussed in this Military segment are subject to the 2% AGI limit. In this segment we will cover additional itemized deductions of special interest to members of the military. To claim these expenses, a taxpayer must itemize using Schedule A (Form 1040), Itemized Deductions.

We will be able to identify miscellaneous itemized deductions, other than travel, of particular interest to the military.

UNIFORMS

Taxpayers can deduct the cost of buying and maintaining uniforms if the uniforms are specifically required as a condition of employment and they are not adaptable to general use as regular clothing.

Generally, members of the Armed Forces are required to wear uniforms when they are on duty but may be allowed to wear them when they are off duty. Because their uniforms can be worn in place of regular civilian clothing, members of the military cannot claim a deduction for uniform cost and upkeep. However, if military regulations prohibit off-duty wear of certain uniforms, the member can deduct the cost and upkeep of these uniforms. But he or she must reduce any deductible uniform costs incurred by any nontaxable uniform allowances or reimbursements received to pay for these expenses.

Active Duty Uniforms

Members of the Armed Forces on active duty can deduct amounts spent to buy and maintain required military battle dress uniforms and utility uniforms if local military regulations prohibit their off-duty wear. The member must reduce the expense by any nontaxable uniform allowance or reimbursement received.

Reservists' Uniforms

A reservist in the Armed Forces can deduct the cost and upkeep of uniforms if military regulations prohibit their wearing the uniform except when performing duties as a reservist. The reservist must, however, reduce the uniform expense by any nontaxable uniform allowance or reimbursement received.

Articles Not Replacing Regular Clothing

A member of the Armed Forces can deduct the cost of required items that do not replace regular clothing. Such items include insignia of rank, corps devices, epaulets, aiguillettes, and swords.

Exercise 1

Indicate if the following are deductible or nondeductible by a member of the Armed Forces.

A. The cost of an Army dress blue uniform (without shoulder boards or gold stripe on pants), including cape. Off-duty wear is not prohibited.

Answer ____

B. The cost of a full Army green uniform (without braid) that can be worn anytime.

Answer ____

C. The cost of gold braid for decoration of a cap and uniform.

Answer ____

D. The cost of battle dress uniforms and utility uniforms that can be worn only while on duty or while traveling to and from duty.

Answer ____

PROFESSIONAL DUES

Taxpayers, including members of the Armed Forces, can deduct dues paid to professional societies that are directly related to their trade or business. For example, Lt. Margaret Allen, an electrical engineer at Maxwell Air Force Base, can deduct professional dues paid to the American Society of Electrical Engineers.

However, members of the Armed Forces cannot deduct amounts paid to an officers' club or a noncommissioned officers' club.

EDUCATIONAL EXPENSES

Travel and transportation expenses for educational purposes are discussed in Lesson 8. In this segment, you will learn what educational expenses can be claimed as miscellaneous deductions on Schedule A. Certain rules must be met, however, for the expenses to qualify as a deduction.

Qualifications

A member of the Armed Forces can deduct expenses for education, even though the education may lead to a degree, if the education:

- Is required by the taxpayer's employer or by law or regulations for the taxpayer to keep salary, status, or job (if these requirements serve a business purpose of his or her employer); or
- Maintains or improves the skills required in the taxpayer's present work.

A taxpayer cannot deduct educational expenses, even though the above requirements are met, if the education:

- Is to meet the minimum educational requirements needed to qualify the taxpayer in his or her trade or business, or
- Is part of a program of study that will qualify the taxpayer for a new trade or business, even if he or she has no plans to enter that trade or business.

Some examples will help illustrate the various rules.

Example 1

Warrant Officer Newberry, an Army pilot, incurred educational expenses to obtain an accounting degree. He cannot deduct these expenses because they qualify him for a new trade or business.

Example 2

Lieutenant Commander Morris, who has a degree in financial management, is in charge of base finance at her post of duty. She incurred educational expenses when taking an advanced finance course. She can deduct educational expenses that were more than the educational allowance she received because she had already met the minimum qualifications of her job. By taking the course, she improved skills in her current position. The course did not qualify her for a new trade or business.

POTENTIAL PITFALLS ⚠

Remind students that qualified educational expenses can be deducted as an adjustment to income, educational credit, or as a miscellaneous itemized deduction.

The volunteer should calculate the various ways and claim these expenses where they are most beneficial.

Deductible Expenses

Educational expenses and certain travel and transportation expenses related to education may be claimed on Form 2106, *Employee Business Expenses*. Expenses in excess of reimbursement are deductible only as a miscellaneous itemized deduction on Schedule A, subject to the 2% AGI limit discussed earlier. For more information, see Publication 508, *Tax Benefits for Work-Related Education*, and *Travel Expenses*, in this segment.

Deductible educational expenses include amounts spent for tuition, books, supplies, laboratory fees, correspondence courses, costs of research, and typing as part of an educational program, and travel. Educational expenses of a personal nature are not deductible. For example, a taxpayer cannot deduct the cost of dinner on campus while he or she attends evening classes. Also, deductible educational expenses do not include items of a capital nature, such as computers or desks.

Treatment of Allowances and Reimbursements

A member of the Armed Forces must reduce deductible educational expenses by any allowance or reimbursement he or she receives. Any educational services provided in kind are not deductible. For example, base-provided transportation to or from class cannot be claimed.

Exercise 2

Sgt. Stephen Butler is a mess sergeant. On his own, he takes courses at the local university in early childhood education. Does he have deductible educational expenses? Why?

Answer ______________________________

Exercise 3

Specialist Bates is a qualified X-ray technician. Would he have deductible educational expenses if he took a course required by the Army in new radiology techniques? Assume his expenses exceed reimbursement or allowance received.

Answer ______________________________

Exercise 4

Which of the following can be claimed as miscellaneous itemized deductions by a member of the Armed Forces?

a. Payment to an officers' club.

b. Expenses incurred by a flight operations officer to obtain an accounting degree.

c. Cost of epaulets.

d. Cost and upkeep of a reservist's uniform when local military regulations prohibit off-duty wear. (No uniform allowance received.)

e. Expenses incurred by a Navy disbursing clerk to learn television repair.

Answer ______________________________

▶▶ SUMMING UP THIS SEGMENT ◀◀

In this segment, you learned about some of the more common itemized deductions of special interest to military members. The total of these miscellaneous deductions must be more than 2% of adjusted gross income to be deductible.

MISCELLANEOUS ITEMIZED DEDUCTIONS

ANSWERS TO EXERCISES

1. **a.** Nondeductible

   b. Nondeductible

   c. Deductible

   d. Deductible

2. No. The courses were not required, do not improve Sgt. Baker's skills as a mess sergeant, and could lead to qualifying him for a new trade or business.

3. Yes. The course is required by Specialist Bates' employer, improves his skills in his present job, is not needed to meet the minimum educational requirements for his job, and will not lead to qualifying him for a new trade or business.

4. c. and d.

STUDENT NOTES

BUSINESS TRAVEL EXPENSES

Lesson 4

International Segment

INTRODUCTION AND OBJECTIVES

This lesson will explain how to compute business travel expenses for a U.S. citizen or resident aliens living aboard.

At the end of this segment, you will be able to:

1. Determine when employee business expenses are deductible.
2. Determine what expenses are deductible.
3. Determine how to report the expenses.
4. Complete Form 2106 "Employee Business Expenses".
5. Determine how to complete the expenses when the taxpayer is eligible and elects to take the foreign earned income exclusion.

TRAVEL EXPENSES

Travel expenses incurred must be ordinary and necessary when carrying out the duties of your employer while away from your home, for your job. Ordinary expenses are those that are customary for the type of travel being done. Necessary expenses are those that are appropriate and helpful to achieving the purpose of the travel. Treatment of the various expenses, allowances, and reimbursements depends on whether allowances and reimbursements were received and whether the expenses were more than allowances and reimbursements, or whether the allowances and reimbursements were more than the expenses. It also depends on whether or not your employer included these allowances and reimbursements as income on Form W-2. These situations will be discussed in this lesson.

Away from Home Overnight. For costs other than transportation the taxpayer must be "away from his tax home overnight". "Tax Home" is defined as the taxpayer's main place of business. "Overnight" is defined as a period substantially longer than an ordinary day's work during which the taxpayer would need time off for sleep or rest.

Example 1

You live with your family in Manchester, England, but work in London where you have lodging and meal expenses during the week. You travel back and forth from London to Manchester on weekends. You may not deduct any of your expenses for travel, meals, and lodging in London because that is your main place of business and the travel on weekends is not for business reasons.

DEDUCTIBLE EXPENSES

Travel expenses that are ordinary and necessary while traveling away from your home for business purposes include such things as:

1. Air, rail and bus transportation,
2. Operating and maintaining your car,
3. Taxi fares or other costs of transportation between the airport or station and your hotel, from one customer to another, or from one place of business to another.
4. Transportation from the place where you eat and sleep to your temporary work assignment,
5. Baggage and charges and transportation costs for sample and display material,
6. Meals and lodging when you are away from home on business.
7. Cleaning and laundry expenses,
8. Telephone and telegraph expenses,
9. Public stenographer's fees,
10. Operating and maintaining house trailers,
11. Tips that are incidental to any of these expenses, and
12. Other ordinary and necessary expenses related to travel.

Car Expenses. If you use your car for business purposes you are entitled to the actual expenses which would include such things as gas, oil, repairs, insurance and depreciation on your car or, you can use the standard mileage rate. The standard mileage rate is .36 cents per mile for 2003. If you use the car for both business and personal mileage you should maintain a log book. You will have to allocate the expenses between business and personal use. If you lease a car to use for qualified business expenses you may have to include an amount called the inclusion amount in your income, depending on the FMV of the vehicle (for more information on deducting actual car expenses see Publication 463).

Meal Expense. Expenses for meals claimed on a taxpayer's return are only 50% deductible. When an employee is reimbursed for substantiated meal expenses, the reimbursement will generally be nontaxable and the expenses will not be claimed.

HOW TO REPORT

The following discusses how the taxpayer should report his/her allowable expenses for travel, meals & lodging. Self-employed individuals must report their expenses on the appropriate form used to report their business income and expenses by using Schedule C, Form 1040. Employees, including outside sales persons, must complete Form 2106, Employee Business Expenses, and attach it to their Form 1040 to claim these expenses.

Expenses paid by an employee under a "reimbursement or other expense allowance arrangement" with an employer generally do not need to be claimed and the employer will not include the reimbursement as taxable income on the employee's Form W-2. To qualify as nontaxable reimbursements, the arrangement must require that the employee substantiate the expenses to the employer and return any excess reimbursements. Per Diem or other fixed allowance reimbursements that are similar to allowances specified by the Federal government will also be nontaxable to the extent that the amounts do not exceed government rates.

Form 2106 needs to be completed if:

1. The taxpayer received a reimbursement or an allowance and the employer included the amount on Form W-2, or a Form 1099 as taxable income,
2. The taxpayer seeks to deduct expenses in excess of the amounts paid under a reimbursement allowance arrangement,
3. The taxpayer received no reimbursement for his or her employee business expenses, or,
4. The taxpayer received reimbursement or an allowance and did not account to his or her employer for the expenses.

If the expenses equal the reimbursements and the taxpayer accounted to his or her employer, the taxpayer does not have to complete Form 2106 unless item (1) above applies.

Example 2

George Grant has incurred qualified employee business expenses. His company's policy is that all employees must turn in a travel voucher showing all expenses incurred and the company reimburses the employee an amount equal to the expenses. George does not have to file a Form 2106 because he reports directly to his employer and is reimbursed in full.

Example 3

Judy Coe incurred employee business expenses of $1,500. Her W-2 shows that her employer reimbursed Judy $2,000. Judy will have to file Form 2106 and claim $1,500.00 as an employee business expense on Form 2106 subject to the 50% meals limitation and 2% limitation on Schedule A. The entire $2,000 reimbursement must be reported as income on line 7, Form 1040.

Claiming Employee Business Expenses on Form 1040. The taxpayer can only claim employee business expenses on Form 1040 as a miscellaneous itemized deduction subject to the overall 2% limitation. Exceptions are provided for certain government officials, qualified performing artists, and individuals with a disability. For more information on these exceptions see the instructions for Form 2106.

Example 4

Frank Falls has a total of $2,000 of unreimbursed employee business expenses after reducing meals by 50% and no other miscellaneous itemized deductions. His total adjusted gross income is $52,000. Frank is entitled to a total of $960 as a miscellaneous itemized deduction. (2,000 – [52,000 x .02] = $960)

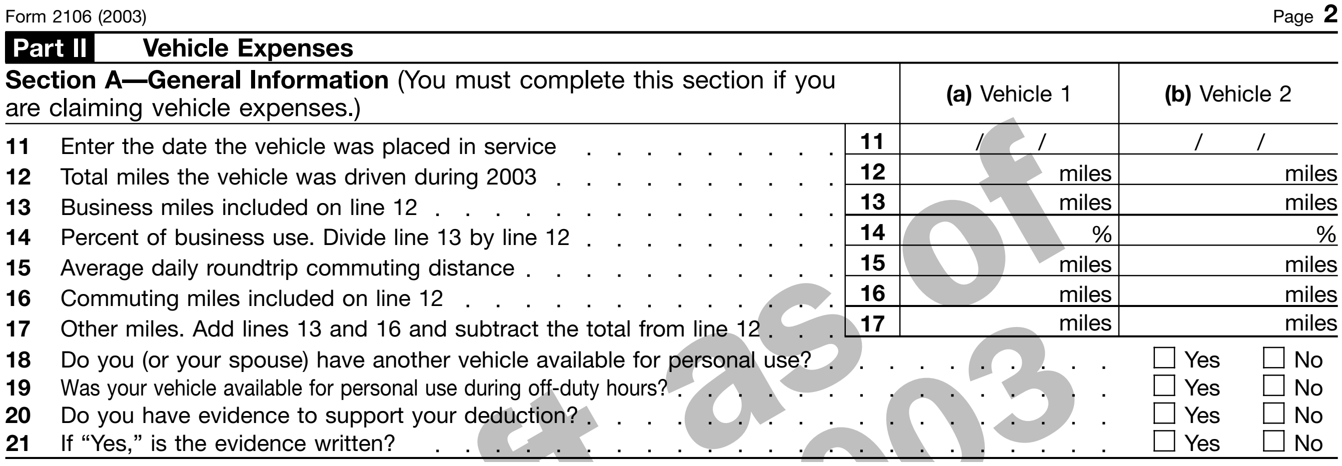
COMPLETING FORM 2106

Form 2106 is divided into 2 parts. Part I deals with all the expenses and Part II deals specifically with car expenses. Part II should be completed, if applicable, before entering an amount in Line 1, Part I.

Look at Part II section A. This section deals with general information about the vehicle and is self-explanatory. The taxpayer should have this information from his or her records to assist you in preparing the form.

Exhibit 1

Form 2106, Part 2



Form 2106 (2003) Page **2**

Part II **Vehicle Expenses**

Section A—General Information (You must complete this section if you are claiming vehicle expenses.)		**(a)** Vehicle 1	**(b)** Vehicle 2
11 Enter the date the vehicle was placed in service	**11**	/ /	/ /
12 Total miles the vehicle was driven during 2003	**12**	miles	miles
13 Business miles included on line 12	**13**	miles	miles
14 Percent of business use. Divide line 13 by line 12	**14**	%	%
15 Average daily roundtrip commuting distance	**15**	miles	miles
16 Commuting miles included on line 12	**16**	miles	miles
17 Other miles. Add lines 13 and 16 and subtract the total from line 12	**17**	miles	miles

18 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No
19 Was your vehicle available for personal use during off-duty hours? ☐ Yes ☐ No
20 Do you have evidence to support your deduction? ☐ Yes ☐ No
21 If "Yes," is the evidence written? ☐ Yes ☐ No

Part II, section B. of Form 2106 will be used if the taxpayer owns the vehicle and chooses, or has previously chosen, to use the standard mileage rate for the same vehicle.

Exhibit 2 Form 2106, Part II

Section B—Standard Mileage Rate (See the instructions for Part II to find out whether to complete this section or Section C.)

22 Multiply line 13 by 36¢ (.36) 22

Section C—Actual Expenses		**(a)** Vehicle 1			**(b)** Vehicle 2		
23 Gasoline, oil, repairs, vehicle insurance, etc.	23	▨			▨		
24a Vehicle rentals	24a			▨			▨
b Inclusion amount (see instructions)	24b			▨			▨
c Subtract line 24b from line 24a	24c	▨			▨		
25 Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2—see instructions)	25	▨			▨		
26 Add lines 23, 24c, and 25 . .	26	▨			▨		
27 Multiply line 26 by the percentage on line 14 . . .	27	▨			▨		
28 Depreciation. Enter amount from line 38 below	28	▨			▨		
29 Add lines 27 and 28. Enter total here and on line 1	29	▨			▨		

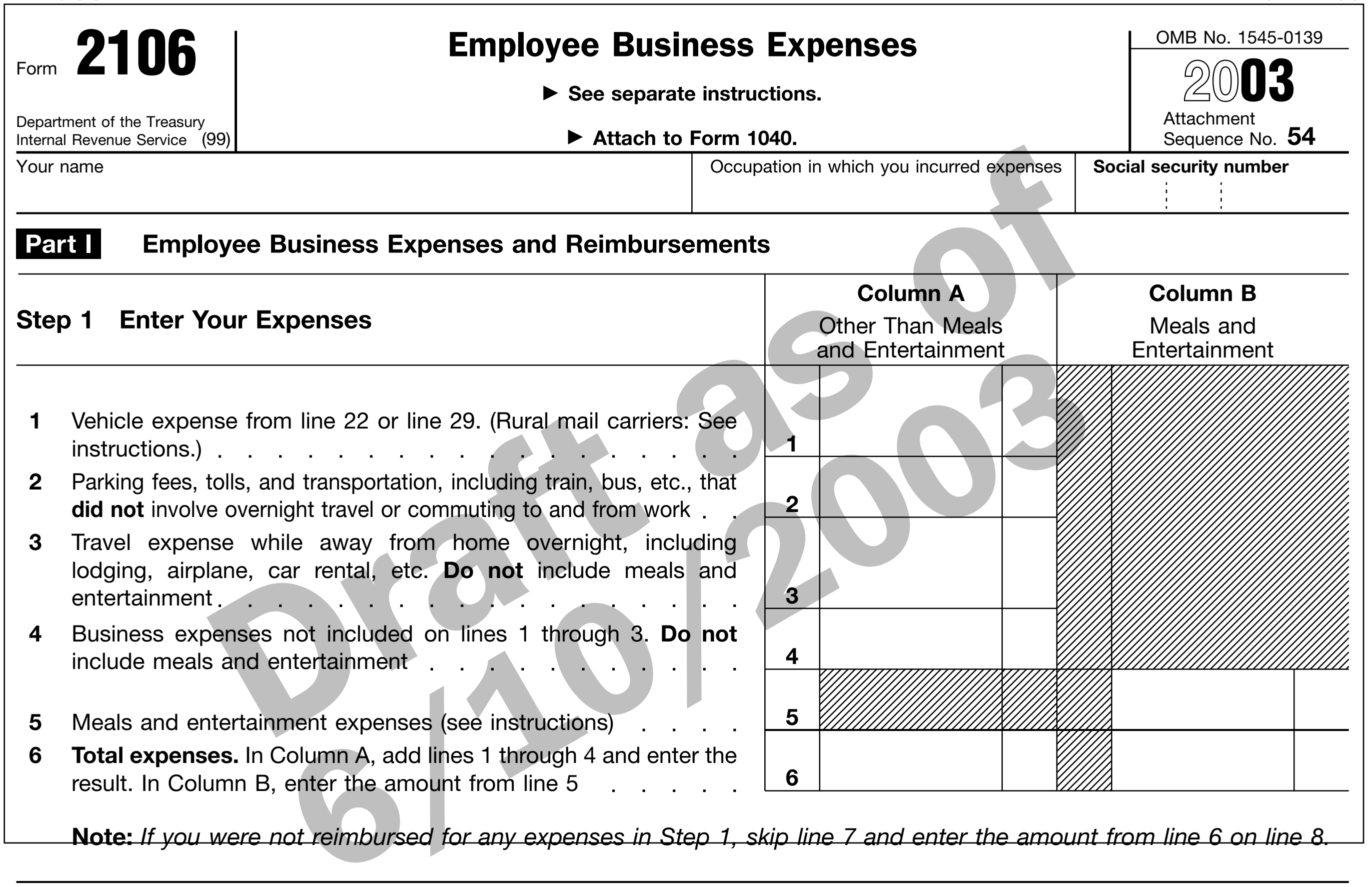
As mentioned previously the taxpayer is entitled to .36¢ per mile for business mileage. The business standard mileage rate may not be used to compute the deductible expenses of vehicles used for hire, such as taxicabs, two or more automobiles used simultaneously (such as fleet operations), or any vehicle that is leased, rather than owned, by the taxpayer. The business standard mileage rate may not be used if the automobile has previously been depreciated using a method other than straight-line for its estimated useful life. The standard rate may not be used if additional first-year depreciation has been claimed, or if the taxpayer used ACRS or MACRS depreciation.

For those taxpayers who are using the actual expense method, vehicles placed in service after September 10, 2001 are eligible for the additional 30% depreciation and an increased first year deduction. Property placed in service outside of the U.S. must be depreciated using the straight-line method.

There is a special first-year depreciation allowance of 50% for qualified property acquired after May 5, 2003 (except for property acquired under a binding written contract in effect before May 6, 2003). Instead of claiming the 50% allowance, taxpayers may elect to claim the 30% allowance or elect not to claim any special allowance. The depreciation limit for vehicles subject to the 50% allowance is increased by $7,650.

The front side of Form 2106 is divided into 3 steps, Let's look at each step and how it will apply to the taxpayer.

Exhibit 3 Form 2106



Form **2106**

Department of the Treasury
Internal Revenue Service (99)

Employee Business Expenses

► **See separate instructions.**

► **Attach to Form 1040.**

OMB No. 1545-0139

2003

Attachment
Sequence No. **54**

Your name	Occupation in which you incurred expenses	**Social security number**

Part I **Employee Business Expenses and Reimbursements**

Step 1 Enter Your Expenses		**Column A** Other Than Meals and Entertainment	**Column B** Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1		▨
2 Parking fees, tolls, and transportation, including train, bus, etc., that **did not** involve overnight travel or commuting to and from work	2		▨
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. **Do not** include meals and entertainment	3		▨
4 Business expenses not included on lines 1 through 3. **Do not** include meals and entertainment	4		▨
5 Meals and entertainment expenses (see instructions)	5	▨	
6 **Total expenses.** In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6		

Note: *If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.*

Step 1 of Form 2106 is used to summarize the employee business expenses of the taxpayer. Column A is used for all expenses except meals and entertainment. Column B is used only for meals and entertainment expenses. Step 1 must always be filled out. (Note: If the employer did not reimburse the employee for any of the expenses, skip Step 2 and go directly to Step 3 to figure the amount deductible.

Step 2 is filled out only if the taxpayer is reimbursed by the employer and the reimbursement is not shown as income to the taxpayer on a Form W-2 or Form 1099, and the employee seeks a deduction for additional expenses not paid by the employer. On line 7, only include amounts from Box 13 of Form W-2 identified as code "L".

Many overseas employees will receive Forms W-2 reflecting only a portion of their total compensation while others will receive no Form W-2 at all.

Reimbursements received under a reimbursement arrangement described above need not be shown as income on Form 1040 and will be reflected on Form 2106, line 7 only if additional expenses are claimed. Reimbursements for the unsubstantiated travel expenses must be included as income on Form 1040 and will not be included in Step 2 of Form 2106.

Exhibit 4 Form 2106, Step 2

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7	Enter reimbursements received from your employer that were **not** reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	**7**			▨	

Step 3 is used when the employer did not reimburse the employee in full. This section will show how much the taxpayer is allowed as a miscellaneous itemized deduction on the tax-payer's Schedule A Form 1040. This amount will be reduced by 2% of the taxpayer's adjusted gross income unless the taxpayer is a qualified performing artist.

Exhibit 5 Form 2106, Part II

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040)

8	Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7	**8**			▨	
	Note: *If **both columns** of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.*	▨			▨	
9	In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 65% (.65) instead of 50%. For details, see instructions.)	**9**			▨	
10	Add the amounts on line 9 of both columns and enter the total here. **Also, enter the total on Schedule A (Form 1040), line 20.** (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter the total.) . . . . ▶				**10**	

Example 5

John Scott is a U.S. citizen and an employee for an English company. He normally works out of their London office. However, John was temporarily assigned to the Paris office for the last 7 months of 2003. He had his car sent there so he can carry out his duties. He purchased the car on 6-1-2002, and did incur employee business expenses for that year. He elected in 2002 to use the standard mileage rate on his 2002 tax return. While in France he did some sight-seeing and had recorded personal mileage. John incurred the following expenses during 2003:

Lodging—$10,640
Meals—$7,350
Transportation to & from Paris office from London office—$300
Total mileage on car for 2003—23,720
Average daily roundtrip commute—10 miles
Commuting mileage for 2003—1,530
Business mileage—16,290
Parking fees & tolls—$586

John is reimbursed $8,300 for lodging and $4,000 for meals. The $4,000 for the meals is shown as income on John's W-2 Form. The $8,300 is not shown as taxable income on John's Form W-2 because the lodging expenses were properly accounted for. See Exhibit 6 for how the Form 2106 would be filled out.

Exhibit 6

Form **2106**

Department of the Treasury
Internal Revenue Service (99)

Employee Business Expenses

► See separate instructions.

► Attach to Form 1040.

OMB No. 1545-0139

2003

Attachment
Sequence No. **54**

Your name: John Scott

Occupation in which you incurred expenses: Sales Manager

Social security number:

Part I Employee Business Expenses and Reimbursements

			Column A Other Than Meals and Entertainment	Column B Meals and Entertainment
Step 1	**Enter Your Expenses**			
1	Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1	5,864.00	
2	Parking fees, tolls, and transportation, including train, bus, etc., that **did not** involve overnight travel or commuting to and from work	2	586.00	
3	Travel expense while away from home overnight, including lodging, airplane, car rental, etc. **Do not** include meals and entertainment	3	10,940.00	
4	Business expenses not included on lines 1 through 3. **Do not** include meals and entertainment	4		
5	Meals and entertainment expenses (see instructions)	5		7,350.00
6	**Total expenses.** In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6	17,390.00	7,350.00

Note: *If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.*

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7	Enter reimbursements received from your employer that were **not** reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	7	8,300.00	

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040)

8	Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7	8	9,090.00	7,350.00
	Note: *If **both columns** of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.*			
9	In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 65% (.65) instead of 50%. For details, see instructions.)	9	9,090.00	3,675.00
10	Add the amounts on line 9 of both columns and enter the total here. **Also, enter the total on Schedule A (Form 1040), line 20.** (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter the total.) ►		10	12,765.00

For Paperwork Reduction Act Notice, see instructions. Cat. No. 11700N Form **2106** (2003)

Part II Vehicle Expenses

Section A—General Information (You must complete this section if you are claiming vehicle expenses.)

			(a) Vehicle 1	(b) Vehicle 2
11	Enter the date the vehicle was placed in service	11	06 / 01 /2002	/ /
12	Total miles the vehicle was driven during 2003	12	23,720 miles	miles
13	Business miles included on line 12	13	16,290 miles	miles
14	Percent of business use. Divide line 13 by line 12	14	64 %	%
15	Average daily roundtrip commuting distance	15	10 miles	miles
16	Commuting miles included on line 12	16	1,530 miles	miles
17	Other miles. Add lines 13 and 16 and subtract the total from line 12	17	5,900 miles	miles

18 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☑ No

19 Was your vehicle available for personal use during off-duty hours? ☑ Yes ☐ No

20 Do you have evidence to support your deduction? ☑ Yes ☐ No

21 If "Yes," is the evidence written? ☑ Yes ☐ No

Section B—Standard Mileage Rate (See the instructions for Part II to find out whether to complete this section or Section C.)

22 Multiply line 13 by 36¢ (.36) 22 5,864.00

Section C—Actual Expenses		(a) Vehicle 1	(b) Vehicle 2
23 Gasoline, oil, repairs, vehicle insurance, etc.	23		
24a Vehicle rentals	24a		
b Inclusion amount (see instructions)	24b		
c Subtract line 24b from line 24a	24c		
25 Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2—see instructions)	25		
26 Add lines 23, 24c, and 25	26		
27 Multiply line 26 by the percentage on line 14	27		
28 Depreciation. Enter amount from line 38 below	28		
29 Add lines 27 and 28. Enter total here and on line 1	29		

Section D—Depreciation of Vehicles (Use this section only if you owned the vehicle and are completing Section C for the vehicle.)

		(a) Vehicle 1	(b) Vehicle 2
30 Enter cost or other basis (see instructions)	30		
31 Enter section 179 deduction and special allowance (see instructions)	31		
32 Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance)	32		
33 Enter depreciation method and percentage (see instructions)	33		
34 Multiply line 32 by the percentage on line 33 (see instructions)	34		
35 Add lines 31 and 34	35		
36 Enter the limit from the table in the line 36 instructions	36		
37 Multiply line 36 by the percentage on line 14	37		
38 Enter the **smaller** of line 35 or line 37. Also enter this amount on line 28 above	38		

Form **2106** (2003)

As you can see from the exhibit, the total expenses in Column A are reduced by the $8,300 reimbursement not included as taxable income on John's W-2. He will be entitled to an itemized miscellaneous deduction of $12,765. If John's adjusted gross income was $60,000, John would have to reduce the $12,765 by $1,200 ($60,000 x .02) giving him a total of $11,565 as a net miscellaneous deduction if John had no other miscellaneous deductions.

Exercise 1

Susan Troop, social security number 000-00-6789, works in Manila and is temporarily assigned to her company's Tokyo, Japan office. Her round trip air fare is $375. She also incurred lodging expenses of $2,760 and meal expenses of $1,420. She used mass transportation while in Tokyo and spent $357. Her employer, who is in the retail sales trade, did not reimburse her for any of the expenses. Complete the Form 2106 for Susan Troop.

Form **2106**

Department of the Treasury
Internal Revenue Service (99)

Employee Business Expenses

▶ See separate instructions.

▶ Attach to Form 1040.

OMB No. 1545-0139

2003

Attachment
Sequence No. **54**

Your name	Occupation in which you incurred expenses	**Social security number**

Part I Employee Business Expenses and Reimbursements

Step 1 Enter Your Expenses		**Column A** Other Than Meals and Entertainment	**Column B** Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1		
2 Parking fees, tolls, and transportation, including train, bus, etc., that **did not** involve overnight travel or commuting to and from work	2		
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. **Do not** include meals and entertainment	3		
4 Business expenses not included on lines 1 through 3. **Do not** include meals and entertainment	4		
5 Meals and entertainment expenses (see instructions)	5		
6 **Total expenses.** In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6		

Note: *If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.*

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7 Enter reimbursements received from your employer that were **not** reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	7		

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040)

8 Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7	8		
Note: *If **both columns** of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.* **9** In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 65% (.65) instead of 50%. For details, see instructions.)	9		

10 Add the amounts on line 9 of both columns and enter the total here. **Also, enter the total on Schedule A (Form 1040), line 20.** (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter the total.) ▶	10	

For Paperwork Reduction Act Notice, see instructions. Cat. No. 11700N Form **2106** (2003)

If the taxpayer is eligible and elects the foreign earned income exclusion he or she must adjust the amount of the business deductions related to the income excluded. The disallowed portion of the expenses is calculated by dividing the excluded foreign earned income by total foreign earned income.

Example 6

Harold Will is a U.S. citizen, employed as a salesperson in a foreign country and is eligible and elects to exclude $78,000 of his $98,500 a year salary. His AGI is $30,000. He had a total of $2,000 of unreimbursed employee business expenses of which $500 was for meals; these expenses are deductible only as miscellaneous itemized deductions on Schedule A (Form 1040). First, it is necessary to complete Form 2106. On that form Harold reduces the meal expenses by 50% of the $500 amount spent, yielding a total of $1,750 ($250 & $1,500).

Harold must reduce the $1,750 by 79% (78,000/98,500) because he excluded 79% of his earned income. Thus $1,383 of his expenses are not deductible. Harold carries the $367 ($1,750 – $1,383) deductible amount to Schedule A.

Harold also has $500 of other miscellaneous deductions subject to the 2% of AGI limit. He adds the $367 from Form 2106 plus the $500 for a total of $867 miscellaneous expenses. 2% of Harold's AGI is $600 (.02 x 30,000). Harold's deductible miscellaneous itemized deductions are $267 ($867 – $600).

If Harold did not have the other miscellaneous expenses of $500 he would not have been able to claim any miscellaneous deductions. His remaining expenses ($367) would have been less than 2% of his AGI ($600).

SUMMARY EXERCISES

1. Which of the following taxpayers would be entitled to employee business expenses and if so indicate the type of expense?

   Vehicle expenses
   Lodging
   Meals
   Travel

   a. Joseph Fulton works in London and drives from and to his house every day.

   Answer ______________________________

   b. Mary Banks works in Paris and had to go to Lyon for the day to conduct business. She returns home to Paris that evening. She used her car.

   Answer ______________________________

   c. Alice Canton is a nurse working in Rome, Italy. Her employer gives her a temporary assignment for 2 months in Oslo, Norway.

   Answer ______________________________

2. What form do you use to calculate a taxpayer's employee business expenses?

   Answer ______________________________

3. When are employee business expense reimbursements not included in gross income?

   Answer ______________________________

4. When are the employee business expenses itemized miscellaneous deductions?

   Answer ______________________________

5. How are reimbursements that are more than expenses incurred treated?

   Answer ______________________________

▶▶ SUMMING UP THIS SEGMENT ◀◀

Reimbursements from an accountable plan for substantiated employee business expenses are not included as income on the employee's return if the employee is required to return, and does return, any excess reimbursements.

- ▶ If the reimbursements are included as income, deductible expenses are allowed as miscellaneous itemized deductions subject ot the 2% limitation.
- ▶ Travel expenses for meals, lodging and incidentals must be incurred while "away from home overnight" to be deductible.
- ▶ Form 2106 is used to calculate the amount of itemized deductions that are in excess of reimbursements.
- ▶ If reimbursements exceed expenses, the excess is income to the employee and must be reported on Form 1040. (If reimbursements exceed the expenses it is probably a nonaccountable plan, and therefore the entire reimbursement is taxable).
- ▶ If it is the company's policy for the employees to account for business expenses to the employer by supplying the employer with documented evidence and the employer reimburses the employee for the amount in full, Form 2106 is not required.

If the taxpayer is eligible for and elects the foreign earned income exclusion, certain adjustments must be made to the gross amount deductible as employee business expenses.

Form **2106**

Department of the Treasury
Internal Revenue Service (99)

Employee Business Expenses

▶ See separate instructions.

▶ Attach to Form 1040.

OMB No. 1545-0139

2003

Attachment Sequence No. **54**

Your name	Occupation in which you incurred expenses	Social security number
Susan Troop	Retail Sales	

Part I Employee Business Expenses and Reimbursements

Step 1 Enter Your Expenses		**Column A** Other Than Meals and Entertainment	**Column B** Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1		▨
2 Parking fees, tolls, and transportation, including train, bus, etc., that **did not** involve overnight travel or commuting to and from work	2		▨
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. **Do not** include meals and entertainment	3	3,492.00	▨
4 Business expenses not included on lines 1 through 3. **Do not** include meals and entertainment	4		▨
5 Meals and entertainment expenses (see instructions)	5	▨	1,420.00
6 **Total expenses.** In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6	3,492.00	1,420.00

Note: *If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.*

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7 Enter reimbursements received from your employer that were **not** reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	7		

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040)

8 Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7	8	3,492.00	1,420.00
Note: *If **both columns** of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.*			
9 In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 65% (.65) instead of 50%. For details, see instructions.)	9	3,492.00	710.00

10 Add the amounts on line 9 of both columns and enter the total here. **Also, enter the total on Schedule A (Form 1040), line 20.** (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter the total.) ▶	10	4,202.00

For Paperwork Reduction Act Notice, see instructions. Cat. No. 11700N Form **2106** (2003)

BUSINESS TRAVEL EXPENSES

ANSWERS TO SUMMARY EXERCISES

1. **a.)** No (They are commuting expenses)

   b.) Yes. Vehicle expenses

   c.) Yes. Travel, lodging, meals.
2. Form 2106
3. When the employee is required to substantiate his buinsess expenses under a reimbursement arrangement and return any excess allowance to his employer. Also, Per Diem reimbursements that are similar to allowances specified by the Federal government will be nontaxable to the extent that the amounts do not exceed government rates.
4. When the expenses are more than the amount reimbursed. Itemized deductions are also created in the case of an employee reimbursed under a nonaccountable plan.
5. They are treated as income and shown on line 7 of Form 1040. If reimbursement in excess of expenses exists, the plan is probably a nonaccountable one, and therefore the entire reimbursement is taxable—not just the excess.

STUDENT NOTES

MISCELLANEOUS TAX CREDITS

Lesson 5

INTRODUCTION AND OBJECTIVES

In this lesson you will learn about three “miscellaneous credits”. The mortgage interest credit, the foreign tax credit and the credit for qualified retirement savings are covered in this lesson.

After completing this lesson you should be able to:

- Calculate the credit for qualified retirement savings contributions by using Form 8880.
- Accurately report the foreign tax credit if Form 1116 is not required.
- Be aware of the mortgage interest credit.

CREDITS

A credit is a dollar-for-dollar reduction of the taxpayer’s tax liability. A **refundable** credit can be greater than the tax. Taxpayers not only can have their tax reduced to zero; they can also receive a “refund” of excess credit. A **nonrefundable credit** can also be greater than the tax, but the nonrefundable credit can only reduce the tax to zero. Therefore, taxpayers will not receive a refund for any excess nonrefundable credit. All of the credits discussed in this lesson are non-refundable.

CREDIT FOR QUALIFIED RETIREMENT SAVINGS CONTRIBUTIONS

If the taxpayer contributed to a retirement plan or an IRA, he or she may be eligible for the credit for qualified retirement savings contributions credit. The amount of the saver's credit is determined by the taxpayer's filing status, adjusted gross income, and his or her qualified contributions.

The credit is reported on line 48 of Form 1040, or line 32 of Form 1040A.

To be eligible for the saver's credit, the taxpayer:

- Must be age 18 or older by the end of the tax year,
- Cannot be claimed on another person's tax return, and
- Cannot be a full-time student.

A **full-time student** is anyone who attends school full-time for some part of each of five calendar months of the year. The five months need not be consecutive. An individual is a full-time student if he or she is enrolled for the number of hours or courses the school considers as full-time attendance.

FIGURING THE CREDIT

The credit for qualified retirement savings contributions is figured by multiplying the **credit rate** by the lessor of the:

- Maximum allowable contribution ($2,000) or
- Eligible contributions.

The credit rate is determined by using the following table.

IF your filing status is...	AND your adjusted gross income is...	THEN your credit rate is...
Married filing jointly	Less than $30,001	50%
	Between $30,001 and $32,500	20%
	Between $32,501 and $50,000	10%
	Over $50,000	0
Head of Household	Less than $22,501	50%
	Between $22,501 and $24,375	20%
	Between $24,376 and $37,500	10%
	Over $37,500	0

Single, Married filing separately, or qualifying widow(er)	Less than $15,001	50%
	Between $15,001 and $16,250	20%
	Between $16,251 and $25,000	10%
	Over $25,000	0

Adjusted gross income is determined without regards to:

- The foreign income exclusion
- The foreign housing exclusion or deduction
- Income from sources within Guam, American Samoa, and the Northern Mariana Islands
- Income from Puerto Rico

Eligible contributions are determined by reducing the taxpayer's ***qualified retirement savings contributions*** by the following distributions that were received during the ***testing period.***

- Any distribution, that is included in the taxpayer's gross income, from a qualified retirement plan, or from an eligible deferred compensation plan.
- Any distribution from a Roth IRA that is not a qualified rollover contribution.

If the distributions received by the taxpayer are for loans or for excess IRA contributions returned before the due date of the return, they are not used to reduce the taxpayer's qualified retirement savings contributions.

Qualified retirement savings contributions are contributions made to a traditional or Roth IRA and salary reduction contributions to a 401(k) plan (including a SIMPLE 401(k)), a tax-sheltered annuity (403(b)) plan, an eligible deferred compensation plan of a state or local government (457(b)) plan), a SIMPLE IRA plan, or a salary reduction SEP.

Qualified retirement savings contributions also include voluntary after-tax employee contributions to a tax-qualified retirement plan or a tax-sheltered annuity (403(b)) plan. For purposes of the credit, an employee contribution will be voluntary as long as it is not required as a condition of employment.

The ***testing period*** includes:

- The tax year,
- The two preceding tax years, and
- The period between the end of the tax year and the due date of the return (including extensions).

Example 1

Terry contributes $3,000 to a 401(k) plan during 2003. In 2002, Terry withdrew $500 from his IRA. In 2003, he withdrew $900 from his IRA. Neither of these withdrawals were rolled over. In 2003, Terry's adjusted gross income was $23,000 and his filing status was head of household. Based on these facts, Terry would figure his saver's credit as follows:

(Qualified retirement contributions – withdrawals) x credit rate (per table)

($3,000 – $1,400) × .20

$1,600 × .20 = $320 saver's credit

The credit is figured on **Form 8880,** *Credit for Qualified Retirement Savings Contributions*.

Married filing jointly. If the taxpayer is married filing a joint return, he or she and his or her spouse may both use the credit. Both the taxpayer and spouse are eligible for a credit of the maximum annual contribution amount of $2,000.

If the taxpayers file a joint return, the qualified contribution is reduced by the taxable distributions received by the taxpayer or the taxpayer's spouse if the taxpayers filed jointly for both:

- the year a distribution was made, and
- the year the credit is claimed.

Exercise 1

Jason is 22 and earned $30,000 in 2003. He is single and contriuted $3,000 to his 401(k) plan at work. Is Jason eligible for the credit for qualified retirement savings contributions?

Exercise 2

Martha Barnard (000-00-0088) is 32 and files as Head of Household. Her only income is wages of $26,819. This year, she was able to contribute $1,000 to her employer's 401(k) plan. She did not put any money in an IRA. Use Exhibit 1 to complete Sally's Form 8880 through line 10.

Exhibit 1

Form **8880**

Department of the Treasury
Internal Revenue Service

Credit for Qualified Retirement Savings Contributions

▶ **Attach to Form 1040 or Form 1040A.**

OMB No. 1545-1805
2003
Attachment Sequence No. **129**

Name(s) shown on return | **Your social security number**

⚠ CAUTION

You **cannot** claim this credit if **either** of the following applies.

- The amount on Form 1040, line 35, or Form 1040A, line 22, is more than $25,000 ($37,500 if head of household, $50,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral **(a)** was born after January 1, 1986, **(b)** is claimed as a dependent on someone else's 2003 tax return, or **(c)** was a **student** in 2003 (see instructions).

		(a) You	**(b) Your spouse**
1 Traditional and Roth IRA contributions for 2003. **Do not** include rollover contributions	1		
2 Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18) plan contributions for 2003 (see instructions)	2		
3 Add lines 1 and 2	3		
4 Certain distributions received **after** 2000 and **before** the due date (including extensions) of your 2003 tax return (see instructions). If married filing jointly, include **both** spouses' amounts in **both** columns. See instructions for an exception	4		
5 Subtract line 4 from line 3. If zero or less, enter -0-	5		
6 In each column, enter the **smaller** of line 5 or $2,000	6		

7 Add the amounts on line 6. If zero, **stop**; you cannot claim the credit **7**

8 Enter the amount from Form 1040, line 35*, or Form 1040A, line 22 **8**

9 Enter the applicable decimal amount shown below:

If line 8 is—		**And your filing status is—**		
Over—	But not over—	Married filing jointly	Head of household	Single, Married filing separately, or Qualifying widow(er)
		Enter on line 9—		
---	$15,000	.5	.5	.5
$15,000	$16,250	.5	.5	.2
$16,250	$22,500	.5	.5	.1
$22,500	$24,375	.5	.2	.1
$24,375	$25,000	.5	.1	.1
$25,000	$30,000	.5	.1	.0
$30,000	$32,500	.2	.1	.0
$32,500	$37,500	.1	.1	.0
$37,500	$50,000	.1	.0	.0
$50,000	---	.0	.0	.0

9 X .

Note: *If line 9 is zero, **stop**; you cannot claim the credit.*

10 Multiply line 7 by line 9 . . . . **10**

11 Enter the amount from Form 1040, line 43, or Form 1040A, line 28 **11**

12 Enter the total of your credits from Form 1040, lines 44 through 47, or Form 1040A, lines 29 through 31 **12**

13 Subtract line 12 from line 11. If zero, **stop**; you cannot take the credit **13**

14 **Credit for qualified retirement savings contributions.** Enter the **smaller** of line 10 or line 13 here and on Form 1040, line 48, or Form 1040A, line 32 . . . . **14**

MORTGAGE INTEREST CREDIT

Taxpayers who hold qualified mortgage credit certificates under a qualified state or local government program may claim a credit for mortgage interest paid. The certificate must be for the taxpayer's main home. If the interest is paid to certain related parties (such as relatives), the credit cannot be claimed.

The credit is figured on Form 8396, *Mortgage Interest Credit*. Include the amount of the credit on Form 1040, line 52. Also, check box a on line 52 for Form 8396.

Any mortgage interest credit that the taxpayer cannot use in 2003 can be carried forward for up to three tax years. Figure the carry-forward credit in Part II of Form 8396.

Reduce the mortgage interest deduction claimed on Schedule A, Form 1040, by the amount shown on line 3 of Form 8396.

Caution: If the taxpayer was issued (and used) a qualified mortgage credit certificate after 1990 for a home, the taxpayer may have to recapture (repay) all or part of the benefit if the taxpayer sells that home within 9 years. The recapture is figured on Form 8828, *Recapture of Federal Mortgage Subsidy*.

FOREIGN TAX CREDIT

If the taxpayer paid income, war profits, or excess profits taxes to any:

- Foreign country,
- U.S. possession, or
- Any political subdivision, or agency or instrumentality of the country or possession, he or she may be able to take a **Foreign Tax Credit** (FTC) for taxes paid.

To determine if the tax paid is eligible for the foreign tax credit, the taxpayer **may** need to consult a paid professional preparer.

Generally, to claim the FTC, a taxpayer is required to file Form 1116, *Foreign Tax Credit (Individual, Estate, Trust, or Nonresident Alien Individual)*; however, the taxpayer does not have to file Form 1116 to take the credit if he or she meets all of the following requirements.

- All of the taxpayer's gross foreign source income is from interest and dividends that are reported on Form 1099-INT, or Form 1099-DIV (or substitute statement)
- If the taxpayer has dividend income from shares of stock, he or she held those shares for at least 16 days.
- The taxpayer is not filing Form 4563, *Exclusion of Income for Bona Fide Residents of American Samoa*, or excluding income from sources within Puerto Rico.
- The total of the taxpayer's foreign taxes is less than or equal to $300 ($600 if married filing jointly).
- All of the taxpayer's foreign taxes were:
  - Legally owed and not eligible for a refund, and
  - Paid to countries that are recognized by the United States and do not support terrorism.

For additional information, *see the Instructions for Form 1116*.

If the taxpayer meets all of the requirements listed above, enter the foreign tax credit on line 45 of Form 1040. Form 1116 is not required.

Example 2

Tabitha received a 1099-DIV that shows $219 of foreign taxes (box 6) in 2003. According to Tabitha she paid no other foreign taxes. She can claim the $219 on line 44 of Form 1040.

Exercise 3

Clyde comes to your site seeking help with his foreign tax credit. He is single and his 1099-DIVs show a total of $423 of foreign tax. Does Clyde need Form 1116 to claim his credit?

Exercise 1

No; Jason is not eligible for the credit because his income exceeds the threshold limit.

Exercise 2

See the completed Form 8880 on the next page.

Exercise 3

Yes, Clyde needs to complete a Form 1116 since his foreign taxes exceed $300. Clyde will need to seek the assistance of a paid professional preparer.

Form **8880**

Department of the Treasury
Internal Revenue Service

Credit for Qualified Retirement Savings Contributions

► **Attach to Form 1040 or Form 1040A.**

OMB No. 1545-1805

2003

Attachment
Sequence No. **129**

Name(s) shown on return	**Your social security number**
MARTHA BARNARD	000 00 0088

CAUTION

You **cannot** claim this credit if **either** of the following applies.

- The amount on Form 1040, line 35, or Form 1040A, line 22, is more than $25,000 ($37,500 if head of household, $50,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral **(a)** was born after January 1, 1986, **(b)** is claimed as a dependent on someone else's 2003 tax return, or **(c)** was a **student** in 2003 (see instructions).

			(a) You		**(b) Your spouse**
1	Traditional and Roth IRA contributions for 2003. **Do not** include rollover contributions	1			
2	Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18) plan contributions for 2003 (see instructions)	2	1,000		
3	Add lines 1 and 2	3	1,000		
4	Certain distributions received **after** 2000 and **before** the due date (including extensions) of your 2003 tax return (see instructions). If married filing jointly, include **both** spouses' amounts in **both** columns. See instructions for an exception	4			
5	Subtract line 4 from line 3. If zero or less, enter -0-	5	1,000		
6	In each column, enter the **smaller** of line 5 or $2,000	6	1,000		
7	Add the amounts on line 6. If zero, **stop**; you cannot claim the credit			7	1,000
8	Enter the amount from Form 1040, line 35*, or Form 1040A, line 22	8	26,819		
9	Enter the applicable decimal amount shown below:			9	X.10

If line 8 is—		**And your filing status is—**		
Over—	But not over—	Married filing jointly	Head of household	Single, Married filing separately, or Qualifying widow(er)
		Enter on line 9—		
---	$15,000	.5	.5	.5
$15,000	$16,250	.5	.5	.2
$16,250	$22,500	.5	.5	.1
$22,500	$24,375	.5	.2	.1
$24,375	$25,000	.5	.1	.1
$25,000	$30,000	.5	.1	.0
$30,000	$32,500	.2	.1	.0
$32,500	$37,500	.1	.1	.0
$37,500	$50,000	.1	.0	.0
$50,000	---	.0	.0	.0

Note: *If line 9 is zero, **stop**; you cannot claim the credit.*

10	Multiply line 7 by line 9			10	100
11	Enter the amount from Form 1040, line 43, or Form 1040A, line 28	11			
12	Enter the total of your credits from Form 1040, lines 44 through 47, or Form 1040A, lines 29 through 31	12			
13	Subtract line 12 from line 11. If zero, **stop**; you cannot take the credit			13	
14	**Credit for qualified retirement savings contributions.** Enter the **smaller** of line 10 or line 13 here and on Form 1040, line 48, or Form 1040A, line 32			14	

*See Pub. 590 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.

For Paperwork Reduction Act Notice, see back of form. Cat. No. 33394D Form **8880** (2003)

STUDENT NOTES

FOREIGN TAX CREDIT

Lesson 5

International Segment

INTRODUCTION AND OBJECTIVES

This lesson will discuss how to compute the foreign tax credit in situations where a U.S. citizen could pay taxes twice on the same income—once to the government of the foreign country where the income was sourced and once to the U.S. Government. This segment will address the foreign tax credit only as it applies to U.S. citizens and residents.

In the IN segment of the income lesson, the topic of worldwide income was discussed. U.S. citizens and residents compute their U.S. taxes based on their worldwide income. This sometimes leads to a situation when a U.S. citizen may be paying tax twice on the same income. In order to avoid double taxation, a foreign tax credit was created. This allows an individual to take a tax credit for those taxes paid to a foreign government on income from sources in a foreign country.

As explained in Lesson 5, Miscellaneous Tax Credits, like other tax credits, the foreign tax credit is a dollar-for-dollar reduction in the amount of tax. However, in some cases, not all taxes paid to a foreign government can be used in the computation of the foreign tax credit.

After completing this lesson, you should be able to supplement the information you learned in the basic text and:

- Determine which taxes are eligible for the foreign tax credit.
- Apply the criteria for claiming the foreign tax credit
- Accurately compute the foreign tax credit using Form 1116 or tax preparation software
- Assist taxpayer in compiling the documents necessary for a paid professional to complete the return.

WHAT TAXES QUALIFY FOR THE CREDIT

There are several factors to consider when determining if a tax paid to a foreign government is eligible for the foreign tax credit. They include:

1. Was the income foreign source?
2. What type of tax was paid to the foreign government?
3. Will the taxpayer receive some kind of specific economic benefit from the payment of this tax?

In this part of the lesson, we'll study the criteria for claiming the foreign tax credit.

The taxpayer must have income from a foreign country on which he/she is taxed by a foreign country. The tax imposed on the income must be similar to the income tax imposed in the U.S. This simply means that the income must be from a country other than the U.S. and that the tax paid must be similar to U.S. income tax. Let's look at some examples.

Example 1

Robb and Betty Grant are U.S. citizens who reside in France. The schedule B on their U.S. tax return contains the following:

$500, Lee County National Bank (U.S.)

$600, Banque National de Paris (French)

They paid income taxes on both types of interest to both countries. On their U.S. tax return, they can compute a foreign tax credit against the taxes that they pay to the U.S. on the interest received from the French bank. They would need to check with the French taxing authorities to determine if they can claim a similar tax credit on their French tax return for the interest income from the U.S. bank.

Example 2

Marie Elliott is a U.S. citizen who lives in Hong Kong. She owns a house in Hong Kong and paid $2,000 in real estate taxes for her home and $1,000 in personal property taxes. She also paid $300 in income taxes to the government of Hong Kong. She is not able to claim a foreign tax credit for either the real estate taxes paid or the personal property taxes paid since these two taxes are not income taxes. She can, however, use the $300 in income taxes paid to Hong Kong to compute a foreign tax credit. (Note—she can take the real estate taxes that she paid and deduct them as itemized deductions if she itemizes on her U.S. tax return. Foreign personal property taxes are only deductible if they relate to the production of income or a trade/business.)

Exercise 1

The following is a list of the income on Anne's U.S. income tax return. She is a U.S. citizen living in Canada. She also had to pay taxes on each of these types of income to Canada. Indicate on which of the following a foreign tax credit may be computed.

_____ **a.** Wages from her job in the U.S.

_____ **b.** Interest income from a U.S. bank.

_____ **c.** Interest income from a Canadian bank.

_____ **d.** Dividend income from a U.S. corporation.

_____ **e.** Dividend income from a Canadian corporation.

Exercise 2

Determine if the following taxes paid to a foreign government can be used to compute the foreign tax credit. All taxpayers are U.S. citizens.

______ **a.** Martha pays $1,200 a year in taxes. This tax is based on the number and types of appliances which she owns and uses in her home.

______ **b.** Jean pays an inheritance tax to the Spanish government. It is based on an inheritance she received upon the death of an uncle.

______ **c.** Dorothy lives in Jamaica. She paid $1,500 to the Jamaican government for her salaried income which she earned in Jamaica.

______ **d.** Henry lives in Haiti. He paid $100 in taxes to the Haitian government. This tax was based on his type of living accommodations, the location of his residence and the size of this family.

In addition to the requirements that the tax be paid to the foreign country on income derived from a foreign country and the tax be an income tax similar to the income tax as defined under U.S. law, the tax must also not be payment for a specific economic benefit. Simply put, the "tax" cannot actually be a "payment" that results in an individual receiving goods, services or the right to use certain properties which are not available to others who are subject to the income tax that is generally imposed by the foreign country. A taxpayer cannot receive any specific benefit, directly or indirectly from paying a tax.

Example 3

Bob lives in Country X. He owns and operates his own business in this country. This country has a two tier income tax system. Everyone pays income tax at graduated rates depending upon their income. Bob also pays income tax based upon the profits of his business. This second level of income tax gives Bob the right to reduced fees for telephones, utilities and rents for his business. The government of Country X calls it an income tax because it is based upon the profits of the business. If Bob did not pay this tax, he could not rent a government-owned building and he would pay significantly more for the utilities and his business telephone usage. Since Bob receives a specific economic benefit for the second tier of income tax that he pays, he cannot use those tax payments to compute a foreign tax credit on his U.S. tax return. However, the first tier of income taxes are similar to U.S. income taxes and can be used to figure his foreign tax credit.

Country Restrictions. Aside from the restrictions that we have already discussed, there are also certain countries to which a taxpayer may pay foreign income taxes but cannot claim a foreign tax credit. Generally the reason a credit may not be claimed for tax paid to one of these countries is because the Secretary of State has designated the country as one that repeatedly provides support for acts of international terrorism.

The credit can also be denied to countries with which the United States has no diplomatic relations, or countries whose government the United States does not recognize. At the time of this writing, income taxes paid to the following countries are not eligible for the foreign tax credit.

CUBA
IRAN
IRAQ
LIBYA
NORTH KOREA
SYRIA
SUDAN

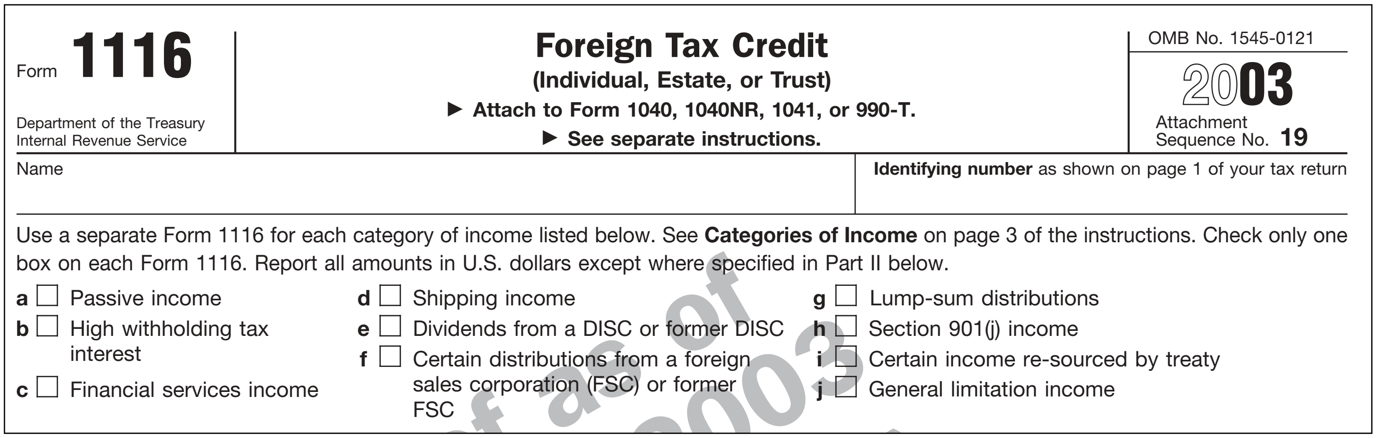
Example 4

Ralph is a U.S. citizen who has investments in both Belgium and Iran. On these investments Ralph pays income tax to these two countries by withholding tax from his dividend checks. Ralph can claim the taxes paid to Belgium when computing the foreign tax credit. The income taxes paid to Iran do not qualify for a foreign tax credit.

TYPES OF INCOME

A separate Form 1116 must be completed for each different type of income. We will only be studying three income categories: passive income, high withholding tax, interest and general limitation income. Remember that you can only check one income category per form and separate Forms 1116 must be submitted for each category. Your tax preparation software will do this for you.

Exhibit 1 **Form 1116**



Form **1116**

Department of the Treasury
Internal Revenue Service

Foreign Tax Credit
(Individual, Estate, or Trust)
► **Attach to Form 1040, 1040NR, 1041, or 990-T.**
► **See separate instructions.**

OMB No. 1545-0121
2003
Attachment
Sequence No. **19**

Name

Identifying number as shown on page 1 of your tax return

Use a separate Form 1116 for each category of income listed below. See **Categories of Income** on page 3 of the instructions. Check only one box on each Form 1116. Report all amounts in U.S. dollars except where specified in Part II below.

a ☐ Passive income
b ☐ High withholding tax interest
c ☐ Financial services income
d ☐ Shipping income
e ☐ Dividends from a DISC or former DISC
f ☐ Certain distributions from a foreign sales corporation (FSC) or former FSC
g ☐ Lump-sum distributions
h ☐ Section 901(j) income
i ☐ Certain income re-sourced by treaty
j ☐ General limitation income

Passive Income. Passive income generally includes the following types of income: dividends, interest, royalties, rents and annuities. If you are assisting a person who has one of these types of passive income from a foreign country, and he or she paid income taxes to a foreign country, you can use your software to compute a foreign tax credit.

Example 5

Darlene is a U.S. citizen living in Venezuela. She keeps a bank account in the Banco Nacional de Venezuela. In 2003, she received $380 in interest income from the Venezuelan bank. She also paid Venezuelan income taxes on this interest income. On her U.S. return, she would claim a foreign tax credit for the taxes paid to Venezuela on her interest income. She would check the box for the "Passive income" category on Form 1116.

High Withholding Tax Interest. Certain interest income is not included in the passive income category. If the taxpayer you are helping had interest income on which at least 5% foreign gross income tax was withheld, then this income is classified as high withholding tax interest and not passive income.

Example 6

Michael is a U.S. citizen who lives in the United Kingdom. He maintains a bank account in a London bank. According to local law, the bank withholds a mandatory 27.5% of interest income as income tax. Since the withholding rate is at least 5%, the high withholding tax interest category would be checked on his Form 1116.

Example 7

Regina lives in Singapore and is a U.S. citizen. She has both dividend income and interest income from countries outside the United States. Her foreign bank withholds 15% of her interest income for income taxes. She also pays foreign income taxes on her dividend income. Regina must complete two Forms 1116. Her foreign dividend income is "passive income" and indicated as such on one Form 1116. Her foreign interest income is in the "high withholding tax interest” category and is on another Form 1116. The credits on these separate Forms 1116 will eventually be combined. This will be studied later in this lesson.

General Limitation Income. The final income category on Form 1116 is the “general limitation income” category. If the person you are helping has foreign income that does not come under any of the other categories on Form 1116, then that foreign income comes under the general limitation income category. Most often, this would be wages earned in a foreign country that an individual does not exclude, or excludes only part of, under the foreign earned income exclusion.

Example 8

Siegfried lives in Switzerland and is a U.S. citizen. He works in Switzerland and pays income taxes to Switzerland on his earnings. He does not elect to claim a foreign earned income exclusion. He can claim a foreign tax credit for the taxes paid on his earnings to the Swiss government. He checks the box for the general limitation income category on his Form 1116.

High Taxed Income. If the individual you are assisting has passive income which is taxed by a foreign government at a rate that is higher than the highest U.S. income tax rate, then the foreign tax credit for that income would be computed under the general limitation category. (Passive income was discussed earlier in this lesson.) In 2003, the highest U.S. income tax rate is 38.6%. Therefore, if the person pays more than 38.6% on the foreign source passive income for which he or she claimed the credit, then the credit is computed under the “general limitation” category.

Example 9

Maria lives in Brazil and is a U.S. citizen. She has a bank account in Brazil and pays 45% income tax on her interest income. Even though interest income is normally passive income for purposes of the foreign tax credit, this income would be listed under the “general limitation” category on Form 1116 since the rate of income tax she pays on this passive income is higher than the highest U.S. income tax rate.

Example 10

Bernard is a resident of Barbados and a U.S. citizen. He keeps a bank account in Barbados. In 2003 he paid 17% income tax on his interest income from his bank account in Barbados. Since 17% (the tax rate he paid) is not more than 38.6% (the highest U.S. income tax rate) and since the 17% that Bernard paid was not paid by withholding, this income fails into the “passive income” category of Form 1116.

OTHER FOREIGN TAX CREDIT CONCEPTS

We have already discussed the income categories that are listed on separate sections of the Form 1116. In addition, the top of Form 1116 has a line to indicate the name of the country of residence of the taxpayer. This will need to be entered for tax software to correctly figure the tax credit.

Part I is used to figure the taxable income from foreign sources in each income category. If the person you are helping has one type of foreign income that comes from several foreign countries, you use one Form 1116. You will note that there is room on Form 1116 for up to 3 countries.

Example 11

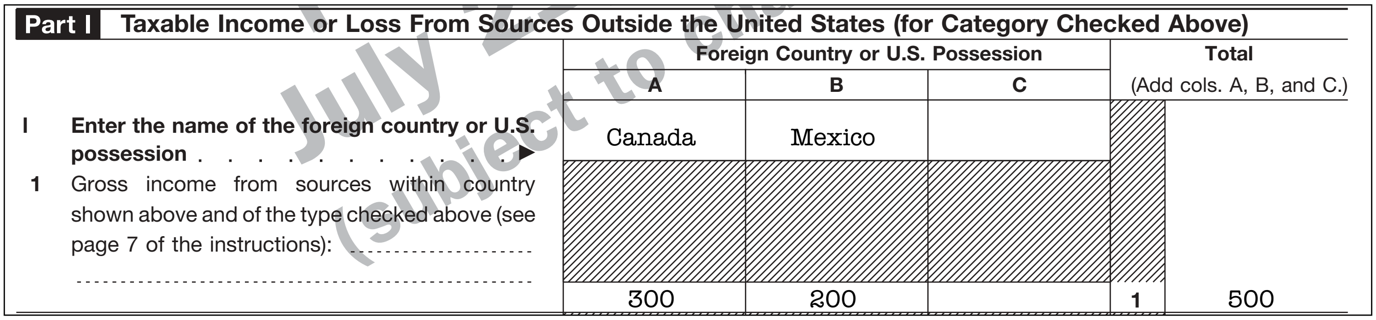
George is both a U.S. citizen and resident. He has interest income from both Canada and Mexico, as well as the U.S. His software will print only one Form 1116 since all the interest income is in the passive income category.

On Line 1, list all foreign income that fits under the category checked at the top of Form 1116. You will list that income separately for each foreign country.

Example 12

George had $300 in interest income from his Canadian bank and $200 in interest income from his Mexican bank. See the completed Form 1116, line 1 for his income in Exhibit 2 which follows.

Exhibit 2 **Form 1116, Line 1**



Part I Taxable Income or Loss From Sources Outside the United States (for Category Checked Above)

		Foreign Country or U.S. Possession				Total
		A	B	C		(Add cols. A, B, and C.)
I	**Enter the name of the foreign country or U.S. possession** . . . . ▶	Canada	Mexico			
1	Gross income from sources within country shown above and of the type checked above (see page 7 of the instructions):	300	200		1	500

Note: If the taxpayer you are assisting has claimed the foreign earned income exclusion, enter on line 1 of Form 1116 for general limitation income only the amount of earned income not excluded.

Example 13

Monique lives in France and is a U.S. citizen. She earned $84,000 in 2002 in France. Monique claimed the foreign earned income exclusion of $80,000 (discussed in an earlier lesson). As illustrated in Exhibit 3 below, she would only enter $4,000 on line 1

of her Form 1116 ($84,000 earned Income – $80,000 exclusion).

Exhibit 3 **Form 1116, Line 1**

Part I Taxable Income or Loss From Sources Outside the United States (for Category Checked Above)

		Foreign Country or U.S. Possession				Total
		A	B	C		(Add cols. A, B, and C.)
I	Enter the name of the foreign country or U.S. possession . . . . ▶	France				
1	Gross income from sources within country shown above and of the type checked above (see page 7 of the instructions):	4,000			1	4,000

Lines 2–5 are probably the hardest and most confusing lines to complete on the Form 1116. Let's review the situations that we will not be studying.

1. **Expenses directly allocable to the income.** If the person you are assisting has expenses that are related directly to the income claimed on line 1 such as employee business expenses, and the income claimed on line 1 was earned income, then you may recommend that this person seek professional assistance or contact the IRS.
2. **Investment Interest Expense.** If a person borrowed money in order to purchase investment property such as stock, then some special allocations may need to be done. They may wish to contact the IRS or seek a professional preparer.
3. **Foreign Losses.** If the person you are helping had any type of foreign losses such as net losses from selling capital assets or a net loss from being a limited partner, they may wish to hire a professional preparer or contact the IRS if they wish to prepare their own return.

Now that we have discussed what areas are beyond the scope of VITA, let's continue with the completion of Part I.

Line 3. Your software will complete line 3a if you completed a Schedule A for the person you are assisting to itemize his or her deductions. The total of the itemized deductions not directly related to foreign or U.S. income are medical expenses, real estate taxes and gifts to charity.

If the person you are assisting does not itemize deductions, then the standard deduction claimed on line 37 of the Form 1040 would be entered on line 3a.

Example 14

Betty is claiming a foreign tax credit. She is single and had itemized deductions of $6,900 for 2003. Her Schedule A includes $6,200 of real estate taxes and $700 of charitable con-tributions. (See Exhibit 4.)

Exhibit 4 **Form 1116, Line 3**

3	Pro rata share of other deductions **not definitely related:**					
a	Certain itemized deductions or standard deduction (see instructions)	6,900				
b	Other deductions (attach statement)					
c	Add lines 3a and 3b	6,900				
d	Gross foreign source income (see instructions)					
e	Gross income from all sources (see instructions)					
f	Divide line 3d by line 3e (see instructions) . .					
g	Multiply line 3c by line 3f					

Example 15

Rebecca wishes to claim a foreign tax credit. She is single and had itemized deductions of $2,500. Since the standard deduction for a single person for 2003, is $4,750, it is more advantageous to take the standard deduction. Rebecca's Form 1116 would therefore have a $4,750 entry on line 3a. (See Exhibit 5.)

All income from foreign sources in the category checked at the top of Form 1116 is listed on line 3d. If the foreign earned income exclusion was claimed on Form 2555 and if the Form 1116 is for the general limitation category, then the amount of the claimed exclusion is included here as well. For example, on line 3d for Monique from one of our prior examples the entry would be $84,000. That's the sum of $4,000 from line 1 plus the $80,000 exclusion she claimed. Under most circumstances, line 3d and line 1 will be the same.

Line 3e is gross income from all sources. Usually, this line will be the same as line 22 of the Form 1040. If a Form 2555 was completed and the Foreign Earned Income Exclusion was claimed, then the amount of the exclusion must be added back to the gross income amount on line 22.

The software's next step is to determine the percentage of foreign source income to total income. This is done by dividing line 3d by line 3e and it will enter the answer on line 3f. Then it takes line 3c and multiplies it by the percentage determined on line 3f and then enters this answer on line 3g. For our purposes line 6 will then be the same as line 3g. This number represents the amount of your deductions allocated to foreign income in the category.

Your software will compute the rest of Part I and has begun to enter figures on Part III.

Part II. Foreign Taxes Paid or Accrued. Part II of Form 1116 deals with the amount of foreign taxes paid or that may be owed (accrued). Since the foreign tax credit is allowed when a U.S. taxpayer either pays or accrues taxes to a foreign government, the amount paid or owed to a foreign government must be indicated on the tax return in this section.

Before we can discuss how to complete Part II, we need to discuss cash basis and accrual basis taxpayers. A cash basis taxpayer is one who reports income when actually or constructively received, and expenses when they are paid. The majority of people who file individual income tax returns are cash basis taxpayers. If the person is a cash basis taxpayer, he or she has a choice to take foreign tax credit using the cash or accrual method.

Example 16

Marie is a U.S. citizen who resides in Argentina, where she is currently employed. She is paid every week on Thursday. Her last payday for 2003 is December 30th. She is paid based upon the time she worked in the previous week Sunday through Saturday. Since she is a cash basis taxpayer, she claims on her 2003 tax return the income that she was paid from January 1, 2003 through December 31, 2003 no matter when she earned it or when she may have been entitled to it. She also claims as deductions, expenses for which she actually paid in 2003 even though she may have incurred the debt prior to 2003.

An accrual basis taxpayer computes income and deductions differently. A person who is on the accrual basis computes income when he or she actually earned it or became entitled to it. Therefore, his or her deductions are computed based on when those debts were incurred, but not necessarily paid.

Example 17

If Marie was an accrual basis taxpayer instead of a cash basis taxpayer, then she would declare as her 2003 income the money she had earned from her employer through December 31, even though she would not have been paid for her last week's work until early 2004.

When computing the amount of foreign taxes for Part II of Form 1116, you will need to know if the taxpayer is on a cash basis or an accrual basis. If the person you are helping does not know, then he or she is probably on a cash basis. Taxpayers on the accrual basis should be referred to professional tax preparers for assistance.

A taxpayer on the cash basis may choose to use the accrual method to determine the foreign tax credit. However, once this choice has been made the taxpayer must use the accrual method for the foreign tax credit on all future tax returns.

In the U.S., we have a pay-as-you-go system. That means that we pay taxes on taxable income as we make it. When a wage-earner gets a paycheck, an amount has already been withheld by his or her employer for federal income tax. If there has not been withholding on taxable income, then estimated tax payments must be made.

Many foreign countries have a different system. In some cases, the individual simply reports his or her taxable income and the government involved computes the tax and bills the taxpayer. In other instances, taxpayers make payments in one year for income made the previous year. In these instances, a cash basis taxpayer may wish to use the accrual basis for computing the foreign tax credit since his or her U.S. tax would be based on the income made in 2003 but they would not actually pay the taxes or know the actual tax amount until after the end of the tax year. But remember that once the choice to use the accrual method has been made, it must be used on all future tax returns in computing the foreign tax credit.

On Part II of Form 1116, you must indicate if the credit is being claimed for foreign taxes actually paid in 2003 or if it is being claimed for foreign taxes accrued during 2003. Just as there is space in Part I of the form to claim income from 3 different countries, there is space in Part II for claiming payments to these 3 different countries.

Part II also has two separate sections in which you indicate the amounts withheld, paid, or accrued in the foreign currency and then convert these amounts into U.S. dollars.

FOREIGN EXCHANGE RATE

One of the questions that frequently arise is what currency exchange rate should be used. If you are using the cash basis, then the exchange rate that is the most accurate for the date of the payment should be used.

If the person you are helping had tax withheld throughout the year, then you can use the annual average exchange rate. If the person you are assisting is using the accrual method to claim his or her foreign taxes paid, you must generally use the average exchange rate for the tax year.

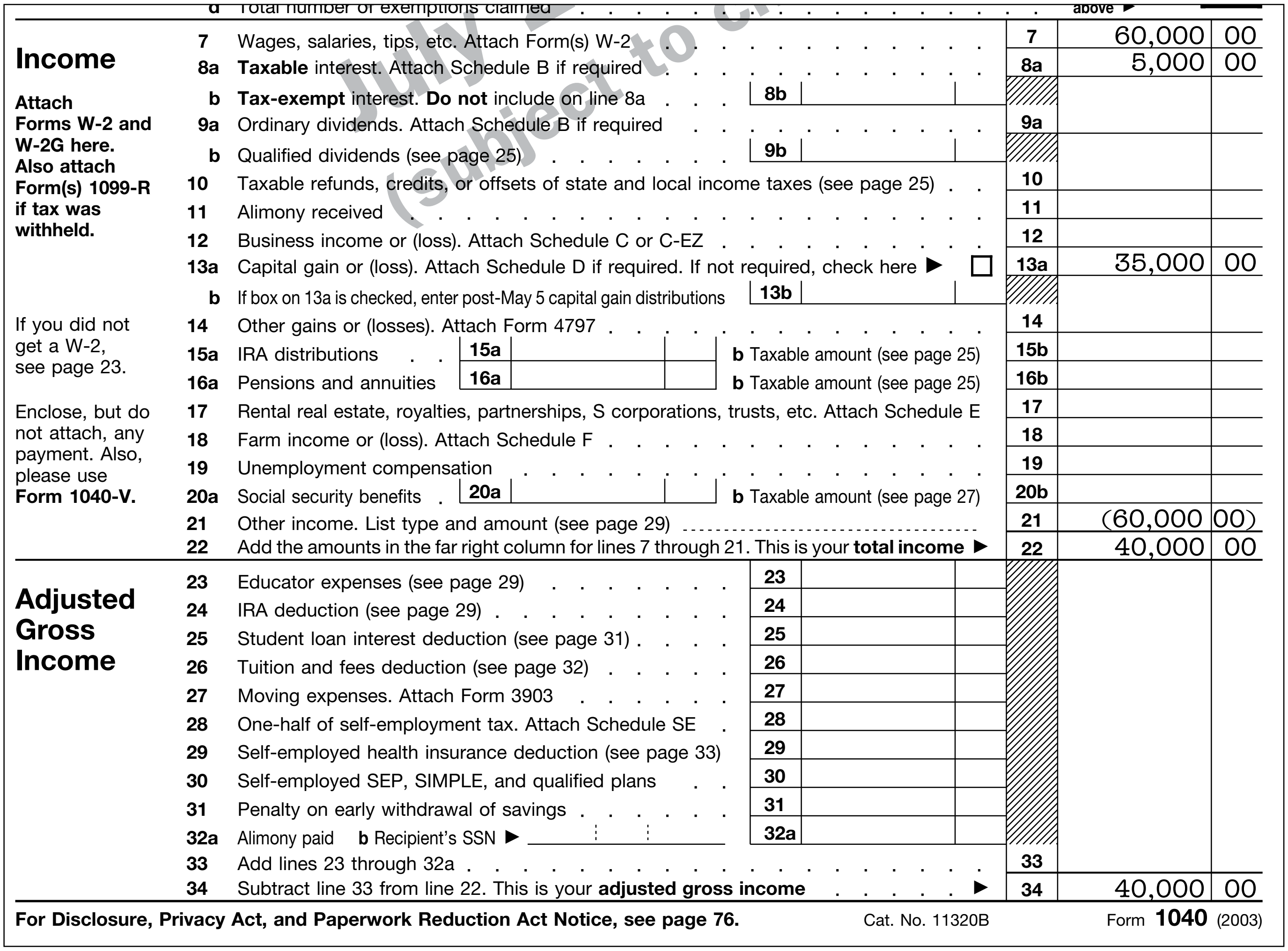
Column (x) of the Form 1116 Part II is a summary (in U.S. dollars) of all the foreign taxes paid or accrued on income in the category checked at the top of Form 1116.

Line 8 of Part II is the total of foreign taxes paid or accrued to all foreign countries. If the foreign taxes are paid or accrued on foreign income that falls into more than one separate category of income, but the tax is not specifically allocable to any one of the items of income, an allocation of the tax to each separate category must be made. This allocation is made by multiplying the total foreign income by a fraction. The numerator of the fraction is the net income of each of the separate categories. The denominator is total net foreign income.

Exercise 3

Charles is a U.S. citizen who lives and works in the United Kingdom. He takes the foreign earned income exclusion for his wages. His only other foreign income is interest income from his London bank. British income taxes were withheld at 27.5%. In 2003, his gross interest income from his London bank was £1,200. The average exchange rate for 2003 for purposes of this exercise was £.6 to the U.S. dollar. Charles uses the single filing status on his tax return and claims a standard deduction for 2003. He had earned income of $60,000 which he excluded. He also had U.S. interest income of $3,000 and his only other income was a short term capital gain of $35,000 from a U.S. source. Since 27.5% is also the tax rate for interest income in the United Kingdom, he had no additional income tax due to Great Britain on his interest income. Parts of Charles' Form 1040 are reproduced below. Compute the first page of the Form 1116 for Charles.

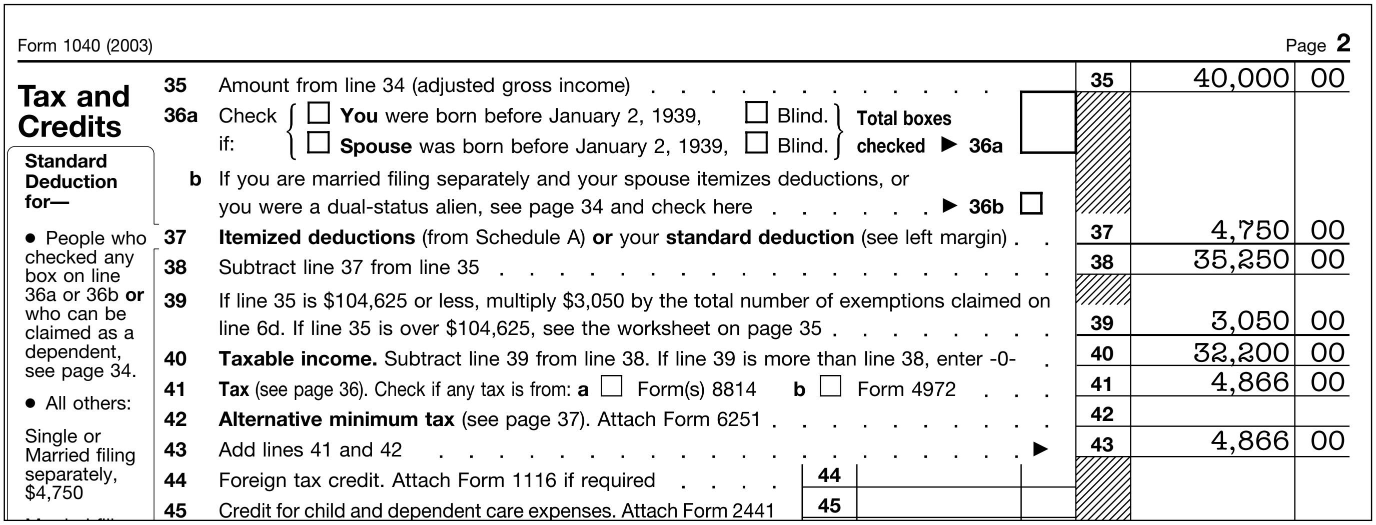
Exhibit 7



d Total number of exemptions claimed . . . above ▶

Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2			7	60,000	00
	8a	**Taxable** interest. Attach Schedule B if required			8a	5,000	00
Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.	b	**Tax-exempt** interest. **Do not** include on line 8a	8b				
	9a	Ordinary dividends. Attach Schedule B if required			9a		
	b	Qualified dividends (see page 25)	9b				
	10	Taxable refunds, credits, or offsets of state and local income taxes (see page 25)			10		
	11	Alimony received			11		
	12	Business income or (loss). Attach Schedule C or C-EZ			12		
	13a	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐			13a	35,000	00
	b	If box on 13a is checked, enter post-May 5 capital gain distributions	13b				
If you did not get a W-2, see page 23.	14	Other gains or (losses). Attach Form 4797			14		
	15a	IRA distributions	15a		b Taxable amount (see page 25) 15b		
	16a	Pensions and annuities	16a		b Taxable amount (see page 25) 16b		
Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			17		
	18	Farm income or (loss). Attach Schedule F			18		
	19	Unemployment compensation			19		
	20a	Social security benefits	20a		b Taxable amount (see page 27) 20b		
	21	Other income. List type and amount (see page 29)			21	(60,000	00)
	22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶			22	40,000	00
Adjusted Gross Income	23	Educator expenses (see page 29)	23				
	24	IRA deduction (see page 29)	24				
	25	Student loan interest deduction (see page 31)	25				
	26	Tuition and fees deduction (see page 32)	26				
	27	Moving expenses. Attach Form 3903	27				
	28	One-half of self-employment tax. Attach Schedule SE	28				
	29	Self-employed health insurance deduction (see page 33)	29				
	30	Self-employed SEP, SIMPLE, and qualified plans	30				
	31	Penalty on early withdrawal of savings	31				
	32a	Alimony paid b Recipient's SSN ▶	32a				
	33	Add lines 23 through 32a			33		
	34	Subtract line 33 from line 22. This is your **adjusted gross income** ▶			34	40,000	00

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 76. Cat. No. 11320B Form **1040** (2003)



Form 1040 (2003) Page **2**

Tax and Credits	35	Amount from line 34 (adjusted gross income)			35	40,000	00
Standard Deduction for—	36a	Check if: ☐ **You** were born before January 2, 1939, ☐ Blind. ☐ **Spouse** was born before January 2, 1939, ☐ Blind.	**Total boxes checked** ▶ 36a				
	b	If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 34 and check here ▶ 36b ☐					
• People who checked any box on line 36a or 36b **or** who can be claimed as a dependent, see page 34.	37	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)			37	4,750	00
	38	Subtract line 37 from line 35			38	35,250	00
• All others:	39	If line 35 is $104,625 or less, multiply $3,050 by the total number of exemptions claimed on line 6d. If line 35 is over $104,625, see the worksheet on page 35			39	3,050	00
Single or Married filing separately, $4,750	40	**Taxable income.** Subtract line 39 from line 38. If line 39 is more than line 38, enter -0-			40	32,200	00
	41	**Tax** (see page 36). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972			41	4,866	00
	42	**Alternative minimum tax** (see page 37). Attach Form 6251			42		
	43	Add lines 41 and 42 ▶			43	4,866	00
	44	Foreign tax credit. Attach Form 1116 if required	44				
	45	Credit for child and dependent care expenses. Attach Form 2441	45				

Form **1116**

Department of the Treasury
Internal Revenue Service

Foreign Tax Credit

(Individual, Estate, or Trust)

▶ Attach to Form 1040, 1040NR, 1041, or 990-T.

▶ See separate instructions.

OMB No. 1545-0121

2003

Attachment Sequence No. **19**

Name

Identifying number as shown on page 1 of your tax return

Use a separate Form 1116 for each category of income listed below. See **Categories of Income** on page 3 of the instructions. Check only one box on each Form 1116. Report all amounts in U.S. dollars except where specified in Part II below.

a ☐ Passive income
b ☐ High withholding tax interest
c ☐ Financial services income
d ☐ Shipping income
e ☐ Dividends from a DISC or former DISC
f ☐ Certain distributions from a foreign sales corporation (FSC) or former FSC
g ☐ Lump-sum distributions
h ☐ Section 901(j) income
i ☐ Certain income re-sourced by treaty
j ☐ General limitation income

k Resident of (name of country) ▶

Note: *If you paid taxes to only one foreign country or U.S. possession, use column A in Part I and line A in Part II. If you paid taxes to* ***more than one*** *foreign country or U.S. possession, use a separate column and line for each country or possession.*

Part I Taxable Income or Loss From Sources Outside the United States (for Category Checked Above)

	Foreign Country or U.S. Possession A	B	C	Total (Add cols. A, B, and C.)
I **Enter the name of the foreign country or U.S. possession** ▶				
1 Gross income from sources within country shown above and of the type checked above (see page 7 of the instructions):				1
Deductions and losses (***Caution:*** *See pages 9, 12, and 13 of the instructions*):				
2 Expenses **definitely related** to the income on line 1 (attach statement)				
3 Pro rata share of other deductions **not definitely related:**				
a Certain itemized deductions or standard deduction (see instructions)				
b Other deductions (attach statement)				
c Add lines 3a and 3b				
d Gross foreign source income (see instructions)				
e Gross income from all sources (see instructions)				
f Divide line 3d by line 3e (see instructions)				
g Multiply line 3c by line 3f				
4 Pro rata share of interest expense (see instructions):				
a Home mortgage interest (use worksheet on page 12 of the instructions)				
b Other interest expense				
5 Losses from foreign sources				
6 Add lines 2, 3g, 4a, 4b, and 5				6
7 Subtract line 6 from line 1. Enter the result here and on line 14, page 2 ▶				7

Part II Foreign Taxes Paid or Accrued (see page 13 of the instructions)

Country	Credit is claimed for taxes (you must check one) (m) ☐ Paid (n) ☐ Accrued	Foreign taxes paid or accrued								
		In foreign currency				In U.S. dollars				
		Taxes withheld at source on:			**(s)** Other foreign taxes paid or accrued	Taxes withheld at source on:			**(w)** Other foreign taxes paid or accrued	**(x)** Total foreign taxes paid or accrued (add cols. (t) through (w))
	(o) Date paid or accrued	**(p)** Dividends	**(q)** Rents and royalties	**(r)** Interest		**(t)** Dividends	**(u)** Rents and royalties	**(v)** Interest		
A										
B										
C										

8 Add lines A through C, column (x). Enter the total here and on line 9, page 2 ▶ **8**

For Paperwork Reduction Act Notice, see page 16 of the instructions. Cat. No. 11440U Form **1116** (2003)

Part III. Now that we have completed the front page of the Form 1116, let's go to the back of the form. Part III is the actual computation of the Foreign Tax Credit. This is relatively simple if you just follow the form line by line. If you have utilized tax software and entered all the types of foreign source income and the amounts of tax paid on them to a foreign country, your form is completed at this point, except for three lines, Lines 10, 12 and 15.

Line 10. This line deals with carrybacks and carryovers. This occurs when a taxpayer pays more to a foreign government than he or she does to the United States on income attributable to the taxable income in the separate income category. Since the tax credit is limited to the amount of U.S., the surplus tax credit is available as a carryback or carryover. VITA volunteers will not be computing carrybacks or carryovers.

Line 12. A reduction to the foreign taxes paid or accrued has to be made under certain circumstances. For our purpose, we will cover the most common situation. This is the reduction for taxes allocable to income excluded under the foreign earned income exclusion. The formula for this reduction is:

$$\frac{\textit{Excluded Foreign Earned Income}}{\text{Total Foreign Earned Income}} \quad \text{x} \quad \text{Foreign Tax} = \text{Reduction}$$

For our purposes, if the foreign law taxes foreign earned income and some other income (for example, earned income from U.S. sources or a type of income not subject to U.S. tax), and the taxes cannot be segregated, then the denominator of this fraction is the total amount of income subject to foreign tax.

Let's look at an example.

Example 18

Marsha is a U.S. citizen who resides in Germany for all of 2003. She had wages of \$85,000, and excluded \$80,000 on her U.S. tax return. She also earned \$5,000 interest on a German bank account. She paid \$2,000 income tax to Germany on this income. She will allocate the \$2,000 income tax as follows:

Step 1 — Allocate the tax to Passive and to General Limitation Income.

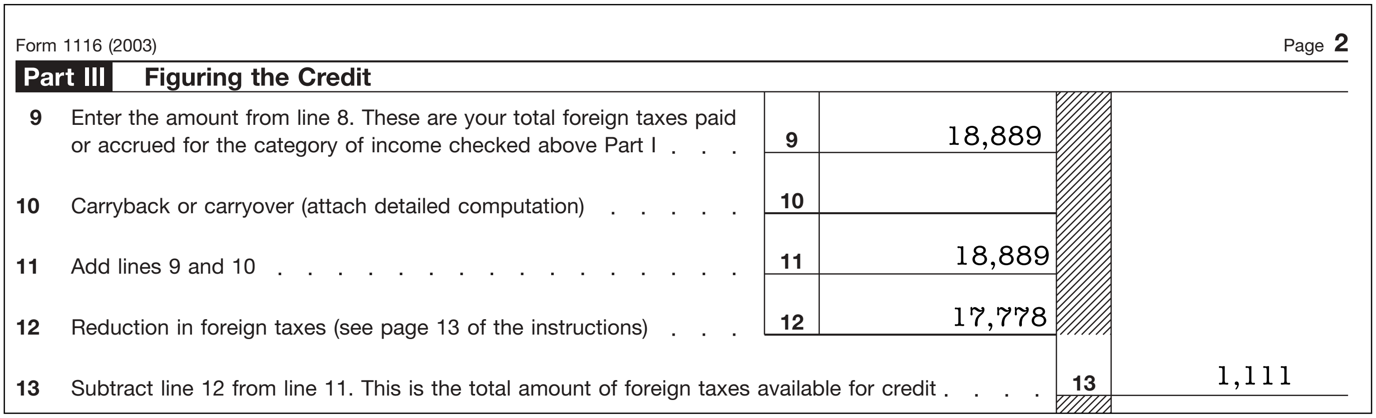
Passive Income: $\frac{\$5{,}000}{\$90{,}000} \text{ x } \$20{,}000 = \$1{,}111$

General Limitation Income: $\frac{\$85{,}000}{\$90{,}000} \text{ x } \$20{,}000 = \$18{,}889$

Step 2 — Calculate the credit reduction attributable to excluded income.

$$\frac{\$80{,}000 \text{ (excluded income)}}{\$85{,}000 \text{ (total foreign income)}} \quad \text{x} \quad \$18{,}889 = \$17{,}778$$

Exhibit 9 **Form 1116**



Form 1116 (2003) Page **2**

Part III **Figuring the Credit**

9	Enter the amount from line 8. These are your total foreign taxes paid or accrued for the category of income checked above Part I . . .	**9**	18,889	
10	Carryback or carryover (attach detailed computation)	**10**		
11	Add lines 9 and 10	**11**	18,889	
12	Reduction in foreign taxes (see page 13 of the instructions) . . .	**12**	17,778	
13	Subtract line 12 from line 11. This is the total amount of foreign taxes available for credit	**13**		1,111

There are other reductions which can be indicated on line 12. However, they are all beyond the scope of VECTA. These include taxes attributable to boycott operations, or certain mineral income. It is suggested that taxpayers with these types of situations may wish to seek professional assistance.

Line 15—These adjustments are beyond the scope of VECTA.

More Than One Form 1116. Part IV of the Form 1116 is used as a summary of the foreign tax credit. As you can tell from our discussion thus far, there may be occasions when you will need to complete more than one Form 1116 for the same taxpayer. If this is the case, you would complete Part IV on only one Form 1116. It does not matter which Form 1116 you choose. You would indicate in Part IV of the summary Form 1116 the amount of the credit computed on line 21 of Part III from each Form 1116. Line 30 is then a total of all Forms 1116 and, for our purposes, line 32 should be the same as line 30. Please note that again the reduction of the credit for international boycott operations (line 31) is beyond the scope of this program and will not be discussed.

Exhibit 10

Form 1116 (2003) Page **2**

Part III Figuring the Credit

9 Enter the amount from line 8. These are your total foreign taxes paid or accrued for the category of income checked above Part I . . . 9

10 Carryback or carryover (attach detailed computation) 10

11 Add lines 9 and 10 11

12 Reduction in foreign taxes (see page 13 of the instructions) . . . 12

13 Subtract line 12 from line 11. This is the total amount of foreign taxes available for credit 13

14 Enter the amount from line 7. This is your taxable income or (loss) from sources outside the United States (before adjustments) for the category of income checked above Part I (see page 14 of the instructions) . . 14

15 Adjustments to line 14 (see page 14 of the instructions) 15

16 Combine the amounts on lines 14 and 15. This is your net foreign source taxable income. (If the result is zero or less, you have no foreign tax credit for the category of income you checked above Part I. Skip lines 17 through 21. However, if you are filing more than one Form 1116, you must complete line 19.) 16

17 **Individuals:** Enter the amount from Form 1040, line 38. If you are a nonresident alien, enter the amount from Form 1040NR, line 36. **Estates and trusts:** Enter your taxable income without the deduction for your exemption 17

Caution: *If you figured your tax using the special rates on qualified dividends or capital gains, see page 15 of the instructions.*

18 Divide line 16 by line 17. If line 16 is more than line 17, enter “1” 18

19 **Individuals:** Enter the amount from Form 1040, line 41. If you are a nonresident alien, enter the amount from Form 1040NR, line 39.

Estates and trusts: Enter the amount from Form 1041, Schedule G, line 1a, or the total of Form 990-T, lines 36 and 37 19

Caution: *If you are completing line 19 for separate category **g** (lump-sum distributions), see page 15 of the instructions.*

20 Multiply line 19 by line 18 (maximum amount of credit) 20

21 Enter the **smaller** of line 13 or line 20. If this is the only Form 1116 you are filing, skip lines 22 through 30 and enter this amount on line 31. Otherwise, complete the appropriate line in Part IV (see page 16 of the instructions) . . . . ▶ 21

Part IV Summary of Credits From Separate Parts III (see page 16 of the instructions)

22 Credit for taxes on passive income 22

23 Credit for taxes on high withholding tax interest 23

24 Credit for taxes on financial services income 24

25 Credit for taxes on shipping income 25

26 Credit for taxes on dividends from a DISC or former DISC and certain distributions from a FSC or former FSC 26

27 Credit for taxes on lump-sum distributions 27

28 Credit for taxes on certain income re-sourced by treaty 28

29 Credit for taxes on general limitation income 29

30 Add lines 22 through 29 30

31 Enter the **smaller** of line 19 or line 30 31

32 Reduction of credit for international boycott operations. See instructions for line 12 on page 13 . . 32

33 Subtract line 32 from line 31. This is your **foreign tax credit.** Enter here and on Form 1040, line 44; Form 1040NR, line 42; Form 1041, Schedule G, line 2a; or Form 990-T, line 40a . . . . . ▶ 33

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Form **1116** (2003)

▶▶ SUMMING UP THIS LESSON ◀◀

- In order to qualify for a foreign tax credit, income on which the taxes are paid must be foreign source.
- The tax being paid must be similar to U.S. income tax.
- The individual paying the tax cannot derive a specific economic benefit and still claim the foreign tax credit.
- The foreign tax credit is computed on Form 1116.
- A separate Form 1116 must be completed for passive income, interest income which is subject to a gross withholding rate of at least 5%, and other income that falls under the general limitation category.
- If passive income, minus allocations, is subject to tax at a rate that is higher than 35%, then it falls into the general limitation category.
- If an individual claims the foreign earned income exclusion, the excluded amount is not shown on line 1 of Part I of the Form 1116.
- A cash basis taxpayer may choose the accrual method to claim the foreign tax credit. Once the choice has been made, the taxpayer must continue to use the accrual method.
- If the accrual method of claiming the foreign tax credit is used, use the average annual currency exchange rate to convert the foreign money into U.S. dollars.
- If all or part of the taxes claimed in Part II of Form 1116 are attributable to income excluded under the foreign earned income exclusion, then the taxes available for credit must be reduced by the taxes paid or accrued on the excluded income. The reduction is entered on Part III, line 12.
- If there is more than one Form 1116 for the same person, Part IV need only be completed on one of the forms.

FOREIGN TAX CREDIT

ANSWERS TO EXERCISES

1. c, e

2. **a.** no

b. no

c. yes

d. no

Form **1116**

Department of the Treasury
Internal Revenue Service

Foreign Tax Credit

(Individual, Estate, or Trust)

► Attach to Form 1040, 1040NR, 1041, or 990-T.

► See separate instructions.

OMB No. 1545-0121

2003

Attachment
Sequence No. **19**

Name: Charles Green

Identifying number as shown on page 1 of your tax return: 000 - 00 - 6492

Use a separate Form 1116 for each category of income listed below. See **Categories of Income** on page 3 of the instructions. Check only one box on each Form 1116. Report all amounts in U.S. dollars except where specified in Part II below.

- **a** ☐ Passive income
- **b** ☒ High withholding tax interest
- **c** ☐ Financial services income
- **d** ☐ Shipping income
- **e** ☐ Dividends from a DISC or former DISC
- **f** ☐ Certain distributions from a foreign sales corporation (FSC) or former FSC
- **g** ☐ Lump-sum distributions
- **h** ☐ Section 901(j) income
- **i** ☐ Certain income re-sourced by treaty
- **j** ☐ General limitation income

k Resident of (name of country) ► United Kingdom

Note: *If you paid taxes to only one foreign country or U.S. possession, use column A in Part I and line A in Part II. If you paid taxes to* ***more than one*** *foreign country or U.S. possession, use a separate column and line for each country or possession.*

Part I Taxable Income or Loss From Sources Outside the United States (for Category Checked Above)

	Foreign Country or U.S. Possession				Total
	A	B	C		(Add cols. A, B, and C.)
i Enter the name of the foreign country or U.S. possession ►	United Kingdom				
1 Gross income from sources within country shown above and of the type checked above (see page 7 of the instructions):	2,000			1	2,000
Deductions and losses (***Caution:*** *See pages 9, 12, and 13 of the instructions*):					
2 Expenses **definitely related** to the income on line 1 (attach statement)					
3 Pro rata share of other deductions **not definitely related:**					
a Certain itemized deductions or standard deduction (see instructions)	4,750				
b Other deductions (attach statement)					
c Add lines 3a and 3b	4,750				
d Gross foreign source income (see instructions)	2,000				
e Gross income from all sources (see instructions)	100,000				
f Divide line 3d by line 3e (see instructions)	.0200				
g Multiply line 3c by line 3f	95				
4 Pro rata share of interest expense (see instructions):					
a Home mortgage interest (use worksheet on page 12 of the instructions)					
b Other interest expense					
5 Losses from foreign sources					
6 Add lines 2, 3g, 4a, 4b, and 5	95			6	95
7 Subtract line 6 from line 1. Enter the result here and on line 14, page 2 ►				7	1,905

Part II Foreign Taxes Paid or Accrued (see page 13 of the instructions)

Country	Credit is claimed for taxes (you must check one) (m) ☒ Paid (n) ☐ Accrued	Foreign taxes paid or accrued								
		In foreign currency				In U.S. dollars				
		Taxes withheld at source on:			**(s)** Other foreign taxes paid or accrued	Taxes withheld at source on:			**(w)** Other foreign taxes paid or accrued	**(x)** Total foreign taxes paid or accrued (add cols. (t) through (w))
	(o) Date paid or accrued	**(p)** Dividends	**(q)** Rents and royalties	**(r)** Interest		**(t)** Dividends	**(u)** Rents and royalties	**(v)** Interest		
A	12/31/03			330				550		550
B										
C										

8 Add lines A through C, column (x). Enter the total here and on line 9, page 2 ► **8** 550

For Paperwork Reduction Act Notice, see page 16 of the instructions. Cat. No. 11440U Form **1116** (2003)

FINISHING THE RETURN

Lesson 6

INTRODUCTION AND OBJECTIVES

In this lesson you will learn how to report federal income tax payments and figure the overpayment or balance due. You will also learn how to determine if estimated taxes should be paid. Additionally, you will learn how to finish the return and have the taxpayer sign the return.

After completing this lesson you should be able to:

- Calculate and report federal income tax withheld from all sources.
- Calculate and report estimated tax payments.
- Calculate the refund or amount due.
- Determine if estimated taxes should be paid.
- Determine if changes to the taxpayer's W-4 or W-4P should be suggested.

Please pay close attention to the section about identifying the returns that you work on. It is critical for you to enter the correct site identification number in the preparer's signature section of the return. The number goes in the designated area on the forms with the preprinted "P" followed by 8 digits or in the PTIN/ SSN field of the return.

This lesson will provide detailed information on how to finish the tax return. The following checklist is provided as a quick reference of the steps needed to finish the return.

CHECKLIST FOR FINISHING THE RETURN

Withholdings, Payments and Other Credits:

- Add all Federal Income Tax Withholding from Form W-2, box 2, and include on return.
- Add all Federal Income Tax Withholding from box 4 of Forms 1099R, 1099INT, 1099DIV and 1099G. Include in the payments section of the return.
- Include all estimated tax payments in the payment section.

POTENTIAL PITFALLS ⚠

Form W-2, box 4, shows social security tax withheld and box 6 shows Medicare tax withheld. These are not the same as federal income tax withheld. Do not report the amounts in box 4 and box 6 as federal income tax withheld.

POTENTIAL PITFALLS ⚠

When a taxpayer worked for more than one employer during the year, add up the amounts shown in box 4 of all Forms W-2. If the total in box 4 of all forms exceeds $5,263.80 the taxpayers should claim a refund of excess social security tax withheld. Use the worksheet in Pub. 505, *Tax Withholding and Estimated Tax* to compute the refund.

- Include the amount of last year's refund that was applied to this year in the payment section. Note: If you need assistance with how to do this with TaxWise®, ask your site coordinator or computer specialist.
- Calculate all of the refundable credits (covered in later lessons) that the taxpayer is entitled to and include them in the payments section of the return. Using TaxWise® software will help you determine what credits that the taxpayer is entitled to.
- Add all payments together and enter them on the total payments line. TaxWise® will do this step for you.
- Subtract the total payments from the total tax. TaxWise® will also complete this step for you.
- Record the account number and the routing number for taxpayers who want their refund direct deposited. Note: TaxWise® will ask you for this information on the Main Information screen and on the tax form. This is to help ensure that you have keyed in the correct information. Complete the line to apply part of the refund to next year, if the taxpayer wishes to use this option.

Paying Taxes or Adjusting Withholding Taxes if Balance Due:

- Explain the payment option (check, credit card, direct debit and installment agreement) to a taxpayer who owes money.
- Inform the taxpayer about the identifying information to include on payments made by check.
- Explain that interest and penalties continue to accrue on the unpaid balance even if the taxpayer has a valid installment agreement.
- Explain estimated taxes to taxpayers who expect to owe tax in 2004.
- Assist the taxpayer with completing form 1040ES for 2004. TaxWise® can do this for you. It will even print the vouchers for the payments.
- Provide the taxpayer with the mailing address for the estimated payments. (Some sites provide unstamped envelopes for the taxpayers.)
- Encourage taxpayers to consider adjusting their withholding (on Form W-4 or W-4P) if they have a large refund or owe more than $1,000 on the return.

Advance Earned Income Tax Credit (AEIC):

- Inform taxpayers about the Advance Earned Income Credit, if they were eligible for EIC this year and have at least one qualifying child. Be prepared to give the taxpayer a Form W-5, if they request it.

Name, Address, and Taxpayer Identification Section of Return:

- Complete the name and address section of the tax return. Use the taxpayer's label (if available) on a return prepared by hand. For computer generated returns, this section will be completed based on the information you entered in the Main Information section of the TaxWise® software.
- Make sure that you include the Taxpayer Identification Number for all taxpayers and dependents listed on the return. Note: If you are using TaxWise®, you will get an error when you run diagnostics if you have not included the identifying number. TaxWise® also has a diagnostic feature that helps you check the accuracy of the identifying number by comparing it to a database of information from the Social Security Administration. This does not guarantee that the name and social security number match. You should always try to look at the actual Social Security cards if possible.
- Mark the Presidential Election Campaign Box for the taxpayer. Note: If the taxpayer has a total tax of zero, the presidential campaign box should be marked no.

Return Assembly and Copy:

- Assemble the return. If filing a paper return for the taxpayer, forms should be in the order of the sequence number in the upper right corner. Procedures on assembling electronic returns may vary from site to site. Please ask your site coordinator for this information.
- Retain a copy of all electronic returns. Remember that you are not allowed to retain copies of the tax returns at your site past the end of the filing season. The retained copies should be forwarded to your local IRS territory office, where they will be retained until the end of the calendar year (as prescribed by the electronic filing regulations).

Site Identification Number on Forms 1040, 1040A, & 1040EZ

Congress annually asks the IRS to provide the number of returns that were filed by volunteer tax assistance sites. For statistical purposes, the IRS requests that all Federal returns be identified with a Site Identification Number. The Site Identification Number is entered in the Paid Preparer's section of the tax return. The Internal Revenue Service Submission Processing Center will count each return processed using this data.

More about this topic is covered later in this lesson.

.

On Site Quality Review:

- Submit the completed return to the quality reviewer at your site. Note: Not all sites have enough volunteers to have a designated quality reviewer. In this case, ask another volunteer to review the form you prepared. Using TaxWise® is not a substitute for quality review.

Signing the Return and Third Party Designation:

- Mark the area where the taxpayer should sign the return and/or Form 8453. Publication 3189 will contain additional information on how to use the PIN program to sign electronic returns.
- Complete the third party designation section of the return if the taxpayer wishes to allow someone else to discuss the return with the IRS. (**You can't designate yourself.**)

Taxpayer Question:

- Ask the taxpayer if they have any additional questions.

Where to Mail Paper Returns:

- Tell the taxpayer where to mail the return (if filing by paper). Electronically filed returns are automatically transmitted to the correct IRS Processing Center. Paper tax returns must be mailed in by the taxpayer to the IRS processing Center for the area (state) where the taxpayer resides. Each tax package contains a pre-addressed envelope for a particular area based on the last address filed with the IRS. If the taxpayer has moved or does not have a pre-addressed envelope the address and other mailing information is located in the individual federal tax package and in your Quick Reference Guide, Publication 1977. On-site. Some sites provide unstamped pre-addressed envelope-for their taxpayers. (You might be able to get the envelopes donated from a local office supply store. Your site receptionist could address the envelopes or you could print computer labels to use on them.)

PAYMENTS

The federal government has a pay-as-you-earn tax system. The information for the payments section of the return has three sources: federal income tax withholdings, estimated tax payments, and refundable credits.

Income tax withheld can appear on:

- Form W-2, *Wage and Tax Statement*, in box 2
- Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, in box 4
- Form 1099-INT, *Interest Income*, in box 4

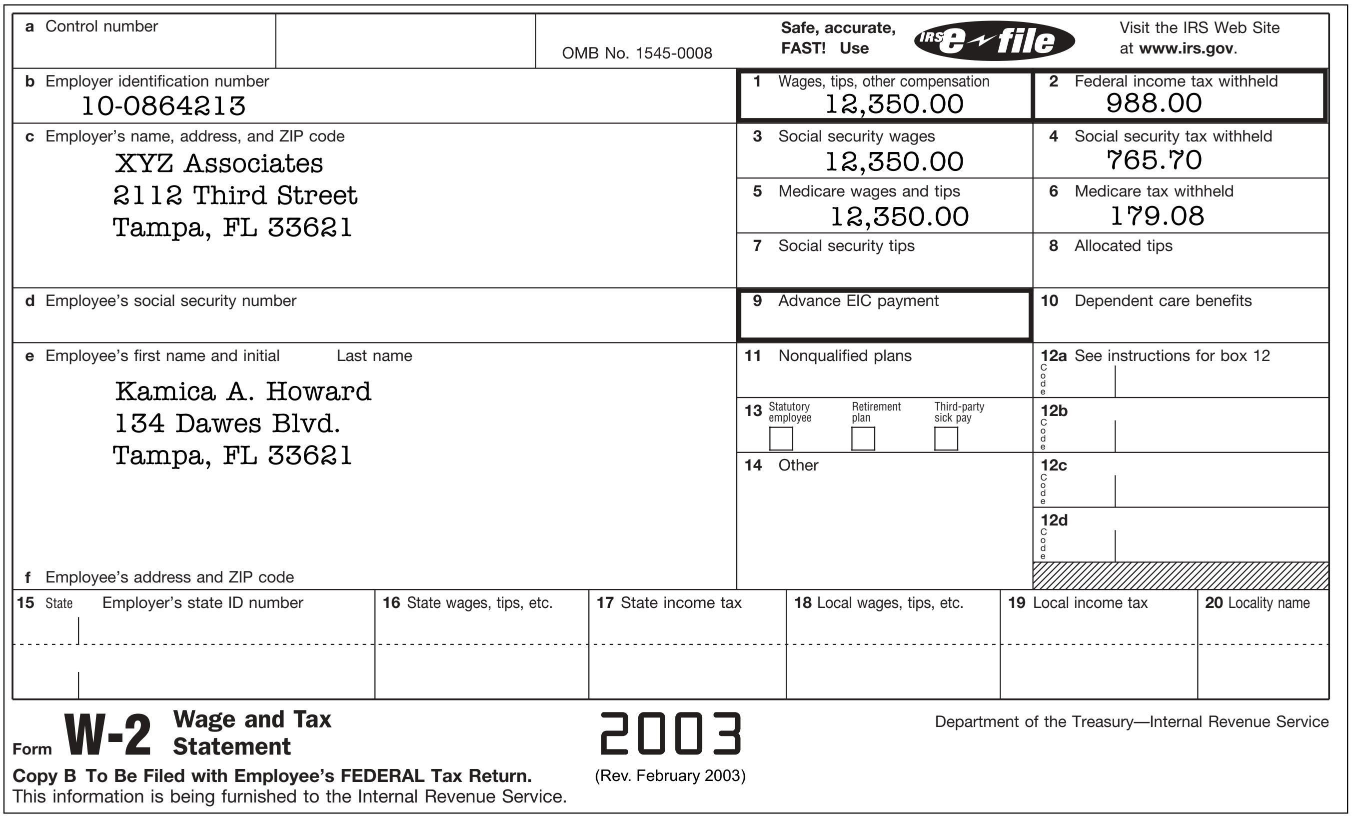
- Form 1099-DIV, *Dividends and Distributions*, in box 4
- Form W-2G, *Certain Gambling Winnings*, in box 2
- Form 1099-G, *Certain Government and Qualified State Tuition Program Payments*, box 4
- SSA-1099, Social Security Benefits
- RRB-1099, Railroad Retirement Benefits Tier 1
- RRB-1099R, Railroad Retirement Benefits Tier 2
- Form 1099B, Proceeds from Broker and Barter Exchange Transactions

Example 1

Kamica has one Form W-2 (Exhibit 1).

The entry on line 7, Form 1040EZ, line 39, Form 1040A, or line 62, Form 1040, is $988.

Exhibit 1 **Kamica's Form W-2**



a Control number

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number
10-0864213

1 Wages, tips, other compensation
12,350.00

2 Federal income tax withheld
988.00

c Employer's name, address, and ZIP code
XYZ Associates
2112 Third Street
Tampa, FL 33621

3 Social security wages
12,350.00

4 Social security tax withheld
765.70

5 Medicare wages and tips
12,350.00

6 Medicare tax withheld
179.08

7 Social security tips

8 Allocated tips

d Employee's social security number

9 Advance EIC payment

10 Dependent care benefits

e Employee's first name and initial Last name
Kamica A. Howard
134 Dawes Blvd.
Tampa, FL 33621

f Employee's address and ZIP code

11 Nonqualified plans

12a See instructions for box 12
Code

12b Code

12c Code

12d Code

13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐

14 Other

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** 2003 (Rev. February 2003)

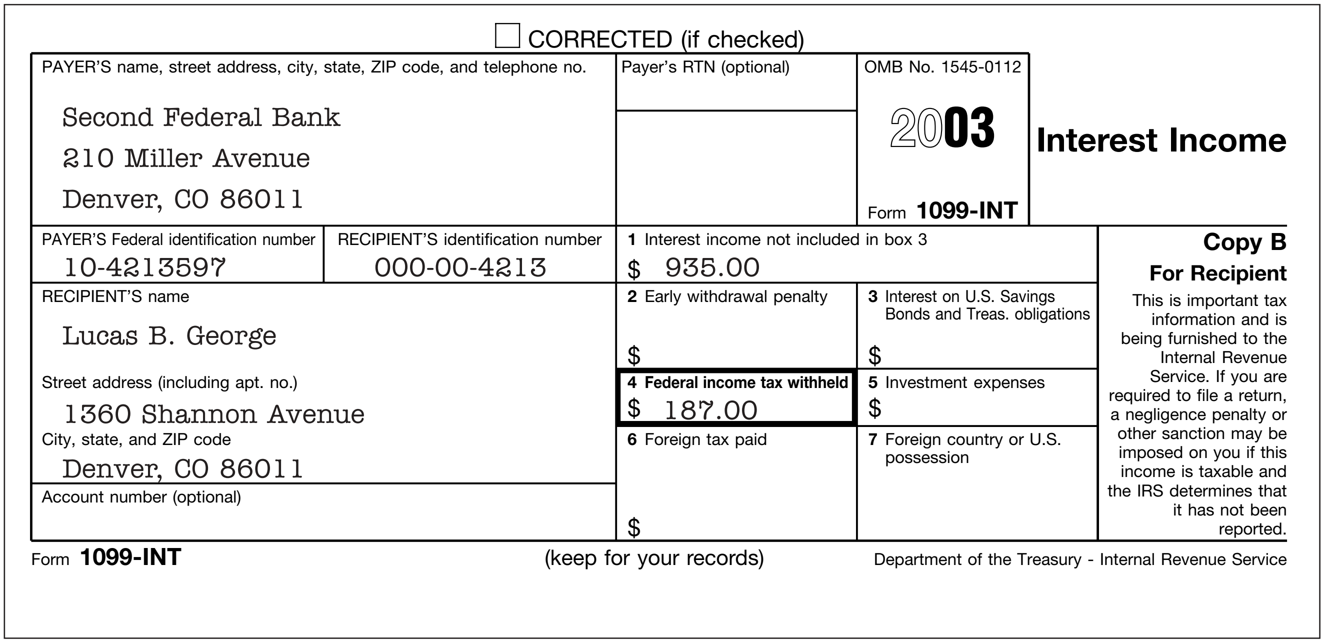
Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Example 2

Lucas has a Form 1099-INT (Exhibit 2), a Form 1099-R (Exhibit 3), and a Form 1099-DIV (Exhibit 4). His total income tax withheld is entered on line 39, Form 1040A. It is $1,247.

Exhibit 2 Lucas's Form 1099-INT



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

Second Federal Bank
210 Miller Avenue
Denver, CO 86011

Payer's RTN (optional)

OMB No. 1545-0112

2003

Form 1099-INT

Interest Income

PAYER'S Federal identification number: 10-4213597

RECIPIENT'S identification number: 000-00-4213

1 Interest income not included in box 3: $ 935.00

Copy B

For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

RECIPIENT'S name: Lucas B. George

2 Early withdrawal penalty: $

3 Interest on U.S. Savings Bonds and Treas. obligations: $

Street address (including apt. no.): 1360 Shannon Avenue

4 Federal income tax withheld: $ 187.00

5 Investment expenses: $

City, state, and ZIP code: Denver, CO 86011

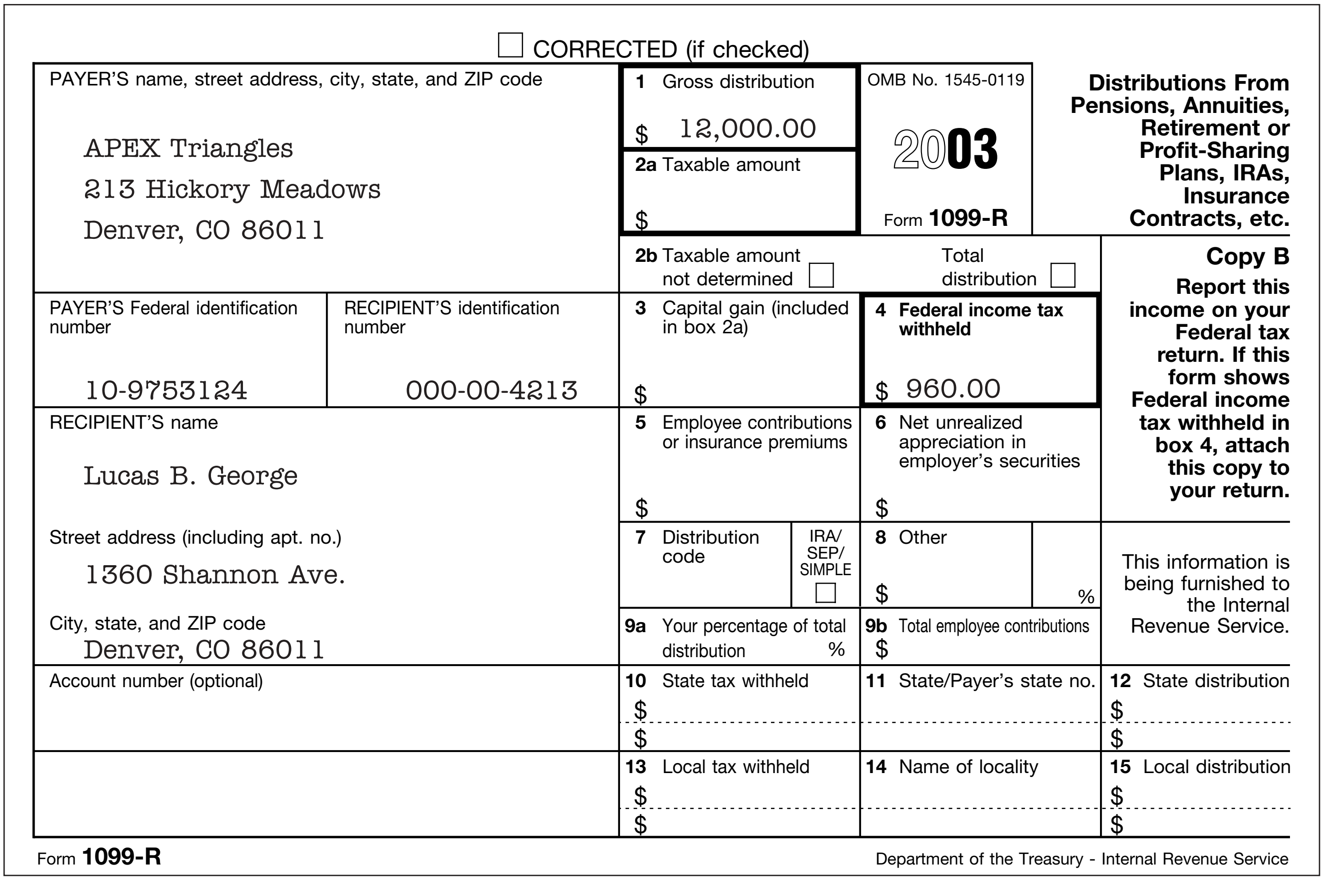
6 Foreign tax paid: $

7 Foreign country or U.S. possession

Account number (optional)

Form **1099-INT** (keep for your records) Department of the Treasury - Internal Revenue Service

Exhibit 3 Lucas's Form 1099-R



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code

APEX Triangles
213 Hickory Meadows
Denver, CO 86011

1 Gross distribution: $ 12,000.00

2a Taxable amount: $

OMB No. 1545-0119

2003

Form **1099-R**

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2b Taxable amount not determined ☐ Total distribution ☐

Copy B

Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.

PAYER'S Federal identification number: 10-9753124

RECIPIENT'S identification number: 000-00-4213

3 Capital gain (included in box 2a): $

4 Federal income tax withheld: $ 960.00

RECIPIENT'S name: Lucas B. George

5 Employee contributions or insurance premiums: $

6 Net unrealized appreciation in employer's securities: $

Street address (including apt. no.): 1360 Shannon Ave.

7 Distribution code IRA/SEP/SIMPLE ☐

8 Other $ %

This information is being furnished to the Internal Revenue Service.

City, state, and ZIP code: Denver, CO 86011

9a Your percentage of total distribution %

9b Total employee contributions $

Account number (optional)

10 State tax withheld $ $

11 State/Payer's state no.

12 State distribution $ $

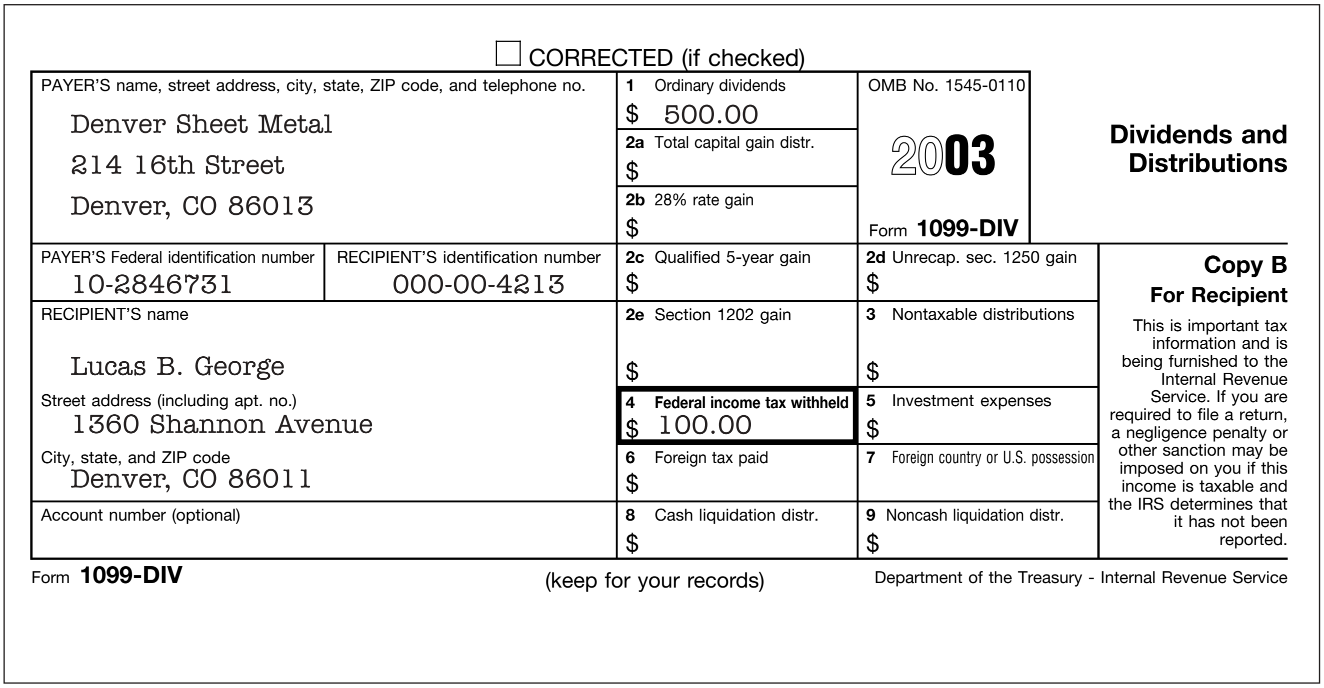
13 Local tax withheld $ $

14 Name of locality

15 Local distribution $ $

Form **1099-R** Department of the Treasury - Internal Revenue Service

Exhibit 4 Lucas's Form 1099-DIV



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.
Denver Sheet Metal
214 16th Street
Denver, CO 86013

1 Ordinary dividends $ 500.00
2a Total capital gain distr. $
2b 28% rate gain $

OMB No. 1545-0110
2003
Form **1099-DIV**

Dividends and Distributions

PAYER'S Federal identification number 10-2846731
RECIPIENT'S identification number 000-00-4213
2c Qualified 5-year gain $
2d Unrecap. sec. 1250 gain $

Copy B
For Recipient

RECIPIENT'S name
Lucas B. George
2e Section 1202 gain $
3 Nontaxable distributions $

Street address (including apt. no.)
1360 Shannon Avenue
4 Federal income tax withheld $ 100.00
5 Investment expenses $

City, state, and ZIP code
Denver, CO 86011
6 Foreign tax paid $
7 Foreign country or U.S. possession

Account number (optional)
8 Cash liquidation distr. $
9 Noncash liquidation distr. $

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-DIV** (keep for your records) Department of the Treasury - Internal Revenue Service

Estimated Tax Payments

Add all estimated tax payments made by the taxpayer for the year. Be sure to include:

- Payment made from last year's overpayment (see last year's tax return.)
- Quarterly payments made using the Form 1040ES, including the one made in January of the current tax year.

Record total estimated tax payments on Line 40 of Form 1040A or Line 63 of Form 1040.

Refundable Credits

Make sure that any refundable credits you have calculated are entered on the proper lines. The Earned Income Credit is reported on line 8 of the Form 1040 EZ, Line 41 of the Form 1040A, and Line 64 of the Form 1040. Any refundable Child Tax Credit is reported on Line 42 of the Form 1040A and Line 66 of the Form 1040. If excess Social Security deductions were made because of multiple employers, that amount is shown on Line 65 of the Form 1040.

Total Payments

Add the total of withholdings, estimated tax payments made, and refundable credits together. Enter this total on Line 9 of the Form 1040EZ, Line 43 of the Form 1040A, or Line 69 of the Form 1040.

FIGURING THE OVERPAYMENT OR THE TAX DUE

Overpayments

If there has been more tax payments made than the amount of tax liability (line 10, Form 1040EZ, line 38, Form 1040A, or line 61, Form 1040), this is considered an overpayment. A taxpayer may wish to have a portion of the overpayment applied to next year's taxes. If so, then enter the amount to be applied to the following year on line 46 of the Form 1040A or line 72 of the Form 1040. Subtract this amount from the total overpayment and enter the remainder on line 45a of the Form 1040A or line 71a of the Form 1040.

Only a total refund can be entered on the Form 1040EZ, line 12a. Any overpayment on Form 1040EZ must be refunded; It cannot be applied to next year's taxes.

ALERT ⚠

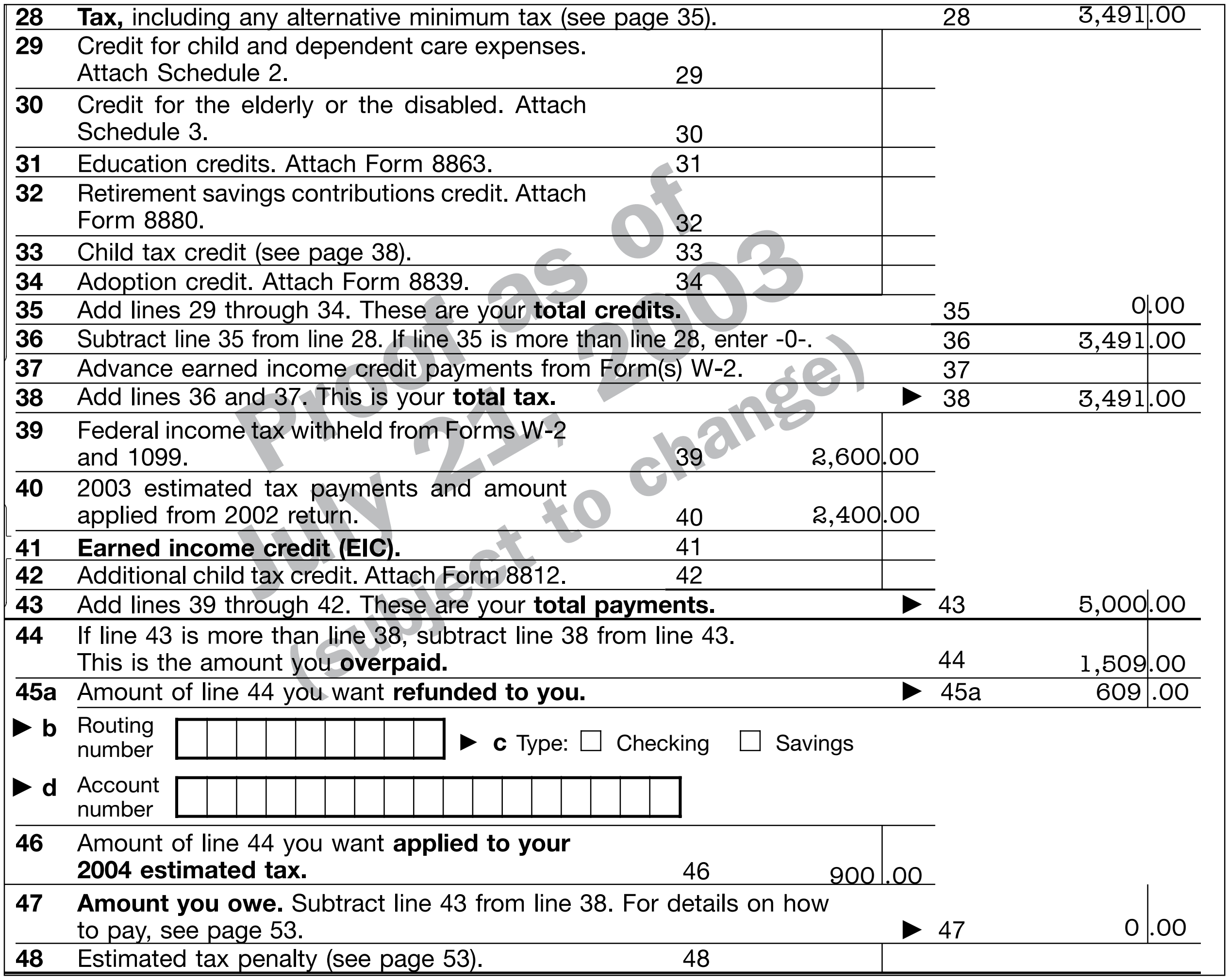
You must reduce the 2003 child tax credit by any advance payment that the taxpayer received in 2003.

Example 3

Exhibit 5 shows Form 1040A, lines 28 through 46, for Ron his tax due. His total tax is $3,491. His total payments are $5,000. Ron overpaid and wants $900 to be applied to his 2004 estimated tax. Note that line 45a plus line 46 equals the amount on line 44.

Exhibit 5

Form 1040A, page 2



28	**Tax,** including any alternative minimum tax (see page 35).			28	3,491.00
29	Credit for child and dependent care expenses. Attach Schedule 2.	29			
30	Credit for the elderly or the disabled. Attach Schedule 3.	30			
31	Education credits. Attach Form 8863.	31			
32	Retirement savings contributions credit. Attach Form 8880.	32			
33	Child tax credit (see page 38).	33			
34	Adoption credit. Attach Form 8839.	34			
35	Add lines 29 through 34. These are your **total credits.**			35	0.00
36	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.			36	3,491.00
37	Advance earned income credit payments from Form(s) W-2.			37	
38	Add lines 36 and 37. This is your **total tax.**			▶ 38	3,491.00
39	Federal income tax withheld from Forms W-2 and 1099.	39	2,600.00		
40	2003 estimated tax payments and amount applied from 2002 return.	40	2,400.00		
41	**Earned income credit (EIC).**	41			
42	Additional child tax credit. Attach Form 8812.	42			
43	Add lines 39 through 42. These are your **total payments.**			▶ 43	5,000.00
44	If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you **overpaid.**			44	1,509.00
45a	Amount of line 44 you want **refunded to you.**			▶ 45a	609 .00
▶ **b**	Routing number ☐☐☐☐☐☐☐☐☐ ▶ **c** Type: ☐ Checking ☐ Savings				
▶ **d**	Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐				
46	Amount of line 44 you want **applied to your 2004 estimated tax.**	46	900 .00		
47	**Amount you owe.** Subtract line 43 from line 38. For details on how to pay, see page 53.			▶ 47	0 .00
48	Estimated tax penalty (see page 53).	48			

Refunds

If the taxpayer wants an overpayment refunded, advise that a check should be mailed within 6-8 weeks after the return is filed. Remind the taxpayer of the availability to have the refund deposited directly into a financial account, such as a bank account.

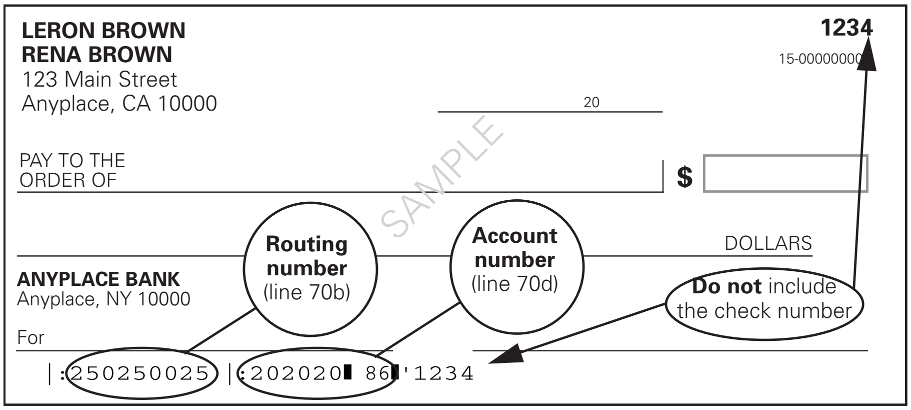
Direct Deposit

Instead of getting a paper check, taxpayers may choose to have their refund deposited directly into their account at a bank or other financial institution such as a mutual fund, brokerage firm, or credit union.

Note. Taxpayers should check with their financial institution to make sure their direct deposit will be accepted and to get the correct routing and account number.

Exhibit 6 shows the general location of the routing and account number on a sample check. The routing number must be nine digits (the first two digits must begin with 01 through 12 or 21 through 32, otherwise the direct deposit will be rejected and a check sent instead). The account number can be up to 17 characters (both numbers and letters). It can include hyphens but not spaces or special symbols. The number should be entered from left to right with any unused boxes left blank.

Exhibit 6



Tax Due

If there are less tax payments than the amount of tax liability, then there is tax due to be paid with the return. When this happens, remind the taxpayer to make the check or money order payable to the “United States Treasury.” Taxpayers can also pay by credit card or by authorizing a direct debit from their checking or savings account on the date they choose (anytime up to April 15, 2004). Encourage a 1040 filer to voluntarily send Form 1040-V, *Payment Voucher*, with his or her payment. The instructions for completing the voucher appear on the 1040-V. The taxpayer should write his or her name, address, social security number, daytime telephone number, and “2003 Form 1040 (or 1040A or 1040EZ, whichever applies)” on the check or money order. The payment and Form 1040-V should be enclosed, but not attached to the tax return. Taxpayers should not mail cash with their returns.

To help IRS process the payment, the taxpayer should enter the amount on the right side of the check like this: $XXX.XX. Do not use dashes or lines (for example, do not enter “$XXX—” or “$XXX $^{XX}/_{100}$”).

Electronic Payment Options

If the taxpayer owes an amount on his or her return, he/she can make the payment electronically. To pay by credit card, the taxpayer must use one of the service providers listed in the instructions for Forms 1040, 1040A, or 1040EZ. The taxpayer can also pay by authorizing a direct debit out of his/her checking or savings account by April 15, 2004.

If the taxpayer cannot pay the full amount owed shown on his/her return, the taxpayer may ask permission to make monthly installment payments. To ask for an installment agreement, the taxpayer should file Form 9465, *Installment Agreement Request*, with the tax return.

Estimated Tax Penalty. If line 10, Form 1040EZ, line 47, Form 1040A, or line 73, Form 1040, is $1,000 or more and it is more than 10 percent of the tax shown on the return, or if the taxpayer underpaid his or her 2003 estimated tax liability, the taxpayer can owe a penalty for underpayment of estimated tax. If so, report the penalty on line 48 for Form 1040A or line 74 of Form 1040. Line 47 or line 73 should include the amount owed with the return plus the penalty reported on line 48 of Form 1040A or line 74 of Form 1040, respectively.

Because the Form 2210, *Underpayment of Estimated Tax by Individuals, Estates, and Trusts*, used to compute estimated tax penalty is complicated, the IRS encourages taxpayers to let the IRS figure the penalty for them. The IRS will figure the penalty for underpayment of estimated tax and, if a penalty is owed, the taxpayer will be sent a bill. If taxpayers want the IRS to figure the penalty for them, the taxpayers should leave the penalty line on their return blank and **should not** complete Form 2210. As long as the taxpayer files the return by April 15, 2004, the IRS will not charge interest on the penalty if the bill is paid by the date specified on the bill.

FIGURING ESTIMATED TAX FOR NEXT YEAR

Estimated tax is the amount a taxpayer expects to owe for the year after deducting any tax credits or federal income tax withheld. In other words, it is the amount the taxpayer anticipates will be owed on his or her 2004 federal income tax return.

If a taxpayer is an employee, the taxpayer's employer generally must withhold income, Medicare, and social security taxes on the wages paid. Also, most payers of taxable pensions withhold income tax and pay it to the government. However, a taxpayer may receive many types of taxable income that are not subject to having tax withheld.

A taxpayer who receives interest, dividends, alimony, unemployment compensation, rent, gains from the sale of assets, prizes, or awards, generally will have no income tax withheld on the payments. As a result, the taxpayer may find that he or she owes estimated tax. Most self-employed taxpayers will also find they are required to pay estimated tax.

Who Must Pay Estimated Tax

Estimated tax payments are required if certain conditions are met. Generally a taxpayer must make payments of estimated tax if:

1. He or she expects to owe $1,000 or more in tax for 2004 after subtracting federal income tax withheld and credits from taxable income,

AND

2. He or she expects the 2004 tax withheld and credits to be less than the smaller of:
   - **a)** 90 percent of the tax to be shown on his or her 2004 tax return, or
   - **b)** 100 percent of the tax shown on his or her 2003 tax return. The return must cover all 12 months.

Married taxpayers can pay estimated tax either separately or jointly. How they pay their estimated tax will not affect their choice of filing a joint return or separate returns for the year. Joint estimated tax payments may be divided between the spouses if they later choose to file separate returns.

POTENTIAL PITFALLS ⚠

When figuring estimated tax, be sure to include all taxes, such as tax on lump-sum distributions and self-employment tax.

Example 4

Jayne is single and retired. She works part time as an usher in a movie theater. She estimates her 2004 income will be $16,421, which includes $3,500 of interest income from which there will be no tax withheld. Jayne calculates that she expects to owe $1,008 (after taking into account her expected tax withheld and credits). Jayne meets condition 1 (mentioned earlier) and may have to pay estimated tax. Further checking tells Jayne that her expected 2004 tax withheld will be less than 100 percent of the tax shown on her 2003 return and less than 90 percent of the tax she will show on her 2004 tax return. Since Jayne also meets condition 2 (mentioned earlier), she is required to pay estimated tax.

Limit on the use of prior year's tax. Married taxpayers with joint AGI exceeding $150,000 or $75,000 if married filing separately cannot use 100% of their 2003 tax to figure their 2004 estimated tax payments.

For more information, see Publication 505, *Tax Withholding and Estimated Tax*.

How to Figure Estimated Tax

Estimated tax is paid by using Form 1040-ES, *Estimated Tax For Individuals*. Form 1040-ES also contains a worksheet that can be used in figuring a taxpayer's estimated tax. The taxpayer should keep the worksheet for his or her records.

To figure the estimated tax, the taxpayer must first figure his or her expected adjusted gross income, taxable income, taxes, and credits for 2004. All available facts that will affect those items during the year must be taken into account. Use the 2003 tax return as a starting point for estimating 2004 income, deductions, and credits. However, be careful to make adjustments both for anticipated changes in the taxpayer's situation and for recent changes in the tax law.

Form 1040-ES contains both the 2004 Tax Rate Schedules and the 2004 standard deduction and exemption amounts. Be sure to use the 2004 figures when figuring the estimated tax.

When to Pay Estimated Tax

For estimated tax purposes, the year is divided into four payment periods. Each period has a specific due date.

Date taxpayer receives income	Due date of first installment	No. of payments
January 1– March 31	April 15, 2004	4
April – May 31	June 16, 2004	3
June 1 – August 31	September 15, 2004	2
September 1 – December 31	January 17, 2005	1

POTENTIAL PITFALLS ⚠

Advise the taxpayer to use the pre-addressed envelopes that came with his or her Form 1040-ES package, or mail payment vouchers to the address shown in the Form-ES instructions for the place where he or she lives. *Do not* use the address shown in the Form 1040 or Form 1040A instructions.

Most of the taxpayers that you assist will pay their estimated tax in four equal installments. However, a taxpayer does not have to make estimated tax payments until he or she has income on which tax is owed. If a taxpayer receives income after one or more of the payment periods have passed, he or she will begin making payments during the period when the income is received.

The minimum payment due during the period when the income is received is one-fourth of the total estimated tax for the year, generally, plus an additional fourth of the yearly total for each period which has already passed. The balance of the estimated tax will be paid during the remaining periods (one-fourth of the yearly total for each remaining period).

The taxpayer also has the option of paying all the estimated tax at once. Instead of paying by installments, he or she may choose to pay the entire amount by the due date of the period during which the income is received.

Some taxpayers choose to pay all of their estimated tax with the first payment, April 15, 2004. It alleviates the need for them to remember to make the remaining payments.

Also, a taxpayer can apply all or part of an overpayment from his or her 2003 Form 1040 or Form 1040A to the estimated tax for 2004. The overpayment amount to be credited is entered on Form 1040, line 72, or Form 1040A, line 46. All of the credit can be applied to the first payment or it can be spread out among any or all of the payments.

If any due date falls on a Saturday, Sunday, or legal holiday, the payment is due on the next business day.

If a taxpayer files his or her 2004 Form 1040 or Form 1040A by January 31, 2005, and pays the entire amount of tax owed at that time, he or she is not required to make the estimated tax payment that would be due on January 18, 2005.

How Much Estimated Tax to Pay

The computed estimated tax is based on expected income and deductions and should take into account all facts known at the time the estimate is made. If the taxpayer is unsure about the accuracy of the estimate, he or she may want to pay more than the required minimum 90 percent of the 2003 estimated tax. Taxpayers who do not pay enough tax by the due date of each payment period may be charged a penalty, even if the filed 2004 return shows a refund. Generally, the simplest and safest procedure is to make sure that the total of tax withheld plus the amount of estimated tax for each payment period during 2004 is at least one-fourth of the tax shown on the 2003 return. For more information, see Publication 505.

How to Pay Estimated Tax

Estimated tax payments can be sent electronically to the IRS by direct debit payment from the taxpayer's checking or savings account, by credit card, or can be sent along with a payment voucher from Form 1040-ES. Each voucher is inscribed with its due date. Be sure to use the correct voucher for each payment. For more information on electronic filing and payments, see Form 1040-ES instructions.

If the taxpayer paid estimated tax in 2003, he or she should have received a Form 1040-ES package containing preprinted vouchers. These vouchers show the taxpayer's preprinted name, address, and social security number. To use them, simply enter the amount of the payment on the appropriate line. If a taxpayer does not have the preprinted forms, use a set of blank vouchers from Form 1040-ES and enter the information on the appropriate lines. Advise the taxpayer to write his or her social security number and "2004 Form 1040-ES" on the check or money order (payable to the "United States Treasury") when paying estimated tax.

FORM W-4 AND W-4P

An employer withholds tax based on wages paid and information the employee provides on Form W-4, *Employee's Withholding Allowance Certificate*. The employee uses his or her expected income, deductions, adjustments to income, and credits to figure the total withholding allowances to claim on Form W-4. In addition, an employee can claim extra allowances in certain situations.

A taxpayer who receives distributions from a pension, an annuity, an IRA, a stock bonus plan, or certain deferred compensation plans should use Form W-4P, *Withholding Certificate for Pension or Annuity Payments*, to notify the payer whether, and how much, income tax should be withheld.

Income, deductions, and credits should be estimated carefully. Taxpayers who do not have enough federal income tax withheld can be subject to interest and penalties. Taxpayers who have a very large refund or who owe should consider adjusting their withholding.

Some taxpayers want their withholding to be high enough to ensure that they receive a tax refund. They do not want to pay an additional amount when filing their tax return. If a taxpayer wishes, it is legal to claim fewer allowances than he or she is allowed. More tax than required will be withheld each pay period and, at the end of the year, the taxpayer should be eligible for a refund of overpaid taxes.

Forms W-4 and W-4P also contain:

- Instructions
- *Personal Allowances Worksheet*
- *Deductions and Adjustments Worksheet*
- *Two-Earner/Two-Job, Multiple Pension/More Than One Income Worksheets*
- Tables

The worksheets incorporate the number of allowances, adjustments, deductions, and credits that the employee expects on his or her 2004 income tax return. Some or all of these additional worksheets will then be used by the employee in completing the allowance certificate.

If an employee has a working spouse or income from two jobs, only one set of Form W-4 Worksheets should be completed. Complete the Form W-4 Worksheets using the combined expected income (from all sources and for both spouses if filing a joint return), adjustments, deductions, and exemptions. The number of total allowances from this Form W-4 can then be divided among all jobs. Withholding will usually be the most accurate when an employee claims zero allowances on all jobs except for the highest paying one. Reminder: A separate Form W-4 is needed for each job.

Certain events can occur during the year that can change an employee's marital status, exemptions, allowances, deductions or credits. When this happens, the employee may have to change his or her withholding allowances by submitting a new Form W-4 to the employer. The original Form W-4 remains in effect until the employee changes it.

For more information on withholding, refer to Publication 919, *How Do I Adjust My Tax Withholding?*

W-5, Advance Earned Income Credit (AEIC)

At this time, you as the preparer have the opportunity and the means to assist the taxpayer with the Form W-5, *Earned Income Credit Advance Payment Certificate*. The amount of the AEIC payments are based on wages by payroll cycle. Only persons with at least one qualifying child can get AEIC payments. If the taxpayer qualifies for the Earned Income Credit for 2003 refer them to Publication 596, *Earned Income Credit* or Form W-5 for additional information.

Completing and Assembling the Return

After all the decisions have been made regarding payments, overpayments, and estimated taxes, you should complete the taxpayer identification section, assemble the return, and submit it for quality review. When the review is completed, have the taxpayer sign the return and provide instructions on where and when to send it to the IRS. These steps are provided below.

Taxpayer Identification Section

This section is completed after the rest of the return. Often, this saves time because after you begin preparing Form 1040A, you may discover that Form 1040EZ or Form 1040 is more appropriate. If this happens, you will not have to complete the taxpayer identification section twice.

Taxpayers who filed returns last year probably received a forms package by mail this year. The package includes a preaddressed label which shows the name and address of the taxpayer(s).

Peel the label off and place it in the address area of the return. Mark through any errors on the label, and print the correct information on the label. Be sure to enter the social security number(s) (or Taxpayer Identification Number (ITIN) to the right of the label area.

If a taxpayer did not receive a forms package or does not have a pre-addressed label, PRINT the required information. Enter the taxpayer's name and social security number (or ITIN) on the first line. If married taxpayers are filing a joint return, enter one spouse's complete name and social security number (or ITIN) on the first line and the other spouse's complete name and social security number (or ITIN) on the second line. Be sure that each taxpayer's name and social security number (or ITIN) appear on one line, separate from the spouse's information. If you enter the husband's name and the wife's social security number (or ITIN) on the same line, there can be a considerable delay in processing the return.

Enter the address where any refund or notices should be sent. If the post office delivers mail to a post office box rather than to a street address, enter the P.O. box number on the line for the home address.

The Presidential Election Campaign Fund appears in the name and address area of Forms 1040EZ, 1040A, or 1040. Check *Yes* if the taxpayer wishes to have $3 go to the Presidential Election

Campaign Fund. Otherwise, check *No*. Checking *Yes* will not change the tax or reduce the refund. On a joint return, each taxpayer chooses whether or not $3 should go to the fund.

POTENTIAL PITFALLS ⚠

Using the pre-addressed lable reduces processing time. However, to protect the taxpayer's privacy, the peel-off label that he or she received in the mail with the tax return booklet does not have his or her SSN (or that of his or her spouse if filing a joint return) printed on it. Therefore, *be sure* the taxpayer's SSN (and spouse's, if applicable) is entered in the space provided on the tax form (1040, 1040A, or 1040EZ).

Further, if the taxpayer filed a joint return for 2002 and is filing a joint return for 2003 with the same spouse, *be sure* the taxpayer's and spouse's names and SSNs are entered in the same order as on the 2002 tax return.

Assembling the Return

Make sure that all forms, schedules, and attachments show the taxpayer's name and social security number. List the names in the same order that they appear on the front of the return and use the first social security (or ITIN) number that appears on the front of the return.

Attach forms and schedules behind Form 1040 according to the attachment sequence number shown in the upper right corner of the form or schedule. Items without an attachment sequence number should be placed at the end. For Form 1040A, attach any forms or schedules in order by number with Schedule EIC last.

Attach Form(s) W-2 to the left margin of the return. If any Form 1099 shows federal income tax withheld, include that amount in the payments section of the return.

When any Form 1099 shows federal income tax withheld, attach a copy to the return, along with any Form(s) W-2.

IDENTIFYING RETURNS

- If taxpayers ask about the site identification number designation at the bottom of the return in the paid preparer's section, explain that this is entered for statistical purposes. Inform the taxpayers that the site identification number does not affect the likelihood of an IRS examination (audit) of the return.
- If you prepare over 50 percent of the tax return and you are reasonably sure that the return will be filed as you prepared it, enter the site identification number at the bottom of the return in the Paid Preparer Section in the PTIN/SSN field.
- Most sites will have forms preprinted with the site identification number format entered in the Paid Preparer Section of the return. You must enter the number that has been assigned by the Territory Office for that site.
- If you do not have forms with the pre-printed site identification number format, print the appropriate site identification number for that site in the Paid Preparer Section of the return.

SITE IDENTIFICATION NUMBER

The Internal Revenue Service (IRS) will capture statistical information using the Individual Master File Report (IMF Report) and the Electronic Tax Administration (ETA) report. Based on this change, it is very important that **all returns** prepared by a volunteer tax preparation site be identified as VITA or TCE prepared.

The following procedures must be used when returns are prepared in a VITA or TCE site.

- The site identification number should be entered in the Preparer Section of the return. (See Exhibit 7).
- The following procedures must be followed when returns are prepared in a VITA or TCE site.

1. Paper Returns

- All sites will enter the letter P followed by an 8 digit site identification number that is provided by the territory office. Sites should use the overprint form with the bold P format indicated in the Paid Preparer Section. Each of the numbers represent a certain area determined by the territory office. For instance, the fifth digit of the number will be 1 for VITA, 2 for Military VITA, 3 for Co-located site, 4 for TCE and 5 for AARP.
- If you use a return without the bold P format for the number enter the assigned number in the space provided in the Paid Preparer section of the return. Forms 1040EZ, 1040A, and 1040 with the bold "P" format is available from IRS and will be ordered by each site coordinator.

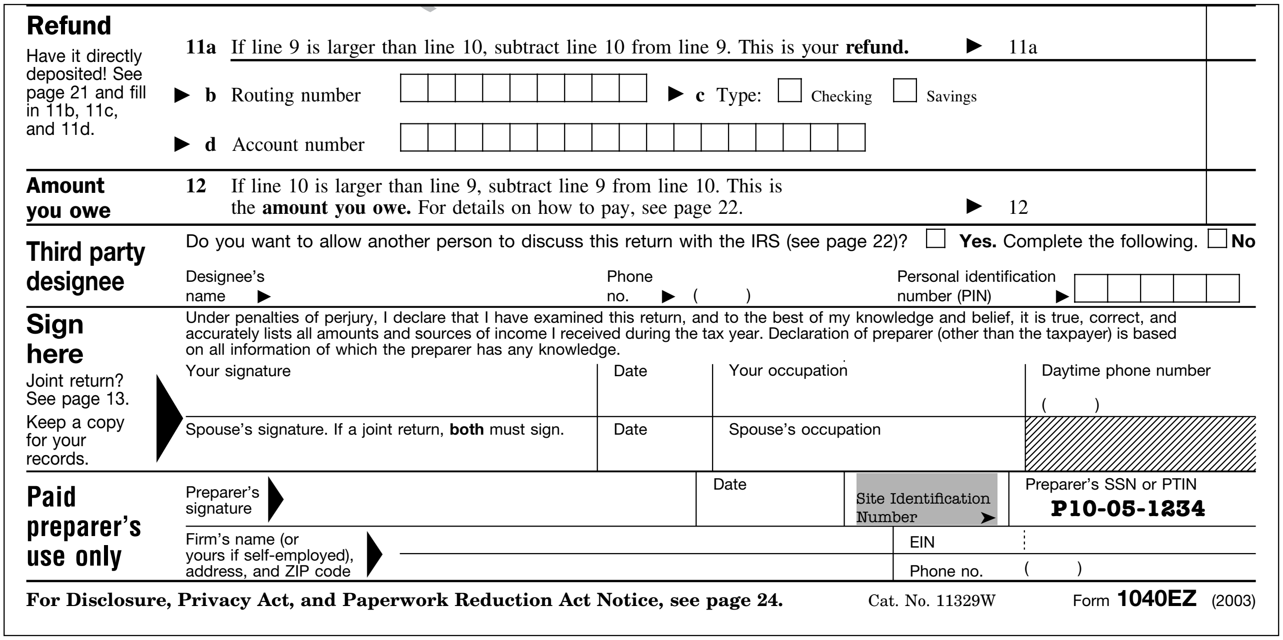
2. Electronically Filed Returns

- E-file administrators will set up computers to default to the proper location on the return where the number will already be entered. Ensure the default number has been entered for the site you are working.

Exhibit 7 illustrates a site identification number entered on three tax forms.

Exhibit 7 Site Identification Number

Form 1040EZ



Refund
Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d.

11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your **refund.** ▶ 11a

▶ **b** Routing number ☐☐☐☐☐☐☐☐☐ ▶ **c** Type: ☐ Checking ☐ Savings

▶ **d** Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Amount you owe

12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the **amount you owe.** For details on how to pay, see page 22. ▶ 12

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 22)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign here
Joint return? See page 13.
Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature | Date | Your occupation | Daytime phone number ( )

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation

Paid preparer's use only

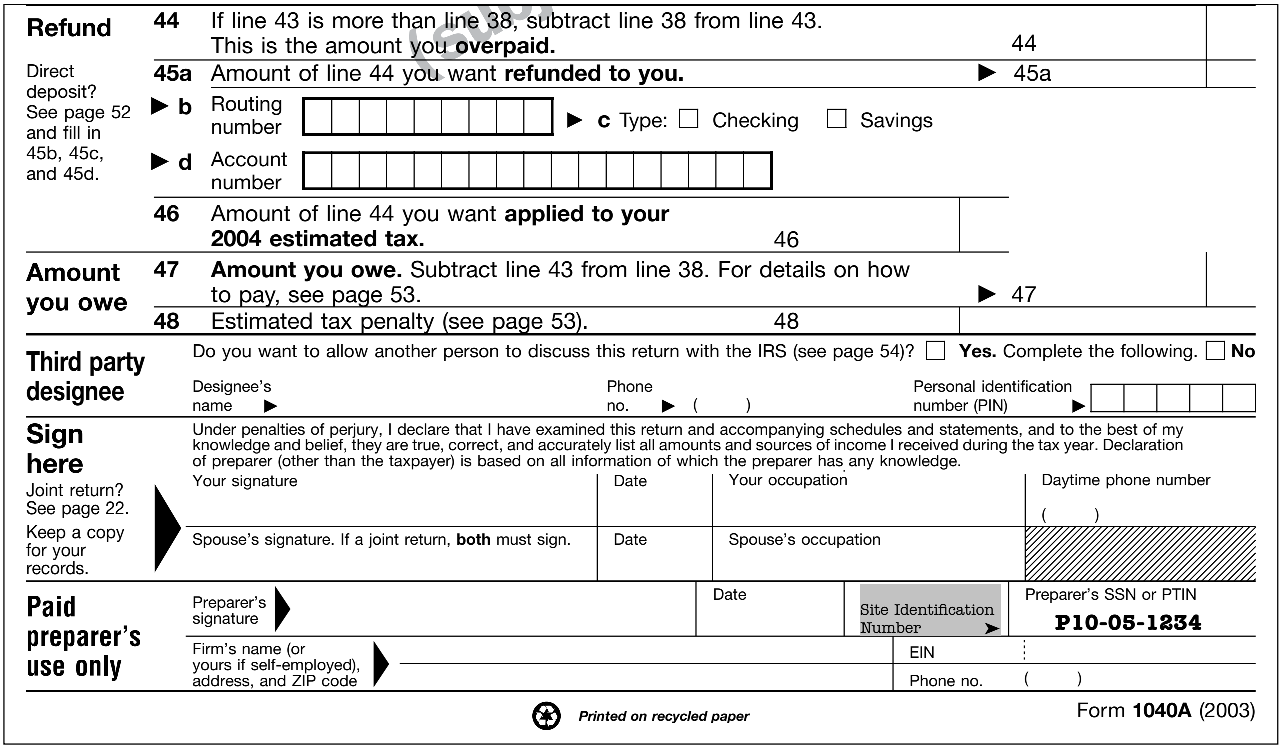
Preparer's signature ▶ | Date | Site Identification Number ➤ | Preparer's SSN or PTIN **P10-05-1234**

Firm's name (or yours if self-employed), address, and ZIP code ▶ | EIN | Phone no. ( )

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 24. Cat. No. 11329W Form **1040EZ** (2003)

Exhibit 7

Form 1040A



Refund
Direct deposit? See page 52 and fill in 45b, 45c, and 45d.

44 If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you **overpaid.** 44

45a Amount of line 44 you want **refunded to you.** ▶ 45a

▶ **b** Routing number ☐☐☐☐☐☐☐☐☐ ▶ **c** Type: ☐ Checking ☐ Savings

▶ **d** Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

46 Amount of line 44 you want **applied to your 2004 estimated tax.** 46

Amount you owe

47 **Amount you owe.** Subtract line 43 from line 38. For details on how to pay, see page 53. ▶ 47

48 Estimated tax penalty (see page 53). 48

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 54)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign here
Joint return? See page 22.
Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature | Date | Your occupation | Daytime phone number ( )

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation

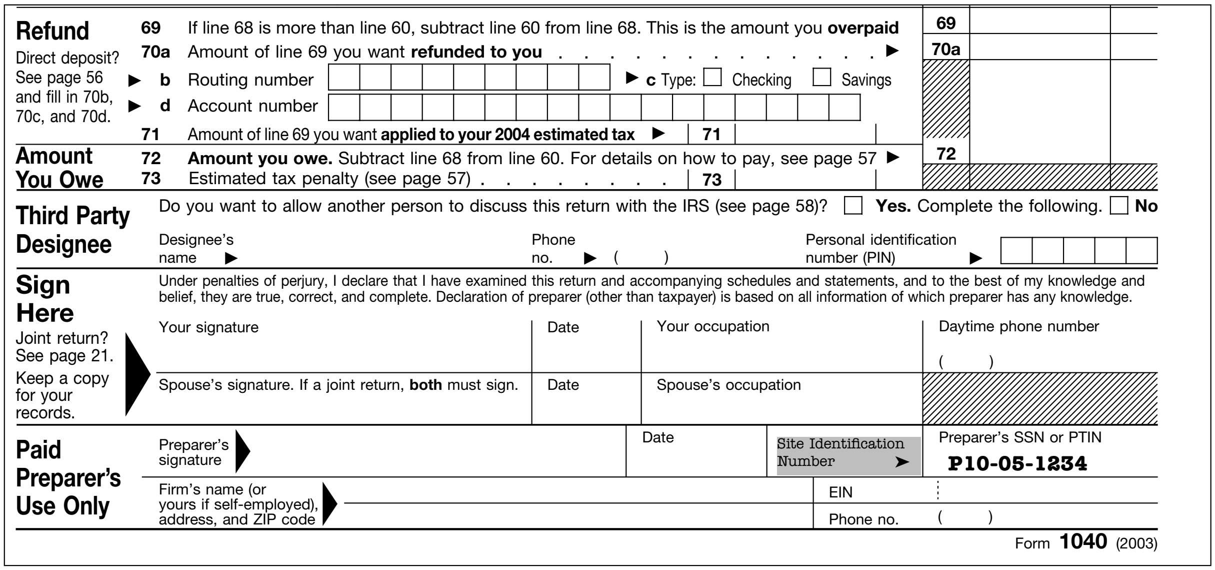
Paid preparer's use only

Preparer's signature ▶ | Date | Site Identification Number ➤ | Preparer's SSN or PTIN **P10-05-1234**

Firm's name (or yours if self-employed), address, and ZIP code ▶ | EIN | Phone no. ( )

Printed on recycled paper Form **1040A** (2003)

Exhibit 7 **Form 1040**



Refund

Direct deposit? See page 56 and fill in 70b, 70c, and 70d.

69 If line 68 is more than line 60, subtract line 60 from line 68. This is the amount you **overpaid** **69**

70a Amount of line 69 you want **refunded to you** . . . . ▶ **70a**

▶ **b** Routing number ▶ **c** Type: ☐ Checking ☐ Savings

▶ **d** Account number

71 Amount of line 69 you want **applied to your 2004 estimated tax** ▶ **71**

Amount You Owe

72 **Amount you owe.** Subtract line 68 from line 60. For details on how to pay, see page 57 ▶ **72**

73 Estimated tax penalty (see page 57) **73**

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 58)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶

Sign Here

Joint return? See page 21.

Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number ( )
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	

Paid Preparer's Use Only

Preparer's signature	Date	Site Identification Number ➤	Preparer's SSN or PTIN **P10-05-1234**
Firm's name (or yours if self-employed), address, and ZIP code		EIN	
		Phone no.	( )

Form **1040** (2003)

QUALITY SERVICE

The goal of the TCE and VITA Programs is to provide high quality service.

On-Site Quality Review Program

Every site should have a quality review program. Properly reviewed returns will help prevent taxpayers from receiving an error notice from the IRS. At larger sites, an experienced volunteer should be designated as the quality reviewer. At small sites, volunteers may review each other's work. A Quality Review Checklist, like the one shown below, may be used for this purpose.

Quality Review Checklist

Entity

- Are the name, address, and **social security number** correct for each taxpayer on the return?
- Is the social security number(s) or ITIN(s) entered to the right of the label area?
- Is the Presidential Election Campaign Fund box(es) checked?
- Is the filing status correct? Is the box checked?
- Are the exemptions and dependents checked, listed, and added correctly?
- Are dependents' social security numbers or ITINs entered?

Income

- Are income items correctly transferred from Form W-2, Form 1099-INT, Form 1099-DIV, Form 1099-G, Form 1099-R, and Form SSA-1099 (or RRB-1099), for example?
- Is tax-exempt interest income reported? Is "TEI" written to the left of line 2 on Form 1040EZ?
- Is the taxable portion of social security benefits, IRA distributions, pensions, and/or annuity income correctly figured?
- Are there IRA withdrawals to report?
- Is there any other income to report (lottery, fees, etc.)?
- If the taxpayer paid alimony, is the recipient's social security number entered?

Tax and Credits

- Are all appropriate boxes on line 37a, Form 1040 or line 23a, Form 1040A or line 5, Form 1040EZ checked?
- Is the standard deduction correct? Complete worksheet if taxpayer is someone else's dependent.
- Is the tax correct?
- Is the taxpayer eligible to claim the credit for child and dependent care expenses, child tax credit, education credits, adoption credit, or credit for the elderly or the disabled?

Payments

- Does the tax withheld agree with the total of amounts shown on all Forms W-2, 1099-INT, 1099-DIV, and 1099-R?
- Are the estimated tax payments correct?
- Is the taxpayer eligible to claim the earned income credit?
- Is the overpayment or the amount owed correct? Does the taxpayer want any part of the refund applied to next year's estimated tax? Does the taxpayer want the refund or any part directly deposited?

Quality Review Checklist
(continued)

Other

- Did you use a calculator to check your math?
- Are all Forms W-2 and 1099 (showing tax withheld), as well as schedules and forms, attached to the return?
- Is the appropriate site identification number entered?
- Did the taxpayer(s) sign, date, and fill in his/her occupation on the return?
- Is the taxpayer eligible to claim the Earned income credit? Advanced earned income credit?

Signature Section

Make sure the taxpayer signs and dates the return before mailing. An unsigned return cannot be processed and may be sent back to the taxpayer. On a joint return, both spouses must sign, even if only one spouse had income. Also, make sure the occupation(s) of the taxpayer (or of both spouses, if married filing jointly) is entered.

If a taxpayer died before filing a return for 2003, 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 deceased 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 enter "DECEASED," the deceased taxpayer's name, and the date of death across the top of the return.

If the taxpayer's spouse died in 2003 and the taxpayer did not remarry in 2003, the taxpayer can file a joint return. (The taxpayer can also file a joint return if his or her spouse dies in 2004 before filing a 2003 return.) A joint return should show the taxpayer's spouse's 2003 income before death and the taxpayer's income for all of 2003. The taxpayer should enter "Filing as surviving spouse" in the area where the taxpayer signs 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. A deceased taxpayer's social security number should not be used for tax years after the year of death, except for estate tax return purposes.

Third-Party Designee

If the taxpayer wants to allow a friend, family member, or any other person he or she chooses to discuss his or her 2003 tax return with the IRS, the taxpayer should check the "Yes" box in the "Third party designee" area of the return. Also, the taxpayer should enter the designee's name, phone number, and any five numbers the designee chooses as his or her personal identification number (PIN).

If the taxpayer checks the "Yes" box, he or she, and his or her spouse if filing a joint return, is authorizing the IRS to call the designee to answer any questions that may arise during the processing of the return. The taxpayer is also authorizing the designee to:

- Give the IRS any information that is missing from the return,
- Call the IRS for information about the processing of the return or the status of the taxpayer's refund or payment(s), and
- Respond to certain IRS notices that the taxpayer has shared with the designee about math errors, offsets, and return preparation. The notices will not be sent to the designee.

The taxpayer is not authorizing the designee to receive any refund check, bind the taxpayer to anything (including any additional tax liability), or otherwise represent the taxpayer before the IRS. If the taxpayer wants to expand the designee's authorization, he or she should see Publication 947, *Practice Before the IRS and Power of Attorney*.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing the taxpayer's 2004 tax return. This is April 15, 2005, for most people.

As a volunteer preparer you may not be designated as a "Third Party Designee."

Ending the Interview

Make sure the taxpayer keeps a copy of all Forms W-2 and 1099 with a copy of the tax return. Advise the taxpayer to keep these copies for at least three years. As the volunteer assistor, you should not keep a copy of the return.

If an envelope has been provided for the taxpayer's records place the copies into it. **Advise the taxpayer to bring the tax return and records back next year.**

VOLUNTEER ASSISTANCE WORKSHEET

The Volunteer Assistance Worksheet is currently under revision and was not available at publication date. Your local Stakeholder Partnerships, Education and Communication (SPEC) office will provide you with the revised Volunteer Assistance Worksheet when you attend training along with the training module that explains the new worksheet and reporting requirements.

Exercise 1

A. Helen paid $500 in estimated tax to the United States Treasury. Where is this reported on Form 1040A? ___________

____

B. Shirley paid $200, the amount owed onlast year's income tax return. Is this the $200 an estimated tax payment for this year's income tax return? ___________________

C. Elmer wants his refund deposited in his checking account. What information should you enter on line 45b of Form1040A?

____

D. Jennifer had tax withheld from her wages on Form W-2. She also had some withholding on her Form 1099-R. Can these items be combined and listed on one line on her tax return?

____

Exercise 2

Look at the completed Form 1040EZ shown in Exhibit 8 and identify at least 3 areas that have not been properly completed.

Exhibit 8

Form **1040EZ**

Department of the Treasury—Internal Revenue Service

Income Tax Return for Single and Joint Filers With No Dependents 2003

OMB No. 1545-0675

Label (See page 14.) **Use the IRS label.** Otherwise, please print or type.

LABEL HERE

Your first name and initial Jorge	Last name Mendez	**Your social security number** 123 45 6789
If a joint return, spouse's first name and initial Lucinda	Last name Mendez	**Spouse's social security number**
Home address (number and street). If you have a P.O. box, see page 14. 1040 Main Street	Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, see page 14. Anywhere USA 99999		

▲ Important! ▲
You **must** enter your SSN(s) above.

Presidential Election Campaign (page 14)
Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if a joint return, want $3 to go to this fund? . . . . ▶ You ☐ Yes ☐ No Spouse ☐ Yes ☐ No

Income

Attach Form(s) W-2 here. Enclose, but do not attach, any payment.

Note. You **must** check Yes or No.

1	Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1	14,900	00
2	Taxable interest. If the total is over $1,500, you cannot use Form 1040EZ.	2	2	00
3	Unemployment compensation and Alaska Permanent Fund dividends (see page 16).	3		
4	Add lines 1, 2, and 3. This is your **adjusted gross income.**	4		
5	Can your parents (or someone else) claim you on their return? **Yes.** ☐ Enter amount from worksheet on back. **No.** ☐ If **single,** enter $7,800. If **married filing jointly,** enter $15,600. See back for explanation.	5		
6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your **taxable income.** ▶	6	14,900	00

Payments and tax

7	Federal income tax withheld from box 2 of your Form(s) W-2.	7	1,700	00
8	**Earned income credit (EIC).**	8		
9	Add lines 7 and 8. These are your **total payments.** ▶	9	1,700	00
10	**Tax.** Use the amount on **line 6 above** to find your tax in the tax table on pages 25–29 of the booklet. Then, enter the tax from the table on this line.	10	1,490	00

Refund

Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d.

11a	If line 9 is larger than line 10, subtract line 10 from line 9. This is your **refund.** ▶	11a	2	00

▶ **b** Routing number ☐☐☐☐☐☐☐☐☐ ▶ **c** Type: ☐ Checking ☐ Savings

▶ **d** Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Amount you owe

12	If line 10 is larger than line 9, subtract line 9 from line 10. This is the **amount you owe.** For details on how to pay, see page 22. ▶	12		

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 22)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign here

Joint return? See page 13. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature Lucinda Mendez	Date 1/23/04	Your occupation	Daytime phone number ( )
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	

Paid preparer's use only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code ▶		EIN	
		Phone no. ( )	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 24. Cat. No. 11329W Form **1040EZ** (2003)

▶▶ SUMMING UP THIS LESSON ◀◀

The information for the payment section of the return comes from these sources:

- Federal income tax withheld by the employer, and
- Forms 1099, and
- Estimated tax payments paid by the taxpayer (not reported on Form 1040EZ), and
- Refundable credits.

If the amount owed is $1,000 or more, the taxpayer may have to pay an estimated tax penalty. If there is an overpayment, the taxpayer can take one of the following courses of action:

- Receive a complete refund,
- Apply the overpayment to the next year's estimated tax, or
- Receive a partial refund and apply the remainder of the overpayment to the next year's estimated tax.

Estimated tax payments must be made if a taxpayer:

- Expects to owe $1,000 or more in tax for 2003 after subtracting income tax withheld and credits,

AND

- Expects his or her 2004 tax withheld and credits to be less than the smaller of: 90 percent of the tax to be shown on his or her 2004 tax return or, generally, 100 percent of the tax shown on his or her 2003 tax return.

Withholding allowances for employees are reported on Form W-4. Allowances for pension or annuity recipients are reported on Form W-4P. They are figured by taking into account:

- Expected income
- Deductions
- Credits
- Adjustments to income

▶▶ SUMMING UP THIS LESSON ◀◀
(continued)

To finish the return:

- ▶ Consider the taxpayer's possible eligibility for Advance Earned Income Credit.
- ▶ Complete the taxpayer's identification section after you have finished the rest of the return.
- ▶ Enter the site identification number in the paid preparer's section.
- ▶ Assemble the return correctly, attaching any Forms W-2 and Forms 1099 showing federal income tax withholding.
- ▶ Check each return for completeness and accuracy.
- ▶ Submit each return for on-site quality review.
- ▶ Have the taxpayer(s) sign and date the return.

Answers to Exercise 1

(A) Line 40

(B) No

(C) The routing number for his bank account, and type of account.

(D) Yes

Answers to Exercise 2

- Wife's SSN is missing
- Presidential Election Campaign is not marked
- Husband's signature is missing
- The Site Identification Number is missing in the preparer's SSN/PTIN section of the form.
- Line 4 is blank
- Line 5 is blank
- Line 6 is incorrect
- Line 11a is incorrect
- Occupations are missing
- Spouse's signature is missing

STUDENT NOTES

FINISHING AND FILING THE RETURN

INTRODUCTION AND OBJECTIVES

General rules for filing returns may be found in the Basic segment of this lesson. This segment addresses special concerns of members of the Armed Forces and includes information for combat zone participants.

At the end of this lesson you should be able to:

- Determine where and when to file a federal tax return.
- Identify situations in which extensions of time to file are granted and determine the length of these extensions.
- Identify the deadline extension for combat zone participants.

TAXPAYER IDENTIFICATION

A member of the Armed Forces should include his or her name, social security number, and permanent home address on his or her return. A member who is due a refund and does not want it mailed to his or her permanent home address should enter a current address on the return. If the postal service does not deliver to the member's street address and the member had a post office box, he or she should enter the post office box number on the line for the present home address. A military person living overseas should use an APO or FPO address.

CHANGE OF ADDRESS

If a taxpayer changes his or her mailing address during the year, the taxpayer should notify the Internal Revenue Service of the change on Form 8822, *Change of Address*. However, if the taxpayer moves after filing a tax return, he or she should fill out and mail Form 8822 to the Internal Revenue Service Center where his or her returns were previously filed. Addresses for the service centers are listed on the back of the form.

WHERE TO FILE

Taxpayers should send their federal returns to the campus for the place where they reside. For example, Sgt. Keene, who is stationed in Maine but whose permanent home address is in California, should send her federal return to the campus in Maine. The tax form instructions give the addresses for the campuses, including the Philadelphia Campus for APO and FPO addresses.

WHEN TO FILE

Most individual tax returns cover a calendar year, January through December. Taxpayers who live in the United States or Puerto Rico and who use the calendar-year period should file their individual tax returns by April 15 of the following year. If April 15 falls on a Saturday, Sunday, or legal holiday, the due date is the next business day. (For 2003 tax returns, the due date is April 15, 2004.)

If a taxpayer has a balance due, they can pay by check, money order, direct debit (automatic withdrawal) or credit card. See Form 1040, 1040A, or 1040EZ instructions for complete details.

Taxpayers who cannot pay the tax due with their tax return should attach Form 9465, *Installment Agreement Request*. The Internal Revenue Service will try to arrange an installment payment agreement that reflects the taxpayer's ability to pay the tax owed. However, taxpayers should pay as much as possible with their return to reduce the amount of interest and penalties that will be charged on the unpaid balance.

EXTENSIONS

Taxpayers can receive extensions of time to file their returns. Different rules apply to taxpayers who live in the United States and those who live outside the United States. Deadline extensions are also available to members of the Armed Forces who served in a combat zone.

IRS will charge interest on taxes not paid by the due date, even if an extension of time to file is granted, unless the combat zone extension is applicable.

Within the United States

A taxpayer living in the United States can receive an automatic 4-month extension of time to file his or her federal tax return. To get the automatic extension, the taxpayer must file Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*, by the due date for the tax return. Also seen *Paying by credit card*, later.

The taxpayer is not required to pay any of the tax due when submitting the form. However, the taxpayer will owe interest on any tax that is owed but not paid by the due date. Interest will be charged from the due date to the date of payment. In addition, the taxpayer may be charged a late-payment penalty if the amount of tax paid before the due date (from withheld taxes or estimated tax payments) is less than 90% of the actual tax owed.

For more details on penalties, refer to filing information in Publication 17 and Lesson 6 in the Volunteer Assistor's Guide.

If Form 4868 is filed late, the request for an extension will be denied. The Internal Revenue Service will inform the taxpayer if the request is denied.

Taxpayers **cannot** use the automatic extension if they:

- Choose to have the IRS figure their tax, or
- Are under a court order to file their returns by the regular due date.

When the tax return is actually filed, any payment made with the application should be entered in line 66, Form 1040; added to the total on line 43, Form 1040A; or added to the total on line 9, Form 1040EZ.

The taxpayer can request an extension beyond this 4-month period by filing Form 2688, *Application for Additional Extension of Time To File U.S. Individual Income Tax Return*, or by letter. Except in undue hardship cases, this additional extension will not be granted unless Form 4868 has been filed first. Form 2688 or the taxpayer's letter will not be considered if filed after the extended due date.

Outside the United States and Puerto Rico

U.S. citizens and resident aliens who are living outside the United States and Puerto Rico on April 15 and whose main place of business or assigned tour of duty is outside the United States and Puerto Rico are allowed an automatic 2-month extension of time until June 15, 2004, to file a 2003 return. However, interest will be charged from the due date to the date the tax is paid.

Note: Traveling outside the United States and Puerto Rico on the due date does not qualify the taxpayer for an automatic 2-month extension.

Taxpayers using this automatic extension must attach a statement to their return stating that they were living outside the United States and Puerto Rico on the due date and that their main place of business or their assigned tour of duty is outside the United States and Puerto Rico.

Joint returns. For married persons who file jointly, only one spouse needs to meet the requirements to take advantage of the automatic extension to June 15.

Separate returns. For married persons who file separately, only the spouse who meets the requirements qualifies for the automatic extension. If both spouses meet the requirements, each may take advantage of the extension.

As discussed earlier, taxpayers who live outside the United States and Puerto Rico and whose main place of business or assigned tour of duty is outside the United States and Puerto Rico can also request an additional extension by filing Form 4868 by the automatic extension date of June 15 or by paying the tax due by credit card by April 15, 2004. The due date will then be extended to August 16. To obtain the additional extension, the taxpayer must file Form 4868 and write "Taxpayer Abroad" in the top margin of the form. If more time is needed, the taxpayer should file Form 2688.

Combat Zone Participants

The deadline for filing tax returns, paying taxes, filing claims for refund, and taking other actions with the IRS is automatically extended for members of the Armed Forces who served in a combat zone, qualified hazardous duty area, or began performing qualifying service outside of a combat zone or qualified hazardous duty area. The designation of the combat zone and the combat pay exclusion are described in Lesson 2, Military Segment.

The deadline for taking actions with the IRS is extended for at least 180 days after the later of:

1. The last day a member is in a combat zone, qualified hazardous duty area, or has qualifying service outside of the combat zone/ qualified hazardous duty area (or the last day the area qualifies as a combat zone/qualified hazardous duty area), or
2. The last day of any continuous qualified hospitalization (defined in Lesson 2, Military Segment) for injury from service in the combat zone, qualified hazardous duty area, or qualified service outside the combat zone/qualified hazardous duty area.

Time in a missing status (missing in action or prisoner of war) counts as time in a combat zone.

In addition to the 180 days, the deadline is extended by the number of days that were left for the member to take the action with the IRS when he/she entered a combat zone, qualified hazardous duty area (or began performing qualifying service outside of the combat zone/qualified hazardous duty area). If the member entered the combat zone/qualified hazardous duty area (or began performing qualifying service outside of the combat zone/qualified hazardous duty area) before the period of time to take action began, the deadline is extended by the entire time he/she had to take the action. For example, the member has 3 ½ months (Jan. 1–Apr. 15, 2003) to file his/her 2002 tax return.

Any days of the 3 ½ month period that are left when he/she entered a combat zone (or the entire 3 ½ months if the member entered the combat zone before January 1) are added to the 180 days to find the last day allowed for filing the 2002 tax return.

Example 1

Capt. Margaret Jackson entered Saudi Arabia on December 1, 2001. She remained there through March 31, 2002, when she departed for the United States. She was not injured and did not return to the combat zone. The deadlines for filing Capt. Jackson's 2001, 2002, and 2003 tax returns are figured as follows:

The 2001 tax return deadline is January 10, 2004. Capt. Jackson has 285 days (180 plus 105) after her last day in the combat zone (March 31) to file her 2001 tax return. The 105 additional days are the number of days in the 3 ½-month filing period that were left when she entered the combat zone (Jan 1–Apr. 15). There are 105 days in the 2003 filing period.

The 2002 tax return deadline is January 10, 2004. Capt. Jackson has 285 days (180 plus 105) after her last day in the combat zone to file her 2002 tax return.

The 2003 tax return deadline is not extended. The 180-day extension period after March 31, 2003, ends in September 27, 2003, which is before the start of the filing period for her 2003 return.

Example 2

Petty Officer Leonard Bishop's ship entered the Persian Gulf on January 5, 2002. On February 15, 2002. Leonard was injured and was flown to a U.S. hospital. He remained in the hospital through April 21, 2003. The deadlines for filing Petty Officer Bishop's 2001, 2002, and 2003 returns are figured as follows:

The 2001 tax return deadline is January 27, 2004. Petty Officer Bishop has 281 days (180 plus 101) after his last day in the hospital (April 21, 2003) to file his 2001 return. The 101 additional days are the number of days in the 3 ½-month filing period that were left when he entered the combat zone (Jan. 5–Apr. 15).

The 2002 tax return deadline is January 31, 2004. Petty Officer Bishop has 285 days (180 plus 105) after April 21, 2003, to file his 2002 tax return.

The 2003 tax return deadline is April 15, 2004. The 180-day period after April 21, 2003, ends October 18, 2003, which is before the start of the filing period for his 2003 return. The due date for his 2003 return is not extended. He has until April 15, 2004 to file his 2003 tax return.

A detailed explanation of the deadline extension provision for filing returns and taking care of other tax matters is included in Lesson 16, *Tax Options for Combat Zone Participants.*

Interest. The IRS will pay interest from the regular due date of a return if the return is timely filed (including extensions).

Identification of combat zone returns. Taxpayers can choose to file their returns before the end of an extension period. They should file their returns in accordance with procedures provided by the Armed Forces.

Third-Party Designee. If the taxpayer wants to allow a friend, family member, or any other person he or she chooses to discuss his or her 2003 tax return with the IRS, the taxpayer should check the "Yes" box in the "Third part designee" area if the return. Also, the taxpayer should enter the designee's name, phone number, and any five numbers the designee chooses as his or her personal identification number (PIN).

If the taxpayer checks the "Yes" box, he or she, and his or her spouse if filing a joint return, is authorizing the IRS to call the designee to answer any questions that may arise during the processing of the return. The taxpayer is also authorizing the designee to:

- Give the IRS any information that is missing from the return,
- Call the IRS for information about the processing of the return or the status of the taxpayer's refund or payment(s), and
- Respond to certain IRS notices that the taxpayer has shared with the designee about math errors, offsets, and return preparation. The notices will not be sent to the designee.

The taxpayer is not authorizing the designee to receive any refund check, bind the taxpayer to anything (including any additional tax liability), or otherwise represent the taxpayer before the IRS. If the taxpayer wants to expand the designee's authorization, he or she should see Publication 947, *Practice Before the IRS and Power of Attorney.*

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing the taxpayer's 2003 tax return. This is April 15, 2005, for most people.

Power of Attorney. Use Form 2848, *Power of Attorney and Declaration of Representative,* to grant authority to an individual to represent you before the IRS and to receive tax information. If an individual is acting on behalf of a taxpayer serving in the combat zone and does not have a power of attorney specifying that he/she can handle federal tax matters, the IRS will accept a general power of attorney or other statement signed by the person for whom the individual is acting. The general power of attorney or statement must authorize the individual to act on the other person's behalf even though federal tax matters are not specified. A copy must be attached to the tax return.

Signature. If it is not possible for the spouse of someone serving in the combat zone to obtain that person's signature on a joint return, power or attorney, or other signed authorization to act on his or her behalf, the IRS will accept a written statement explaining that the husband or wife is serving in the combat zone.

The statement must be signed by the spouse filing the tax return and attached to the return.

Exercise 1

Pvt. Franklin, a U.S. citizen, is a calendar-year taxpayer. What would be the due date for him to file a return if his assigned tour of duty were in the following places?

A. Puerto Rico

Answer ______________________________

B. Germany

Answer ______________________________

C. United States

Answer ______________________________

Exercise 2

Capt. Regis is stationed in England on April 15. He is concerned about when he should file his federal tax return. Answer the following questions for Capt. Regis.

A. What extensions of time are available to him?

Answer ______________________________

B. How can he get those extensions?

Answer ______________________________

Exercise 3

Capt. Mitchell entered the Persian Gulf area combat zone on October 9, 2001, and left the combat zone on May 10, 2003. She was not injured and did not return to the combat zone.

A. When are her 2001 and 2002 returns due after applying the deadline extension provision?

Answer ______________________________

▶▶ SUMMING UP THIS SEGMENT ◀◀

In this lesson you have learned where members of the Armed Forces should file their returns. You learned when the returns are due for taxpayers who live both inside and outside the United States and Puerto Rico and how extensions of time to file can affect the due date. You have also learned that members of the Armed Forces who served in a combat zone are allowed additional time to file their returns.

FILING THE RETURN

ANSWERS TO EXERCISES

1. **a**. April 15

   b. June 15 if he attached a statement to his return indicating that he was on an assigned tour of duty in Germany on the due date.

   c. April 15

2. **a**. An automatic 2-month extension of time to June 15 and an additional 2-month extension to August 15 (for a total of 4 months).

   b. Captain Regis can obtain the automatic 2-month extension by attaching a statement to his tax return indicating that he was on an assigned tour of duty outside the United States and Puerto Rico on April 15. If Captain Regis needs an additional extension of time, he should file Form 4868 by the automatic extension date of June 15 and write "Taxpayer Abroad" in the top margin of the form. If he still needs additional time, he should request it before the extended due date of August 15 by filing Form 2688, or by letter.

3. **a**. Capt. Mitchell has 285 days (180 plus 105) after her last day in the combat zone (May 10, 2003) to file her 2001 return. She has 285 days (180 plus 105) after her last day in the combat zone to file her 2002 return. These additional days are the number of days in the 3 ½ month filing period that were left when she entered the Persian Gulf. Her 2001 return and her 2002 return are both due February 19, 2004.

CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

Lesson 7

INTRODUCTION AND OBJECTIVES

In this lesson you will learn about the credit for child and dependent care expenses. This nonrefundable credit is one of the most commonly used credits. The requirements for claiming the credit are the same regardless of the form used. In fact, Form 2441 (used with Form 1040) and Schedule 2 (used with Form 1040A) are virtually identical. In order to qualify for this credit, the taxpayer must satisfy all six tests of eligibility.

Some taxpayers receive employer provided dependent care benefits. Dependent care benefits include amounts the employer paid directly to the taxpayer or to the care provider. These benefits can also include the fair market value of care in a day care facility provided or sponsored by the employer. The taxpayer's salary may have been reduced to pay for these benefits. The employer provided benefits will be reported on Form W-2, Box 10.

After completing this lesson you should be able to:

- Determine who is eligible for the child and dependent care credit.
- Calculate the credit, the exclusion and report the expenses on the correct form.

QUALIFYING PERSON TEST

The child and dependent care expenses must be for at least one qualifying person.

A qualifying person is:

- A child who was under the age of 13 when the care was provided and for whom a dependency exemption can be claimed. Special rules apply, however, if the parents are divorced or separated. (See next page).
- A dependent who was physically or mentally not able to care for himself or herself and for whom a dependency exemption can be claimed (or could be claimed except the person had $3,050 or more of gross income).
- A spouse who was physically or mentally not able to care for himself or herself.

Example 1

Jim paid someone to care for his wife, Janet. Janet is physically unable to care for herself. Jim also paid to have someone prepare meals for his 12-year-old daughter, Jill. Both Janet and Jill are qualifying persons for the credit.

Example 2

Bob and Rhonda paid child care expenses for their son, Ronnie. Ronnie turned 13 on July 15. Ronnie is a qualifying person until he reached the age of 13.

Children of Divorced or Separated Parents Exception

If the taxpayer is the custodial parent, he or she can treat the child as a qualifying person for the credit even if he or she cannot claim the child's dependency exemption. If the taxpayer **is not** the custodial parent, he or she cannot treat the child as a qualifying person for the credit even if he or she can claim the child's dependency exemption.

This exception applies only if **all** the following are true:

- One or both parents had custody of the child for more than half the year.
- One or both parents provided more than half of the child's support for the year.
- Either
    1. The custodial parent signed Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents, or a similar statement, agreeing not to claim the child's exemption for the year, or
    2. The noncustodial parent provided at least $600 for the child's support and can claim the child's exemption under a pre-1985 decree of divorce or separate maintenance, or written agreement.

Example 3

Amanda is divorced and has custody of her 8-year-old daughter, Carrie. Amanda signed Form 8332 to allow her ex-spouse to claim the dependency exemption for Carrie. In order to work, Amanda paid child care expenses for Carrie. Carrie is a qualifying person for the credit. Amanda can claim the credit for child and dependent care expenses. The ex-spouse cannot claim the credit.

KEEPING UP A HOME TEST

To claim the credit, the taxpayer must pay more than half the cost of keeping up a home for himself or herself and one or more qualifying persons. The cost of keeping up a home normally includes property taxes, mortgage interest, rent, utility charges, home repairs, insurance on the home, and food eaten in the home. Public assistance benefits are funds provided by the state not by the taxpayer.

EARNED INCOME TEST

The taxpayer (and spouse if married) must have earned income during the year. Earned income includes wages, salaries, tips, other taxable employee compensation, net earnings from self-employment, strike benefits, and disability pay reported as wages.

A spouse is treated as having earned income for any month he or she is a full-time student or physically or mentally not able to care for himself or herself. Only one spouse can be **treated** as having earned income in any one month.

A full-time student is defined as enrolled and attending a school for the number of hours or classes the school considers full-time. The taxpayer (or spouse) must be a student for some part of five calendar months during the year.

WORK-RELATED EXPENSE TEST

Child and dependent care expenses must be work related to qualify for the credit. Expenses are considered work related only if both of the following are true:

1. The expenses allow the taxpayer (and spouse if married) to work or look for work and
2. The expenses are for a qualifying person's care.

A spouse is treated as working during any month he or she is a full-time student or is physically or mentally not able to care for himself or herself.

To be work related, the expenses must be to provide care for a qualifying person. Expenses are for the care of a qualifying person only if their main purpose is the person's well being and protection.

Expenses for care do not include amounts paid for food, clothing, education, and entertainment. However, small amounts paid for these items can be included if they are incident to and cannot be separated from the cost of care.

Education. Expenses to attend first grade or a higher grade are not expenses for care.

Camp. The cost of sending a child to an overnight camp is not considered a work-related expense.

Payments to relatives. Do not count amounts paid to:

1. A dependent for whom the taxpayer (or spouse if married) can claim as an exemption, or
2. The taxpayer's child who is under age 19 at the end of the year, even if he or she is not the taxpayer's dependent

JOINT RETURN TEST

Generally, a married couple must file a joint retun to take the credit. However, if the taxpayer is legally separated or living apart from his or her spouse, the taxpayer may be able to file a separate return and still take the credit.

If the taxpayer's filing status is married filing separately and all of the following apply, the taxpayer is considered unmarried for purposes of figuring the credit:

1. The taxpayer lived apart from his or her spouse during the last six months of the year, and
2. The qualifying person lived in the taxpayer's home for more than half of the year, and
3. The taxpayer provided over half the cost of keeping up the home, and
4. The taxpayer met the other five tests for eligibility to take the credit.

PROVIDER IDENTIFICATION TEST

The taxpayer must provide the care provider's name, address, and taxpayer identification number. If the taxpayer is unable to provide this information or if the information is incorrect, he or she must show they used due diligence to obtain the information.

Due Diligence. The taxpayer can show due diligence by getting and keeping any of the following documents:

1. Form W-10, Dependent Care Provider's Identification and Certification.
2. Copy of the provider's social security card.
3. Copy of the provider's driver's license if it includes the social security number.
4. A copy of the provider's Form W-4 if the provider is the taxpayer's household employee.
5. A copy of the statement furnished by the taxpayer's employer if the provider is a dependent care plan.
6. A letter or invoice from the provider if it shows the name, address, and taxpayer identification number (EIN or SSN).

Provider Refusal. If the care provider refuses to give the taxpayer the identifying information, report whatever information is available, enter "see page 2" for the missing information, and provide a statement at the bottom of page 2 of Form 2441 or Schedule 2.

LIMIT ON EXPENSES

The amount of expenses eligible for the credit is limited to the lowest of the following amounts for the year.

- The lower paid spouse's earned income (in the case of married taxpayers).
- The single taxpayer's earned income.
- The actual expenses paid.
- The overall limit of $3,000 for one qualifying person or $6,000 for two or more qualifying persons.

ALERT

Beginning in 2003, the maximum expenses for the credit increased to $3,000 for one qualifying person and $6,000 for two or more qualifying persons.

Example 4

Mark earned $14,000. His wife, Evelyn, earned $5,600. Day care expenses for their three-year-old daughter were $2,200. The maximum amount of qualifying child care expenses is $2,200. This is the lowest of:

- The lower paid spouse's earnings ($5,600),
- The amount actually paid ($2,200), and
- The overall limit for one qualifying person ($3,000).

Some taxpayers receive dependent care benefits from their employers. If so, the overall limit of $3,000/$6,000 is reduced, dollar for dollar, by any reimbursement excluded from the taxpayer's income. The amount of dependent care benefits received is shown in box 10 of Form W-2.

Example 5

Geraldine has one dependent child, Donald, who is 6 years old. She paid $2,900 in qualified expenses. Box 10 of Geraldine's Form W-2 shows she received $1,400 during the year from her employer's dependent care assistance program. Because she received dependent care benefits, Part III of Form 2441 must be completed before completing Part II.

Nonworking Spouse

Married taxpayers usually must both work in order to claim the credit. However, if a spouse is either a full-time student during any five months of the year, or is not capable of caring for himself or herself for some period during the year, a credit can still be claimed. To figure the credit, the earned income for each month the spouse is either a full-time student or disabled is considered to be at least:

ALERT

Beginning in 2003, the amount of earned income for the nonworking spouse increased to $250 with one qualifying person and $500 for two or more qualifying persons.

- $250 with one qualifying person in the home, or
- $500 with two or more qualifying persons in the home.

Example 6

Janice worked full time. Her husband, Ken, was a full-time student from January through May. Their son, Jason, was in daycare while Ken attended school. Ken's earned income for the time he attended school is considered to be $1,250 (5 months × $250).

Exercise 1

A. Karen earned $18,000. She paid $3,200 for child care expenses for her four-year-old daughter, Crystal. What is the maximum amount of child care expenses Karen can claim? ____________

____

B. Andrea is married to Bill. They have a seven-year-old son, Charles. Charles lived with Andrea for the entire year. Andrea paid all the expenses of keeping up the home for herself and Charles. Andrea also paid for before-school and after-school child care. Her total child care expenses were $1,800. Bill left the area 18 months ago. He did not live with Andrea at all during 2003, but he did send $1,200 in child support. Andrea and Bill will file separate returns. Andrea signed Form 8332 to allow Bill to claim the dependency exemption for Charles. Who can claim the credit for child and dependent care expenses?

____

C. Ellen is divorced. She has custody of her 12-year-old daughter, Terri. Terri takes care of herself after school. In the summer, Ellen spends $2,000 to send Terri to a two week long overnight camp. Are the camp expenses qualified expenses for the credit for child and dependent care credit? ________________________

____

FIGURING THE CREDIT

The credit is a percentage of qualifying expenses. For taxpayers with adjusted gross incomes of $15,000 or less, the credit is 35 percent of qualifying expenses. As adjusted gross income increases, the percentage decreases. The lowest percentage is 20 percent for an AGI equal to or greater than $43,000. There is no upper limitation on income for this credit. The tables on Schedule 2 (Form 1040A) and on Form 2441 show the percentage for each adjusted gross income bracket. After the credit is figured using Form 2441 or Schedule 2, it is reported on Form 1040, line 45, or Form 1040A, line 29.

ALERT ⚠

Beginning in 2003, the credit percentages increased and the maximum AGI amount that qualifies for the highest percentage increased to $15,000.

Example 7

David A. and Edith B. Fullerton are married and file a joint return. Last year, they paid $3,500 for the care of their son, Jonathan. The payment was made to Karen's Kiddie Care, 456 Chapman Avenue, Wilmington, DE 19850 (EIN 00-0009101). The $3,500 payment includes a $1,000 dependent care benefit Edith received from her employer. Edith earned $18,979 and David earned $22,450 last year. Their adjusted gross income is $39,429 and their tax liability is $2,492.

Exhibits 1 and 2 show the completed Form 2441 (Form 1040) for David and Edith.

Exhibit 1

Form **2441**

Department of the Treasury
Internal Revenue Service

Child and Dependent Care Expenses

▶ **Attach to Form 1040.**

▶ **See separate instructions.**

OMB No. 1545-0068

2003

Attachment
Sequence No. **21**

Name(s) shown on Form 1040: David A. and Edith B. Fullerton

Your social security number: 000 00 2935

Before you begin: You need to understand the following terms. See **Definitions** on page 1 of the instructions.

- **Dependent Care Benefits**
- **Qualifying Person(s)**
- **Qualified Expenses**
- **Earned Income**

Part I Persons or Organizations Who Provided the Care—You **must** complete this part.

(If you need more space, use the bottom of page 2.)

1 **(a)** Care provider's name	**(b)** Address (number, street, apt. no., city, state, and ZIP code)	**(c)** Identifying number (SSN or EIN)	**(d)** Amount paid (see instructions)
Karen's Kiddie Car	456 Chapman Ave Wilmington DE 19850	00-0009101	3,500

Did you receive **dependent care benefits?**

No ▶ Complete only Part II below.

Yes ▶ Complete Part III on the back next.

Caution. If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040, line 59.

Part II Credit for Child and Dependent Care Expenses

2 Information about your **qualifying person(s).** If you have more than two qualifying persons, see the instructions.

(a) Qualifying person's name — First	Last	**(b)** Qualifying person's social security number	**(c) Qualified expenses** you incurred and paid in 2003 for the person listed in column (a)
Jonathan	Fullerton	000 00 2194	2,500

3	Add the amounts in column (c) of line 2. **Do not** enter more than $3,000 for one qualifying person or $6,000 for two or more persons. If you completed Part III, enter the amount from line 26	3	2,000
4	Enter your **earned income**	4	22,450
5	If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions); **all others,** enter the amount from line 4	5	18,979
6	Enter the **smallest** of line 3, 4, or 5	6	2,000
7	Enter the amount from Form 1040, line 35 — 7 — 39,429		
8	Enter on line 8 the decimal amount shown below that applies to the amount on line 7	8	× .22

If line 7 is: Over—But not over	Decimal amount is	If line 7 is: Over—But not over	Decimal amount is
$0—15,000	.35	$29,000—31,000	.27
15,000—17,000	.34	31,000—33,000	.26
17,000—19,000	.33	33,000—35,000	.25
19,000—21,000	.32	35,000—37,000	.24
21,000—23,000	.31	37,000—39,000	.23
23,000—25,000	.30	39,000—41,000	.22
25,000—27,000	.29	41,000—43,000	.21
27,000—29,000	.28	43,000—No limit	.20

9	Multiply line 6 by the decimal amount on line 8. If you paid 2002 expenses in 2003, see the instructions	9	440
10	Enter the amount from Form 1040, line 43, minus any amount on Form 1040, line 44	10	2,492
11	**Credit for child and dependent care expenses.** Enter the **smaller** of line 9 or line 10 here and on Form 1040, line 45	11	440

For Paperwork Reduction Act Notice, see page 3 of the instructions. Cat. No. 11862M Form **2441** (2003)

Exhibit 2

The Fullerton's Form 2441, page 2

Form 2441 (2003) Page **2**

Part III Dependent Care Benefits

12 Enter the total amount of **dependent care benefits** you received for 2003. This amount should be shown in box 10 of your W-2 form(s). **Do not** include amounts that were reported to you as wages in box 1 of Form(s) W-2 . . . . **12** 1,000

13 Enter the amount forfeited, if any (see the instructions) **13** 0

14 Subtract line 13 from line 12 . . . . **14** 1,000

15 Enter the total amount of **qualified expenses** incurred in 2003 for the care of the **qualifying person(s)** . . . **15** 3,500

16 Enter the **smaller** of line 14 or 15 . . . . **16** 1,000

17 Enter your **earned income** **17** 22,450

18 Enter the amount shown below that applies to you.

- If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions for line 5).
- If married filing separately, see the instructions for the amount to enter.
- All others, enter the amount from line 17.

. . . . . **18** 18,979

19 Enter the **smallest** of line 16, 17, or 18 . . . . . . **19** 1,000

20 **Excluded benefits.** Enter here the **smaller** of the following:

- The amount from line 19 or
- $5,000 ($2,500 if married filing separately **and** you were required to enter your spouse's earned income on line 18).

. . . . **20** 1,000

21 **Taxable benefits.** Subtract line 20 from line 14. Also, include this amount on Form 1040, line 7. On the dotted line next to line 7, enter "DCB" **21** 0

To claim the child and dependent care credit, complete lines 22–26 below.

22 Enter $3,000 ($6,000 if two or more qualifying persons) **22** 3,000

23 Enter the amount from line 20 . . . . **23** 1,000

24 Subtract line 23 from line 22. If zero or less, **stop.** You cannot take the credit. **Exception.** If you paid 2002 expenses in 2003, see the instructions for line 9 . . . . **24** 2,000

25 Complete line 2 on the front of this form. **Do not** include in column (c) any benefits shown on line 20 above. Then, add the amounts in column (c) and enter the total here . . . **25** 2,500

26 Enter the **smaller** of line 24 or 25. Also, enter this amount on line 3 on the front of this form and complete lines 4–11 . . . . **26** 2,000

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Form **2441** (2003)

Exercise 2

Sam L. (000-00-9832) and Sue D. Windham are married and will file a joint return. They have two dependent children whom they send to day care to allow both parents to work. Sam's earned income is $18,500 and Sue's earned income is $19,350. Their AGI (Form 1040, line 35) is $37,850 and their tax liability (Form 1040, line 43) is $1,723.

During 2003, they paid The Learning Center day care (496 Irvine Road, Newark, NJ 07102, EIN 11-0007965) $5,450 to care for their children. The Windhams paid $2,950 of the total and Sue's employer paid $2,500 under a dependent care benefits program. The $2,500 is in Box 10 of Sue's Form W-2.

The children and the amounts paid for day care are as follows:

Doug	SSN 000-00-2387	$3,000	$1,250 dependent care benefit
Sally	SSN 000-00-4923	$2,450	$1,250 dependent care benefit

Complete their Form 1040, Form 2441 (Exhibits 3 and 4).

TAXWISE HINTS

Use the flow charts in Publication 4012, VITA/TCE Resource Guide, to determine credit eligibility. For each qualifying child, check the "DC" box on the Main Information Sheet, Dependents/Non-dependents box. TaxWise will add a Form 2441 or Schedule 2 to the forms tree. Complete all entries annotated in red. TaxWise will then calculate any exclusion amounts, calculate the credit, complete the form and insert the credit amount on Form 1040 or Form 1040A.

▶▶ SUMMING UP THIS LESSON ◀◀

The Credit for Child and Dependent Care Expenses is a non-refundable credit which allows a taxpayer to reduce their tax liability for a portion of the expenses.

Beginning in 2003, the maximum expense amount increased to $3,000 for one qualifying person and $6,000 for two or more qualifying persons.

The maximum credit rate increased from 30% to 35%.

A taxpayer must satisfy the six tests to qualify for the credit. The tests are the qualifying person test; the keeping up a home test; the earned income test; the work-related expense test; the joint return test; and the provider identification test.

The credit is calculated and reported on Form 2441 (Form 1040) or Schedule 2 (Form 1040A).

Complete this form.
Exhibit 3 Exercise 2

Form 2441, page 1

Form **2441**

Department of the Treasury
Internal Revenue Service

Child and Dependent Care Expenses

► **Attach to Form 1040.**
► **See separate instructions.**

OMB No. 1545-0068
2003
Attachment
Sequence No. **21**

Name(s) shown on Form 1040

Your social security number

Before you begin: You need to understand the following terms. See **Definitions** on page 1 of the instructions.

- **Dependent Care Benefits**
- **Qualifying Person(s)**
- **Qualified Expenses**
- **Earned Income**

Part I Persons or Organizations Who Provided the Care—You **must** complete this part.

(If you need more space, use the bottom of page 2.)

1 **(a)** Care provider's name	**(b)** Address (number, street, apt. no., city, state, and ZIP code)	**(c)** Identifying number (SSN or EIN)	**(d)** Amount paid (see instructions)

Did you receive **dependent care benefits?**

No ► Complete only Part II below.

Yes ► Complete Part III on the back next.

Caution. If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040, line 59.

Part II Credit for Child and Dependent Care Expenses

2 Information about your **qualifying person(s).** If you have more than two qualifying persons, see the instructions.

(a) Qualifying person's name First	Last	**(b)** Qualifying person's social security number	**(c) Qualified expenses** you incurred and paid in 2003 for the person listed in column (a)

3 Add the amounts in column (c) of line 2. **Do not** enter more than $3,000 for one qualifying person or $6,000 for two or more persons. If you completed Part III, enter the amount from line 26 . . . . **3**

4 Enter your **earned income** **4**

5 If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions); **all others,** enter the amount from line 4 . . . **5**

6 Enter the **smallest** of line 3, 4, or 5 . . . . **6**

7 Enter the amount from Form 1040, line 35 . . . . . **7**

8 Enter on line 8 the decimal amount shown below that applies to the amount on line 7

If line 7 is: Over	**But not over**	**Decimal amount is**	**If line 7 is: Over**	**But not over**	**Decimal amount is**
$0—	15,000	.35	$29,000—	31,000	.27
15,000—	17,000	.34	31,000—	33,000	.26
17,000—	19,000	.33	33,000—	35,000	.25
19,000—	21,000	.32	35,000—	37,000	.24
21,000—	23,000	.31	37,000—	39,000	.23
23,000—	25,000	.30	39,000—	41,000	.22
25,000—	27,000	.29	41,000—	43,000	.21
27,000—	29,000	.28	43,000—	No limit	.20

8 × .

9 Multiply line 6 by the decimal amount on line 8. If you paid 2002 expenses in 2003, see the instructions **9**

10 Enter the amount from Form 1040, line 43, minus any amount on Form 1040, line 44 . **10**

11 **Credit for child and dependent care expenses.** Enter the **smaller** of line 9 or line 10 here and on Form 1040, line 45 . . . . **11**

For Paperwork Reduction Act Notice, see page 3 of the instructions. Cat. No. 11862M Form **2441** (2003)

Form 2441 (2003) Page **2**

Part III Dependent Care Benefits

12 Enter the total amount of **dependent care benefits** you received for 2003. This amount should be shown in box 10 of your W-2 form(s). **Do not** include amounts that were reported to you as wages in box 1 of Form(s) W-2 . . . . **12**

13 Enter the amount forfeited, if any (see the instructions) **13**

14 Subtract line 13 from line 12 . . . . **14**

15 Enter the total amount of **qualified expenses** incurred in 2003 for the care of the **qualifying person(s)** . . . **15**

16 Enter the **smaller** of line 14 or 15 . . . . **16**

17 Enter your **earned income** **17**

18 Enter the amount shown below that applies to you.

- If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions for line 5).
- If married filing separately, see the instructions for the amount to enter.
- All others, enter the amount from line 17.

. . . . . **18**

19 Enter the **smallest** of line 16, 17, or 18 . . . . . . **19**

20 **Excluded benefits.** Enter here the **smaller** of the following:

- The amount from line 19 or
- $5,000 ($2,500 if married filing separately **and** you were required to enter your spouse's earned income on line 18).

. . . . **20**

21 **Taxable benefits.** Subtract line 20 from line 14. Also, include this amount on Form 1040, line 7. On the dotted line next to line 7, enter "DCB" **21**

To claim the child and dependent care credit, complete lines 22–26 below.

22 Enter $3,000 ($6,000 if two or more qualifying persons) **22**

23 Enter the amount from line 20 . . . . **23**

24 Subtract line 23 from line 22. If zero or less, **stop.** You cannot take the credit. **Exception.** If you paid 2002 expenses in 2003, see the instructions for line 9 . . . . **24**

25 Complete line 2 on the front of this form. **Do not** include in column (c) any benefits shown on line 20 above. Then, add the amounts in column (c) and enter the total here . . . **25**

26 Enter the **smaller** of line 24 or 25. Also, enter this amount on line 3 on the front of this form and complete lines 4–11 . . . . **26**

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Form **2441** (2003)

Exercise 1

(A) $3,000, which is the lowest of: earned income ($18,000); the amount actually paid ($3,200); and the limit of one qualifying person ($3,000).

(B) Andrea. Even though she is filing a separate tax return, she is eligible for the credit because she signed a Form 8332 to allow her husband to claim the depenency exemption..

(C) No.

Exhibit 5 Exercise 2 The Windham's Form 2441, page 1

Form **2441**

Department of the Treasury
Internal Revenue Service

Child and Dependent Care Expenses

▶ Attach to Form 1040.

▶ See separate instructions.

OMB No. 1545-0068
2003
Attachment Sequence No. 21

Name(s) shown on Form 1040: Sam L. and Sue D. Windham

Your social security number: 000 00 9832

Before you begin: You need to understand the following terms. See **Definitions** on page 1 of the instructions.

- **Dependent Care Benefits**
- **Qualifying Person(s)**
- **Qualified Expenses**
- **Earned Income**

Part I **Persons or Organizations Who Provided the Care—**You **must** complete this part. (If you need more space, use the bottom of page 2.)

1 **(a)** Care provider's name	**(b)** Address (number, street, apt. no., city, state, and ZIP code)	**(c)** Identifying number (SSN or EIN)	**(d)** Amount paid (see instructions)
The Learning Cente	496 Irvine Rd Newark NJ 07102	11-0007965	5,450

Did you receive dependent care benefits?
No ▶ Complete only Part II below.
Yes ▶ Complete Part III on the back next.

Caution. If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040, line 59.

Part II **Credit for Child and Dependent Care Expenses**

2 Information about your **qualifying person(s).** If you have more than two qualifying persons, see the instructions.

(a) Qualifying person's name — First	Last	**(b)** Qualifying person's social security number	**(c) Qualified expenses** you incurred and paid in 2003 for the person listed in column (a)
Doug	Windham	000 00 2387	1,750
Sally	Windham	000 00 4923	1,200

3 Add the amounts in column (c) of line 2. **Do not** enter more than $3,000 for one qualifying person or $6,000 for two or more persons. If you completed Part III, enter the amount from line 26 . . . . . 3 2,950

4 Enter your **earned income** 4 18,500

5 If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions); **all others,** enter the amount from line 4 . . . 5 19,350

6 Enter the **smallest** of line 3, 4, or 5 . . . . . 6 2,950

7 Enter the amount from Form 1040, line 35 . . . . 7 37,850

8 Enter on line 8 the decimal amount shown below that applies to the amount on line 7

If line 7 is: Over	But not over	Decimal amount is	If line 7 is: Over	But not over	Decimal amount is
$0—	15,000	.35	$29,000—	31,000	.27
15,000—	17,000	.34	31,000—	33,000	.26
17,000—	19,000	.33	33,000—	35,000	.25
19,000—	21,000	.32	35,000—	37,000	.24
21,000—	23,000	.31	37,000—	39,000	.23
23,000—	25,000	.30	39,000—	41,000	.22
25,000—	27,000	.29	41,000—	43,000	.21
27,000—	29,000	.28	43,000—	No limit	.20

8 × .23

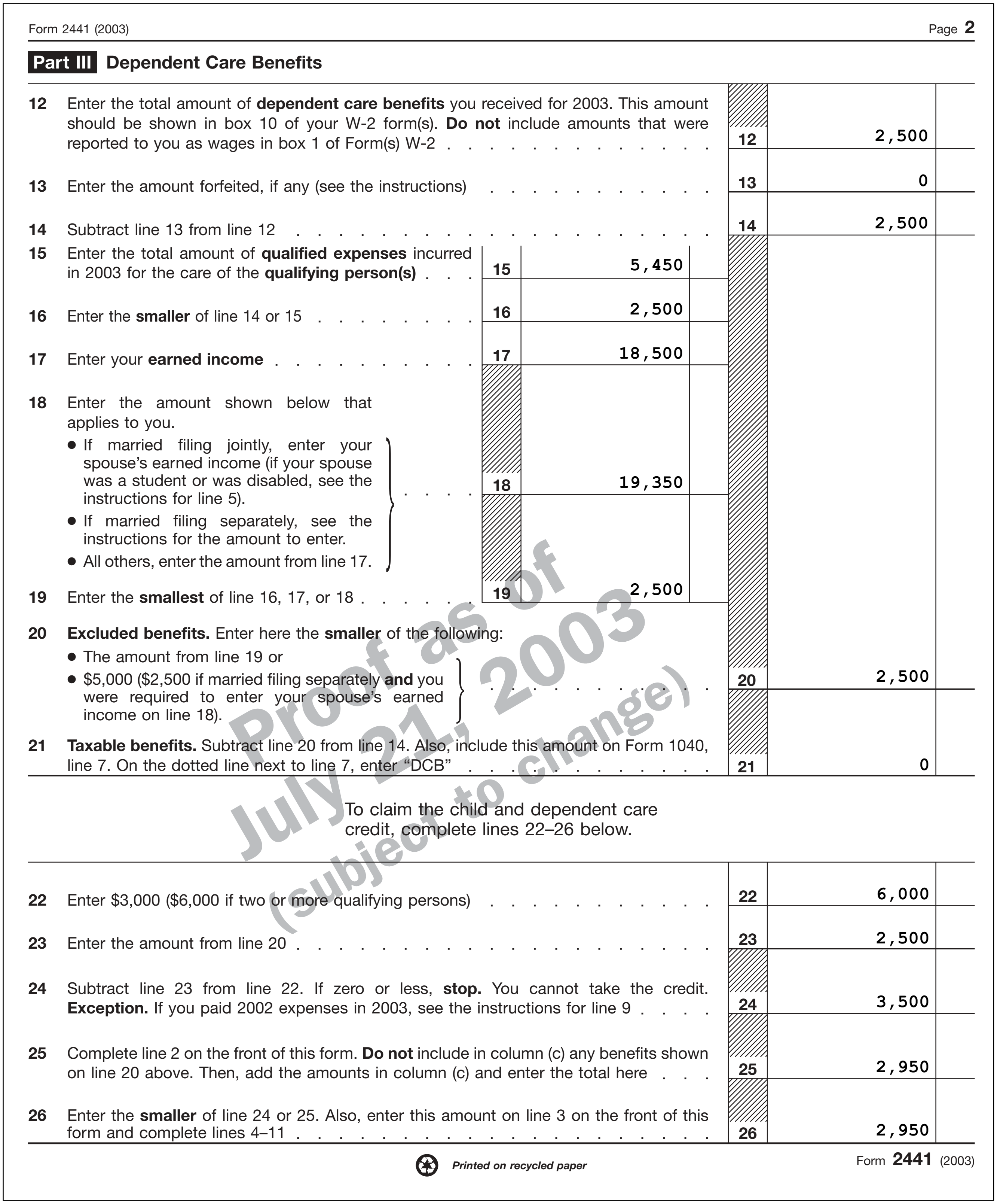
9 Multiply line 6 by the decimal amount on line 8. If you paid 2002 expenses in 2003, see the instructions 9 679

10 Enter the amount from Form 1040, line 43, minus any amount on Form 1040, line 44 . 10 1,723

11 **Credit for child and dependent care expenses.** Enter the **smaller** of line 9 or line 10 here and on Form 1040, line 45 . . . . . 11 679

For Paperwork Reduction Act Notice, see page 3 of the instructions. Cat. No. 11862M Form **2441** (2003)

Exhibit 6 Exercise 2 The Windham's Form 2441, page 2



Form 2441 (2003) Page **2**

Part III Dependent Care Benefits

12	Enter the total amount of **dependent care benefits** you received for 2003. This amount should be shown in box 10 of your W-2 form(s). **Do not** include amounts that were reported to you as wages in box 1 of Form(s) W-2			12	2,500
13	Enter the amount forfeited, if any (see the instructions)			13	0
14	Subtract line 13 from line 12			14	2,500
15	Enter the total amount of **qualified expenses** incurred in 2003 for the care of the **qualifying person(s)** . . .	15	5,450		
16	Enter the **smaller** of line 14 or 15	16	2,500		
17	Enter your **earned income**	17	18,500		
18	Enter the amount shown below that applies to you. • If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions for line 5). • If married filing separately, see the instructions for the amount to enter. • All others, enter the amount from line 17.	18	19,350		
19	Enter the **smallest** of line 16, 17, or 18	19	2,500		
20	**Excluded benefits.** Enter here the **smaller** of the following: • The amount from line 19 or • $5,000 ($2,500 if married filing separately **and** you were required to enter your spouse's earned income on line 18).			20	2,500
21	**Taxable benefits.** Subtract line 20 from line 14. Also, include this amount on Form 1040, line 7. On the dotted line next to line 7, enter "DCB"			21	0

To claim the child and dependent care credit, complete lines 22–26 below.

22	Enter $3,000 ($6,000 if two or more qualifying persons)	22	6,000
23	Enter the amount from line 20	23	2,500
24	Subtract line 23 from line 22. If zero or less, **stop.** You cannot take the credit. **Exception.** If you paid 2002 expenses in 2003, see the instructions for line 9	24	3,500
25	Complete line 2 on the front of this form. **Do not** include in column (c) any benefits shown on line 20 above. Then, add the amounts in column (c) and enter the total here . . .	25	2,950
26	Enter the **smaller** of line 24 or 25. Also, enter this amount on line 3 on the front of this form and complete lines 4–11	26	2,950

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Form **2441** (2003)

STUDENT NOTES

EDUCATION CREDITS

Lesson 8

INTRODUCTION AND OBJECTIVES

For tax year 2003, there are nine different tax benefits for higher education. Some of these benefits are not taxed (i.e., Coverdell education savings account, qualified tuition program, early IRA withdrawals, employer provided educational assistance and educations savings bond program). The student loan interest deduction and tuition and fees deduction were covered in Lesson 3, Adjustments. In this lesson you will learn about the two education credits: Hope credit and the lifetime learning credit.

After completing this lesson, you should be able to:

- Calculate the Hope credit on Form 8863.
- Calculate the lifetime learning credit on Form 8863.

GENERAL REQUIREMENTS

Taxpayers can claim the **Hope Scholarship Credit** (Hope credit) and the **Lifetime Learning Credit** for higher education expenses paid in 2003 for an eligible student. Both credits are **nonrefundable** and can be claimed on either Form 1040 or Form 1040A. These two credits are also called ***education credits.***

To claim either of the education credits the taxpayer must:

- File using any filing status other than married filing separately,
- Meet all of the general requirements,
- Meet all of the specific requirements for the individual credit, and
- Meet the income limits.

The general requirements provide that the taxpayer must have incurred ***qualified expenses*** for an ***eligible student*** to attend ***an eligible educational institution*** during the tax year.

Qualified Expenses

The Hope credit and the lifetime learning credit are based on qualified tuition and related expenses the taxpayer pays for himself or herself, the taxpayer's spouse, or dependents the taxpayer claims on his or her tax return.

Qualified tuition and related expenses are tuition and fees required for enrollment or attendance at an eligible educational institution and generally ***include fees for:***

- Course-related books, supplies and equipment, and
- Student activities.

The fees must be paid ***to the institution*** as a condition of enrollment or attendance.

Qualified tuition and related expenses ***do not include*** the cost of:

- Insurance,
- Medical expenses (including student health fees),
- Room and board,
- Transportation or similar personal, living, or family expenses, ***even if*** the fees must be paid to the institution as a condition of enrollment or attendance.

When considering qualified tuition and related expenses for the Hope credit, the cost of courses for athletics, sports, games, hobbies or noncredit courses are not used unless the course is part of the student's degree program. However, when computing the qualified tuition and related expenses for the lifetime learning credit, these types of expenses are includible if the course was taken to acquire or improve the job skills of the student.

If a taxpayer ***prepaid*** qualified tuition and related expenses for an academic period that begins in the first three months of the following year, he or she can use the prepaid amount in figuring the credit.

Example 1

Thomas pays $1,500 in December 2003 for qualified tuition for the winter semester that begins in January 2004. He can use the $1,500 paid in December of 2003 to compute his credit for 2003.

Payments with borrowed funds.

Taxpayers can claim the Hope credit and lifetime learning credit for qualified tuition and related expenses paid with the proceeds of a loan. Use the expenses to figure the credit for the year in which the expenses are paid, not the year in which the loan is repaid.

Eligible Student

The taxpayer, the taxpayer's spouse, or the taxpayer's dependent (for whom the taxpayer claims a dependency exemption) can be an eligible student.

In addition, for the Hope credit, the student must be:

- Enrolled in a program that leads to a degree, certificate or other recognized educational credential.
- Taking at least one-half of the normal full-time workload for his or her course of study for at least one academic period beginning during the calendar year.
- Enrolled for one of the first two years of his or her postsecondary education.
- Free of any felony conviction for possessing or distributing a controlled substance.

WHO CAN CLAIM EXPENSES?

The taxpayer must claim a dependent exemption for the eligible student in order to claim an education credit. Either the taxpayer or the dependent, but not both, can claim an education credit for that dependent's higher education expenses.

If the taxpayer...	Then only...
Claims an exemption on the tax return for a dependent who is an eligible student	The taxpayer can claim the Hope or lifetime learning credit based on that student's expenses. The student cannot claim the credit.
Does not claim an exemption for a dependent who is an eligible student (even if entitled to the exemption)	The student can claim the Hope or lifetime learning credit. The taxpayer cannot claim the student's expenses.

If someone other than the taxpayer, the taxpayer's spouse, or the dependent (such as a relative or former spouse) makes a payment directly to the eligible educational institution to pay for qualified tuition and related expenses, the student is treated as receiving the payment from the other person. The student is considered to have paid the qualified tuition and related expenses to the eligible institution. If the taxpayer claims an exemption for the student, the taxpayer is considered to have paid the expenses. If the taxpayer does not claim a dependent exemption for the student, the student may claim the credit.

Example 2

Mary Birch paid her grandson, Todd's, tuition for 2003 directly to the university. For purposes of claiming the Hope credit, her grandson is treated as receiving the money as a gift and in turn paying his qualified tuition and related expenses himself. Unless an exemption for Todd is claimed on someone else's return, only Todd can use the payment to claim the Hope credit. If Todd's parents claim his exemption, they may be able to use the expenses to claim the Hope credit. If anyone else claims an exemption for Todd, Todd cannot claim a Hope credit.

Eligible Educational Institution

An eligible educational institution is generally any accredited public, nonprofit, or proprietary (private) postsecondary institution eligible to participate in the student aid programs administered by the Department of Education. Most universities and colleges, including community colleges, meet these requirements.

Income Requirements

The Hope credit and the lifetime learning credit are phased out (gradually reduced) if the taxpayer's modified AGI is over $41,000 (over $83,000 if married filing jointly). If a taxpayer's modified AGI is $51,000 or more ($103,000 or more if married filing jointly), no credit is allowed. Education credits are not allowed to persons who are married filing separately.

Modified Adjusted Gross Income (MAGI)

For most taxpayers, modified adjusted gross income (MAGI) is adjusted gross income (AGI) as figured on their federal income tax return. MAGI when using Form 1040A is the AGI on line 22 of that form. MAGI when using Form 1040 is the AGI on line 35 of that form, modified by adding back any:

1) Foreign earned income exclusion
2) Foreign housing exclusion
3) Exclusion of income for bona fide residents of America Samoa, and
4) Exclusion of income from Puerto Rico.

HOPE CREDIT

A Hope credit can be claimed for ***each*** eligible student that is claimed on the taxpayer's return.

Credit Amounts

The Hope credit is figured on Form 8863, *Education Credits (Hope and Lifetime Learning Credits)*. The maximum Hope credit is $1,500 ***per student*** for each of the first two taxable years of his or her postsecondary education. For each eligible student who qualifies for the Hope credit:

- If the expenses are $1,000 or less, the credit is the amount of the expenses,
- If the expenses are $2,000 or more, the credit is $1,500, and
- If the expenses are between $1,000 and $2,000, the credit is $1,000 plus one-half of the expenses over $1,000. For example, if the expenses are $1,500, the credit is $1,250 ($1,000 plus one-half of $500).

Example 3

Sue and Ted paid $7,000 in qualified tuition and fees for their daughter to attend the local university. They determined it would be more beneficial for them to take the Hope Credit rather than the Tuition and Fees Deduction. Their Form 8863 is shown in Exhibit 1.

Exhibit 1

Form **8863**

Department of the Treasury
Internal Revenue Service

Education Credits (Hope and Lifetime Learning Credits)

► See instructions.
► Attach to Form 1040 or Form 1040A.

OMB No. 1545-1618
2003
Attachment Sequence No. 50

Name(s) shown on return: Sue and Ted Green

Your social security number: 000 00 9876

Caution: *You **cannot** take both an education credit and the tuition and fees deduction (Form 1040, line 26, or Form 1040A, line 19) for the **same student** in the same year.*

Part I Hope Credit. Caution: *You cannot take the Hope credit for more than **2** tax years for the **same** student.*

1

(a) Student's name (as shown on page 1 of your tax return) First name / Last name	**(b)** Student's social security number (as shown on page 1 of your tax return)	**(c)** Qualified expenses (see instructions). **Do not** enter more than $2,000 for each student).	**(d)** Enter the **smaller** of the amount in column (c) or $1,000	**(e)** Subtract column (d) from column (c)	**(f)** Enter one-half of the amount in column (e)
Mary Green	000 00 1234	2,000	1,000	1,000	500

2	Add the amounts in columns (d) and (f)	2: 1,000	500
3	Tentative Hope credit. Add the amounts on line 2, columns (d) and (f). If you are claiming the lifetime learning credit for another student, go to Part II; otherwise, go to Part III ►	3	1,500

Part II Lifetime Learning Credit

4

Caution: *You cannot take the Hope credit and the lifetime learning credit for the same student in the same year.*

(a) Student's name (as shown on page 1 of your tax return) First name	Last name	**(b)** Student's social security number (as shown on page 1 of your tax return)	**(c)** Qualified expenses (see instructions)

5	Add the amounts on line 4, column (c), and enter the total	5	
6	Enter the **smaller** of line 5 or $10,000	6	
7	Tentative lifetime learning credit. Multiply line 6 by 20% (.20) and go to Part III . . ►	7	

Part III Allowable Education Credits

8	Tentative education credits. Add lines 3 and 7			8	1,500
9	Enter: $103,000 if married filing jointly; $51,000 if single, head of household, or qualifying widow(er)	9	103,000		
10	Enter the amount from Form 1040, line 35 *, or Form 1040A, line 22 .	10	35,000		
11	Subtract line 10 from line 9. If zero or less, **stop;** you cannot take any education credits	11	68,000		
12	Enter: $20,000 if married filing jointly; $10,000 if single, head of household, or qualifying widow(er)	12	20,000		
13	If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as a decimal (rounded to at least three places)			13	× .
14	Multiply line 8 by line 13 . . . . ►			14	1,500
15	Enter the amount from Form 1040, line 43, or Form 1040A, line 28			15	3,349
16	Enter the total, if any, of your credits from Form 1040, lines 44 through 46, or Form 1040A, lines 29 and 30			16	0
17	Subtract line 16 from line 15. If zero or less, **stop;** you cannot take any education credits . . . . ►			17	3,349
18	**Education credits.** Enter the **smaller** of line 14 or line 17 here and on Form 1040, line 47, or Form 1040A, line 31 . . . . ►			18	1,500

*See Pub. 970 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.

For Paperwork Reduction Act Notice, see page 3. Cat. No. 25379M Form **8863** (2003)

LIFETIME LEARNING CREDIT

The lifetime learning credit is based on the total qualified education expenses paid by the taxpayer and not on the number of eligible students. Education expenses are qualified for the lifetime learning credit if they are:

- For courses taken as part of a postsecondary degree program, or
- For courses that are not part of a postsecondary degree program, but that are taken to improve or acquire job skills.

Example 4

Samantha, a professional photographer, enrolls in an advanced photography course at a local community college. Although the course is not part of a degree program, she enrolls in it to improve her job skills. The course fee paid by Samantha is considered qualified tuition for the purpose of claiming the lifetime learning credit.

Example 5

Cleve, an engineer, plans to vacation in Europe next year. In preparation for the trip, he enrolls in a noncredit photography class at a local community college. Because Cleve is not taking the course as part of a degree program or to acquire or improve his job skills, the cost of the course is not a qualifying expense for claiming the lifetime learning credit.

Credit amounts

The lifetime learning credit is also figured on Form 8863. The maximum amount of the credit is $2,000 per taxpayer for all eligible students. The credit amount is figured by multiplying total qualified educational expenses, up to $10,000, by 20%.

ALERT ⚠

The maximum lifetime learning credit increased from $1,000 to $2,000 for 2003.

Example 6

Judy Green is single and took a course at the local college to recertify her to teach in public schools. Her qualified tuition expenses were $500. She chooses to take the lifetime learning credit rather than the Tuition and Fees Deduction. Her completed Form 8863 is shown in Exhibit 2.

Exhibit 2

Judy's Form 8863

Form **8863**

Department of the Treasury
Internal Revenue Service

Education Credits (Hope and Lifetime Learning Credits)

► **See instructions.**
► **Attach to Form 1040 or Form 1040A.**

OMB No. 1545-1618

2003

Attachment
Sequence No. **50**

Name(s) shown on return: Judy Green

Your social security number: 000 00 2586

Caution: *You* ***cannot*** *take both an education credit and the tuition and fees deduction (Form 1040, line 26, or Form 1040A, line 19) for the* ***same student*** *in the same year.*

Part I Hope Credit. Caution: *You cannot take the Hope credit for more than* 2 *tax years for the* same *student.*

1	**(a)** Student's name (as shown on page 1 of your tax return) First name Last name	**(b)** Student's social security number (as shown on page 1 of your tax return)	**(c)** Qualified expenses (see instructions). **Do not** enter more than $2,000 for each student).	**(d)** Enter the **smaller** of the amount in column (c) or $1,000	**(e)** Subtract column (d) from column (c)	**(f)** Enter one-half of the amount in column (e)
2	Add the amounts in columns (d) and (f)		**2**		▨	

3 Tentative Hope credit. Add the amounts on line 2, columns (d) and (f). If you are claiming the lifetime learning credit for another student, go to Part II; otherwise, go to Part III ► **3**

Part II Lifetime Learning Credit

4

Caution: *You cannot take the Hope credit and the lifetime learning credit for the same student in the same year.*

(a) Student's name (as shown on page 1 of your tax return) First name	Last name	**(b)** Student's social security number (as shown on page 1 of your tax return)	**(c)** Qualified expenses (see instructions)
Judy	Green	000 00 2586	500

5	Add the amounts on line 4, column (c), and enter the total	**5**	500
6	Enter the **smaller** of line 5 or $10,000	**6**	500
7	Tentative lifetime learning credit. Multiply line 6 by 20% (.20) and go to Part III . . ►	**7**	100

Part III Allowable Education Credits

8	Tentative education credits. Add lines 3 and 7			**8**	100
9	Enter: $103,000 if married filing jointly; $51,000 if single, head of household, or qualifying widow(er)	**9**	51,000		
10	Enter the amount from Form 1040, line 35 *, or Form 1040A, line 22 .	**10**	29,524		
11	Subtract line 10 from line 9. If zero or less, **stop;** you cannot take any education credits	**11**	21,476		
12	Enter: $20,000 if married filing jointly; $10,000 if single, head of household, or qualifying widow(er)	**12**	10,000		
13	If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as a decimal (rounded to at least three places)			**13**	× .
14	Multiply line 8 by line 13 . . . . ►			**14**	100
15	Enter the amount from Form 1040, line 43, or Form 1040A, line 28			**15**	1,701
16	Enter the total, if any, of your credits from Form 1040, lines 44 through 46, or Form 1040A, lines 29 and 30			**16**	0
17	Subtract line 16 from line 15. If zero or less, **stop;** you cannot take any education credits . . . . ►			**17**	1,701
18	**Education credits.** Enter the **smaller** of line 14 or line 17 here and on Form 1040, line 47, or Form 1040A, line 31 . . . . ►			**18**	100

*See Pub. 970 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.

For Paperwork Reduction Act Notice, see page 3. Cat. No. 25379M Form **8863** (2003)

NO DOUBLE BENEFITS

A taxpayer cannot:

- Deduct higher education expenses and claim a credit based on those same expenses,
- Claim a Hope credit and a lifetime learning credit based on the same qualified education expenses, or
- Claim a credit based on expenses paid with tax-free scholarship, grant, employer-provided educational assistance or a distribution from a Coverdell ESA.

However, a taxpayer can claim a credit based on expenses paid with the eligible student's earnings, loans, gifts, inheritances, or personal savings.

An eligible student cannot claim an education credit if he or she is claimed as a dependent on another taxpayer's tax return. Any amounts paid by the student are considered paid by the taxpayer who claims the student as a dependent.

The following table summarizes the differences between the credits.

Table: Comparison of Education Credits

Lifetime Learning Credit	Hope Scholarship Credit
per taxpayer credit	per eligible student credit
$2,000 limit per taxpayer	$1,500 limit per eligible student
available for an unlimited number of years	available ONLY for the first two years of postsecondary education
credit available for courses taken as part of a postsecondary degree program or to acquire or improve job skills (including non-credit courses and graduate level work)	must be pursuing a degree or other educational credential
available for one or more courses	must take at least 1/2 of the normal full-time workload for one academic period
no other restrictions	felony drug conviction restriction

Adjustments to Qualified Expenses

Tax-free educational assistance can include the following:

- Scholarships,
- Pell grants,
- Employer-provided educational assistance,
- Veteran's educational assistance, and

- Any other nontaxable payments (other than gifts, bequests, or inheritances) received for education expenses.

If the taxpayer paid qualified tuition expenses with these tax-free funds, a credit cannot be claimed for these amounts. Qualified expenses must be reduced by the amount of any tax-free educational assistance received.

Example 3

In 2003, Jackie paid $3,000 for tuition and $5,000 for room and board at her local university. To help pay these costs, she was awarded a $2,000 scholarship and a $4,000 student loan.

The scholarship is a qualified scholarship that is excludable from Jackie's income. For purposes of the education credit, she must first use the scholarship to reduce her tuition (her only qualified expense). The student loan is not considered tax-free educational assistance so she does not use it to reduce the qualified expenses. Therefore, Jackie is treated as having paid only $1,000 in qualified expenses ($3,000 tuition - $2,000 scholarship).

Refunds. Qualified tuition and related expenses do not include expenses for which the taxpayer received a refund. If the refund or tax-free assistance is received in the same year in which the expenses were paid or in the following year before the tax return is filed, reduce the qualified expenses by the amount received and figure the education credits using the reduced amount of qualified expenses.

If the refund or tax-free assistance is received after the tax return is filed for the year in which the expenses were paid, figure the amount by which the education credits would have been reduced if the refund or tax-free assistance had been received in the year for which the education credits were claimed. Include that amount as an additional tax for the year the refund or tax-free assistance was received. Enter the amount and "ECR" on line 42.

Example 4

Sally paid $2,250 tuition on December 26, 2002, for her daughter who began college on January 16, 2003. She filed her 2002 tax return on February 12, 2003, and claimed a Hope credit of $1,500. After Sally filed her return, her daughter dropped two courses but maintained one-half of a full-time workload. Sally received a refund of $750. She must refigure her 2002 Hope credit using $1,500 of qualified expenses instead of $2,250. The refigured credit is $1,250. She must include the difference of $250 on line 41 of her 2003 Form 1040 and annotate next to the line: $250 ECR.

Exercise 1

Bruce (SSN 000-00-9541) and Toni Green are married and file a joint tax return. For 2003, their modified AGI ($65,500) is the same as their AGI. They completed Form 1040 through line 44. Their tax amount on Line 43 is $6,203. Toni is attending the local community college part time to earn credits toward an associate degree in nursing. She paid $2,500 in tuition and fees. Their son, Ben, is a full time freshman at the state university. Bruce and Toni paid $8,000 in tuition and fees for Ben in 2003. They choose to take the lifetime learning credit for Toni and the Hope credit for Ben. They will claim no other credits. Toni's SSN is 000-00-4651. Ben's SSN is 000-00-3945. Complete their Form 8863.

TAXWISE HINTS

To input qualified tuition expenses and prepare a Form 8863 using TaxWise, select Form 8863, enter the student's name in either the Hope credit section or the lifetime learning credit section and complete all the entries annotated in red. TaxWise will automatically complete the form and carry the mathematical calculations to the Form 1040.

▶ ▶ SUMMING UP THIS LESSON◀ ◀

The maximum credit amount for the lifetime learning credit for tax year 2003 increased to $2,000.

The Hope and lifetime learning credits are nonrefundable credits that allow a taxpayer to claim all or a portion of qualified tuition and related expenses paid for post-secondary education.

Generally, a taxpayer can claim the Hope or lifetime learning credit if they pay qualified tuition and related expenses of higher education for an eligible student who is either the taxpayer, the taxpayer's spouse, or a dependent whom the taxpayer can claim an exemption on his or her tax return.

A taxpayer cannot:

- ▶ Deduct higher education expenses on his or her tax return and also claim a Hope or lifetime learning credit based on those same expenses,
- ▶ Claim a Hope credit and a lifetime learning credit based on the same qualified education expenses, or
- ▶ Claim a credit based on expenses paid with tax-free scholarship, grant, or employer-provided educational assistance.

The Hope and lifetime learning credits are claimed on Form 8863 which can be filed with either Form 1040 or Form 1040A.

Exhibit 3

Bruce and Toni's Form 8863

Form **8863**

Department of the Treasury
Internal Revenue Service

Education Credits (Hope and Lifetime Learning Credits)

► **See instructions.**
► **Attach to Form 1040 or Form 1040A.**

OMB No. 1545-1618
2003
Attachment Sequence No. **50**

Name(s) shown on return

Your social security number

Caution: *You **cannot** take both an education credit and the tuition and fees deduction (Form 1040, line 26, or Form 1040A, line 19) for the **same student** in the same year.*

Part I Hope Credit. Caution: *You cannot take the Hope credit for more than **2** tax years for the **same** student.*

1	**(a)** Student's name (as shown on page 1 of your tax return) First name Last name	**(b)** Student's social security number (as shown on page 1 of your tax return)	**(c)** Qualified expenses (see instructions). **Do not** enter more than $2,000 for each student).	**(d)** Enter the **smaller** of the amount in column (c) or $1,000	**(e)** Subtract column (d) from column (c)	**(f)** Enter one-half of the amount in column (e)
2 Add the amounts in columns (d) and (f)			**2**		▨	

3 Tentative Hope credit. Add the amounts on line 2, columns (d) and (f). If you are claiming the lifetime learning credit for another student, go to Part II; otherwise, go to Part III ► **3**

Part II Lifetime Learning Credit

4

Caution: *You cannot take the Hope credit and the lifetime learning credit for the same student in the same year.*

(a) Student's name (as shown on page 1 of your tax return) First name Last name	**(b)** Student's social security number (as shown on page 1 of your tax return)	**(c)** Qualified expenses (see instructions)

5 Add the amounts on line 4, column (c), and enter the total **5**

6 Enter the **smaller** of line 5 or $10,000 . . . . **6**

7 Tentative lifetime learning credit. Multiply line 6 by 20% (.20) and go to Part III . . ► **7**

Part III Allowable Education Credits

8 Tentative education credits. Add lines 3 and 7 . . . . **8**

9 Enter: $103,000 if married filing jointly; $51,000 if single, head of household, or qualifying widow(er) **9**

10 Enter the amount from Form 1040, line 35 *, or Form 1040A, line 22 . **10**

11 Subtract line 10 from line 9. If zero or less, **stop;** you cannot take any education credits **11**

12 Enter: $20,000 if married filing jointly; $10,000 if single, head of household, or qualifying widow(er) **12**

13 If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as a decimal (rounded to at least three places) . . . . **13** × .

14 Multiply line 8 by line 13 . . . . ► **14**

15 Enter the amount from Form 1040, line 43, or Form 1040A, line 28 . . . . **15**

16 Enter the total, if any, of your credits from Form 1040, lines 44 through 46, or Form 1040A, lines 29 and 30 . . . . **16**

17 Subtract line 16 from line 15. If zero or less, **stop;** you cannot take any education credits . . . . ► **17**

18 **Education credits.** Enter the **smaller** of line 14 or line 17 here and on Form 1040, line 47, or Form 1040A, line 31 . . . . ► **18**

*See Pub. 970 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.

For Paperwork Reduction Act Notice, see page 3. Cat. No. 25379M Form **8863** (2003)

Exercise 1 Bruce and Toni's Form 8863

Form **8863**

Department of the Treasury
Internal Revenue Service

Education Credits (Hope and Lifetime Learning Credits)

► See instructions.
► Attach to Form 1040 or Form 1040A.

OMB No. 1545-1618
2003
Attachment Sequence No. **50**

Name(s) shown on return: Bruce and Toni Green
Your social security number: 000 00 9541

Caution: *You **cannot** take both an education credit and the tuition and fees deduction (Form 1040, line 26, or Form 1040A, line 19) for the **same student** in the same year.*

Part I **Hope Credit. Caution:** *You cannot take the Hope credit for more than **2** tax years for the **same** student.*

	(a) Student's name (as shown on page 1 of your tax return) First name / Last name	**(b)** Student's social security number (as shown on page 1 of your tax return)	**(c)** Qualified expenses (see instructions). **Do not** enter more than $2,000 for each student).	**(d)** Enter the **smaller** of the amount in column (c) or $1,000	**(e)** Subtract column (d) from column (c)	**(f)** Enter one-half of the amount in column (e)
1	Ben Green	000 00 3945	2,000	1,000	1,000	500
2	Add the amounts in columns (d) and (f)			**2** 1,000	▨	500

3	Tentative Hope credit. Add the amounts on line 2, columns (d) and (f). If you are claiming the lifetime learning credit for another student, go to Part II; otherwise, go to Part III ►	3	1,500

Part II **Lifetime Learning Credit**

4 **Caution:** *You cannot take the Hope credit and the lifetime learning credit for the same student in the same year.*

(a) Student's name (as shown on page 1 of your tax return) First name	Last name	**(b)** Student's social security number (as shown on page 1 of your tax return)	**(c)** Qualified expenses (see instructions)
Toni	Green	000 00 4651	2,500

5	Add the amounts on line 4, column (c), and enter the total	5	2,500
6	Enter the **smaller** of line 5 or $10,000	6	2,500
7	Tentative lifetime learning credit. Multiply line 6 by 20% (.20) and go to Part III . . ►	7	500

Part III **Allowable Education Credits**

8	Tentative education credits. Add lines 3 and 7			8	2,000
9	Enter: $103,000 if married filing jointly; $51,000 if single, head of household, or qualifying widow(er)	9	103,000		
10	Enter the amount from Form 1040, line 35 *, or Form 1040A, line 22 .	10	65,500		
11	Subtract line 10 from line 9. If zero or less, **stop;** you cannot take any education credits	11	37,500		
12	Enter: $20,000 if married filing jointly; $10,000 if single, head of household, or qualifying widow(er)	12	20,000		
13	If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as a decimal (rounded to at least three places)			13	× .
14	Multiply line 8 by line 13 . . . . ►			14	2,000
15	Enter the amount from Form 1040, line 43, or Form 1040A, line 28			15	6,203
16	Enter the total, if any, of your credits from Form 1040, lines 44 through 46, or Form 1040A, lines 29 and 30			16	0
17	Subtract line 16 from line 15. If zero or less, **stop;** you cannot take any education credits . . . . ►			17	6,203
18	**Education credits.** Enter the **smaller** of line 14 or line 17 here and on Form 1040, line 47, or Form 1040A, line 31 . . . . ►			18	2,000

*See Pub. 970 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.

For Paperwork Reduction Act Notice, see page 3. Cat. No. 25379M Form **8863** (2003)

STUDENT NOTES

EARNED INCOME CREDIT

Lesson 9

INTRODUCTION AND OBJECTIVES

In this lesson you will learn about the earned income tax credit. This is a refundable credit, and taxpayers must file a tax return to receive the credit.

After completing this lesson you should be able to:

- Use the EITC rules to determine which taxpayers are eligible for the earned income tax credit.
- Calculate and report the credit using the EIC worksheet.
- Explain the benefits of the Advanced Earned Income Credit (AEIC).
- Report the AEIC on the tax return.

GENERAL REQUIREMENTS

Some taxpayers are able to claim the earned income credit. This is a refundable credit, and eligible taxpayers can receive a refund of this credit even if they owe no tax and had no income tax withheld.

All taxpayers (and spouses, if filing a joint return) must meet the general requirements to claim the credit. Other requirements apply depending on whether or not the taxpayer has a qualifying child (defined later).

Generally, to claim the earned income tax credit, a taxpayer must:

- Have earned income during the year,
- Not have investment income of more than $2,600. Investment income includes taxable interest and dividends, tax exempt interest, capital gain net income, net income from rents and royalties not derived from a trade or business, and net income from passive activities,
- Use any filing status except married filing a separate return,
- Have a tax return that covers a 12-month period. This does not apply if a short period return is filed because of an individual's death,
- Show on the tax return the SSN of the taxpayer (and spouse if filing a joint return). See identification numbers, later.
- Not be the qualifying child of another person,
- Not exclude from gross income any income earned in foreign countries, or deduct or exclude a foreign housing amount (File Form 2555 or Form 2555-EZ), and
- Not be a nonresident alien. Nonresident aliens may qualify for the credit only if they are married to a U.S. citizen or resident ***and*** their filing status is married filing jointly.

POTENTIAL PITFALLS

If the taxpayer's filing status is married filing separately, the taxpayer cannot claim the earned income credit.

Table 9-1. **Earned Income Credit in a Nutshell**

Part A **Rules for Everyone**	**Part B** **Rules If You Have a Qualifying Child**	**Part C** **Rules If You Do Not Have a Qualifying Child**
Rule 1. You must have a valid social security number.	**Rule 7.** Your child must meet the relationship, age, and residency tests.	**Rule 10.** You must be at least age 25 but under age 65.
Rule 2. Your filing status cannot be "Married filing separately."	**Rule 8.** Your qualifying child cannot be used by more than one person to claim the EIC.	**Rule 11.** You cannot be the dependent of another person.
Rule 3. You must be a U.S. citizen or resident alien all year.	**Rule 9.** You cannot be a qualifying child of another person.	**Rule 12.** You cannot be a qualifying child of another person.
Rule 4. You cannot file Form 2555 or Form 2555–EZ (relating to foreign earned income).		**Rule 13.** You must have lived in the United States more than half the year.
Rule 5. Your investment income must be $2,600 or less.		
Rule 6. You must have earned income.		
Part D **Figuring and Claiming the EIC** **Rule 14.** Your earned income must be less than: • $33,692 ($34,692 for married filing jointly) if you have more than one qualifying child, • $29,666 ($30,666 for married filing jointly) if you have one qualifying child, or • $11,230 ($12,230 for married filing jointly) if you do not have a qualifying child		
Rule 15. Your AGI must be less than: • $33,692 ($34,692 for married filing jointly) if you have more than one qualifying child, • $29,666 ($30,666 for married filing jointly) if you have one qualifying child, or • $11,230 ($12,230 for married filing jointly) if you do not have a qualifying child		

Identification Numbers

To claim the EIC, the taxpayer (and spouse if filing a joint return) must have a valid Social Security number (SSN) issued by the Social Security Administration (SSA). Any qualifying child listed on Schedule EIC must also have a valid SSN. If a social security card has a legend that says ***"Not valid for employment"*** and the number was issued so that the taxpayer (or spouse or qualifying child) could receive a federally funded benefit, the taxpayer cannot claim the EIC. An example of a federally funded benefit is Medicaid.

Individual Taxpayer Identification Numbers (ITINs) and Adoption Taxpayer Identification Numbers (ATINs) cannot be used when claiming the EIC.

If a taxpayer has a social security card that contains the legend "valid for work only with INS authorization," the taxpayer may claim the credit, assuming he or she meets the other requirements.

Taxpayers With One or More Qualifying Children

If the taxpayer has a qualifying child (defined later), the following additional requirements apply.

- The taxpayer's earned income and adjusted gross income must each be less than:
  - a) $29,666 ($30,666 if married filing jointly) if he or she has one qualifying child, or
  - b) $33,692 ($34,692 if married filing jointly) if he or she has more than one qualifying child,
- The taxpayer must show on Schedule EIC the name, age, and SSN for each qualifying child listed (see *Identification Numbers*, earlier).

Taxpayers With No Qualifying Child

If the taxpayer does not have a qualifying child, the following additional requirements apply.

- The taxpayer's earned income and adjusted gross income must each be less than $11,230 ($12,230 if married filing jointly).
- The taxpayer (or the taxpayer's spouse, if filing a joint return) must be at least age 25 but under age 65 at the end of the year.
- Neither the taxpayer (nor the taxpayer's spouse if filing jointly) can be eligible to be claimed as a dependent on another person's return.
- The principal place of abode of the taxpayer (and the taxpayer's spouse, if filing jointly) must be in the United States for more than half the year.

Earned Income

Earned income is wages, salaries, tips and other employee compensation, but only if the amounts are includible in gross income; plus net earnings from self-employment. Table 1 provides examples of what to include and not to include as earned income in computing the earned income credit.

Amounts received for work performed while an inmate in a penal institution are not considered earned income for purposes of the earned income credit. Enter "PRI" and the amount of the income earned while an inmate next to line 7 (Form 1040 or 1040A) or line 1 (Form 1040 EZ). This income is still considered taxable for purposes of determining the taxpayer's federal income tax.

If the taxpayer was a household employee who did not receive a Form W-2 because he or she was paid less than $1,300, the income must still be included on line 7 (Form 1040A or 1040) or line 1 (Form 1040EZ). Enter "HSH" and the amount not reported on Form W-2 next to line 7 (Form 1040A or 1040) or Line 1 (Form 1040EZ).

Table 9-2. Examples of Earned Income for the Earned Income Credit

Earned Income	
Includes	**Does not include**
Taxable wages, salaries, and tips	Interest and dividends
Union strike benefits	Social Security and railroad retirement benefits
Taxable long-term disability benefits received prior to minimum retirement age	Welfare benefits
Net earnings from self-employment	Workfare payments
Gross income of a statutory employee	Pensions or annuities
	Veteran's benefits (including VA rehabilitation payments)
	Workers' compensation benefits
	Alimony
	Child Support
	Nontaxable foster care payments
	Unemployment compensation
	Taxable scholarship or fellowship grants that are not reported on Form W-2
	Earnings for work performed while an inmate at a penal institution
	Salary deferrals (for example, under a 401(k) or 403(b) plan or the Federal Thrift Savings Plan)
	Combat zone excluded pay (box 12, code Q of Form W-2)
	Basic housing and subsistence allowances for the U.S. Military (box 12, code Q of Form W-2)
	The value of meals or lodging provided by an employer for the convenience of the employer
	Housing allowance or rental value of a parsonage for the clergy
	Excludable dependent care benefits (line 18 of either Form 2441, Form 1040, or Schedule 2, Form 1040A)
	Salary reductions such as under a cafeteria plan
	Excludable employer provided educational assistance benefits (may be shown in box 13 of Form W-2)
	Anything else of value received from someone for services performed, if it is not currently taxable

QUALIFYING CHILD

For purposes of the earned income credit, a taxpayer has a qualifying child, if the child meets three tests.

- Relationship Test
- Residency Test, and
- Age Test

Relationship Test

To meet the relationship test, the qualifying child must be the taxpayer's:

1. Son, daughter, stepson, stepdaughter or a descendant of the taxpayer's son, daughter, stepson, or stepdaughter.
2. Brother, sister, stepbrother, stepsister or a descendant of the taxpayer's brother, sister, stepbrother or stepsister. The taxpayer must care for any of these children as his or her own child. A descendant must be lineal descendant.
3. Eligible foster child.

An ***eligible foster child*** is a child placed with the taxpayer by an authorized placement agency and whom the taxpayer cares for as his or her own child. An authorized placement agency is an agency of a state or political subdivision of a state, including a court, or tax-exempt organization licensed by the state.

An adopted child (and a child placed with the taxpayer for adoption) is treated as a child by blood.

Residency Test

To meet the residency test, the child must live with the taxpayer in the United States for more than half of the tax year. If a child fails to meet the residency test because the child was born or died during the year, the child is considered to meet the test if the child lived with the taxpayer while the child was alive. The taxpayer does not need to have a home. It is sufficient if the taxpayer and child live together in a series of homeless shelters.

Age Test

To meet the age test, the child must be:

- Under age 19 at the end of the year,
- A full-time student under age 24 at the end of year, or
- Permanently and totally disabled at any time during the tax year, regardless of age.

A ***married taxpayer*** can be a qualifying child of the taxpayer if he or she can be claimed as a dependent by the taxpayer.

Qualifying Child of More Than One Taxpayer

If a child is a qualifying child of more than one taxpayer, the taxpayers may choose which of them will claim the credit on the basis of that child. If two or more children are qualifying children of the same taxpayers (not filing a joint return together), the taxpayers may agree that one will claim the credit on the basis of one child and the other will claim the credit on the basis of the other child.

Example 1

Jane (age 30) is unmarried. In 2003, Jane lived with her four children and her mother, Linda. Provided they each meet the eligibility and income requirements, Jane may claim the EIC based on one or two of the children, and Linda may claim the EIC based on the other two children not claimed by Jane.

If two or more taxpayers actually claim the credit on the basis of the same qualifying child, the statute determines which of them is entitled to the credit on the basis of that child. This is the tie-breaker rule. The taxpayer who is entitled to the credit is —

- The parent, if one taxpayer is a parent of the child.
- The parent the child lived with longest during the tax year, if both taxpayers are parents of the child and they do not file a joint return together.
- The parent with the higher AGI, if both taxpayers are parents of the child, the child lived with both parents for the same length of time during the tax year, and they do not file a joint return together.
- The taxpayer with the higher AGI, if neither is a parent of the child.

Example 2

John (age 26) is unmarried. In 2003, John and his daughter, Lynn, lived with John's father, Paul. John's sole income was wages of $19,000. Paul's sole income was wages of $12,000.

Lynn is a qualifying child of both John and Paul. John and Paul agree that Paul will claim the EIC on the basis of Lynn, because Paul's credit would be more than John's. If John later decides to claim the credit, under the tie-breaker rule, Paul will lose the credit he claimed.

Example 3

Ralph is single and has two qualifying children. He earned $23,247 in taxable wages and his adjusted gross income is $26,928.

Ralph can claim the earned income credit because his earned income and adjusted gross income are each less than $33,692.

Example 4

Maureen has $23,050 in earned income; her adjusted gross income is $23,175. Her filing status is single. Maureen's 20-year-old daughter, Angie, lived with her for eight months of the year. Angie is not married and is a full-time college student.

Maureen can claim the earned income credit because she has a qualifying child and her earned income and adjusted gross income are under $29,666.

DISALLOWED EARNED INCOME CREDIT

If a taxpayer's earned income credit was disallowed in for any year after 1996 as a result of the deficiency procedures, he or she cannot claim the credit again unless *Form 8862*, *Information To Claim Earned Income Credit After Disallowance*, is attached to the return. If the credit is claimed without attaching Form 8862, it will be automatically denied, under the math error procedures.

A deficiency procedure occurs when the IRS questions the taxpayer's eligibility for the earned income credit for reasons other than a mathematical or clerical error. If the credit was disallowed in the earlier year because of a mathematical or clerical error, Form 8862 should not be completed. For more information on deficiency procedures, see Publication 596.

A taxpayer who is determined to have claimed the EIC due to reckless or intentional disregard of rules or regulations is ineligible to claim the EIC for a subsequent period of 2 years.

A taxpayer who is determined to have fraudulently claimed the EIC is ineligible to claim the EIC for a subsequent period of 10 years.

CERTIFICATION — EARNED INCOME CREDIT

The Internal Revenue Service will execute a pilot initiative during the 2004 Filing Season with the balanced goal of providing better service and improving the integrity of the administration of the Earned Income Tax Credit. A part of this initiative was an EITC certification component. The twin objectives of the certification process are to 1) reduce overpayments and 2) improve participation of eligible EITC customers

If a taxpayer has received correspondence regarding EITC certification, offer to review the information with the customer. If the taxpayer has received a determination letter, please complete the return, relative to the EITC, as directed. Please note if the customer's situation has altered since receiving a determination letter the qualifying rules still apply. The customer interview is a critical part of completing a correct return.

Exercise 1

Determine if the taxpayers in this exercise can claim the earned income credit. If they cannot, explain why.

A. Sharon has an eligible foster child, Eric. Eric is 12 years old and began living with Sharon in August 2003. Sharon's earned income and her adjusted gross income are $14,275. Can Sharon claim the earned income credit? ____________________

____

B. Doug and Donna are married and live together. Their combined earned income is $22,222. Doug reports adjusted gross income of $10,728 on his separate tax return, and Donna reports adjusted gross income of $11,514 on her separate return. Sam, their four-year-old son, lives with Doug and Donna. Can Doug and/or Donna claim the earned income credit? ____

C. Randy and Cara were married and lived together until August when they divorced. Randy and Cara have two children, Jimmy, age seven, and Anna, age five. The children lived with both of their parents until August, then they lived with their mother. Randy's earned income and adjusted gross income are $19,251. Cara's earned income is $14,751, and her adjusted gross income is $15,362. Can Randy and/or Cara claim the earned income credit? ____________________________________

D. Benjamin, age 26, lives alone, is single, and earns $8,250. His adjusted gross income is $8,950. Can Benjamin claim the earned income credit? ____________________________________

E. Melanie is 18 years old and married. Melanie's husband is overseas, and she lives with her mother, Susan. Susan's earned income is $18,431, and her adjusted gross income is $18,453. Susan cannot claim Melanie as a dependent. Can Susan claim the earned income credit? ________________________________

F. Circle the items that are considered earned income for earned income credit purposes.

1. Wages
2. Housing allowance for a member of the clergy
3. Social security benefits
4. Interest income
5. Unemployment compensation
6. Tip income
7. Dividend income
8. Military subsistence allowances

THE EARNED INCOME CREDIT WORKSHEET AND SCHEDULE EIC

The earned income credit is computed on the Earned Income Credit (EIC) Worksheet. Before completing the EIC Worksheet, ***you must*** complete the steps in the EIC instructions line 63 of Form 1040; line 41 of Form 1040A; or line 8 of Form 1040EZ.

Completing the steps will help you determine whether or not the taxpayer is eligible to take the credit. If the taxpayer can claim the earned income credit, complete the EIC Worksheet. If the taxpayer is not eligible to claim the credit but appears to be based on income limitations, write “No” next to line 8 of 1040EZ; line 41 of 1040A; or line 63 of 1040. ***The steps and the EIC Worksheets are included in the 1040, 1040A, and 1040EZ instructions.***

There are two versions (A and B) of the EIC Worksheet for Form 1040 filers. If the taxpayer was self-employed or reported income- and expenses on Schedule C or C-EZ as a statutory employee, he or she must use the EIC Worksheet B to figure his or her credit amount. Complete the EIC Worksheet to determine the amount of the earned income credit the taxpayer can claim. The EIC Worksheet should not be attached to the return; the taxpayer should keep it with his or her tax records.

Using the Earned Income Credit Table

The Earned Income Credit (EIC) Table is used to determine the amount of the credit. The tables are found in the instructions for Forms 1040EZ, 1040A, or 1040.

When using the earned income credit table to determine the credit, read down the columns labeled *At least . . . But less than* and find the line that includes the amount you are instructed to look up from the EIC Worksheet. Read across to the column that includes the number of qualifying children of the taxpayer and filing status. Enter the earned income credit from that column on the EIC Worksheet.

Example 5

Roger’s filing status is head of household and he has two qualifying children. The amount shown on lines 1 and 3 of his Form 1040A EIC Worksheet is $19,300.

Roger’s earned income credit from the EIC Table is $3,026.

Exercise 2

A. Alex and Cheryl have two qualifying children. Their filing status is married filing jointly. The amount shown on lines 1 and 3 of their EIC Worksheet is $19,866.

What is the earned income credit from the EIC Table? _______

____

B. Roxanne is divorced. She lives with her infant daughter. The amount shown on lines 1 and 3 of her EIC Worksheet is $17,750.

What is the earned income credit from the EIC Table? _______

____

POTENTIAL PITFALLS

Errors are easily made when using the earned income credit table. To ensure that you have entered the correct amount on the tax form, look up the credit twice—once before you enter the credit on the form and once after you have entered it on the form.

Completing Schedule EIC

Qualifying Child Information

Schedule EIC, *Earned Income Credit,* contains only information about qualifying children. Only taxpayers who have a qualifying child must fill out the schedule and attach it to Form 1040A or Form 1040.

Example 6

Ronald Evans (SSN 000-00-9840) is single. His son, Harry (SSN 000-00-9849), was born in 1981. Harry lived with Ronald during all of 2003. Harry is a full-time student. Harry is not married and is a qualifying child of his father. He is not a qualifying child of his mother. However, Harry's mother claims him as a dependent on her tax return.

Exhibit 1 shows the Schedule EIC.

Exhibit 1

Ronald Evan's Schedule EIC

SCHEDULE EIC
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service

Earned Income Credit

Qualifying Child Information

1040A
1040
EIC

Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

OMB No. 1545-0074

2003

Attachment
Sequence No. **43**

Name(s) shown on return: RONALD EVANS

Your social security number: 000 00 9840

Before you begin: See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that **(a)** you can take the EIC and **(b)** you have a qualifying child.

CAUTION

- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Qualifying Child Information

	Child 1	Child 2
1 Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name: HARRY Last name: EVANS	First name: Last name:
2 Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	000 00 9849	

Next, if the child was born after 1984, go to line 4. Otherwise, continue.

	Child 1	Child 2
3 If the child was born before 1985— **a** Was the child under age 24 at the end of 2003 and a student?	☒ **Yes.** *Go to line 4.* ☐ **No.** *Continue*	☐ **Yes.** *Go to line 4.* ☐ **No.** *Continue*
b Was the child permanently and totally disabled during any part of 2003?	☐ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.	☐ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.
4 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)	SON	
5 Number of months child lived with you in the United States during 2003 • If the child lived with you for more than half of 2003 but less than 7 months, enter "7". • If the child was born or died in 2003 and your home was the child's home for the entire time he or she was alive during 2003, enter "12".	12 months *Do not enter more than 12 months.*	____ months *Do not enter more than 12 months.*

TIP You may also be able to take the additional child tax credit if your child **(a)** was under age 17 at the end of 2003, **(b)** is claimed as your dependent on line 6c of Form 1040A or Form 1040, **and (c)** is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 65 of Form 1040.

For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions.

Cat. No. 13339M

Schedule EIC (Form 1040A or 1040) 2003

Exercise 3

Sam U. and Robin O. Bell are married and file a joint return. Sam's social security number is 000-00-4797 and Robin's is 000-00-4798. They have a child, Jennifer S. Bell (SSN 000-00-1987) who was born in 1996. Jennifer lived with her parents for the entire year. Form 1040A, line 7 shows that the Bells had wages of $21,211, line 8a shows $39 of taxable interest income, and line 21 shows the Bells' adjusted gross income of $21,250.

Complete the EIC Worksheet and Schedule EIC.

POTENTIAL PITFALLS

Remember that the amount of the earned income credit depends on the taxpayer's income, number of qualifying children, and filing status. Be sure to use the correct column from the EIC Table.

Complete this worksheet

Exhibit 2

EIC Wooksheet

Line 41— Earned Income Credit (EIC)

What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you **or** let the IRS figure the credit for you.
- If you have a qualifying child, complete and attached Schedule EIC.

! CAUTION If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1 All Filers

1. If, in 2003:

- 2 children lived with you, is the amount on Form 1040A, line 22, less than $33,692 ($34,692 if married filing jointly)?
- 1 child lived with you, is the amount on Form 1040A, line 22, less than $29,666 ($30,666 if married filing jointly)?
- No children live with you, is the amount on Form 1040A, line 22, less than $11,230 ($12,230 if married filing jointly)?

☐ **Yes.** *Continue* ↓ ☐ **No.** STOP You cannot take the credit.

2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?

☐ **Yes.** *Continue* ↓ ☐ **No.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

3. Is you filing status married filing separately?

☐ **Yes.** STOP You cannot take the credit. ☐ **No.** *Continue* ↓

4. Were you a nonresident alien for any part of 2003?

☐ **Yes.** *See Nonresident aliens on page 42.* ☐ **No.** *Go to Step 2.*

Step 2 Investment Income

1. Add the amounts from Form 1040A:

Line 8a ___________

Line 8b + ___________

Line 9a + ___________

Line 10a + ___________

Investment Income = ☐

2. Is your investment income more than $2,600?

☐ **Yes.** STOP You cannot take the credit. ☐ **No.** *Continue* ↓

3. Did a child live with you in 2003?

☐ **Yes.** *Go to Step 3 on page 40.* ☐ **No.** *Go to Step 4 on page 40.*

(Continued on page 40)

Complete this worksheet

Exhibit 3

Step 3 Qualifying Child

A qualifying child is a child who is your...

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

AND

was at the end of 2003...

Under age 19

or

Under age 24 and a student (see page 42)

or

Any age and permanently and totally disabled (see page 42)

AND

who...

Lived with you in the United States for more than half of 2003. If the child did not live with you for the required time, see Exception to "Time Lived With You" Condition on page 41.

Note. If the child was married, see page 42.

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

☐ **No.** *Continue*

2. Do you have at least one child who meets the above conditions to be your qualifying child?

☐ **Yes.** *Go to question 3.*

☐ **No.** *Skip question 3; go to Step 4, question 2.*

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2003?

☐ **Yes.** *See Qualifying Child of More Than One Person on page 42.*

☐ **No.** This child is your qualifying child. The child must have a valid social security number as defined on page 42 unless the child was born and died in 2003. *Skip Step 4; go to Step 5 on page 41.*

Step 4 Filers Without a Qualifying Child

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

☐ **No.** *Continue*

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return?

☐ **Yes.** STOP You cannot take the credit.

☐ **No.** *Continue*

3. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?

☐ **Yes.** *Continue*

☐ **No.** STOP You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 42 before you answer.

☐ **Yes.** *Go to Step 5 on page 41.*

☐ **No.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

(Continued on page 41)

Exhibit 4

Step 5 Earned Income

1. Figure earned income:

Form 1040, line 7 ____________

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

– ____________

Earned Income = ☐

2. If you have:

- 2 or more qualifying children, is your earned income less than $33,692 ($34,692 if married filing jointly)?
- 1 qualifying child, is your earned income less than $29,666 ($30,666 if married filing jointly)?
- No qualifying children, is your earned income less than $11,230 ($12,230 if married filing jointly)?

☐ **Yes.** *Go to Step 6.* ☐ **No.** STOP You cannot take the credit.

Step 6 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

☐ **Yes.** *See Credit Figured by the IRS below.* ☐ **No.** *Go to the worksheet on page 43.*

Definitions and Special Rules

(listed in alphabetical order)

Adopted Child. An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

Credit Figured by the IRS. To have the IRS figure the credit for you:

1. Put "EIC"to the left of the entry space for line 41 of Form 1040A.

2. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to "Time Lived With You" Condition. A child is considered to have lived with you for all of 2003 if the child was born or died in 2003 and your home was this child's home for the entire time he or she was alive in 2003. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military on page 42.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year **(a)** you filed Form 8862 (or other documents) and your EIC was then allowed and **(b)** your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

(Continued on page 42)

Complete this worksheet

Exhibit 5

Earned Income Credit (EIC) Worksheet—Line 41

Keep for Your Records

Part 1

All Filers

1. Enter your earned income from Step 5 on page 43. **1** ______

2. Look up the amount on line 1 above in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. **2** ______

If line 2 is zero, STOP You cannot take the credit.
Put "No" to the left of the entry space for line 41.

3. Enter the amount from Form 1040A, line 22. **3** ______

4. Are the amounts on lines 3 and 1 the same?

☐ **Yes.** *Skip line 5; enter the amount from line 2 on line 6.*

☐ **No.** *Go to line 5.*

Part 2

Filers Who Answered "No" on Line 4

5. If you have:

- No qualifying children, is the amount on line 3 less than $6,250 ($7,250 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 3 less than $13,750 ($14,750 if married filing jointly)?

☐ **Yes.** *Leave line 5 blank; enter the amount from line 2 on line 6.*

☐ **No.** Look up the amount on line 3 in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. **5** ______

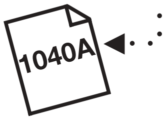
Look at the amounts on lines 5 and 2.
*Then, enter the **smaller** amount on line 6.*

Part 3

Your Earned Income Credit

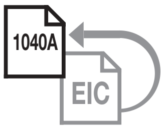
6. **This is your earned income credit.** **6** ______

Enter this amount on Form 1040A, line 41.



Reminder—

√ If you have a qualifying child, complete and attach Schedule EIC.



CAUTION If your EIC for a year after 1996 was reduced or disallowed, see page 43 to find out if you must file Form 8862 to take the credit for 2003.

Exhibit 6

Form 1040A (2003) Page **2**

Tax, credits, and payments

22 Enter the amount from line 21 (adjusted gross income). 22

23a Check if: ☐ **You** were born before January 2, 1939, ☐ Blind } **Total boxes**
☐ **Spouse** was born before January 2, 1939, ☐ Blind } **checked** ▶ 23a ☐

b If you are married filing separately and your spouse itemizes deductions, see page 34 and check here ▶ 23b ☐

Standard Deduction for—
- People who checked any box on line 23a or 23b **or** who can be claimed as a dependent, see page 34.
- All others:

Single or Married filing separately, $4,750

Married filing jointly or Qualifying widow(er), $9,500

Head of household, $7,000

24 Enter your **standard deduction** (see left margin). 24

25 Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-. 25

26 Multiply $3,050 by the total number of exemptions claimed on line 6d. 26

27 Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your **taxable income.** ▶ 27

28 **Tax,** including any alternative minimum tax (see page 35). 28

29 Credit for child and dependent care expenses. Attach Schedule 2. 29

30 Credit for the elderly or the disabled. Attach Schedule 3. 30

31 Education credits. Attach Form 8863. 31

32 Retirement savings contributions credit. Attach Form 8880. 32

33 Child tax credit (see page 38). 33

34 Adoption credit. Attach Form 8839. 34

35 Add lines 29 through 34. These are your **total credits.** 35

36 Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-. 36

37 Advance earned income credit payments from Form(s) W-2. 37

38 Add lines 36 and 37. This is your **total tax.** ▶ 38

39 Federal income tax withheld from Forms W-2 and 1099. 39

40 2003 estimated tax payments and amount applied from 2002 return. 40

If you have a qualifying child, attach Schedule EIC.

41 **Earned income credit (EIC).** 41

42 Additional child tax credit. Attach Form 8812. 42

43 Add lines 39 through 42. These are your **total payments.** ▶ 43

Refund

44 If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you **overpaid.** 44

45a Amount of line 44 you want **refunded to you.** ▶ 45a

Direct deposit? See page 52 and fill in 45b, 45c, and 45d.

▶ b Routing number ☐☐☐☐☐☐☐☐☐ ▶ **c** Type: ☐ Checking ☐ Savings

▶ d Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

46 Amount of line 44 you want **applied to your 2004 estimated tax.** 46

Amount you owe

47 **Amount you owe.** Subtract line 43 from line 38. For details on how to pay, see page 53. ▶ 47

48 Estimated tax penalty (see page 53). 48

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 54)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign here

Joint return? See page 22. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature | Date | Your occupation | Daytime phone number ( )

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation

Paid preparer's use only

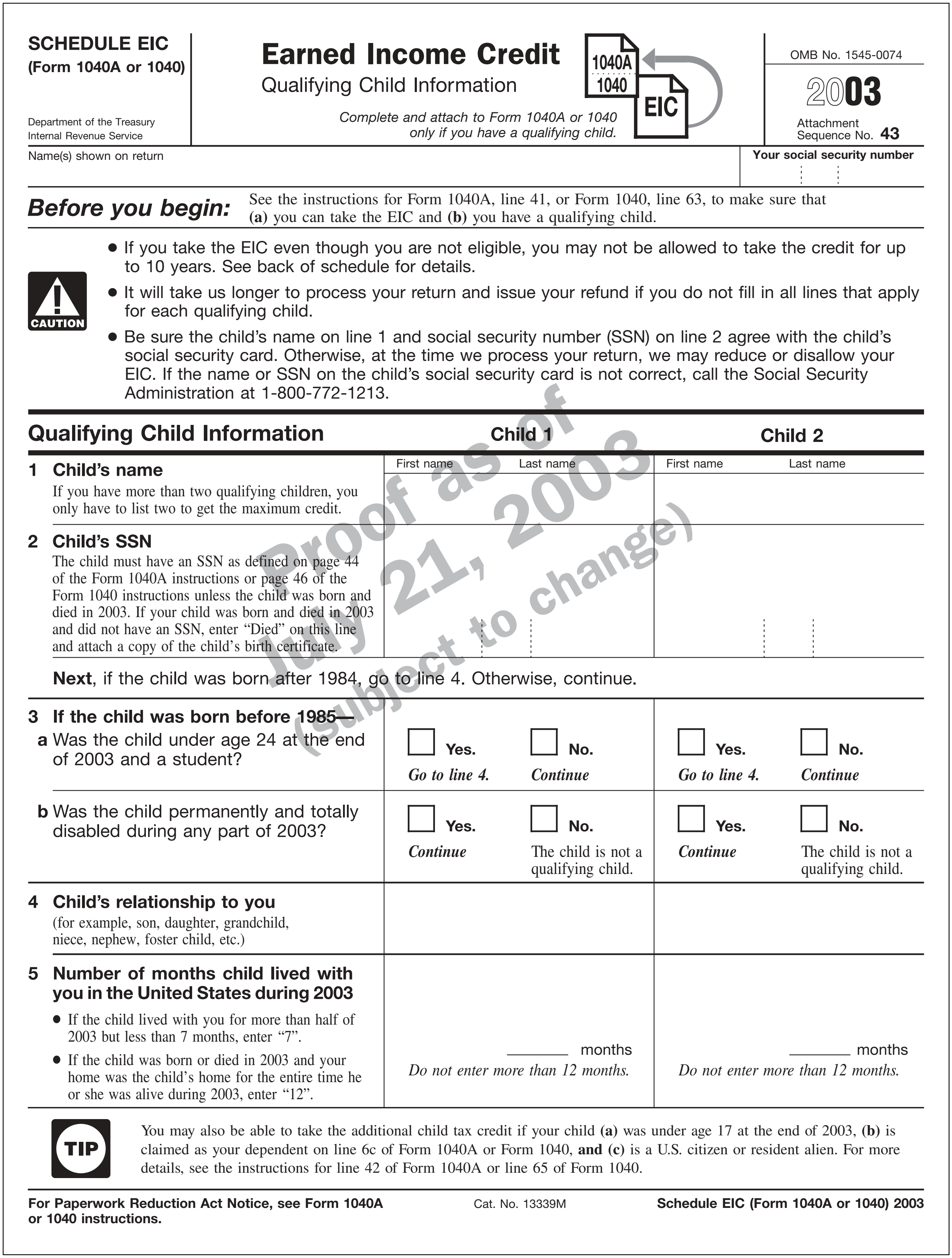
Preparer's signature ▶ | Date | Check if self-employed ☐ | Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code ▶ | EIN | Phone no. ( )

Printed on recycled paper

Form **1040A** (2003)

Exhibit 7



SCHEDULE EIC
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service

Earned Income Credit

Qualifying Child Information

Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

OMB No. 1545-0074

2003

Attachment Sequence No. **43**

Name(s) shown on return

Your social security number

Before you begin: See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that **(a)** you can take the EIC and **(b)** you have a qualifying child.

CAUTION

- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Qualifying Child Information	Child 1		Child 2	
1 Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name	Last name	First name	Last name
2 Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.				

Next, if the child was born after 1984, go to line 4. Otherwise, continue.

	Child 1		Child 2	
3 If the child was born before 1985— **a** Was the child under age 24 at the end of 2003 and a student?	☐ **Yes.** *Go to line 4.*	☐ **No.** *Continue*	☐ **Yes.** *Go to line 4.*	☐ **No.** *Continue*
b Was the child permanently and totally disabled during any part of 2003?	☐ **Yes.** *Continue*	☐ **No.** The child is not a qualifying child.	☐ **Yes.** *Continue*	☐ **No.** The child is not a qualifying child.
4 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)				
5 Number of months child lived with you in the United States during 2003 • If the child lived with you for more than half of 2003 but less than 7 months, enter "7". • If the child was born or died in 2003 and your home was the child's home for the entire time he or she was alive during 2003, enter "12".	_______ months *Do not enter more than 12 months.*		_______ months *Do not enter more than 12 months.*	

TIP

You may also be able to take the additional child tax credit if your child **(a)** was under age 17 at the end of 2003, **(b)** is claimed as your dependent on line 6c of Form 1040A or Form 1040, **and (c)** is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 65 of Form 1040.

For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions. Cat. No. 13339M **Schedule EIC (Form 1040A or 1040) 2003**

ADVANCE EARNED INCOME CREDIT PAYMENTS

An employee who expects to qualify for the earned income credit (EIC) and to have at least one qualifying child for 2004 can choose to get a portion of the credit in advance throughout the year (based on one qualifying child) by giving a filled out Form W-5, *Earned Income Credit Advance Payment Certificate*, to his or her employer. Taxpayers receive only a portion of the credit through advance payments, so the eligibility questions and the EIC Worksheet must be completed when the tax return is prepared to determine the full amount of the credit the taxpayer is entitled to receive.

If the employee chooses to receive the EIC in advance, the employer will include advance payments of the credit in the employee's regular paychecks during the year. Employees who receive advance earned income credit payments ***must*** file a tax return even if they are not otherwise required to file.

Advance earned income credit payments are reported in box 9 of Form W-2. Enter this amount on Form 1040A, line 37, or Form 1040, line 58.

Exercise 4

Kyle B. Evans is a single parent. He claims his daughter, Julie, as a dependent on his tax return. Kyle's social security number is 000-00-2442. Julie was born in November 2001. Her social security number is 000-00-4104. Kyle's earned income was $18,751, and his total income and adjusted gross income were $19,223. He received $550 in advance earned income credit payments.

A. Complete Kyle's eligibility questions and EIC Worksheet.

B. What entries would you make on Schedule EIC?

Exhibit 8

Line 41— Earned Income Credit (EIC)

What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you **or** let the IRS figure the credit for you.
- If you have a qualifying child, complete and attached Schedule EIC.

CAUTION If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1 All Filers

1. If, in 2003:

- 2 children lived with you, is the amount on Form 1040A, line 22, less than $33,692 ($34,692 if married filing jointly)?
- 1 child lived with you, is the amount on Form 1040A, line 22, less than $29,666 ($30,666 if married filing jointly)?
- No children live with you, is the amount on Form 1040A, line 22, less than $11,230 ($12,230 if married filing jointly)?

☐ **Yes.** *Continue* ↓ ☐ **No.** STOP You cannot take the credit.

2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?

☐ **Yes.** *Continue* ↓ ☐ **No.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

3. Is you filing status married filing separately?

☐ **Yes.** STOP You cannot take the credit. ☐ **No.** *Continue* ↓

4. Were you a nonresident alien for any part of 2003?

☐ **Yes.** *See Nonresident aliens on page 42.* ☐ **No.** *Go to Step 2.*

Step 2 Investment Income

1. Add the amounts from Form 1040A:

Line 8a		__________
Line 8b	+	__________
Line 9a	+	__________
Line 10a	+	__________
Investment Income	=	☐

2. Is your investment income more than $2,600?

☐ **Yes.** STOP You cannot take the credit. ☐ **No.** *Continue* ↓

3. Did a child live with you in 2003?

☐ **Yes.** *Go to Step 3 on page 40.* ☐ **No.** *Go to Step 4 on page 40.*

(Continued on page 40)

Complete this worksheet

Exhibit 9

Step 3 Qualifying Child

A qualifying child is a child who is your...

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

AND

was at the end of 2003...

Under age 19

or

Under age 24 and a student (see page 42)

or

Any age and permanently and totally disabled (see page 42)

AND

who...

Lived with you in the United States for more than half of 2003. If the child did not live with you for the required time, see Exception to "Time Lived With You" Condition on page 41.

Note. If the child was married, see page 42.

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

☐ **No.** *Continue* ↓

2. Do you have at least one child who meets the above conditions to be your qualifying child?

☐ **Yes.** *Go to question 3.*

☐ **No.** *Skip question 3; go to Step 4, question 2.*

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2003?

☐ **Yes.** *See Qualifying Child of More Than One Person on page 42.*

☐ **No.** This child is your qualifying child. The child must have a valid social security number as defined on page 42 unless the child was born and died in 2003. *Skip Step 4; go to Step 5 on page 41.*

Step 4 Filers Without a Qualifying Child

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

☐ **No.** *Continue* ↓

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return?

☐ **Yes.** STOP You cannot take the credit.

☐ **No.** *Continue* ↓

3. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?

☐ **Yes.** *Continue* ↓

☐ **No.** STOP You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 42 before you answer.

☐ **Yes.** *Go to Step 5 on page 41.*

☐ **No.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

(Continued on page 41)

Exhibit 10

Step 5 Earned Income

1. Figure earned income:

Form 1040, line 7 ______________

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put “PRI” and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put “DFC” and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

− ______________

Earned Income = ☐

2. If you have:

- 2 or more qualifying children, is your earned income less than $33,692 ($34,692 if married filing jointly)?
- 1 qualifying child, is your earned income less than $29,666 ($30,666 if married filing jointly)?
- No qualifying children, is your earned income less than $11,230 ($12,230 if married filing jointly)?

☐ **Yes.** *Go to Step 6.* ☐ **No.** STOP You cannot take the credit.

Step 6 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

☐ **Yes.** *See Credit Figured by the IRS below.* ☐ **No.** *Go to the worksheet on page 43.*

Definitions and Special Rules

(listed in alphabetical order)

Adopted Child. An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

Credit Figured by the IRS. To have the IRS figure the credit for you:

1. Put “EIC”to the left of the entry space for line 41 of Form 1040A.

2. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to “Time Lived With You” Condition. A child is considered to have lived with you for all of 2003 if the child was born or died in 2003 and your home was this child’s home for the entire time he or she was alive in 2003. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military on page 42.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year **(a)** you filed Form 8862 (or other documents) and your EIC was then allowed and **(b)** your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

(Continued on page 42)

Exhibit 11

EIC Worksheet

Earned Income Credit (EIC) Worksheet—Line 41

Keep for Your Records

Part 1

All Filers

1. Enter your earned income from Step 5 on page 43. **1**

2. Look up the amount on line 1 above in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. **2**

If line 2 is zero, STOP You cannot take the credit.
Put "No" to the left of the entry space for line 41.

3. Enter the amount from Form 1040A, line 22. **3**

4. Are the amounts on lines 3 and 1 the same?

☐ **Yes.** *Skip line 5; enter the amount from line 2 on line 6.*

☐ **No.** *Go to line 5.*

Part 2

Filers Who Answered "No" on Line 4

5. If you have:

- No qualifying children, is the amount on line 3 less than $6,250 ($7,250 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 3 less than $13,750 ($14,750 if married filing jointly)?

☐ **Yes.** *Leave line 5 blank; enter the amount from line 2 on line 6.*

☐ **No.** Look up the amount on line 3 in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. **5**

Look at the amounts on lines 5 and 2.
*Then, enter the **smaller** amount on line 6.*

Part 3

Your Earned Income Credit

6. **This is your earned income credit.** **6**

Enter this amount on Form 1040A, line 41.

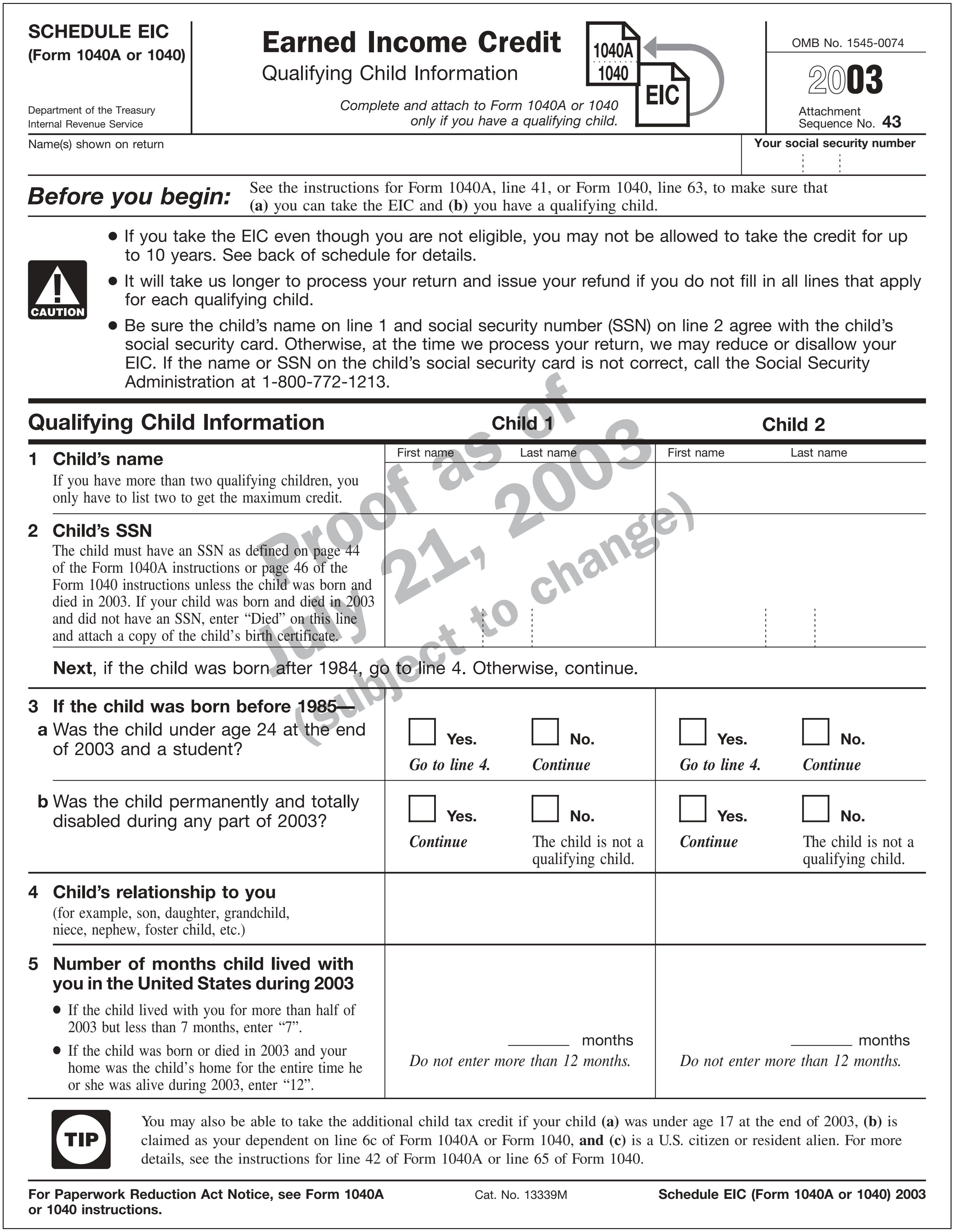
Reminder—

√ If you have a qualifying child, complete and attach Schedule EIC.

CAUTION If your EIC for a year after 1996 was reduced or disallowed, see page 43 to find out if you must file Form 8862 to take the credit for 2003.

Complete this Form

Exhibit 12



SCHEDULE EIC
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service

Earned Income Credit

Qualifying Child Information

Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

OMB No. 1545-0074

2003

Attachment Sequence No. **43**

Name(s) shown on return

Your social security number

Before you begin: See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that **(a)** you can take the EIC and **(b)** you have a qualifying child.

CAUTION

- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Qualifying Child Information	**Child 1**	**Child 2**
1 Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name Last name	First name Last name
2 Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.		

Next, if the child was born after 1984, go to line 4. Otherwise, continue.

3 If the child was born before 1985— **a** Was the child under age 24 at the end of 2003 and a student?	☐ **Yes.** *Go to line 4.* ☐ **No.** *Continue*	☐ **Yes.** *Go to line 4.* ☐ **No.** *Continue*
b Was the child permanently and totally disabled during any part of 2003?	☐ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.	☐ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.
4 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)		
5 Number of months child lived with you in the United States during 2003 • If the child lived with you for more than half of 2003 but less than 7 months, enter "7". • If the child was born or died in 2003 and your home was the child's home for the entire time he or she was alive during 2003, enter "12".	_______ months *Do not enter more than 12 months.*	_______ months *Do not enter more than 12 months.*

TIP You may also be able to take the additional child tax credit if your child **(a)** was under age 17 at the end of 2003, **(b)** is claimed as your dependent on line 6c of Form 1040A or Form 1040, **and (c)** is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 65 of Form 1040.

For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions. Cat. No. 13339M **Schedule EIC (Form 1040A or 1040) 2003**

▶ ▶ SUMMING UP THIS LESSON ◀ ◀

▶ The earned income credit can be claimed on Form 1040EZ, Form 1040A or Form 1040.

EARNED INCOME CREDIT

ANSWERS TO EXERCISES

Exercise 1

(A) No; to be a qualifying child, the child must live with the taxpayer more than half of the year.

(B) Neither Donna nor Doug can claim the credit; in order to claim the earned income credit, married taxpayers living together must file a joint return.

(C) Jimmy and Anna are qualifying children of both Randy and Cara. Randy and Cara can choose which of them will claim the credit based on each child. One can claim the credit on the basis of two children, or each can claim the credit on the basis of one child. If both claim the credit on the basis of the same child or both children, Cara will be entitled to the credit because each child lived with her for the longer period of time during the year.

(D) Yes. He is between 25 and 65; his earned income is less than $11,230; he cannot be claimed as a dependent and he is not a qualifying child of another person.

(E) No; to be a qualifying child, a married child must generally be eligible to be claimed as a dependent by the taxpayer.

(F) Numbers 1 and 6 should be circled.

Exercise 2

(A) $3,120

(B) $1,900

Exercise 3 **Bell's EIC Worksheet**

Earned Income Credit (EIC) Worksheet—Line 41

Keep for Your Records

Part 1

All Filers

1. Enter your earned income from Step 5 on page 43. **1** 21,211

2. Look up the amount on line 1 above in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. **2** 1,509

If line 2 is zero, STOP You cannot take the credit.
Put "No" to the left of the entry space for line 41.

3. Enter the amount from Form 1040A, line 22. **3** 21,250

4. Are the amounts on lines 3 and 1 the same?

☐ **Yes.** *Skip line 5; enter the amount from line 2 on line 6.*

☒ **No.** *Go to line 5.*

Part 2

Filers Who Answered "No" on Line 4

5. If you have:

- No qualifying children, is the amount on line 3 less than $6,250 ($7,250 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 3 less than $13,750 ($14,750 if married filing jointly)?

☐ **Yes.** *Leave line 5 blank; enter the amount from line 2 on line 6.*

☒ **No.** Look up the amount on line 3 in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. **5** $1,501

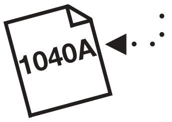
Look at the amounts on lines 5 and 2.
*Then, enter the **smaller** amount on line 6.*

Part 3

Your Earned Income Credit

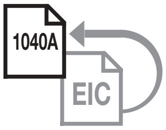
6. **This is your earned income credit.** **6** $1,501

Enter this amount on Form 1040A, line 41.



Reminder—

√ If you have a qualifying child, complete and attach Schedule EIC.



CAUTION If your EIC for a year after 1996 was reduced or disallowed, see page 43 to find out if you must file Form 8862 to take the credit for 2003.

Exercise 3

Bell's Eligibility Questions, page 1

Line 41— Earned Income Credit (EIC)

What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you **or** let the IRS figure the credit for you.
- If you have a qualifying child, complete and attached Schedule EIC.

CAUTION If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1 All Filers

1. If, in 2003:

- 2 children lived with you, is the amount on Form 1040A, line 22, less than $33,692 ($34,692 if married filing jointly)?
- 1 child lived with you, is the amount on Form 1040A, line 22, less than $29,666 ($30,666 if married filing jointly)?
- No children live with you, is the amount on Form 1040A, line 22, less than $11,230 ($12,230 if married filing jointly)?

☒ **Yes.** *Continue* ☐ **No.** STOP You cannot take the credit.

2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?

☒ **Yes.** *Continue* ☐ **No.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

3. Is you filing status married filing separately?

☐ **Yes.** STOP You cannot take the credit. ☒ **No.** *Continue*

4. Were you a nonresident alien for any part of 2003?

☐ **Yes.** *See Nonresident aliens on page 42.* ☒ **No.** *Go to Step 2.*

Step 2 Investment Income

1. Add the amounts from Form 1040A:

Line 8a	$39
Line 8b +	0
Line 9a +	0
Line 10a +	0
Investment Income =	$39

2. Is your investment income more than $2,600?

☐ **Yes.** STOP You cannot take the credit. ☒ **No.** *Continue*

3. Did a child live with you in 2003?

☒ **Yes.** *Go to Step 3 on page 40.* ☐ **No.** *Go to Step 4 on page 40.*

Exercise 3

Bell's Eligibility Questions, page 2

Form 1040A—Line 41

Step 3 Qualifying Child

A qualifying child is a child who is your...

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

AND

was at the end of 2003...

Under age 19

or

Under age 24 and a student (see page 42)

or

Any age and permanently and totally disabled (see page 42)

AND

who...

Lived with you in the United States for more than half of 2003. If the child did not live with you for the required time, see Exception to "Time Lived With You" Condition on page 41.

Note. If the child was married, see page 42.

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

☒ **No.** *Continue* ↓

2. Do you have at least one child who meets the above conditions to be your qualifying child?

☒ **Yes.** *Go to question 3.*

☐ **No.** *Skip question 3; go to Step 4, question 2.*

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2003?

☐ **Yes.** *See Qualifying Child of More Than One Person on page 42.*

☒ **No.** This child is your qualifying child. The child must have a valid social security number as defined on page 42 unless the child was born and died in 2003. *Skip Step 4; go to Step 5 on page 41.*

Step 4 Filers Without a Qualifying Child

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

☐ **No.** *Continue* ↓

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return?

☐ **Yes.** STOP You cannot take the credit.

☐ **No.** *Continue* ↓

3. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?

☐ **Yes.** *Continue* ↓

☐ **No.** STOP You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 42 before you answer.

☐ **Yes.** *Go to Step 5 on page 41.*

☐ **No.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

Exercise 3

Bell's Eligibility Questions, page 3

Form 1040A—Line 41

Step 5 **Earned Income**

1. Figure earned income:

Form 1040, line 7 21,211

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

– 0

Earned Income = 21,211

2. If you have:

- 2 or more qualifying children, is your earned income less than $33,692 ($34,692 if married filing jointly)?
- 1 qualifying child, is your earned income less than $29,666 ($30,666 if married filing jointly)?
- No qualifying children, is your earned income less than $11,230 ($12,230 if married filing jointly)?

☒ **Yes.** *Go to Step 6.* ☐ **No.** STOP You cannot take the credit.

Step 6 **How To Figure the Credit**

1. Do you want the IRS to figure the credit for you?

☐ **Yes.** *See Credit Figured by the IRS below.* ☒ **No.** *Go to the worksheet on page 43.*

Definitions and Special Rules

(listed in alphabetical order)

Adopted Child. An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

Credit Figured by the IRS. To have the IRS figure the credit for you:

1. Put "EIC"to the left of the entry space for line 41 of Form 1040A.

2. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to "Time Lived With You" Condition. A child is considered to have lived with you for all of 2003 if the child was born or died in 2003 and your home was this child's home for the entire time he or she was alive in 2003. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military on page 42.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year **(a)** you filed Form 8862 (or other documents) and your EIC was then allowed and **(b)** your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

(Continued on page 42)

Exercise 3

Bell's Schedule EIC, page 1

SCHEDULE EIC
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service

Earned Income Credit

Qualifying Child Information

1040A
1040
EIC

Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

OMB No. 1545-0074

2003

Attachment Sequence No. **43**

Name(s) shown on return: Sam U. and Robin O. Bell

Your social security number: 000 00 4797

Before you begin: See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that **(a)** you can take the EIC and **(b)** you have a qualifying child.

CAUTION

- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Qualifying Child Information	**Child 1**	**Child 2**
1 Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name: Jennifer Last name: Bell	First name Last name
2 Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	000 00 1987	
Next, if the child was born after 1984, go to line 4. Otherwise, continue.		
3 If the child was born before 1985— **a** Was the child under age 24 at the end of 2003 and a student?	☐ **Yes.** *Go to line 4.* ☐ **No.** *Continue*	☐ **Yes.** *Go to line 4.* ☐ **No.** *Continue*
b Was the child permanently and totally disabled during any part of 2003?	☐ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.	☐ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.
4 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)	Daughter	
5 Number of months child lived with you in the United States during 2003 • If the child lived with you for more than half of 2003 but less than 7 months, enter "7". • If the child was born or died in 2003 and your home was the child's home for the entire time he or she was alive during 2003, enter "12".	12 months *Do not enter more than 12 months.*	______ months *Do not enter more than 12 months.*

TIP

You may also be able to take the additional child tax credit if your child **(a)** was under age 17 at the end of 2003, **(b)** is claimed as your dependent on line 6c of Form 1040A or Form 1040, **and (c)** is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 65 of Form 1040.

For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions.

Cat. No. 13339M

Schedule EIC (Form 1040A or 1040) 2003

Exercise 3

Bell's Schedule EIC, page 2

claimed as a dependent, see page 34.
- All others:

Single or Married filing separately, $4,750

Married filing jointly or Qualifying widow(er), $9,500

Head of household, $7,000

If you have a qualifying child, attach Schedule EIC.

28	**Tax,** including any alternative minimum tax (see page 35).				28		
29	Credit for child and dependent care expenses. Attach Schedule 2.	29					
30	Credit for the elderly or the disabled. Attach Schedule 3.	30					
31	Education credits. Attach Form 8863.	31					
32	Retirement savings contributions credit. Attach Form 8880.	32					
33	Child tax credit (see page 38).	33					
34	Adoption credit. Attach Form 8839.	34					
35	Add lines 29 through 34. These are your **total credits.**				35	0	00
36	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.				36	0	00
37	Advance earned income credit payments from Form(s) W-2.				37		
38	Add lines 36 and 37. This is your **total tax.** ▶				38	0	00
39	Federal income tax withheld from Forms W-2 and 1099.	39					
40	2003 estimated tax payments and amount applied from 2002 return.	40					
41	**Earned income credit (EIC).**	41	1,501	00			
42	Additional child tax credit. Attach Form 8812.	42					
43	Add lines 39 through 42. These are your **total payments.** ▶				43	1,501	00

Exercise 4

(A) See Kyle's completed steps and the EIC worksheet.

(B) See Kyle's Schedule EIC.

Exercise 4(D)

Kyle's EIC Eligibility Questions, page 1

Form 1040A—Line 41

Line 41— Earned Income Credit (EIC)

What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you **or** let the IRS figure the credit for you.
- If you have a qualifying child, complete and attached Schedule EIC.

CAUTION If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1 All Filers

1. If, in 2003:

- 2 children lived with you, is the amount on Form 1040A, line 22, less than $33,692 ($34,692 if married filing jointly)?
- 1 child lived with you, is the amount on Form 1040A, line 22, less than $29,666 ($30,666 if married filing jointly)?
- No children live with you, is the amount on Form 1040A, line 22, less than $11,230 ($12,230 if married filing jointly)?

☒ **Yes.** *Continue*

☐ **No.** STOP You cannot take the credit.

2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?

☒ **Yes.** *Continue*

☐ **No.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

3. Is you filing status married filing separately?

☐ **Yes.** STOP You cannot take the credit.

☒ **No.** *Continue*

4. Were you a nonresident alien for any part of 2003?

☐ **Yes.** *See Nonresident aliens on page 42.*

☒ **No.** *Go to Step 2.*

Step 2 Investment Income

1. Add the amounts from Form 1040A:

Line 8a 0
Line 8b + 0
Line 9a + 0
Line 10a + 0
Investment Income = 0

2. Is your investment income more than $2,600?

☐ **Yes.** STOP You cannot take the credit.

☒ **No.** *Continue*

3. Did a child live with you in 2003?

☒ **Yes.** *Go to Step 3 on page 40.*

☐ **No.** *Go to Step 4 on page 40.*

Exercise 4(D)

Kyle's EIC Eligibility Questions, page 2

Form 1040A—Line 41

Step 3 Qualifying Child

A qualifying child is a child who is your...

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

AND

was at the end of 2003...

Under age 19

or

Under age 24 and a student (see page 42)

or

Any age and permanently and totally disabled (see page 42)

AND

who...

Lived with you in the United States for more than half of 2003. If the child did not live with you for the required time, see Exception to "Time Lived With You" Condition on page 41.

Note. If the child was married, see page 42.

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

☒ **No.** *Continue* ⤵

2. Do you have at least one child who meets the above conditions to be your qualifying child?

☒ **Yes.** *Go to question 3.*

☐ **No.** *Skip question 3; go to Step 4, question 2.*

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2003?

☐ **Yes.** *See Qualifying Child of More Than One Person on page 42.*

☒ **No.** This child is your qualifying child. The child must have a valid social security number as defined on page 42 unless the child was born and died in 2003. *Skip Step 4; go to Step 5 on page 41.*

Step 4 Filers Without a Qualifying Child

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

☐ **No.** *Continue* ⤵

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return?

☐ **Yes.** STOP You cannot take the credit.

☐ **No.** *Continue* ⤵

3. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?

☐ **Yes.** *Continue* ⤵

☐ **No.** STOP You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 42 before you answer.

☐ **Yes.** *Go to Step 5 on page 41.*

☐ **No.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

Exercise 4(D)

Kyle's EIC Eligibility Questions, page 3

Form 1040A—Line 41

Step 5 Earned Income

1. Figure earned income:

Form 1040, line 7 18,751

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

– 0

Earned Income = 18,751

2. If you have:

- 2 or more qualifying children, is your earned income less than $33,692 ($34,692 if married filing jointly)?
- 1 qualifying child, is your earned income less than $29,666 ($30,666 if married filing jointly)?
- No qualifying children, is your earned income less than $11,230 ($12,230 if married filing jointly)?

☒ **Yes.** *Go to Step 6.* ☐ **No.** STOP You cannot take the credit.

Step 6 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

☐ **Yes.** *See Credit Figured by the IRS below.* ☒ **No.** *Go to the worksheet on page 43.*

Definitions and Special Rules

(listed in alphabetical order)

Adopted Child. An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

Credit Figured by the IRS. To have the IRS figure the credit for you:

1. Put "EIC"to the left of the entry space for line 41 of Form 1040A.

2. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to "Time Lived With You" Condition. A child is considered to have lived with you for all of 2003 if the child was born or died in 2003 and your home was this child's home for the entire time he or she was alive in 2003. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military on page 42.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year **(a)** you filed Form 8862 (or other documents) and your EIC was then allowed and **(b)** your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

(Continued on page 42)

Exercise 4(D)

Kyle's EIC Worksheet

Earned Income Credit (EIC) Worksheet—Line 41

Keep for Your Records

Part 1

All Filers

1. Enter your earned income from Step 5 on page 43. | 1 | 18,751

2. Look up the amount on line 1 above in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. | 2 | 1,740

If line 2 is zero, STOP You cannot take the credit.
Put "No" to the left of the entry space for line 41.

3. Enter the amount from Form 1040A, line 22. | 3 | 19,223

4. Are the amounts on lines 3 and 1 the same?

☐ **Yes.** *Skip line 5; enter the amount from line 2 on line 6.*

☒ **No.** *Go to line 5.*

Part 2

Filers Who Answered "No" on Line 4

5. If you have:

- No qualifying children, is the amount on line 3 less than $6,250 ($7,250 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 3 less than $13,750 ($14,750 if married filing jointly)?

☐ **Yes.** *Leave line 5 blank; enter the amount from line 2 on line 6.*

☒ **No.** Look up the amount on line 3 in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. | 5 | 1,668

Look at the amounts on lines 5 and 2.
Then, enter the ***smaller*** *amount on line 6.*

Part 3

Your Earned Income Credit

6. This is your earned income credit. | 6 | 1,668

Enter this amount on Form 1040A, line 41.

Reminder—

√ If you have a qualifying child, complete and attach Schedule EIC.

CAUTION If your EIC for a year after 1996 was reduced or disallowed, see page 43 to find out if you must file Form 8862 to take the credit for 2003.

Exercise 4(D) **Evan's Schedule EIC**

SCHEDULE EIC
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service

Earned Income Credit

Qualifying Child Information

1040A
1040
EIC

Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

OMB No. 1545-0074

2003

Attachment Sequence No. **43**

Name(s) shown on return: Kyle B. Evans

Your social security number: 000 00 2442

Before you begin: See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that **(a)** you can take the EIC and **(b)** you have a qualifying child.

CAUTION

- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Qualifying Child Information

Qualifying Child Information	**Child 1**	**Child 2**
1 Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name: Julie Last name: Evans	First name Last name
2 Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	000 00 4104	
Next, if the child was born after 1984, go to line 4. Otherwise, continue.		
3 If the child was born before 1985— **a** Was the child under age 24 at the end of 2003 and a student?	☐ **Yes.** *Go to line 4.* ☐ **No.** *Continue*	☐ **Yes.** *Go to line 4.* ☐ **No.** *Continue*
b Was the child permanently and totally disabled during any part of 2003?	☐ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.	☐ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.
4 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)	Daughter	
5 Number of months child lived with you in the United States during 2003 • If the child lived with you for more than half of 2003 but less than 7 months, enter "7". • If the child was born or died in 2003 and your home was the child's home for the entire time he or she was alive during 2003, enter "12".	12 months *Do not enter more than 12 months.*	____ months *Do not enter more than 12 months.*

TIP You may also be able to take the additional child tax credit if your child **(a)** was under age 17 at the end of 2003, **(b)** is claimed as your dependent on line 6c of Form 1040A or Form 1040, **and (c)** is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 65 of Form 1040.

For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions. Cat. No. 13339M **Schedule EIC (Form 1040A or 1040) 2003**

CHILD TAX CREDIT

Lesson 10

INTRODUCTION AND OBJECTIVES

In this lesson you will learn about the child tax credit. This credit is unique because it can be both nonrefundable and refundable. This lesson will discuss who qualifies for the credit and how to calculate the credit.

After completing this lesson you should be able to:

- Explain the advance child tax credit and determine who received the advance payment.
- Calculate the child tax credit using the child tax credit worksheet.
- Calculate the additional child tax credit by using form 8812.

ALERT ⚠

Beginning in 2003, the Child Tax Credit increased to $1,000 per qualifying child.

ADVANCE CHILD TAX CREDIT PAYMENTS

The Jobs and Growth Tax Relief Reconciliation Act of 2003 raised the Child Tax Credit to a maximum of $1,000 per child from $600 per child, beginning in 2003. The Act also provided for immediate tax relief by directing the Treasury to send this increase to taxpayers last summer. Eligible taxpayers could receive up to $400 for each child claimed on their 2002 returns as an advance payment of their 2003 Child Tax Credit.

The IRS used 2002 tax year data to determine who was issued the advance payment. Generally:

- Taxpayers must have claimed the Child Tax Credit on the 2002 tax return.
- Taxpayers must have used Form 1040 or Form 1040A, or filed electronically.
- The child must have been born after 1986.

There were no actions required of the Taxpayers to receive the advance payment. The IRS automatically sent notices to eligible taxpayers. The IRS notice was followed a few days later by the advance payment check. Both the notice and the check were mailed to the address listed on the taxpayer's 2002 tax return. Anyone who had moved since the filing of the 2002 return should have notified the U.S. Postal Service of the new address, and the notice and check were forwarded.

The advance payment checks were mailed July 25th, August 1st, and August 8th to taxpayers who filed their returns by April 15th. The checks were issued based on the last two digits of the Social Security number listed first on the 2002 tax return. Taxpayers whose last two digits are the lowest received their checks first.

Taxpayers who received filing extensions still got the advance payment checks if they were eligible. They were mailed between four to six weeks after the IRS received their 2002 tax return.

If the taxpayer received the advance Child Tax Credit payment, he or she must include the amount received on the Child Tax Credit Worksheet when calculating the 2003 Child Tax Credit.

The IRS established a new service at *www.irs.gov*: *Where's My Advance Child Tax Credit?* This new service provides on-line advance child tax credit payment information. The information includes the amount of a taxpayer's advance payment, the check mailing date, and any offsets to outstanding liabilities.

Since the taxpayers must figure their advance payments into their calculations for their 2003 child tax credit, *Where's My Advance Child Tax Credit?* information will be available through April 15, 2004.

ALERT

Beginning in 2003, the Child Tax Credit increased to $1,000 per child.

CHILD TAX CREDIT

A taxpayer can claim a child tax credit for each of the taxpayer's qualifying children. The maximum child tax credit is $1000 per child for 2003. The credit can be claimed on either Form 1040 or 1040A.

Qualifying child

To qualify, the child must be:

- Under age 17 at the end of 2003,
- A citizen or resident of the United States,
- The taxpayer's dependent, and
- The taxpayer's:
  Son or daughter,
  Stepson or stepdaughter, adopted child,
  Grandchild, or
  Eligible foster child

The taxpayer must provide the name and identification number (usually a social security number) of each qualifying child on his or her tax return.

Limits on credit

The amount of a taxpayer's child tax credit depends on the taxpayer's modified adjusted gross income (modified AGI) and the taxpayer's filing status.

Modified AGI

The credit begins to phase out if the taxpayer's modified AGI is above a certain amount (**Table 1**). For most taxpayers, modified AGI is generally the same as AGI. For 2003, AGI is shown on line 21 of Form 1040A and on line 34 of Form 1040.

Table 1: ***Child Tax Credit***
Threshold Modified AGI Amounts for Claiming Child Tax Credit

Filing Status	Amount
Married filing jointly	$110,000
Qualifying widow(er)	75,000
Head of household	75,000
Single	75,000
Married filing separately	55,000

Before you can figure a taxpayer's credit amount for the year, you must have the taxpayer answer certain questions (Exhibit 1) to see if you must use the worksheet in Publication 972, *Child Tax Credit*. These questions are in the tax form instructions. If you do not need to use Publication 972, you can use the shorter *Child Tax Credit Worksheet* in the form instructions.

Example 1

Bill and Mary Allen have two dependent children under age 17. The children are qualifying children for purposes of claiming the child tax credit. Bill and Mary have modified AGI of $34,000. They received an $800 advance child tax credit payment last summer. Their tax on line 43 for 2003 is $4,503. Bill and Mary need to answer questions to determine if they must use Publication 972 (Exhibit 1). The completed Child Tax Credit Worksheet (Exhibit 2) shows that their credit is $1,200, after considering the advance child tax credit payment. Their modified AGI is less than the phaseout amount for their filing status ($110,000).

Exhibit 1

Bill and Mary Allen's Child Tax Credit

Line 49—Child Tax Credit

What Is the Child Tax Credit?

This credit is for people who have a qualifying child as defined below. It is in addition to the credit for child and dependent care expenses on Form 1040, line 45, and the earned income credit on Form 1040, line 63.

Three Steps To Take the Child Tax Credit!

Step 1. Make sure you have a qualifying child for the child tax credit. See **Qualifying Child for Child Tax Credit** below.

Step 2. Make sure you checked the box in column (4) of line 6c on Form 1040 for each qualifying child.

Step 3. Answer the questions on this page to see if you may use the worksheet on page 39 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 9.

Qualifying Child for Child Tax Credit

A qualifying child for purposes of the child tax credit is a child who:

- Is claimed as your dependent on line 6c, **and**
- Was **under age 17** at the end of 2003, **and**
- Is your **(a)** son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild); **(b)** brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child; or **(c)** foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child), **and**
- Is a U.S. citizen or resident alien.

Note. The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.

An **adopted child** is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

A **grandchild** is any descendant of your son, daughter, adopted child, or stepchild and includes your great-grandchild, great-great-grandchild, etc.

Questions Who Must Use Pub. 972

1. Are you excluding income from Puerto Rico **or** are you filing any of the following forms?

- Form 2555 or 2555-EZ (relating to foreign earned income)
- Form 4563 (exclusion of income for residents of American Samoa)

☒ **No.** *Continue*

☐ **Yes.** STOP You must use Pub. 972 to figure your credit.

2. Is the amount on Form 1040, line 35, more than the amount shown below for your filing status?

- Married filing jointly – $110,000
- Single, head of household, or qualifying widow(er) – $75,000
- Married filing separately – $55,000

☒ **No.** *Continue*

☐ **Yes.** STOP You must use Pub. 972 to figure your credit.

3. Are you claiming any of the following credits?

- Adoption credit, Form 8839 (see the instructions for Form 1040, line 50, on page 40)
- Mortgage interest credit, Form 8396 (see the instructions for Form 1040, line 51, on page 40)
- District of Columbia first-time homebuyer credit, Form 8859

☒ **No.** Use the worksheet on page 39 to figure your child tax credit.

☐ **Yes.** You must use Pub. 972 to figure your child tax credit. You will also need the form(s) listed above for any credit(s) you are claiming.

Exhibit 2

Bill and Mary Allen's Child Tax Credit Worksheet

Form 1040—Line 49

Child Tax Credit Worksheet—Line 49

Keep for Your Records

Before you begin: √ If you received (before offset) an advance payment of the child tax credit and you filed a joint return for 2002, you and your spouse are each considered to have received one-half of the payment.

CAUTION

- To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2003 and meet the other requirements listed on page 38.
- **Do not** use this worksheet if you answered "Yes" to question 1, 2, or 3 on page 38. Instead, use Pub. 972.

1. Number of qualifying children: 2 X $1,000. Enter the result. **1** $2,000

2. Enter the amount, if any, of your advance child tax credit (before offset). **2** $800

3. Is line 1 less than or equal to line 2?

☐ **Yes.** STOP You cannot take this credit. If line 2 is more than line 1, you do not have to pay back the difference.

☒ **No.** Subtract line 2 from line 1. **3** $1,200

4. Enter the amount from Form 1040, line 43. **4** $4,503

5. Enter the total of the amounts from Form 1040, lines 44 through 48. **5** $0

6. Are the amounts on lines 4 and 5 the same?

☐ **Yes.** STOP You cannot take this credit because there is no tax to reduce However, you may be able to take the **additional child tax credit.** See the **TIP** below.

☒ **No.** Subtract line 5 from line 4. **6** $4,503

7. Is the amount on line 3 more than the amount on line 6?

☐ **Yes.** Enter the amount from line 6. Also, you may be able to take the **additional child tax credit.** See the **TIP** below.

☒ **No.** Enter the amount from line 3.

This is your child tax credit. **7** $1,200

Enter this amount on Form 1040, line 49.

TIP You may be able to take the **additional child tax credit** on Form 1040, line 65, if you answered "Yes" on line 6 **or** line 7 above.

- First, complete your Form 1040 through line 64.
- Then, use Form 8812 to figure any additional child tax credit.

ADDITIONAL CHILD TAX CREDIT

The child tax credit is a nonrefundable credit that gives eligible taxpayers $1000 for each qualifying child. If a taxpayer's tax liability is less than the allowable nonrefundable child tax credit, the taxpayer may be eligible to claim the **refundable additional child tax credit.**

The additional child tax credit was expanded to include **all** taxpayers who have ***earned income,*** regardless of the number of qualifying children. This extended the refundable part of the child tax credit to families who have less than three qualified children.

Before figuring additional child tax credit, figure the taxpayer's:

- Unused nonrefundable child tax credit amount,
- Total Social Security and Medicare taxes withheld (Form W-2, *Wage and Tax Statement,* boxes 4 and 6),
- Earned income credit amount,
- Total taxable earned income (back of Form 8812), and
- For 1040 filers, one-half of self-employment tax paid, Form 1040, line 29.

The taxpayer will need to seek the assistance of a paid professional tax preparer if he or she has:

- Excess social security and RRTA tax withheld (more than one employer and gross income in excess of $84,900) or
- Social Security and Medicare tax on ***unreported*** tip income.

POTENTIAL PITFALLS ⚠

When figuring the additional child tax credit, you must use the back of Form 8812 to determine taxable earned income (line 4).

Taxpayers must use **Form 8812**, *Additional Child Tax Credit,* to claim the additional child tax credit. This credit is based on 10% of the taxpayer's taxable earned income in excess of $10,500.

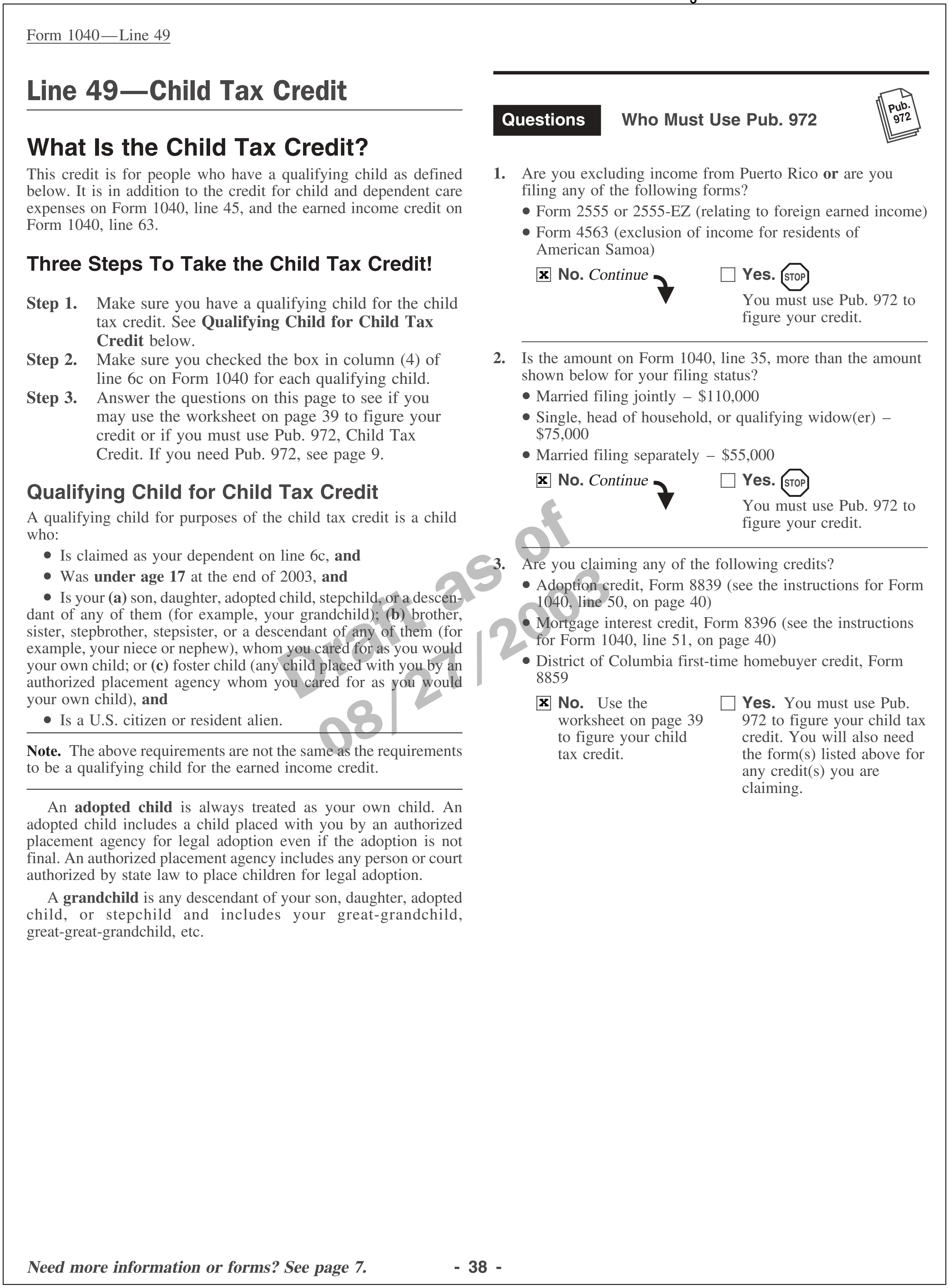
Form 8812 explains step-by-step how to compute the additional child tax credit. The form allows a taxpayer who can use both rules to claim the larger additional child tax credit. That is, taxpayers with three or more children can continue to claim a refundable additional tax credit, under the rules that applied in prior years, if that amount is greater than the refundable credit based on the taxpayer's earned income in excess of $10,500.

Example 2

Maureen Langston is filing Form 1040. Her filing status is head of household for 2003. She has five dependent children, all of whom are qualifying children for purposes of the child tax credit. Maureen received a $2,000 advance child tax credit payment check in August 2003. Maureen's earned income (and adjusted gross income) is $26,375, her tax is $149, Social Security/Medicare taxes are $2,018, and the earned income credit is $1,433. Based on this information, Maureen's child tax credit is $149 (Exhibit 4) and her additional child tax credit is $1,588. Exhibits 5 and 6 illustrate how Maureen's additional child tax credit was figured.

Exhibit 3

Maureen Langston's Child Tax Credit Worksheet



Form 1040—Line 49

Line 49—Child Tax Credit

What Is the Child Tax Credit?

This credit is for people who have a qualifying child as defined below. It is in addition to the credit for child and dependent care expenses on Form 1040, line 45, and the earned income credit on Form 1040, line 63.

Three Steps To Take the Child Tax Credit!

Step 1. Make sure you have a qualifying child for the child tax credit. See **Qualifying Child for Child Tax Credit** below.

Step 2. Make sure you checked the box in column (4) of line 6c on Form 1040 for each qualifying child.

Step 3. Answer the questions on this page to see if you may use the worksheet on page 39 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 9.

Qualifying Child for Child Tax Credit

A qualifying child for purposes of the child tax credit is a child who:

- Is claimed as your dependent on line 6c, **and**
- Was **under age 17** at the end of 2003, **and**
- Is your **(a)** son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild); **(b)** brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child; or **(c)** foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child), **and**
- Is a U.S. citizen or resident alien.

Note. The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.

An **adopted child** is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

A **grandchild** is any descendant of your son, daughter, adopted child, or stepchild and includes your great-grandchild, great-great-grandchild, etc.

Questions **Who Must Use Pub. 972**

1. Are you excluding income from Puerto Rico **or** are you filing any of the following forms?
- Form 2555 or 2555-EZ (relating to foreign earned income)
- Form 4563 (exclusion of income for residents of American Samoa)

☒ **No.** *Continue*

☐ **Yes.** STOP You must use Pub. 972 to figure your credit.

2. Is the amount on Form 1040, line 35, more than the amount shown below for your filing status?
- Married filing jointly – $110,000
- Single, head of household, or qualifying widow(er) – $75,000
- Married filing separately – $55,000

☒ **No.** *Continue*

☐ **Yes.** STOP You must use Pub. 972 to figure your credit.

3. Are you claiming any of the following credits?
- Adoption credit, Form 8839 (see the instructions for Form 1040, line 50, on page 40)
- Mortgage interest credit, Form 8396 (see the instructions for Form 1040, line 51, on page 40)
- District of Columbia first-time homebuyer credit, Form 8859

☒ **No.** Use the worksheet on page 39 to figure your child tax credit.

☐ **Yes.** You must use Pub. 972 to figure your child tax credit. You will also need the form(s) listed above for any credit(s) you are claiming.

Need more information or forms? See page 7. **- 38 -**

Exhibit 4

Maureen Langston's Child Tax Credit Worksheet

Form 1040—Line 49

Child Tax Credit Worksheet—Line 49

Keep for Your Records

Before you begin: √ If you received (before offset) an advance payment of the child tax credit and you filed a joint return for 2002, you and your spouse are each considered to have received one-half of the payment.

CAUTION

- To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2003 and meet the other requirements listed on page 38.
- **Do not** use this worksheet if you answered "Yes" to question 1, 2, or 3 on page 38. Instead, use Pub. 972.

1. Number of qualifying children: 5 X $1,000. Enter the result. **1** $5,000

2. Enter the amount, if any, of your advance child tax credit (before offset). **2** $2,000

3. Is line 1 less than or equal to line 2?

☐ **Yes.** STOP You cannot take this credit. If line 2 is more than line 1, you do not have to pay back the difference.

☒ **No.** Subtract line 2 from line 1. **3** $3,000

4. Enter the amount from Form 1040, line 43. **4** $149

5. Enter the total of the amounts from Form 1040, lines 44 through 48. **5** $0

6. Are the amounts on lines 4 and 5 the same?

☐ **Yes.** STOP You cannot take this credit because there is no tax to reduce However, you may be able to take the **additional child tax credit.** See the **TIP** below.

☒ **No.** Subtract line 5 from line 4. **6** $149

7. Is the amount on line 3 more than the amount on line 6?

☒ **Yes.** Enter the amount from line 6. Also, you may be able to take the **additional child tax credit.** See the **TIP** below.

☐ **No.** Enter the amount from line 3.

} **This is your child tax credit.** **7** $149

Enter this amount on Form 1040, line 49.

TIP

You may be able to take the **additional child tax credit** on Form 1040, line 65, if you answered "Yes" on line 6 **or** line 7 above.

- First, complete your Form 1040 through line 64.
- Then, use Form 8812 to figure any additional child tax credit.

Exhibit 5

Form **8812**

Department of the Treasury
Internal Revenue Service

Additional Child Tax Credit

Complete and attach to Form 1040 or Form 1040A.

OMB No. 1545-1620

2003

Attachment Sequence No. **47**

Name(s) shown on return: Maureen Langston

Your social security number: 000 00 9999

Part I All Filers

1	Enter the amount from line 3 of your Child Tax Credit Worksheet on page 40 of the Form 1040 instructions or page 39 of the Form 1040A instructions. If you used Pub. 972, enter the amount from line 10 of the worksheet on page 3 of the publication			1	$3,000
2	Enter the amount from Form 1040, line 49, or Form 1040A, line 33			2	$149
3	Subtract line 2 from line 1. If zero, **stop**; you cannot take this credit			3	$2,851
4	Enter your total taxable earned income. See the instructions on back	4	$26,375		
5	Is the amount on line 4 more than $10,500? ☐ **No.** Leave line 5 blank and enter -0- on line 6. ☒ **Yes.** Subtract $10,500 from the amount on line 4. Enter the result	5	$15,875		
6	Multiply the amount on line 5 by 10% (.10) and enter the result			6	$1,588

Next. Do you have three or more qualifying children?

☐ **No.** If line 6 is zero, **stop;** you cannot take this credit. Otherwise, skip Part II and enter the **smaller** of line 3 or line 6 on line 13.

☒ **Yes.** If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7.

Part II Certain Filers Who Have Three or More Qualifying Children

7	Enter the total of the withheld social security and Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If you worked for a railroad, see the instructions on back	7	$2,018		
8	**1040 filers:** Enter the total of the amounts from Form 1040, lines 28 and 56, plus any uncollected social security and Medicare or tier 1 RRTA taxes included on line 60. **1040A filers:** Enter -0-.	8	$0		
9	Add lines 7 and 8	9	$2,018		
10	**1040 filers:** Enter the total of the amounts from Form 1040, lines 63 and 64. **1040A filers:** Enter the total of the amount from Form 1040A, line 41, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 43 (see the instructions on back).	10	$1,433		
11	Subtract line 10 from line 9. If zero or less, enter -0-			11	$585
12	Enter the **larger** of line 6 or line 11 here			12	$1,588

Next, enter the **smaller** of line 3 or line 12 on line 13.

Part III Your Additional Child Tax Credit

13	**This is your additional child tax credit**	13	$1,588

Enter this amount on Form 1040, line 65, or Form 1040A, line 42.

For Paperwork Reduction Act Notice, see back of form. Cat. No. 10644E Form **8812** (2003)

Exhibit 6

Maureen Langston's Form 8812, page 2

Instructions

Purpose of Form

Use Form 8812 to figure your additional child tax credit.

TIP The additional child tax credit may give you a refund even if you do not owe any tax.

Who Should Use Form 8812

First, complete the Child Tax Credit Worksheet that applies to you. See the instructions for Form 1040, line 49, or Form 1040A, line 33. If you meet the condition given in the **TIP** at the end of your Child Tax Credit Worksheet, use Form 8812 to see if you can take the additional child tax credit.

Effect of Credit on Welfare Benefits

Any refund you receive as a result of taking the additional child tax credit will not be used to determine if you are eligible for the following programs, or how much you can receive from them.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

Taxable Earned Income

1. Did you, or your spouse if filing a joint return, have net earnings from self-employment and use either optional method to figure those net earnings?

☒ **No.** Go to question 2.

☐ **Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

2. Are you claiming the earned income credit (EIC) on Form 1040, line 63, or Form 1040A, line 41?

☒ **Yes.** Use the following chart to find the amount to enter on Form 8812, line 4.

IF you are filing Form...	AND you completed...	THEN enter on Form 8812, line 4, the amount from...
1040	Worksheet B on page 48 of your 1040 instructions	Worksheet B, line 4b.*
	Step 5 on page 45 of your 1040 instructions (but not Worksheet B)	Step 5, Earned Income
1040A	Step 5 on page 43 of your 1040A instructions	Step 5, Earned Income

* If you were a member of the clergy, subtract the following from the amount on line 4b: **(a)** the rental value of a home or the nontaxable portion of an allowance for a home furnished to you (including payments for utilities) and **(b)** the value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.

☐ **No.** **1040 filers:** Go to question 3.
1040A filers: Skip question 3 and go to question 4.

3. Were you, or your spouse if filing a joint return, self-employed, or are you filing Schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?

☒ **No.** Go to question 4.

☐ **Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

4. Does the amount on line 7 of Form 1040 or Form 1040A include any of the following amounts?

- Taxable scholarship or fellowship grants not reported on a W-2 form.
- Amounts paid to an inmate in a penal institution for work (put "PRI" and the amount paid in the space next to line 7 of Form 1040 or 1040A).
- Amounts received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount received in the space next to line 7 of Form 1040 or 1040A). This amount may be reported in box 11 of your W-2 form. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.
- Amounts from Form 2555, line 41, or Form 2555-EZ, line 18.

☒ **No.** Enter the amount from line 7 of Form 1040 or Form 1040A on Form 8812, line 4.

☐ **Yes.** Subtract the total of those amounts from the amount on line 7 of Form 1040 or Form 1040A. (If an amount is included in more than one of the above categories, include it only once in figuring the total amount to subtract.) Enter the result on Form 8812, line 4.

Railroad Employees

If you worked for a railroad, include the following taxes in the total on Form 8812, line 7.

- Tier 1 tax withheld from your pay. This tax should be shown in box 14 of your W-2 form(s) and identified as "Tier 1 tax."
- If you were an employee representative, 50% of the total tier 1 tax and tier 1 Medicare tax you paid for 2003.

1040A Filers

If you, or your spouse if filing a joint return, had more than one employer for 2003 and total wages of over $87,000, figure any excess social security and tier 1 railroad retirement (RRTA) taxes withheld. See the instructions for Form 1040A, line 43. Include any excess on Form 8812, line 10.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping,** 6 min.; **Learning about the law or the form,** 5 min.; **Preparing the form,** 28 min.; **Copying, assembling, and sending the form to the IRS,** 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040 or Form 1040A.

Exercise 1

Emily and Victor (SSN-000-00-4410) Howard are married taxpayers with four children. They file married filing jointly for 2003 on Form 1040A. All of their children are qualifying for purposes of the child tax credit. The Howards received a $1,600 advance child tax credit payment in August 2003. Their adjusted gross income is $31,467, of which $18,467 is taxable earned income and $13,000 is unemployment compensation. The Howards' taxable income is $3,667, Social Security/Medicare taxes are $1,413, and the earned income credit is $569. They have no other credits entered in lines 29-32. Based on the facts given, figure the Howards:

A. Child tax credit

B. Additional child tax credit.

Exhibit 7

Complete this Form.

Line 33—Child Tax Credit

What Is the Child Tax Credit?

This credit is for people who have a qualifying child as defined below. It is in addition to the credit for child and dependent care expenses on Form 1040A, line 29, and the earned income credit on Form 1040A, line 41.

Three Steps To Take the Child Tax Credit!

Step 1. Make sure you have a qualifying child for the child tax credit. See **Qualifying Child for Child Tax Credit** below.

Step 2. Make sure you checked the box in column (4) of line 6c on Form 1040A for each qualifying child.

Step 3. Answer the questions on this page to see if you may use the worksheet on page 37 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 7.

Qualifying Child for Child Tax Credit. A qualifying child for purposes of the child tax credit is a child who:

- Is claimed as your dependent on line 6c, **and**
- Was **under age 17** at the end of 2003, **and**
- Is your **(a)** son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild); **(b)** brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child; or **(c)** a foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child), **and**
- Is a U.S. citizen or resident alien.

Note. The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.

An **adopted child** is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

A **grandchild** is any descendant of your son, daughter, adopted child, or stepchild and includes your great-grandchild, great-great-grandchild, etc.

Questions **Who Must Use Pub. 972**

1. Is the amount on Form 1040A, line 22, more than the amount shown below for your filing status?

- Married filing jointly – $110,000
- Single, head of household, or qualifying widow(er) – $75,000
- Married filing separately – $55,000

☐ **No.** *Continue*

☐ **Yes.** STOP You must use Pub. 972 to figure your credit.

2. Are you claiming the adoption credit on Form 8839 (see the instructions for Form 1040A, line 34, on page 38)?

☐ **No.** Use the worksheet on page 37 to figure your child tax credit.

☐ **Yes.** You must use Pub. 972 to figure your child tax credit. You will also need Form 8839.

Exhibit 8

Child Tax Credit Worksheet—Line 33

Keep for Your Records

Before you begin: √ If you received (before offset) an advance payment of the child tax credit and you filed a joint return for 2002, you and your spouse are each considered to have received one-half of the payment.

TIP If you received Notice 1319, have it available. The notice shows the amount of your advance payment (before offset). If you do not have Notice 1319, you can check the amount of your advance payment (before offset) on the IRS website at **www.irs.gov**. You will need to enter your SSN, your 2002 filing status, and the total number of exemptions you claimed on line 6d of your 2002 Form 1040 or Form 1040A.

CAUTION

- To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2003 and meet the other requirements listed on page 38.
- **Do not** use this worksheet if you answered " Yes" to question 1 or 2 on page 38. Instead, use Pub. 972.

1. Number of qualifying children: ________ × $1,000. Enter the result. **1** ________

2. Enter the amount, if any, of your advance child tax credit (before offset). **2** ________

3. Is line 1 less than or equal to line 2?

☐ **Yes.** STOP You cannot take this credit. If line 2 is more than line 1, you do not have to pay back the difference.

☐ **No.** Subtract line 2 from line 1. **3** ________

4. Enter the amount from Form 1040A, line 28. **4** ________

5. Add the amounts from Form 1040A, lines 29 through 32. **5** ________

6. Are the amounts on lines 4 and 5 the same?

☐ **Yes.** STOP You cannot take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit.** See the **TIP** below.

☐ **No.** Subtract line 5 from line 4. **6** ________

7. Is the amount on line 3 more than the amount on line 6?

☐ **Yes.** Enter the amount from line 6. Also, you may be able to take the **additional child tax credit.** See the **TIP** below.

☐ **No.** Enter the amount from line 3.

This is your child tax credit. **7** ________

Enter this amount on Form 1040A, line 33.

1040A

TIP You may be able to take the **additional child tax credit** on Form 1040A, line 42, if you answered "Yes" on line 6 **or** line 7 above.

- First, complete your Form 1040A through line 41.
- Then, use Form 8812 to figure any additional child tax credit.

Exhibit 9

Complete this Form.

Form **8812**

Department of the Treasury
Internal Revenue Service

Additional Child Tax Credit

Complete and attach to Form 1040 or Form 1040A.

OMB No. 1545-1620

2003

Attachment
Sequence No. **47**

Name(s) shown on return

Your social security number

Part I All Filers

1 Enter the amount from line 3 of your Child Tax Credit Worksheet on page 40 of the Form 1040 instructions or page 39 of the Form 1040A instructions. If you used Pub. 972, enter the amount from line 10 of the worksheet on page 3 of the publication **1**

2 Enter the amount from Form 1040, line 49, or Form 1040A, line 33 . . . . **2**

3 Subtract line 2 from line 1. If zero, **stop**; you cannot take this credit **3**

4 Enter your total taxable earned income. See the instructions on back . . **4**

5 Is the amount on line 4 more than $10,500?

☐ **No.** Leave line 5 blank and enter -0- on line 6.

☐ **Yes.** Subtract $10,500 from the amount on line 4. Enter the result . **5**

6 Multiply the amount on line 5 by 10% (.10) and enter the result **6**

Next. Do you have three or more qualifying children?

☐ **No.** If line 6 is zero, **stop;** you cannot take this credit. Otherwise, skip Part II and enter the **smaller** of line 3 or line 6 on line 13.

☐ **Yes.** If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7.

Part II Certain Filers Who Have Three or More Qualifying Children

7 Enter the total of the withheld social security and Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If you worked for a railroad, see the instructions on back . . **7**

8 **1040 filers:** Enter the total of the amounts from Form 1040, lines 28 and 56, plus any uncollected social security and Medicare or tier 1 RRTA taxes included on line 60.
1040A filers: Enter -0-. } **8**

9 Add lines 7 and 8 . . . . **9**

10 **1040 filers:** Enter the total of the amounts from Form 1040, lines 63 and 64.
1040A filers: Enter the total of the amount from Form 1040A, line 41, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 43 (see the instructions on back). } **10**

11 Subtract line 10 from line 9. If zero or less, enter -0- **11**

12 Enter the **larger** of line 6 or line 11 here **12**

Next, enter the **smaller** of line 3 or line 12 on line 13.

Part III Your Additional Child Tax Credit

13 **This is your additional child tax credit** **13**

Enter this amount on Form 1040, line 65, or Form 1040A, line 42.

For Paperwork Reduction Act Notice, see back of form. Cat. No. 10644E Form **8812** (2003)

Exhibit 10

Complete this Form.

Instructions

Purpose of Form

Use Form 8812 to figure your additional child tax credit.

TIP The additional child tax credit may give you a refund even if you do not owe any tax.

Who Should Use Form 8812

First, complete the Child Tax Credit Worksheet that applies to you. See the instructions for Form 1040, line 49, or Form 1040A, line 33. If you meet the condition given in the **TIP** at the end of your Child Tax Credit Worksheet, use Form 8812 to see if you can take the additional child tax credit.

Effect of Credit on Welfare Benefits

Any refund you receive as a result of taking the additional child tax credit will not be used to determine if you are eligible for the following programs, or how much you can receive from them.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

Taxable Earned Income

1. Did you, or your spouse if filing a joint return, have net earnings from self-employment and use either optional method to figure those net earnings?

☐ **No.** Go to question 2.

☐ **Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

2. Are you claiming the earned income credit (EIC) on Form 1040, line 63, or Form 1040A, line 41?

☐ **Yes.** Use the following chart to find the amount to enter on Form 8812, line 4.

IF you are filing Form...	**AND you completed...**	**THEN enter on Form 8812, line 4, the amount from...**
1040	Worksheet B on page 48 of your 1040 instructions	Worksheet B, line 4b.*
	Step 5 on page 45 of your 1040 instructions (but not Worksheet B)	Step 5, Earned Income
1040A	Step 5 on page 43 of your 1040A instructions	Step 5, Earned Income

* If you were a member of the clergy, subtract the following from the amount on line 4b: **(a)** the rental value of a home or the nontaxable portion of an allowance for a home furnished to you (including payments for utilities) and **(b)** the value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.

☐ **No.** **1040 filers:** Go to question 3.
1040A filers: Skip question 3 and go to question 4.

3. Were you, or your spouse if filing a joint return, self-employed, or are you filing Schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?

☐ **No.** Go to question 4.

☐ **Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

4. Does the amount on line 7 of Form 1040 or Form 1040A include any of the following amounts?

- Taxable scholarship or fellowship grants not reported on a W-2 form.
- Amounts paid to an inmate in a penal institution for work (put "PRI" and the amount paid in the space next to line 7 of Form 1040 or 1040A).
- Amounts received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount received in the space next to line 7 of Form 1040 or 1040A). This amount may be reported in box 11 of your W-2 form. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.
- Amounts from Form 2555, line 41, or Form 2555-EZ, line 18.

☐ **No.** Enter the amount from line 7 of Form 1040 or Form 1040A on Form 8812, line 4.

☐ **Yes.** Subtract the total of those amounts from the amount on line 7 of Form 1040 or Form 1040A. (If an amount is included in more than one of the above categories, include it only once in figuring the total amount to subtract.) Enter the result on Form 8812, line 4.

Railroad Employees

If you worked for a railroad, include the following taxes in the total on Form 8812, line 7.

- Tier 1 tax withheld from your pay. This tax should be shown in box 14 of your W-2 form(s) and identified as "Tier 1 tax."
- If you were an employee representative, 50% of the total tier 1 tax and tier 1 Medicare tax you paid for 2003.

1040A Filers

If you, or your spouse if filing a joint return, had more than one employer for 2003 and total wages of over $87,000, figure any excess social security and tier 1 railroad retirement (RRTA) taxes withheld. See the instructions for Form 1040A, line 43. Include any excess on Form 8812, line 10.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping,** 6 min.; **Learning about the law or the form,** 5 min.; **Preparing the form,** 28 min.; **Copying, assembling, and sending the form to the IRS,** 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040 or Form 1040A.

Line 33—Child Tax Credit

What Is the Child Tax Credit?

This credit is for people who have a qualifying child as defined in the instructions for line 6c, column (4), that begin on page 25. It is in addition to the credit for child and dependent care expenses on Form 1040A, line 33, and the earned income credit on Form 1040A, line 50.

Three Steps To Take the Child Tax Credit!

Step 1. Make sure you have a qualifying child for the child tax credit. See the instructions for line 6c, column (4), that begin on page 25.

Step 2. Make sure you checked the box in column (4) of line 6c on Form 1040A for each qualifying child.

Step 3. Answer the questions on this page to see if you may use the worksheet on page 39 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 9.

Questions Who Must Use Pub. 972

Pub. 972

1. Is the amount on Form 1040A, line 22, more than the amount shown below for your filing status?

- Married filing jointly – $110,000
- Single, head of household, or qualifying widow(er) – $75,000
- Married filing separately – $55,000

☒ **No.** *Continue* ↓

☐ **Yes.** STOP You must use Pub. 972 to figure your credit.

2. Are you claiming the adoption credit on Form 8839 (see the instructions for Form 1040A, line 34, on page 40)?

☒ **No.** Use the worksheet on page 39 to figure your child tax credit.

☐ **Yes.** You must use Pub. 972 to figure your child tax credit. You will also need Form 8839.

Exercise 1(A) **The Howard's Child Tax Worksheet.**

Form 1040A—Line 33

Child Tax Credit Worksheet—Line 33

Keep for Your Records

Before you begin: √ If you received (before offset) an advance payment of the child tax credit and you filed a joint return for 2002, you and your spouse are each considered to have received one-half of the payment.

TIP If you received Notice 1319, have it available. The notice shows the amount of your advance payment (before offset). If you do not have Notice 1319, you can check the amount of your advance payment (before offset) on the IRS website at **www.irs.gov**. You will need to enter your SSN, your 2002 filing status, and the total number of exemptions you claimed on line 6d of your 2002 Form 1040 or Form 1040A.

CAUTION

- To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2003 and meet the other requirements listed on page 38.
- **Do not** use this worksheet if you answered " Yes" to question 1 or 2 on page 38. Instead, use Pub. 972.

1. Number of qualifying children: 4 × $1,000. Enter the result. **1** $4,000

2. Enter the amount, if any, of your advance child tax credit (before offset). **2** $1,600

3. Is line 1 less than or equal to line 2?

☐ **Yes.** STOP You cannot take this credit. If line 2 is more than line 1, you do not have to pay back the difference.

☒ **No.** Subtract line 2 from line 1. **3** $2,400

4. Enter the amount from Form 1040A, line 28. **4** $368

5. Add the amounts from Form 1040A, lines 29 through 32. **5** $0

6. Are the amounts on lines 4 and 5 the same?

☐ **Yes.** STOP You cannot take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit.** See the **TIP** below.

☒ **No.** Subtract line 5 from line 4. **6** $368

7. Is the amount on line 3 more than the amount on line 6?

☒ **Yes.** Enter the amount from line 6. Also, you may be able to take the **additional child tax credit.** See the **TIP** below.

☐ **No.** Enter the amount from line 3.

This is your child tax credit. **7** $368

Enter this amount on Form 1040A, line 33.

1040A

TIP You may be able to take the **additional child tax credit** on Form 1040A, line 42, if you answered "Yes" on line 6 **or** line 7 above.

- First, complete your Form 1040A through line 41.
- Then, use Form 8812 to figure any additional child tax credit.

Exercise 1(B) The Howard's Additional Child Tax Credit

Form **8812**

Department of the Treasury
Internal Revenue Service

Additional Child Tax Credit

Complete and attach to Form 1040 or Form 1040A.

OMB No. 1545-1620

2003

Attachment Sequence No. **47**

Name(s) shown on return: Emily and Victor Howard

Your social security number: 000 00 4410

Part I All Filers

1 Enter the amount from line 3 of your Child Tax Credit Worksheet on page 40 of the Form 1040 instructions or page 39 of the Form 1040A instructions. If you used Pub. 972, enter the amount from line 10 of the worksheet on page 3 of the publication **1** $2,400

2 Enter the amount from Form 1040, line 49, or Form 1040A, line 33 . . . . **2** $368

3 Subtract line 2 from line 1. If zero, **stop**; you cannot take this credit **3** $2,032

4 Enter your total taxable earned income. See the instructions on back . . **4** $18,467

5 Is the amount on line 4 more than $10,500?

☐ **No.** Leave line 5 blank and enter -0- on line 6.

☒ **Yes.** Subtract $10,500 from the amount on line 4. Enter the result . **5** $7,967

6 Multiply the amount on line 5 by 10% (.10) and enter the result **6** $797

Next. Do you have three or more qualifying children?

☐ **No.** If line 6 is zero, **stop;** you cannot take this credit. Otherwise, skip Part II and enter the **smaller** of line 3 or line 6 on line 13.

☒ **Yes.** If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7.

Part II Certain Filers Who Have Three or More Qualifying Children

7 Enter the total of the withheld social security and Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If you worked for a railroad, see the instructions on back . . **7** $1,413

8 **1040 filers:** Enter the total of the amounts from Form 1040, lines 28 and 56, plus any uncollected social security and Medicare or tier 1 RRTA taxes included on line 60.
1040A filers: Enter -0-. **8** $0

9 Add lines 7 and 8 . . . . **9** $1,413

10 **1040 filers:** Enter the total of the amounts from Form 1040, lines 63 and 64.
1040A filers: Enter the total of the amount from Form 1040A, line 41, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 43 (see the instructions on back). **10** $569

11 Subtract line 10 from line 9. If zero or less, enter -0- **11** $844

12 Enter the **larger** of line 6 or line 11 here **12** $844

Next, enter the **smaller** of line 3 or line 12 on line 13.

Part III Your Additional Child Tax Credit

13 **This is your additional child tax credit** **13** $844

Enter this amount on Form 1040, line 65, or Form 1040A, line 42.

For Paperwork Reduction Act Notice, see back of form. Cat. No. 10644E Form **8812** (2003)

STUDENT NOTES

WAGE EARNER COMPREHENSIVE PROBLEMS

INTRODUCTION

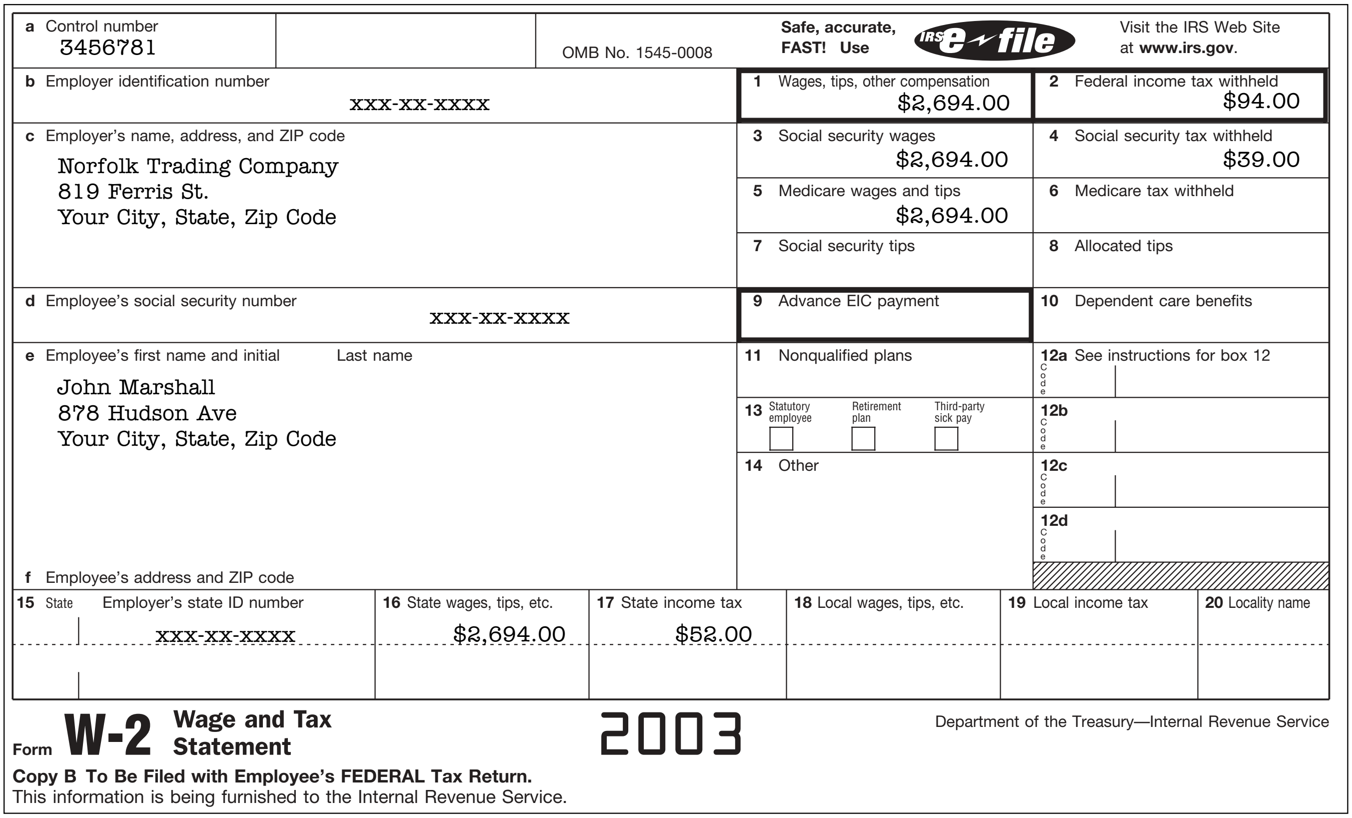
In this section, you will complete tax returns for several common wage earner scenarios often encountered at volunteer assistance sites. This will be valuable practice as you prepare to help taxpayers. Although answers to each of the problems are shown at the end of this section, you should try to complete the blank forms for each problem before referring to its answers.

After completing this section, you will be able to:

- accurately complete a basic tax return.

PROBLEM 1

John Marshall, a sophomore in college, wants help with preparing his tax return. He tells you he is 19 years old (born May 28, 1984). Although he lives in the dorm at college, his parents can claim him as a dependent on their tax return. He does not wish to contribute to the presidential campaign fund. If he receives a refund he would like it direct deposited into his checking account (account number xxxxxxxxxxxxx, routing number xxxxxxxxx). John does not want to name a third party designee. His address and SSN are correct on his Form W-2 and Form 1099-INT.



a Control number 3456781

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number xxx-xx-xxxx

c Employer's name, address, and ZIP code

Norfolk Trading Company
819 Ferris St.
Your City, State, Zip Code

d Employee's social security number xxx-xx-xxxx

e Employee's first name and initial Last name

John Marshall
878 Hudson Ave
Your City, State, Zip Code

f Employee's address and ZIP code

1 Wages, tips, other compensation $2,694.00

2 Federal income tax withheld $94.00

3 Social security wages $2,694.00

4 Social security tax withheld $39.00

5 Medicare wages and tips $2,694.00

6 Medicare tax withheld

7 Social security tips

8 Allocated tips

9 Advance EIC payment

10 Dependent care benefits

11 Nonqualified plans

12a See instructions for box 12 Code

13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐

12b Code

14 Other

12c Code

12d Code

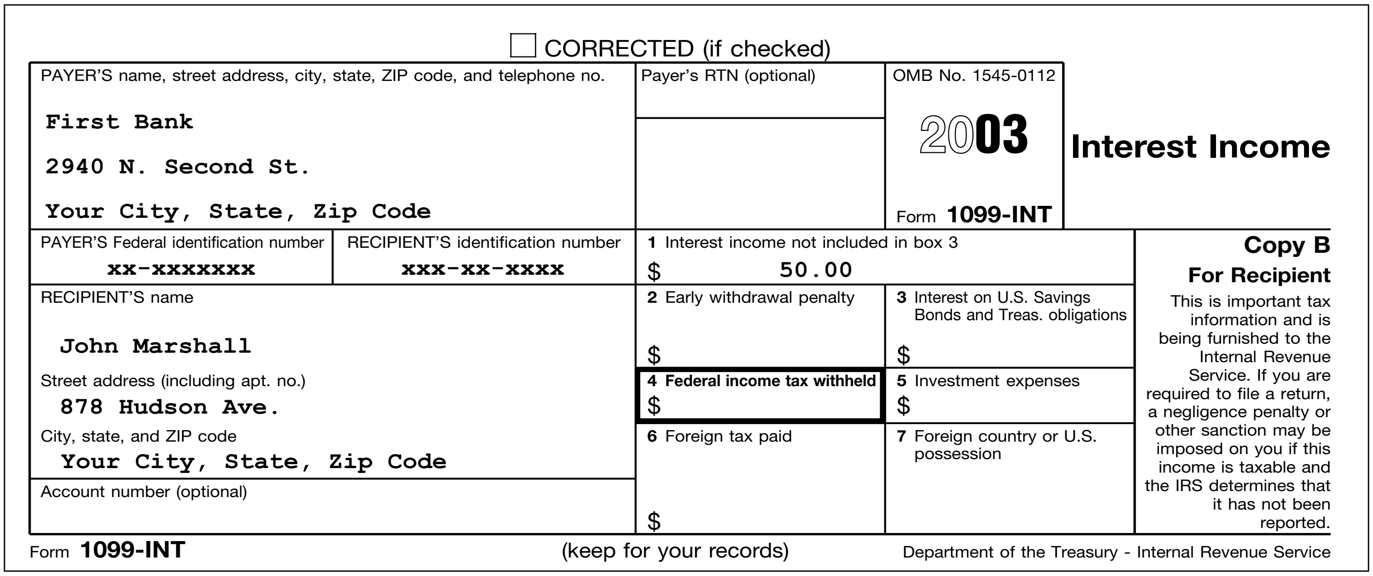
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
	xxx-xx-xxxx	$2,694.00	$52.00			

Form **W-2** **Wage and Tax Statement** 2003

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

WAGE EARNER COMPREHENSIVE PROBLEMS



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.
First Bank
2940 N. Second St.
Your City, State, Zip Code

Payer's RTN (optional)

OMB No. 1545-0112

2003

Form 1099-INT

Interest Income

PAYER'S Federal identification number: xx-xxxxxxx

RECIPIENT'S identification number: xxx-xx-xxxx

1 Interest income not included in box 3: $ 50.00

RECIPIENT'S name: John Marshall

Street address (including apt. no.): 878 Hudson Ave.

City, state, and ZIP code: Your City, State, Zip Code

Account number (optional)

2 Early withdrawal penalty: $

3 Interest on U.S. Savings Bonds and Treas. obligations: $

4 Federal income tax withheld: $

5 Investment expenses: $

6 Foreign tax paid: $

7 Foreign country or U.S. possession

Copy B

For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-INT** (keep for your records) Department of the Treasury - Internal Revenue Service

Complete this form

Form 1040EZ, front

Form **1040EZ**

Department of the Treasury—Internal Revenue Service

Income Tax Return for Single and Joint Filers With No Dependents **2003**

OMB No. 1545-0675

Label
(See page 14.)
Use the IRS label.
Otherwise, please print or type.

LABEL HERE

Your first name and initial | Last name | **Your social security number**

If a joint return, spouse's first name and initial | Last name | **Spouse's social security number**

Home address (number and street). If you have a P.O. box, see page 14. | Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.

▲ Important! ▲
You **must** enter your SSN(s) above.

Presidential Election Campaign (page 14)

Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if a joint return, want $3 to go to this fund? . . . . . . ▶

You ☐ Yes ☐ No Spouse ☐ Yes ☐ No

Income

Attach Form(s) W-2 here. Enclose, but do not attach, any payment.

1 Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2. 1

2 Taxable interest. If the total is over $1,500, you cannot use Form 1040EZ. 2

3 Unemployment compensation and Alaska Permanent Fund dividends (see page 16). 3

4 Add lines 1, 2, and 3. This is your **adjusted gross income.** 4

Note. You **must** check Yes or No.

5 Can your parents (or someone else) claim you on their return?
Yes. ☐ Enter amount from worksheet on back.
No. ☐ If **single,** enter $7,800. If **married filing jointly,** enter $15,600. See back for explanation. 5

6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your **taxable income.** ▶ 6

Payments and tax

7 Federal income tax withheld from box 2 of your Form(s) W-2. 7

8 **Earned income credit (EIC).** 8

9 Add lines 7 and 8. These are your **total payments.** ▶ 9

10 **Tax.** Use the amount on **line 6 above** to find your tax in the tax table on pages 25–29 of the booklet. Then, enter the tax from the table on this line. 10

Refund

Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d.

11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your **refund.** ▶ 11a

▶ b Routing number ☐☐☐☐☐☐☐☐☐ ▶ c Type: ☐ Checking ☐ Savings

▶ d Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Amount you owe

12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the **amount you owe.** For details on how to pay, see page 22. ▶ 12

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 22)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ | Phone no. ▶ ( ) | Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign here

Joint return? See page 13.
Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature | Date | Your occupation | Daytime phone number ( )

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation

Paid preparer's use only

Preparer's signature ▶ | Date | Check if self-employed ☐ | Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code ▶ | EIN | Phone no. ( )

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 24. Cat. No. 11329W Form **1040EZ** (2003)

Complete this form

Form 1040EZ, page 2

Form 1040EZ (2003) Page **2**

Use this form if

- Your filing status is single or married filing jointly.
- You (and your spouse if married filing jointly) were born after January 1, 1939, and were not blind at the end of 2003.
- You do not claim any dependents.
- Your taxable income (line 6) is less than $50,000.
- You do not claim a deduction for educator expenses, the student loan interest deduction, or the tuition and fees deduction.
- You do not claim an education credit, the retirement savings contributions credit, or the health insurance credit for eligible recipients.
- You had **only** wages, salaries, tips, taxable scholarship or fellowship grants, unemployment compensation, or Alaska Permanent Fund dividends, and your taxable interest was not over $1,500. **But** if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ (see page 15). If you are planning to use Form 1040EZ for a child who received Alaska Permanent Fund dividends, see page 16.
- You did not receive any advance earned income credit payments.

If you are not sure about your filing status, see page 13. If you have questions about dependents, use TeleTax topic 354 (see page 8). If you **cannot use this form,** use TeleTax topic 352 (see page 8).

Filling in your return

For tips on how to avoid common mistakes, see page 23.

If you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds, see the booklet before filling in the form. Also, see the booklet if you received a Form 1099-INT showing Federal income tax withheld or if Federal income tax was withheld from your unemployment compensation or Alaska Permanent Fund dividends.

Remember, you must report all wages, salaries, and tips even if you do not get a Form W-2 from your employer. You must also report all your taxable interest, including interest from banks, savings and loans, credit unions, etc., even if you do not get a Form 1099-INT.

Worksheet for dependents who checked "Yes" on line 5

(keep a copy for your records)

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married filing jointly) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, use TeleTax topic 354 (see page 8).

A. Amount, if any, from line 1 on front ________ + 250.00 Enter total ▶ **A.** ________

B. Minimum standard deduction . . . . **B.** 750.00

C. Enter the **larger** of line A or line B here . . . . **C.** ________

D. Maximum standard deduction. If **single,** enter $4,750; if **married filing jointly,** enter $9,500 . . . . **D.** ________

E. Enter the **smaller** of line C or line D here. This is your standard deduction . . . . **E.** ________

F. Exemption amount.
- If single, enter -0-.
- If married filing jointly and—
  —both you and your spouse can be claimed as dependents, enter -0-.
  —only one of you can be claimed as a dependent, enter $3,050.

F. ________

G. Add lines E and F. Enter the total here and on line 5 on the front . . **G.** ________

If you checked "No" on line 5 because no one can claim you (or your spouse if married filing jointly) as a dependent, enter on line 5 the amount shown below that applies to you.

- Single, enter $7,800. This is the total of your standard deduction ($4,750) and your exemption ($3,050).
- Married filing jointly, enter $15,600. This is the total of your standard deduction ($9,500), your exemption ($3,050), and your spouse's exemption ($3,050).

Mailing return

Mail your return by **April 15, 2004.** Use the envelope that came with your booklet. If you do not have that envelope or if you moved during the year, see the back cover for the address to use.

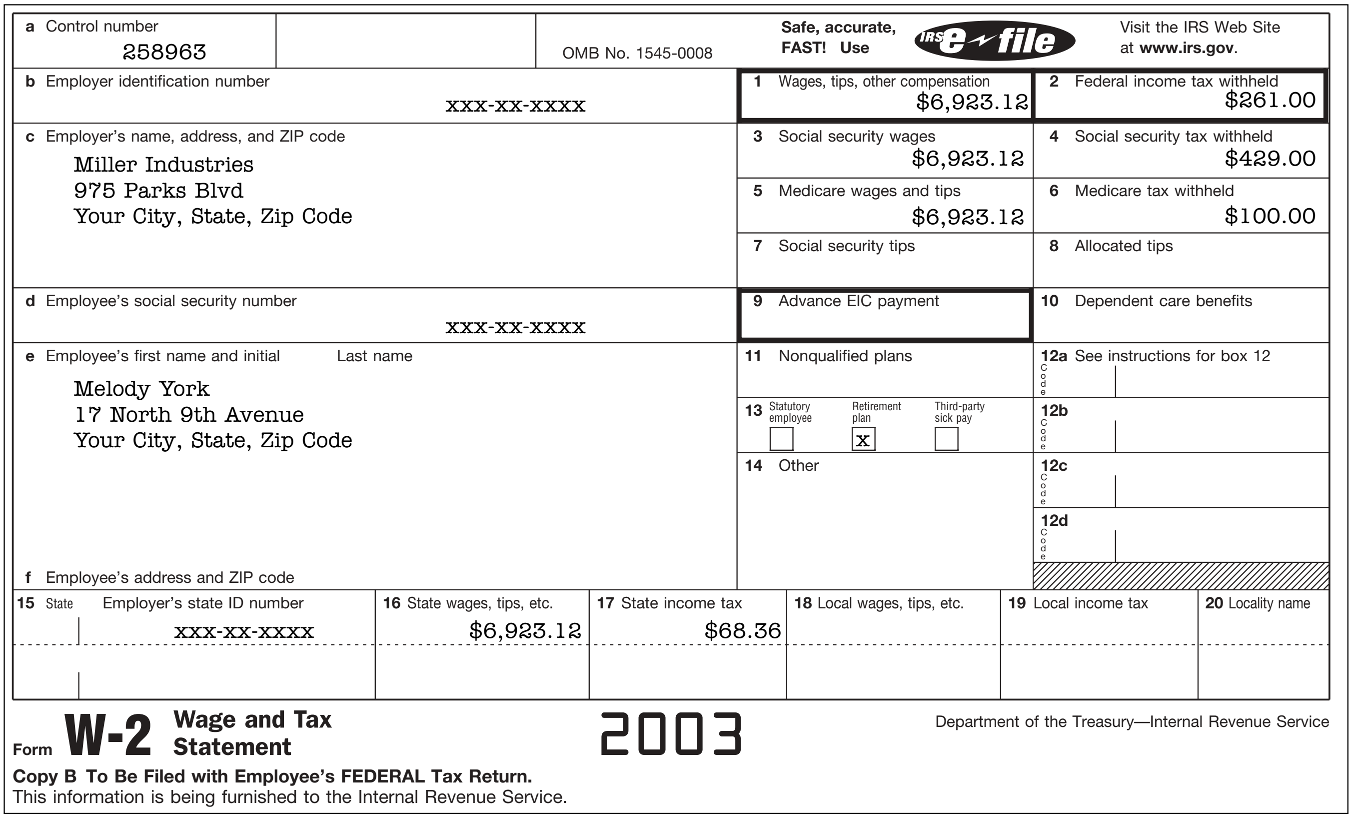
Printed on recycled paper

Form **1040EZ** (2003)

WAGE EARNER COMPREHENSIVE PROBLEMS

PROBLEM 2

Melody York is 34 years old (born August 31, 1969) and single. Melody was laid off from her job as a clerk in September and received unemployment compensation for the remainder of the year. She would like to contribute to the Presidential campaign fund. If she receives a refund, she would like it direct deposited into her savings account (account number xxxxxxxxxxx; routing transit number xxxxxxxxx). Melody does not want to name a third party designee. Her address and SSN are correct as shown on her Form W-2 and Form 1099-G.



a Control number 258963

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number xxx-xx-xxxx

c Employer's name, address, and ZIP code
Miller Industries
975 Parks Blvd
Your City, State, Zip Code

d Employee's social security number xxx-xx-xxxx

e Employee's first name and initial Last name
Melody York
17 North 9th Avenue
Your City, State, Zip Code

f Employee's address and ZIP code

1 Wages, tips, other compensation $6,923.12	**2** Federal income tax withheld $261.00
3 Social security wages $6,923.12	**4** Social security tax withheld $429.00
5 Medicare wages and tips $6,923.12	**6** Medicare tax withheld $100.00
7 Social security tips	**8** Allocated tips
9 Advance EIC payment	**10** Dependent care benefits
11 Nonqualified plans	**12a** See instructions for box 12
13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐	**12b**
14 Other	**12c**
	12d

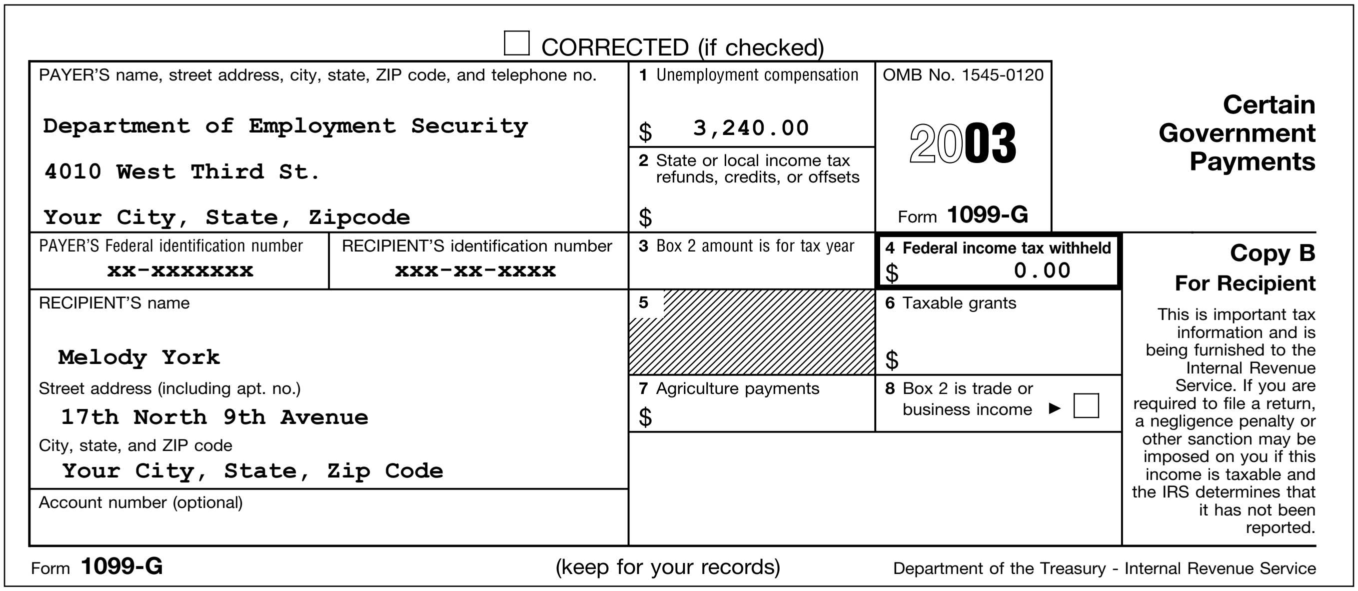
15 State	Employer's state ID number	**16** State wages, tips, etc.	**17** State income tax	**18** Local wages, tips, etc.	**19** Local income tax	**20** Locality name
	xxx-xx-xxxx	$6,923.12	$68.36			

Form **W-2** **Wage and Tax Statement** 2003

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

WAGE EARNER COMPREHENSIVE PROBLEMS



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

Department of Employment Security

4010 West Third St.

Your City, State, Zipcode

1 Unemployment compensation
$ 3,240.00

2 State or local income tax refunds, credits, or offsets
$

OMB No. 1545-0120

2003

Form **1099-G**

Certain Government Payments

PAYER'S Federal identification number
xx-xxxxxxx

RECIPIENT'S identification number
xxx-xx-xxxx

3 Box 2 amount is for tax year

4 Federal income tax withheld
$ 0.00

Copy B

For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

RECIPIENT'S name

Melody York

5

6 Taxable grants
$

Street address (including apt. no.)
17th North 9th Avenue

7 Agriculture payments
$

8 Box 2 is trade or business income ► ☐

City, state, and ZIP code
Your City, State, Zip Code

Account number (optional)

Form **1099-G** (keep for your records) Department of the Treasury - Internal Revenue Service

Complete this form

Form 1040EZ, front

Form **1040EZ**

Department of the Treasury—Internal Revenue Service

Income Tax Return for Single and Joint Filers With No Dependents **2003**

OMB No. 1545-0675

Label

(See page 14.)

Use the IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial | Last name | **Your social security number**

If a joint return, spouse's first name and initial | Last name | **Spouse's social security number**

Home address (number and street). If you have a P.O. box, see page 14. | Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.

▲ Important! ▲

You **must** enter your SSN(s) above.

Presidential Election Campaign (page 14)

Note. Checking "Yes" will not change your tax or reduce your refund.

Do you, or your spouse if a joint return, want $3 to go to this fund? . . . . ▶

You ☐ Yes ☐ No **Spouse** ☐ Yes ☐ No

Income

Attach Form(s) W-2 here. Enclose, but do not attach, any payment.

1 Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2. 1

2 Taxable interest. If the total is over $1,500, you cannot use Form 1040EZ. 2

3 Unemployment compensation and Alaska Permanent Fund dividends (see page 16). 3

4 Add lines 1, 2, and 3. This is your **adjusted gross income.** 4

Note. You **must** check Yes or No.

5 Can your parents (or someone else) claim you on their return?

Yes. ☐ Enter amount from worksheet on back.

No. ☐ If **single,** enter $7,800. If **married filing jointly,** enter $15,600. See back for explanation. 5

6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your **taxable income.** ▶ 6

Payments and tax

7 Federal income tax withheld from box 2 of your Form(s) W-2. 7

8 **Earned income credit (EIC).** 8

9 Add lines 7 and 8. These are your **total payments.** ▶ 9

10 **Tax.** Use the amount on **line 6 above** to find your tax in the tax table on pages 25–29 of the booklet. Then, enter the tax from the table on this line. 10

Refund

Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d.

11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your **refund.** ▶ 11a

▶ **b** Routing number ☐☐☐☐☐☐☐☐☐ ▶ **c** Type: ☐ Checking ☐ Savings

▶ **d** Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Amount you owe

12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the **amount you owe.** For details on how to pay, see page 22. ▶ 12

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 22)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ | Phone no. ▶ ( ) | Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign here

Joint return? See page 13.

Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature | Date | Your occupation | Daytime phone number ( )

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation

Paid preparer's use only

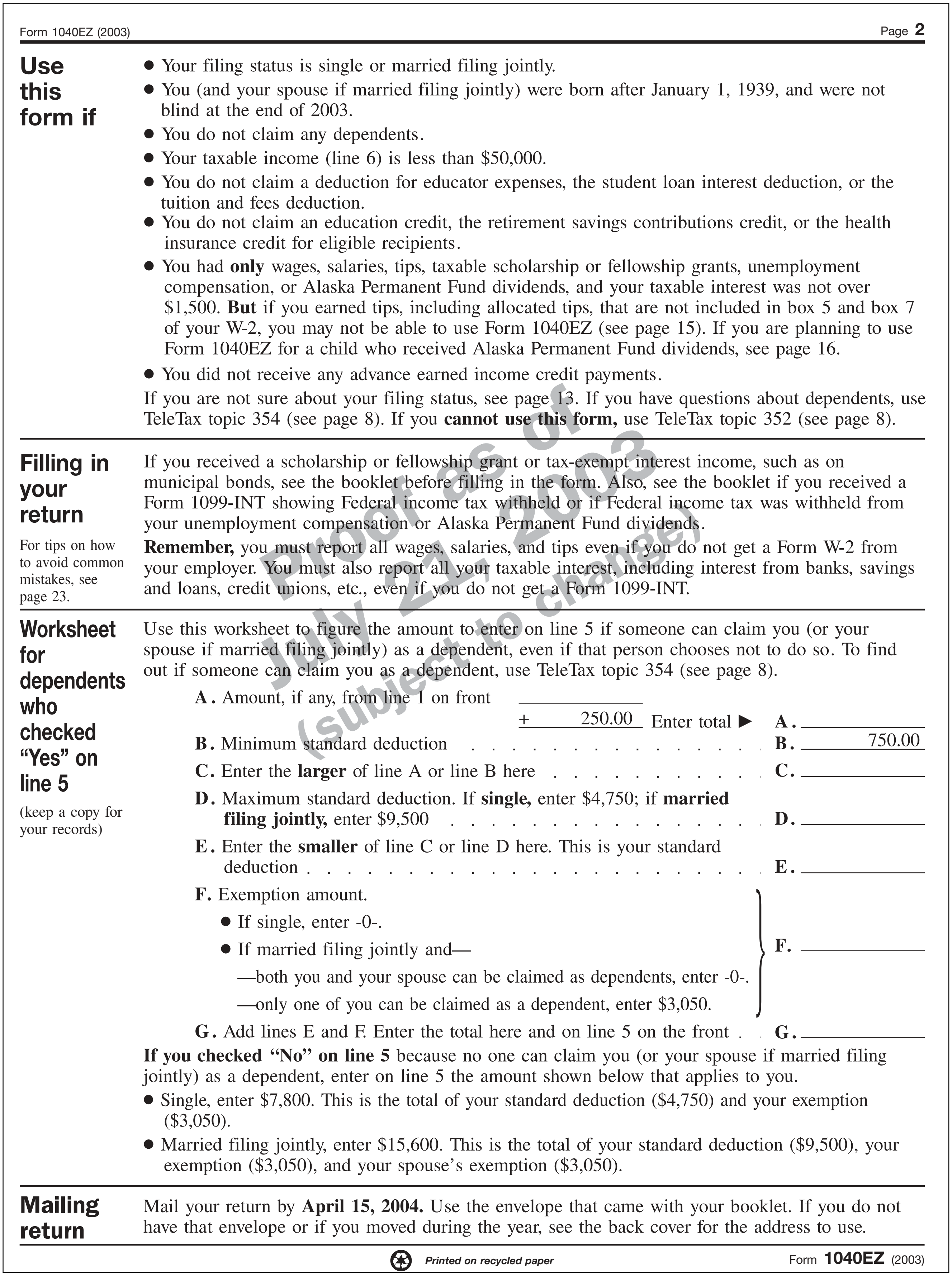
Preparer's signature ▶ | Date | Check if self-employed ☐ | Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code ▶ | EIN | Phone no. ( )

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 24. Cat. No. 11329W Form **1040EZ** (2003)

Complete this form

Form 1040EZ, page 2



Form 1040EZ (2003) Page **2**

Use this form if

- Your filing status is single or married filing jointly.
- You (and your spouse if married filing jointly) were born after January 1, 1939, and were not blind at the end of 2003.
- You do not claim any dependents.
- Your taxable income (line 6) is less than $50,000.
- You do not claim a deduction for educator expenses, the student loan interest deduction, or the tuition and fees deduction.
- You do not claim an education credit, the retirement savings contributions credit, or the health insurance credit for eligible recipients.
- You had **only** wages, salaries, tips, taxable scholarship or fellowship grants, unemployment compensation, or Alaska Permanent Fund dividends, and your taxable interest was not over $1,500. **But** if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ (see page 15). If you are planning to use Form 1040EZ for a child who received Alaska Permanent Fund dividends, see page 16.
- You did not receive any advance earned income credit payments.

If you are not sure about your filing status, see page 13. If you have questions about dependents, use TeleTax topic 354 (see page 8). If you **cannot use this form,** use TeleTax topic 352 (see page 8).

Filling in your return

For tips on how to avoid common mistakes, see page 23.

If you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds, see the booklet before filling in the form. Also, see the booklet if you received a Form 1099-INT showing Federal income tax withheld or if Federal income tax was withheld from your unemployment compensation or Alaska Permanent Fund dividends.

Remember, you must report all wages, salaries, and tips even if you do not get a Form W-2 from your employer. You must also report all your taxable interest, including interest from banks, savings and loans, credit unions, etc., even if you do not get a Form 1099-INT.

Worksheet for dependents who checked "Yes" on line 5

(keep a copy for your records)

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married filing jointly) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, use TeleTax topic 354 (see page 8).

A. Amount, if any, from line 1 on front ______ + 250.00 Enter total ▶ **A.** ______

B. Minimum standard deduction . . . . **B.** 750.00

C. Enter the **larger** of line A or line B here . . . . **C.** ______

D. Maximum standard deduction. If **single,** enter $4,750; if **married filing jointly,** enter $9,500 . . . . **D.** ______

E. Enter the **smaller** of line C or line D here. This is your standard deduction . . . . **E.** ______

F. Exemption amount.
- If single, enter -0-.
- If married filing jointly and—
  —both you and your spouse can be claimed as dependents, enter -0-.
  —only one of you can be claimed as a dependent, enter $3,050.

F. ______

G. Add lines E and F. Enter the total here and on line 5 on the front . . **G.** ______

If you checked "No" on line 5 because no one can claim you (or your spouse if married filing jointly) as a dependent, enter on line 5 the amount shown below that applies to you.

- Single, enter $7,800. This is the total of your standard deduction ($4,750) and your exemption ($3,050).
- Married filing jointly, enter $15,600. This is the total of your standard deduction ($9,500), your exemption ($3,050), and your spouse's exemption ($3,050).

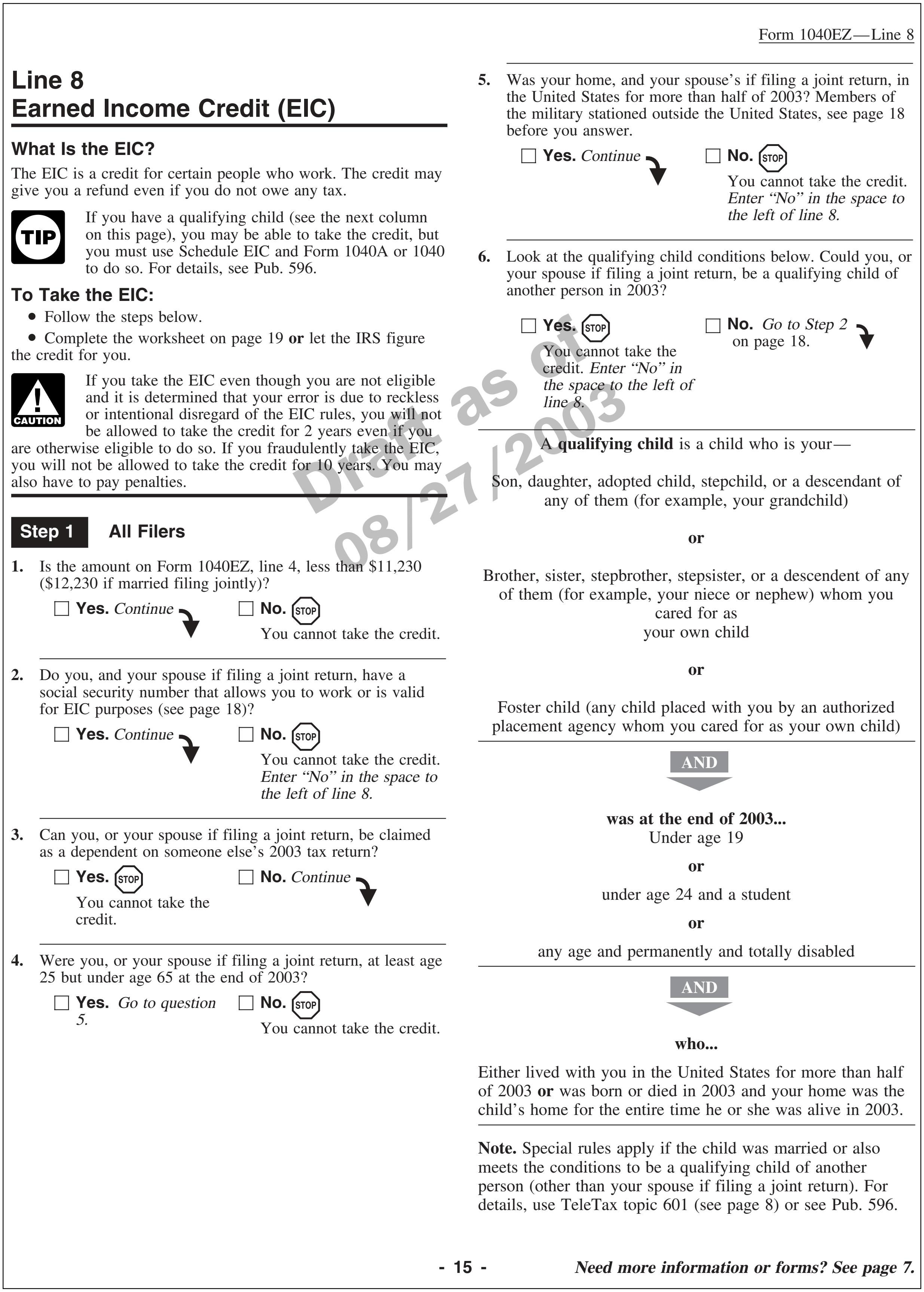
Mailing return

Mail your return by **April 15, 2004.** Use the envelope that came with your booklet. If you do not have that envelope or if you moved during the year, see the back cover for the address to use.

Printed on recycled paper

Form **1040EZ** (2003)

Form 1040EZ, Earned Income Credit Worksheet, page 1



Line 8
Earned Income Credit (EIC)

What Is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

TIP If you have a qualifying child (see the next column on this page), you may be able to take the credit, but you must use Schedule EIC and Form 1040A or 1040 to do so. For details, see Pub. 596.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet on page 19 **or** let the IRS figure the credit for you.

CAUTION If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1 All Filers

1. Is the amount on Form 1040EZ, line 4, less than $11,230 ($12,230 if married filing jointly)?

☐ **Yes.** *Continue*

☐ **No.** STOP You cannot take the credit.

2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 18)?

☐ **Yes.** *Continue*

☐ **No.** STOP You cannot take the credit. *Enter "No" in the space to the left of line 8.*

3. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return?

☐ **Yes.** STOP You cannot take the credit.

☐ **No.** *Continue*

4. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?

☐ **Yes.** *Go to question 5.*

☐ **No.** STOP You cannot take the credit.

5. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 18 before you answer.

☐ **Yes.** *Continue*

☐ **No.** STOP You cannot take the credit. *Enter "No" in the space to the left of line 8.*

6. Look at the qualifying child conditions below. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Enter "No" in the space to the left of line 8.*

☐ **No.** *Go to Step 2* on page 18.

A **qualifying child** is a child who is your—

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendent of any of them (for example, your niece or nephew) whom you cared for as your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as your own child)

AND

was at the end of 2003...
Under age 19

or

under age 24 and a student

or

any age and permanently and totally disabled

AND

who...

Either lived with you in the United States for more than half of 2003 **or** was born or died in 2003 and your home was the child's home for the entire time he or she was alive in 2003.

Note. Special rules apply if the child was married or also meets the conditions to be a qualifying child of another person (other than your spouse if filing a joint return). For details, use TeleTax topic 601 (see page 8) or see Pub. 596.

Form 1040EZ, Earned Income Credit Worksheet, page 2

Form 1040EZ—Line 8

Step 2 Earned Income

1. Figure earned income:

Form 1040EZ, line 1 ______________

Subtract, if included in line 1, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2
- Amount paid to an inmate in a penal institution for work (enter "PRI" in the space to the left of line 1 on Form 1040EZ)
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongoverntmental section 457 plan (enter "DFC" and the amount subtracted in the space to the left of line 1 on Form 1040EZ). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

– ______________

Earned Income = ☐

2. Is your earned income less than $11,230 ($12,230 if married filing jointly)?

☐ **Yes.** *Go to Step 3.* ☐ **No.** STOP You cannot take the credit.

Step 3 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

☐ **Yes.** *See Credit Figured by the IRS on this page.* ☐ **No.** *Go to the worksheet on page 19.*

Definitions and Special Rules

(listed in alphabetical order)

Credit Figured by the IRS To have the IRS figure the credit for you:

1. Enter "EIC" in the space to the left of line 8 on Form 1040EZ.

2. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year **(a)** you filed Form 8862 (or other documents) and your EIC was then allowed and **(b)** your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- The only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

Members of the Military. If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

Social Security Number (SSN). For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless "Not Valid for Employment" is printed on the social security card and the number was issued solely to apply for or receive a Federally funded benefit.

To find out how to get an SSN, see page 14. If you will not have an SSN by April 15, 2004, see What if You Cannot File on Time? on page 11.

Welfare Benefits, Effect of Credit on. Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

(Continued on page 19)

Need more information or forms? See page 7.

Form 1040EZ, Earned Income Credit Worksheet, page 3

Earned Income Credit (EIC) Worksheet—Line 8

Keep for Your Records

Part 1

All Filers

1. Enter your earned income from Step 2 on page 18. **1** ______

2. Look up the amount on line 1 above in the EIC Table on page 20 to find the credit. Be sure you use the correct column for your filing status. Enter the credit here. **2** ______

If line 2 is zero, STOP You cannot take the credit.
Enter "No" in the space to the left of line 8.

3. Enter the amount from Form 1040EZ, line 4. **3** ______

4. Are the amounts on lines 3 and 1 the same?

☐ **Yes.** *Skip line 5; enter the amount from line 2 on line 6.*

☐ **No.** *Go to line 5.*

Part 2

Filers Who Answered "No" on Line 4

5. Is the amount on line 3 less than $6,250 ($7,250 if married filing jointly)?

☐ **Yes.** *Leave line 5 blank; enter the amount from line 2 on line 6.*

☐ **No.** Look up the amount on line 3 in the EIC Table on page 20 to find the credit. Be sure you use the correct column for your filing status. Enter the credit here. **5** ______

Look at the amounts on lines 5 and 2.
*Then, enter the **smaller** amount on line 6.*

Part 3

Your Earned Income Credit

6. This is your earned income credit. **6** ______

Enter this amount on Form 1040EZ, line 8.

1040EZ

CAUTION

If your EIC for a year after 1996 was reduced or disallowed, see page 18 to find out if you must file Form 8862 to take the credit for 2003.

Need more information or forms? See page 7.

WAGE EARNER COMPREHENSIVE PROBLEMS

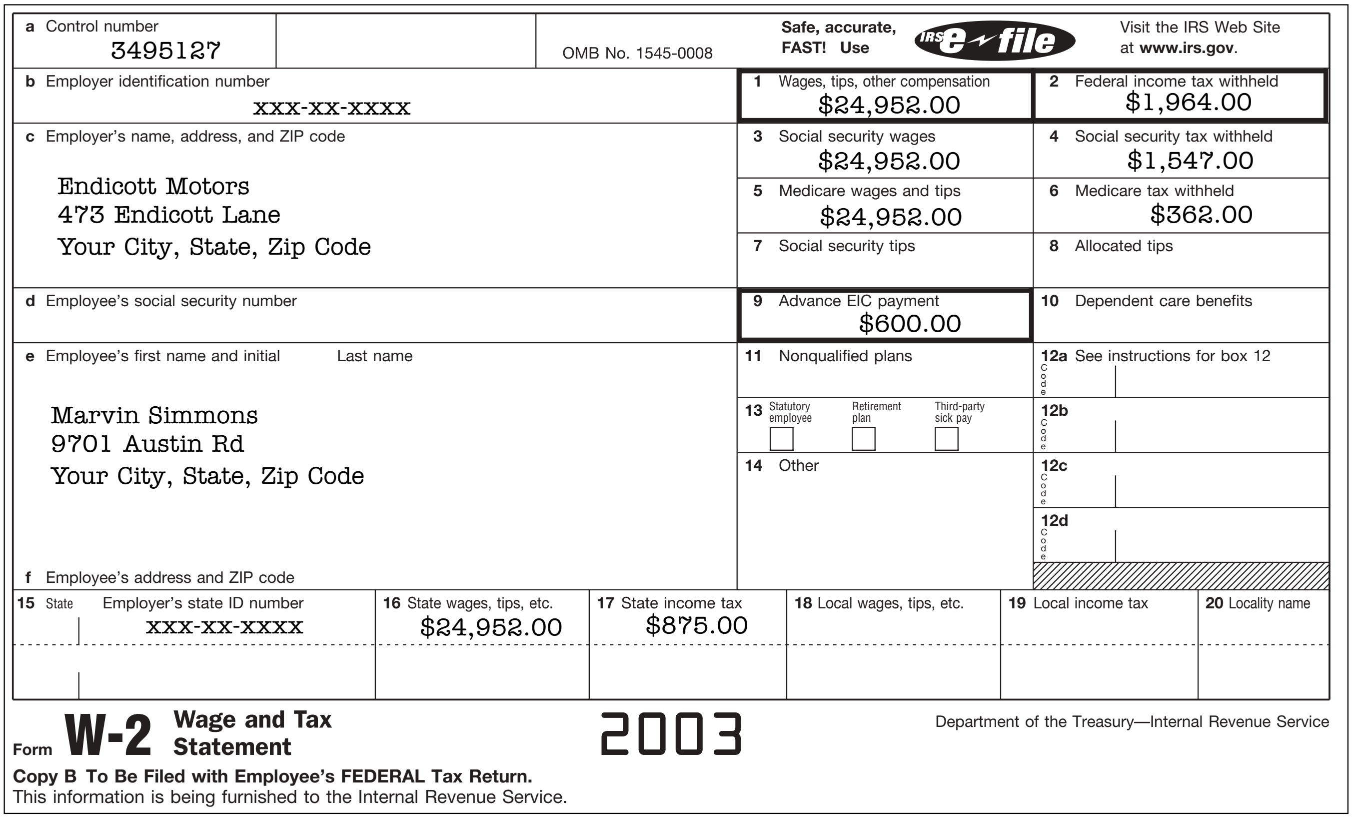
PROBLEM 3

Marvin Simmons is 55 (born on December 4, 1948. His grandson, Eric (SSN xxx-xx-xxxx; born on March 10, 1993), has lived with him for the last two years. Marvin pays the total cost of keeping up a home for himself and his grandson and provides all the support for Eric. Eric is a qualifying child for EIC purposes.

Marvin paid $978 in child care expenses to allow him to work. The provider information is as follows:

Joy Day Care
9192 East Huron St.
Your City, State, Zip Code
EIN: xx-xxxxxxx

He does not want to contribute to the presidential election fund and if he is due a refund, he would like a direct deposit to his checking account (account xxxxxxxxxxxxxx; routing transit number xxxxxxxxx). His address and SSN are correct on his Form W-2. Marvin received the $400 advance child tax credit payment. He does not want to designate a third party. Marvin is a mechanic.



a Control number 3495127

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number xxx-xx-xxxx

c Employer's name, address, and ZIP code

Endicott Motors
473 Endicott Lane
Your City, State, Zip Code

d Employee's social security number

e Employee's first name and initial Last name

Marvin Simmons
9701 Austin Rd
Your City, State, Zip Code

f Employee's address and ZIP code

1 Wages, tips, other compensation $24,952.00	**2** Federal income tax withheld $1,964.00
3 Social security wages $24,952.00	**4** Social security tax withheld $1,547.00
5 Medicare wages and tips $24,952.00	**6** Medicare tax withheld $362.00
7 Social security tips	**8** Allocated tips
9 Advance EIC payment $600.00	**10** Dependent care benefits
11 Nonqualified plans	**12a** See instructions for box 12 Code
13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	**12b** Code
14 Other	**12c** Code
	12d Code

15 State	Employer's state ID number	**16** State wages, tips, etc.	**17** State income tax	**18** Local wages, tips, etc.	**19** Local income tax	**20** Locality name
	xxx-xx-xxxx	$24,952.00	$875.00			

Form **W-2** **Wage and Tax Statement** 2003

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

WAGE EARNER COMPREHENSIVE PROBLEMS

Complete this form

Form 1040A, front

Form **1040A** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2003** IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0085

Label
(See page 21.)

Use the IRS label.
Otherwise, please print or type.

LABEL HERE

Your first name and initial | Last name
Your social security number

If a joint return, spouse's first name and initial | Last name
Spouse's social security number

Home address (number and street). If you have a P.O. box, see page 22. | Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 22.

▲ Important! ▲
You **must** enter your SSN(s) above.

Presidential Election Campaign
(See page 22.)

Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want $3 to go to this fund? . . . ►

You ☐ Yes ☐ No   Spouse ☐ Yes ☐ No

Filing status
Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ►
4 ☐ Head of household (with qualifying person). (See page 23.) If the qualifying person is a child but not your dependent, enter this child's name here. ► ____
5 ☐ Qualifying widow(er) with dependent child (See page 24.)

Exemptions

6a ☐ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a.
b ☐ **Spouse**

No. of boxes checked on 6a and 6b ____

c **Dependents:**

If more than six dependents, see page 24.

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see page 25)
			☐
			☐
			☐
			☐
			☐
			☐

No. of children on 6c who:
- **lived with you** ____
- **did not live with you due to divorce or separation (see page 26)** ____

Dependents on 6c not entered above ____

d Total number of exemptions claimed.

Add numbers on lines above ☐

Income

Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 27.

Enclose, but do not attach, any payment.

7 Wages, salaries, tips, etc. Attach Form(s) W-2. 7

8a **Taxable** interest. Attach Schedule 1 if required. 8a
b **Tax-exempt** interest. **Do not** include on line 8a. 8b
9a Ordinary dividends. Attach Schedule 1 if required. 9a
b Qualified dividends (see page XX). 9b
10a Capital gain distributions (see page 27). 10a
b Post-May 5 capital gain distributions (see page 27). 10b
11a IRA distributions. 11a | **11b** Taxable amount (see page 27). 11b
12a Pensions and annuities. 12a | **12b** Taxable amount (see page 28). 12b

13 Unemployment compensation and Alaska Permanent Fund dividends. 13
14a Social security benefits. 14a | **14b** Taxable amount (see page 30). 14b

15 Add lines 7 through 14b (far right column). This is your **total income.** ► 15

Adjusted gross income

16 Educator expenses (see page 30). 16
17 IRA deduction (see page 30). 17
18 Student loan interest deduction (see page 33). 18
19 Tuition and fees deduction (see page 33). 19
20 Add lines 16 through 19. These are your **total adjustments.** 20

21 Subtract line 20 from line 15. This is your **adjusted gross income.** ► 21

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 57. Cat. No. 11327A Form **1040A** (2003)

Complete this form

Form 1040A, page 2

Form 1040A (2003) Page **2**

Tax, credits, and payments	**22**	Enter the amount from line 21 (adjusted gross income).		22
	23a	Check if: ☐ **You** were born before January 2, 1939, ☐ Blind ☐ **Spouse** was born before January 2, 1939, ☐ Blind } **Total boxes checked** ▶	23a ☐	
	b	If you are married filing separately and your spouse itemizes deductions, see page 34 and check here ▶	23b ☐	
Standard Deduction for— • People who checked any box on line 23a or 23b **or** who can be claimed as a dependent, see page 34. • All others: Single or Married filing separately, $4,750 Married filing jointly or Qualifying widow(er), $9,500 Head of household, $7,000	**24**	Enter your **standard deduction** (see left margin).		24
	25	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.		25
	26	Multiply $3,050 by the total number of exemptions claimed on line 6d.		26
	27	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your **taxable income.** ▶		27
	28	**Tax,** including any alternative minimum tax (see page 35).		28
	29	Credit for child and dependent care expenses. Attach Schedule 2.	29	
	30	Credit for the elderly or the disabled. Attach Schedule 3.	30	
	31	Education credits. Attach Form 8863.	31	
	32	Retirement savings contributions credit. Attach Form 8880.	32	
	33	Child tax credit (see page 38).	33	
	34	Adoption credit. Attach Form 8839.	34	
	35	Add lines 29 through 34. These are your **total credits.**		35
	36	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.		36
	37	Advance earned income credit payments from Form(s) W-2.		37
	38	Add lines 36 and 37. This is your **total tax.** ▶		38
	39	Federal income tax withheld from Forms W-2 and 1099.	39	
	40	2003 estimated tax payments and amount applied from 2002 return.	40	
If you have a qualifying child, attach Schedule EIC.	**41**	**Earned income credit (EIC).**	41	
	42	Additional child tax credit. Attach Form 8812.	42	
	43	Add lines 39 through 42. These are your **total payments.** ▶		43
Refund	**44**	If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you **overpaid.**		44
Direct deposit? See page 52 and fill in 45b, 45c, and 45d.	**45a**	Amount of line 44 you want **refunded to you.** ▶		45a
	▶ **b**	Routing number ☐☐☐☐☐☐☐☐☐ ▶ **c** Type: ☐ Checking ☐ Savings		
	▶ **d**	Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐		
	46	Amount of line 44 you want **applied to your 2004 estimated tax.**	46	
Amount you owe	**47**	**Amount you owe.** Subtract line 43 from line 38. For details on how to pay, see page 53. ▶		47
	48	Estimated tax penalty (see page 53).	48	

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 54)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign here

Joint return? See page 22.

Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number ( )
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	

Paid preparer's use only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code ▶		EIN	
		Phone no.	( )

Printed on recycled paper

Form **1040A** (2003)

Complete this form

Schedule 2
(Form 1040A)

Department of the Treasury—Internal Revenue Service

Child and Dependent Care Expenses for Form 1040A Filers

2003

OMB No. 1545-0085

Name(s) shown on Form 1040A

Your social security number

Before you begin: You need to understand the following terms. See **Definitions** on page 1 of the separate instructions.
- **Dependent Care Benefits**
- **Qualifying Person(s)**
- **Qualified Expenses**
- **Earned Income**

Part I

Persons or organizations who provided the care

You **must** complete this part.

1

(a) Care provider's name	**(b)** Address (number, street, apt. no., city, state, and ZIP code)	**(c)** Identifying number (SSN or EIN)	**(d)** Amount paid (see instructions)

(If you need more space, use the bottom of page 2.)

Did you receive **dependent care benefits?**
No → Complete only Part II below.
Yes → Complete Part III on the back next.

Caution. If the care was provided in your home, you may owe employment taxes. If you do, you must use Form 1040. See **Schedule H** and its instructions for details.

Part II

Credit for child and dependent care expenses

2 Information about your **qualifying person(s).** If you have more than two qualifying persons, see the instructions.

(a) Qualifying person's name First	Last	**(b)** Qualifying person's social security number	**(c) Qualified expenses** you incurred and paid in 2003 for the person listed in column (a)

3 Add the amounts in column (c) of line 2. **Do not** enter more than $3,000 for one qualifying person or $6,000 for two or more persons. If you completed Part III, enter the amount from line 26. 3

4 Enter your **earned income.** 4

5 If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions); **all others,** enter the amount from line 4. 5

6 Enter the **smallest** of line 3, 4, or 5. 6

7 Enter the amount from Form 1040A, line 22. 7

8 Enter on line 8 the decimal amount shown below that applies to the amount on line 7.

If line 7 is: Over But not over	**Decimal amount is**	**If line 7 is:** Over But not over	**Decimal amount is**
$0—15,000	.35	$29,000—31,000	.27
15,000—17,000	.34	31,000—33,000	.26
17,000—19,000	.33	33,000—35,000	.25
19,000—21,000	.32	35,000—37,000	.24
21,000—23,000	.31	37,000—39,000	.23
23,000—25,000	.30	39,000—41,000	.22
25,000—27,000	.29	41,000—43,000	.21
27,000—29,000	.28	43,000—No limit	.20

8 × .

9 Multiply **line 6** by the decimal amount on line 8. If you paid 2002 expenses in 2003, see the instructions. 9

10 Enter the amount from Form 1040A, line 28. 10

11 **Credit for child and dependent care expenses.** Enter the **smaller** of line 9 or line 10 here and on Form 1040A, line 29. 11

For Paperwork Reduction Act Notice, see Form 1040A instructions. Cat. No. 10749I **Schedule 2 (Form 1040A) 2003**

Child Tax Credit Worksheet—Line 33

Keep for Your Records

Before you begin: √ If you received (before offset) an advance payment of the child tax credit and you filed a joint return for 2002, you and your spouse are each considered to have received one-half of the payment.

TIP If you received Notice 1319, have it available. The notice shows the amount of your advance payment (before offset). If you do not have Notice 1319, you can check the amount of your advance payment (before offset) on the IRS website at **www.irs.gov**. You will need to enter your SSN, your 2002 filing status, and the total number of exemptions you claimed on line 6d of your 2002 Form 1040 or Form 1040A.

CAUTION

- To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2003 and meet the other requirements listed on page 38.
- **Do not** use this worksheet if you answered " Yes" to question 1 or 2 on page 38. Instead, use Pub. 972.

1. Number of qualifying children: ______ × $1,000. Enter the result. **1** ______

2. Enter the amount, if any, of your advance child tax credit (before offset). **2** ______

3. Is line 1 less than or equal to line 2?

☐ **Yes.** STOP You cannot take this credit. If line 2 is more than line 1, you do not have to pay back the difference.

☐ **No.** Subtract line 2 from line 1. **3** ______

4. Enter the amount from Form 1040A, line 28. **4** ______

5. Add the amounts from Form 1040A, lines 29 through 32. **5** ______

6. Are the amounts on lines 4 and 5 the same?

☐ **Yes.** STOP You cannot take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit.** See the **TIP** below.

☐ **No.** Subtract line 5 from line 4. **6** ______

7. Is the amount on line 3 more than the amount on line 6?

☐ **Yes.** Enter the amount from line 6. Also, you may be able to take the **additional child tax credit.** See the **TIP** below.

☐ **No.** Enter the amount from line 3.

This is your child tax credit. **7** ______

Enter this amount on Form 1040A, line 33.

1040A

TIP You may be able to take the **additional child tax credit** on Form 1040A, line 42, if you answered "Yes" on line 6 **or** line 7 above.

- First, complete your Form 1040A through line 41.
- Then, use Form 8812 to figure any additional child tax credit.

Form 1040A EIC Worksheet, Page 1

Line 41— Earned Income Credit (EIC)

What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you **or** let the IRS figure the credit for you.
- If you have a qualifying child, complete and attached Schedule EIC.

CAUTION If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1 All Filers

1. If, in 2003:

- 2 children lived with you, is the amount on Form 1040A, line 22, less than $33,692 ($34,692 if married filing jointly)?
- 1 child lived with you, is the amount on Form 1040A, line 22, less than $29,666 ($30,666 if married filing jointly)?
- No children live with you, is the amount on Form 1040A, line 22, less than $11,230 ($12,230 if married filing jointly)?

☐ **Yes.** *Continue* ☐ **No.** STOP You cannot take the credit.

2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?

☐ **Yes.** *Continue* ☐ **No.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

3. Is you filing status married filing separately?

☐ **Yes.** STOP You cannot take the credit. ☐ **No.** *Continue*

4. Were you a nonresident alien for any part of 2003?

☐ **Yes.** *See Nonresident aliens on page 42.* ☐ **No.** *Go to Step 2.*

Step 2 Investment Income

1. Add the amounts from Form 1040A:

Line 8a ________
Line 8b + ________
Line 9a + ________
Line 10a + ________
Investment Income = ☐

2. Is your investment income more than $2,600?

☐ **Yes.** STOP You cannot take the credit. ☐ **No.** *Continue*

3. Did a child live with you in 2003?

☐ **Yes.** *Go to Step 3 on page 40.* ☐ **No.** *Go to Step 4 on page 40.*

Form 1040A EIC Worksheet, Page 2

Step 3 Qualifying Child

A qualifying child is a child who is your...

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

AND

was at the end of 2003...

Under age 19

or

Under age 24 and a student (see page 42)

or

Any age and permanently and totally disabled (see page 42)

AND

who...

Lived with you in the United States for more than half of 2003. If the child did not live with you for the required time, see Exception to "Time Lived With You" Condition on page 41.

Note. If the child was married, see page 42.

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

☐ **No.** *Continue* ⤵

2. Do you have at least one child who meets the above conditions to be your qualifying child?

☐ **Yes.** *Go to question 3.*

☐ **No.** *Skip question 3; go to Step 4, question 2.*

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2003?

☐ **Yes.** *See Qualifying Child of More Than One Person on page 42.*

☐ **No.** This child is your qualifying child. The child must have a valid social security number as defined on page 42 unless the child was born and died in 2003. *Skip Step 4; go to Step 5 on page 41.*

Step 4 Filers Without a Qualifying Child

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

☐ **No.** *Continue* ⤵

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return?

☐ **Yes.** STOP You cannot take the credit.

☐ **No.** *Continue* ⤵

3. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?

☐ **Yes.** *Continue* ⤵

☐ **No.** STOP You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 42 before you answer.

☐ **Yes.** *Go to Step 5 on page 41.*

☐ **No.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

Form 1040A EIC Worksheet, Page 3

Step 5 Earned Income

1. Figure earned income:

Form 1040, line 7 ______________

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

– ______________

Earned Income = ☐

2. If you have:

- 2 or more qualifying children, is your earned income less than $33,692 ($34,692 if married filing jointly)?
- 1 qualifying child, is your earned income less than $29,666 ($30,666 if married filing jointly)?
- No qualifying children, is your earned income less than $11,230 ($12,230 if married filing jointly)?

☐ **Yes.** *Go to Step 6.* ☐ **No.** STOP You cannot take the credit.

Step 6 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

☐ **Yes.** *See Credit Figured by the IRS below.* ☐ **No.** *Go to the worksheet on page 43.*

Definitions and Special Rules

(listed in alphabetical order)

Adopted Child. An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

Credit Figured by the IRS. To have the IRS figure the credit for you:

1. Put "EIC"to the left of the entry space for line 41 of Form 1040A.

2. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to "Time Lived With You" Condition. A child is considered to have lived with you for all of 2003 if the child was born or died in 2003 and your home was this child's home for the entire time he or she was alive in 2003. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military on page 42.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year **(a)** you filed Form 8862 (or other documents) and your EIC was then allowed and **(b)** your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

Form 1040A EIC Worksheet

Earned Income Credit (EIC) Worksheet—Line 41

Keep for Your Records

Part 1

All Filers

1. Enter your earned income from Step 5 on page 43. **1** ______

2. Look up the amount on line 1 above in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. **2** ______

If line 2 is zero, STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

3. Enter the amount from Form 1040A, line 22. **3** ______

4. Are the amounts on lines 3 and 1 the same?

☐ **Yes.** *Skip line 5; enter the amount from line 2 on line 6.*

☐ **No.** *Go to line 5.*

Part 2

Filers Who Answered "No" on Line 4

5. If you have:

- No qualifying children, is the amount on line 3 less than $6,250 ($7,250 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 3 less than $13,750 ($14,750 if married filing jointly)?

☐ **Yes.** *Leave line 5 blank; enter the amount from line 2 on line 6.*

☐ **No.** Look up the amount on line 3 in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. **5** ______

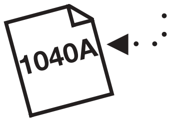
*Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.*

Part 3

Your Earned Income Credit

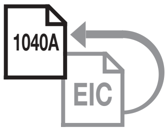
6. **This is your earned income credit.** **6** ______

Enter this amount on Form 1040A, line 41.



Reminder—

√ If you have a qualifying child, complete and attach Schedule EIC.



CAUTION If your EIC for a year after 1996 was reduced or disallowed, see page 43 to find out if you must file Form 8862 to take the credit for 2003.

SCHEDULE EIC
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service

Earned Income Credit

Qualifying Child Information

1040A
1040
EIC

Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

OMB No. 1545-0074

2003

Attachment Sequence No. **43**

Name(s) shown on return

Your social security number

Before you begin:

See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that **(a)** you can take the EIC and **(b)** you have a qualifying child.

CAUTION

- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Qualifying Child Information

Qualifying Child Information	Child 1	Child 2
1 Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name Last name	First name Last name
2 Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.		

Next, if the child was born after 1984, go to line 4. Otherwise, continue.

	Child 1	Child 2
3 If the child was born before 1985— **a** Was the child under age 24 at the end of 2003 and a student?	☐ **Yes.** *Go to line 4.* ☐ **No.** *Continue*	☐ **Yes.** *Go to line 4.* ☐ **No.** *Continue*
b Was the child permanently and totally disabled during any part of 2003?	☐ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.	☐ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.
4 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)		
5 Number of months child lived with you in the United States during 2003 • If the child lived with you for more than half of 2003 but less than 7 months, enter "7". • If the child was born or died in 2003 and your home was the child's home for the entire time he or she was alive during 2003, enter "12".	________ months *Do not enter more than 12 months.*	________ months *Do not enter more than 12 months.*

TIP

You may also be able to take the additional child tax credit if your child **(a)** was under age 17 at the end of 2003, **(b)** is claimed as your dependent on line 6c of Form 1040A or Form 1040, **and (c)** is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 65 of Form 1040.

For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions. Cat. No. 13339M **Schedule EIC (Form 1040A or 1040) 2003**

WAGE EARNER COMPREHENSIVE PROBLEMS

Comprehensive Problem 1

Form **1040EZ**

Department of the Treasury—Internal Revenue Service

Income Tax Return for Single and Joint Filers With No Dependents **2003**

OMB No. 1545-0675

Label (See page 14.) **Use the IRS label.** Otherwise, please print or type.

LABEL HERE

Your first name and initial John	Last name Marshall	**Your social security number** xxx : xx : xxxx
If a joint return, spouse's first name and initial	Last name	**Spouse's social security number** : :
Home address (number and street). If you have a P.O. box, see page 14. 878 Hudson Ave	Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, see page 14. Your City, State, Zip Code		

▲ Important! ▲ You **must** enter your SSN(s) above.

Presidential Election Campaign (page 14)

Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if a joint return, want $3 to go to this fund? . . . . . . ▶ You ☐ Yes ☒ No Spouse ☐ Yes ☐ No

Income

Attach Form(s) W-2 here. Enclose, but do not attach, any payment.

1	Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1	2,694.00
2	Taxable interest. If the total is over $1,500, you cannot use Form 1040EZ.	2	50.00
3	Unemployment compensation and Alaska Permanent Fund dividends (see page 16).	3	
4	Add lines 1, 2, and 3. This is your **adjusted gross income.**	4	2,744.00
5	Can your parents (or someone else) claim you on their return? **Yes.** ☒ Enter amount from worksheet on back. **No.** ☐ If **single,** enter $7,800. If **married filing jointly,** enter $15,600. See back for explanation.	5	2,944.00
6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your **taxable income.** ▶	6	0.00

Note. You **must** check Yes or No.

Payments and tax

7	Federal income tax withheld from box 2 of your Form(s) W-2.	7	94.00
8	**Earned income credit (EIC).**	8	
9	Add lines 7 and 8. These are your **total payments.** ▶	9	94.00
10	**Tax.** Use the amount on **line 6 above** to find your tax in the tax table on pages 25–29 of the booklet. Then, enter the tax from the table on this line.	10	0.00

Refund

Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d.

11a	If line 9 is larger than line 10, subtract line 10 from line 9. This is your **refund.** ▶	11a	94.00

▶ **b** Routing number x x x x x x x x x ▶ **c** Type: ☒ Checking ☐ Savings

▶ **d** Account number x x x x x x x x x x x x x

Amount you owe

12	If line 10 is larger than line 9, subtract line 9 from line 10. This is the **amount you owe.** For details on how to pay, see page 22. ▶	12	

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 22)? ☐ **Yes.** Complete the following. ☒ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶

Sign here

Joint return? See page 13. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

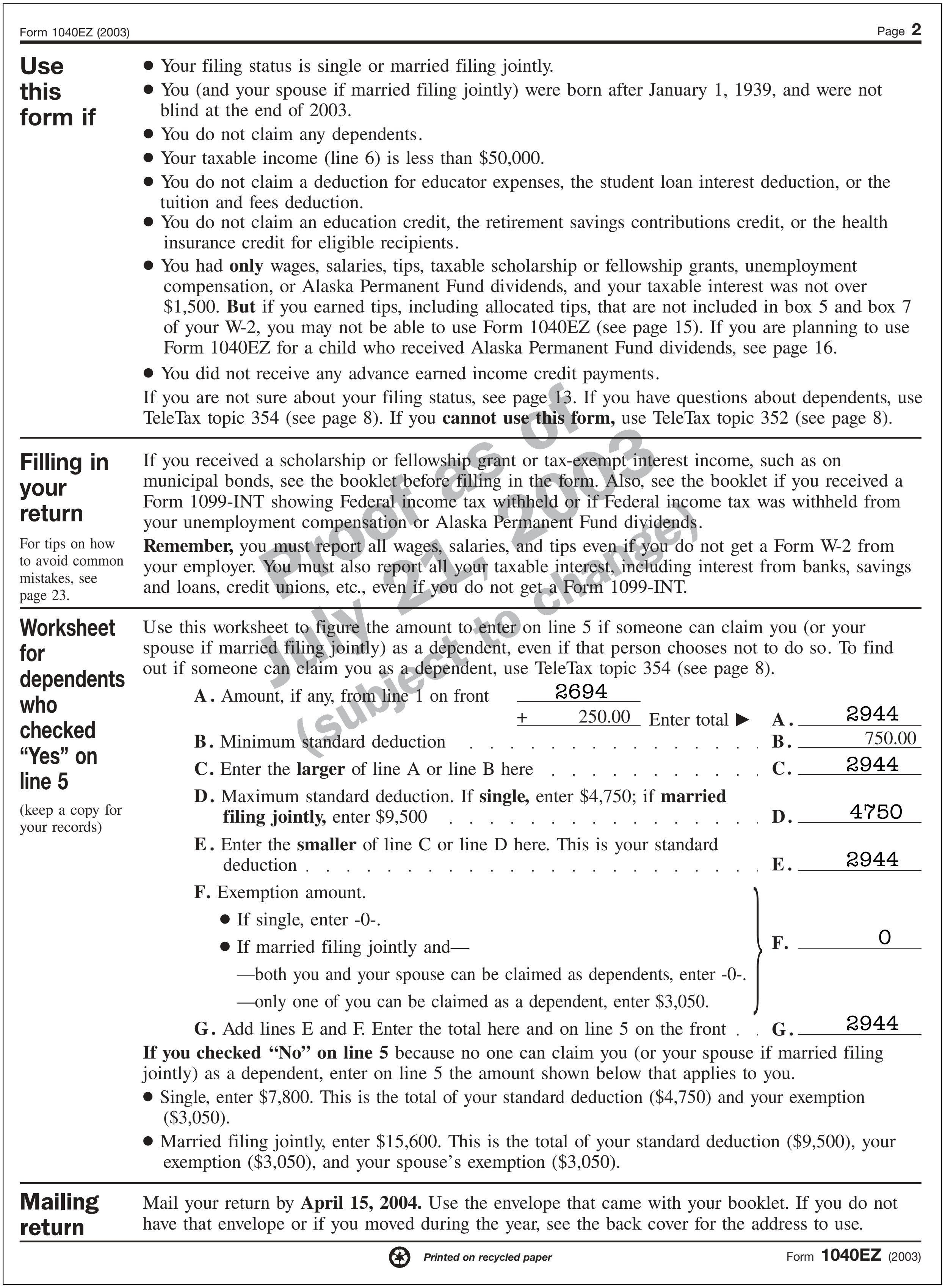
Your signature	Date	Your occupation clerk	Daytime phone number ( )
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	

Paid preparer's use only

Preparer's signature	Date	Check if self-employed ☐	Preparer's SSN or PTIN Pxx-xx-xxxx
Firm's name (or yours if self-employed), address, and ZIP code		EIN	
		Phone no.	( )

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 24. Cat. No. 11329W Form **1040EZ** (2003)

Comprehensive Problem 1



Form 1040EZ (2003) Page **2**

Use this form if

- Your filing status is single or married filing jointly.
- You (and your spouse if married filing jointly) were born after January 1, 1939, and were not blind at the end of 2003.
- You do not claim any dependents.
- Your taxable income (line 6) is less than $50,000.
- You do not claim a deduction for educator expenses, the student loan interest deduction, or the tuition and fees deduction.
- You do not claim an education credit, the retirement savings contributions credit, or the health insurance credit for eligible recipients.
- You had **only** wages, salaries, tips, taxable scholarship or fellowship grants, unemployment compensation, or Alaska Permanent Fund dividends, and your taxable interest was not over $1,500. **But** if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ (see page 15). If you are planning to use Form 1040EZ for a child who received Alaska Permanent Fund dividends, see page 16.
- You did not receive any advance earned income credit payments.

If you are not sure about your filing status, see page 13. If you have questions about dependents, use TeleTax topic 354 (see page 8). If you **cannot use this form,** use TeleTax topic 352 (see page 8).

Filling in your return

For tips on how to avoid common mistakes, see page 23.

If you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds, see the booklet before filling in the form. Also, see the booklet if you received a Form 1099-INT showing Federal income tax withheld or if Federal income tax was withheld from your unemployment compensation or Alaska Permanent Fund dividends.

Remember, you must report all wages, salaries, and tips even if you do not get a Form W-2 from your employer. You must also report all your taxable interest, including interest from banks, savings and loans, credit unions, etc., even if you do not get a Form 1099-INT.

Worksheet for dependents who checked "Yes" on line 5

(keep a copy for your records)

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married filing jointly) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, use TeleTax topic 354 (see page 8).

A. Amount, if any, from line 1 on front 2694
\+ 250.00 Enter total ▶ **A.** 2944

B. Minimum standard deduction . . . . **B.** 750.00

C. Enter the **larger** of line A or line B here . . . . **C.** 2944

D. Maximum standard deduction. If **single,** enter $4,750; if **married filing jointly,** enter $9,500 . . . . **D.** 4750

E. Enter the **smaller** of line C or line D here. This is your standard deduction . . . . **E.** 2944

F. Exemption amount.
- If single, enter -0-.
- If married filing jointly and—
  - —both you and your spouse can be claimed as dependents, enter -0-.
  - —only one of you can be claimed as a dependent, enter $3,050.

F. 0

G. Add lines E and F. Enter the total here and on line 5 on the front . . **G.** 2944

If you checked "No" on line 5 because no one can claim you (or your spouse if married filing jointly) as a dependent, enter on line 5 the amount shown below that applies to you.

- Single, enter $7,800. This is the total of your standard deduction ($4,750) and your exemption ($3,050).
- Married filing jointly, enter $15,600. This is the total of your standard deduction ($9,500), your exemption ($3,050), and your spouse's exemption ($3,050).

Mailing return

Mail your return by **April 15, 2004.** Use the envelope that came with your booklet. If you do not have that envelope or if you moved during the year, see the back cover for the address to use.

Printed on recycled paper

Form **1040EZ** (2003)

WAGE EARNER COMPREHENSIVE PROBLEMS

ANSWERS TO PROBLEMS

Comprehensive Problem 2

Form **1040EZ**

Department of the Treasury—Internal Revenue Service

Income Tax Return for Single and Joint Filers With No Dependents **2003**

OMB No. 1545-0675

Label (See page 14.) **Use the IRS label.** Otherwise, please print or type.

LABEL HERE

Your first name and initial: Melody
Last name: York
Your social security number: xxx xx xxxx
If a joint return, spouse's first name and initial:
Last name:
Spouse's social security number:
Home address (number and street). If you have a P.O. box, see page 14.: 17 North 9th Avenue
Apt. no.:
City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.: Your City, State, Zip Code

▲ Important! ▲
You **must** enter your SSN(s) above.

Presidential Election Campaign (page 14)
Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if a joint return, want $3 to go to this fund? . . . . . . ▶
You ☐ Yes ☐ No Spouse ☐ Yes ☐ No

Income
Attach Form(s) W-2 here. Enclose, but do not attach, any payment.

1	Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1	6,923.00
2	Taxable interest. If the total is over $1,500, you cannot use Form 1040EZ.	2	
3	Unemployment compensation and Alaska Permanent Fund dividends (see page 16).	3	3,240.00
4	Add lines 1, 2, and 3. This is your **adjusted gross income.**	4	10,163.00
5	Can your parents (or someone else) claim you on their return? **Yes.** ☐ Enter amount from worksheet on back. **No.** ☒ If **single,** enter $7,800. If **married filing jointly,** enter $15,600. See back for explanation.	5	7,800.00
6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your **taxable income.** ▶	6	2,363.00

Note. You **must** check Yes or No.

Payments and tax

7	Federal income tax withheld from box 2 of your Form(s) W-2.	7	261.00
8	**Earned income credit (EIC).**	8	81.00
9	Add lines 7 and 8. These are your **total payments.** ▶	9	342.00
10	**Tax.** Use the amount on **line 6 above** to find your tax in the tax table on pages 25–29 of the booklet. Then, enter the tax from the table on this line.	10	236.00

Refund
Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d.

11a	If line 9 is larger than line 10, subtract line 10 from line 9. This is your **refund.** ▶	11a	106.00

▶ b Routing number x x x x x x x x x ▶ c Type: ☐ Checking ☒ Savings
▶ d Account number x x x x x x x x x x x

Amount you owe
12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the **amount you owe.** For details on how to pay, see page 22. ▶ 12

Third party designee
Do you want to allow another person to discuss this return with the IRS (see page 22)? ☐ **Yes.** Complete the following. ☒ **No**
Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶

Sign here
Joint return? See page 13. Keep a copy for your records.
Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.
Your signature | Date | Your occupation | Daytime phone number ( )
Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation

Paid preparer's use only
Preparer's signature ▶ | Date | Check if self-employed ☐ | Preparer's SSN or PTIN: Pxx-xx-xxxx
Firm's name (or yours if self-employed), address, and ZIP code ▶ | EIN | Phone no. ( )

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 24. Cat. No. 11329W Form **1040EZ** (2003)

Form 1040EZ, Earned Income Credit Worksheet, line 8, page 1

Line 8
Earned Income Credit (EIC)

What Is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

TIP If you have a qualifying child (see the next column on this page), you may be able to take the credit, but you must use Schedule EIC and Form 1040A or 1040 to do so. For details, see Pub. 596.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet on page 19 **or** let the IRS figure the credit for you.

CAUTION If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1 All Filers

1. Is the amount on Form 1040EZ, line 4, less than $11,230 ($12,230 if married filing jointly)?

☒ **Yes.** *Continue* ☐ **No.** STOP You cannot take the credit.

2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 18)?

☒ **Yes.** *Continue* ☐ **No.** STOP You cannot take the credit. *Enter "No" in the space to the left of line 8.*

3. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return?

☐ **Yes.** STOP You cannot take the credit. ☒ **No.** *Continue*

4. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?

☒ **Yes.** *Go to question 5.* ☐ **No.** STOP You cannot take the credit.

5. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 18 before you answer.

☒ **Yes.** *Continue* ☐ **No.** STOP You cannot take the credit. *Enter "No" in the space to the left of line 8.*

6. Look at the qualifying child conditions below. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Enter "No" in the space to the left of line 8.* ☒ **No.** *Go to Step 2* on page 18.

A **qualifying child** is a child who is your—

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendent of any of them (for example, your niece or nephew) whom you cared for as your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as your own child)

AND

was at the end of 2003...
Under age 19

or

under age 24 and a student

or

any age and permanently and totally disabled

AND

who...

Either lived with you in the United States for more than half of 2003 **or** was born or died in 2003 and your home was the child's home for the entire time he or she was alive in 2003.

Note. Special rules apply if the child was married or also meets the conditions to be a qualifying child of another person (other than your spouse if filing a joint return). For details, use TeleTax topic 601 (see page 8) or see Pub. 596.

Form 1040EZ, Earned Income Credit Worksheet, line 8, page 2

Form 1040EZ—Line 8

Step 2 Earned Income

1. Figure earned income:

Form 1040EZ, line 1 6,923

Subtract, if included in line 1, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2
- Amount paid to an inmate in a penal institution for work (enter “PRI” in the space to the left of line 1 on Form 1040EZ)
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongoverntmental section 457 plan (enter “DFC” and the amount subtracted in the space to the left of line 1 on Form 1040EZ). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

– 0

Earned Income = 6,923

2. Is your earned income less than $11,230 ($12,230 if married filing jointly)?

☒ **Yes.** *Go to Step 3.* ☐ **No.** STOP You cannot take the credit.

Step 3 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

☐ **Yes.** *See Credit Figured by the IRS on this page.* ☒ **No.** *Go to the worksheet on page 19.*

Definitions and Special Rules

(listed in alphabetical order)

Credit Figured by the IRS To have the IRS figure the credit for you:

1. Enter “EIC” in the space to the left of line 8 on Form 1040EZ.

2. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year **(a)** you filed Form 8862 (or other documents) and your EIC was then allowed and **(b)** your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- The only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

Members of the Military. If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

Social Security Number (SSN). For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless “Not Valid for Employment” is printed on the social security card and the number was issued solely to apply for or receive a Federally funded benefit.

To find out how to get an SSN, see page 14. If you will not have an SSN by April 15, 2004, see What if You Cannot File on Time? on page 11.

Welfare Benefits, Effect of Credit on. Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

Form 1040EZ, Earned Income Credit Worksheet, line 8, page 3

Form 1040EZ—Line 8

Earned Income Credit (EIC) Worksheet—Line 8

Keep for Your Records

Part 1

All Filers

1. Enter your earned income from Step 2 on page 18. **1** 6,923

2. Look up the amount on line 1 above in the EIC Table on page 20 to find the credit. Be sure you use the correct column for your filing status. Enter the credit here. **2** 329

If line 2 is zero, STOP You cannot take the credit.
Enter "No" in the space to the left of line 8.

3. Enter the amount from Form 1040EZ, line 4. **3** 10,163

4. Are the amounts on lines 3 and 1 the same?

☐ **Yes.** *Skip line 5; enter the amount from line 2 on line 6.*

☒ **No.** *Go to line 5.*

Part 2

Filers Who Answered "No" on Line 4

5. Is the amount on line 3 less than $6,250 ($7,250 if married filing jointly)?

☐ **Yes.** *Leave line 5 blank; enter the amount from line 2 on line 6.*

☒ **No.** Look up the amount on line 3 in the EIC Table on page 20 to find the credit. Be sure you use the correct column for your filing status. Enter the credit here. **5** 81

Look at the amounts on lines 5 and 2.
*Then, enter the **smaller** amount on line 6.*

Part 3

Your Earned Income Credit

6. **This is your earned income credit.** **6** 81

Enter this amount on Form 1040EZ, line 8.

1040EZ

CAUTION If your EIC for a year after 1996 was reduced or disallowed, see page 18 to find out if you must file Form 8862 to take the credit for 2003.

Comprehensive Problem 3

Form **1040A** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return (99) **2003** IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0085

Label (See page 21.)
LABEL HERE
Use the IRS label. Otherwise, please print or type.

Your first name and initial Marvin	Last name Simmons	**Your social security number** xxx ⋮ xx ⋮ xxxx
If a joint return, spouse's first name and initial	Last name	**Spouse's social security number** ⋮ ⋮
Home address (number and street). If you have a P.O. box, see page 22. 9701 Austin Rd	Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, see page 22. Your City, State, Zip Code		

▲ Important! ▲
You **must** enter your SSN(s) above.

Presidential Election Campaign (See page 22.)
Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want $3 to go to this fund? . . . ▶
You ☐ **Yes** ☒ **No** **Spouse** ☐ **Yes** ☐ **No**

Filing status Check only one box.
1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☒ Head of household (with qualifying person). (See page 23.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child (See page 24.)

Exemptions
6a ☒ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a.
b ☐ **Spouse**
c **Dependents:**

If more than six dependents, see page 24.

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see page 25)
Eric	Simmons	xxx ⋮ xx ⋮ xxxx	Grandson	☑
		⋮ ⋮		☐
		⋮ ⋮		☐
		⋮ ⋮		☐
		⋮ ⋮		☐
		⋮ ⋮		☐

No. of boxes checked on 6a and 6b 1
No. of children on 6c who:
• **lived with you** 1
• **did not live with you due to divorce or separation (see page 26)**
Dependents on 6c not entered above
Add numbers on lines above 2

d Total number of exemptions claimed.

Income

Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 27.

Enclose, but do not attach, any payment.

7	Wages, salaries, tips, etc. Attach Form(s) W-2.	7	24,952.00
8a	**Taxable** interest. Attach Schedule 1 if required.	8a	
b	**Tax-exempt** interest. **Do not** include on line 8a. 8b		
9a	Ordinary dividends. Attach Schedule 1 if required.	9a	
b	Qualified dividends (see page XX). 9b		
10a	Capital gain distributions (see page 27).	10a	
b	Post-May 5 capital gain distributions (see page 27). 10b		
11a	IRA distributions. 11a — **11b** Taxable amount (see page 27).	11b	
12a	Pensions and annuities. 12a — **12b** Taxable amount (see page 28).	12b	
13	Unemployment compensation and Alaska Permanent Fund dividends.	13	
14a	Social security benefits. 14a — **14b** Taxable amount (see page 30).	14b	
15	Add lines 7 through 14b (far right column). This is your **total income.** ▶	15	24,952.00

Adjusted gross income

16	Educator expenses (see page 30). 16		
17	IRA deduction (see page 30). 17		
18	Student loan interest deduction (see page 33). 18		
19	Tuition and fees deduction (see page 33). 19		
20	Add lines 16 through 19. These are your **total adjustments.**	20	0.00
21	Subtract line 20 from line 15. This is your **adjusted gross income.** ▶	21	24,952.00

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 57. Cat. No. 11327A Form **1040A** (2003)

WAGE EARNER COMPREHENSIVE PROBLEMS

ANSWERS TO PROBLEMS

Comprehensive Problem 3

Form 1040A (2003) Page **2**

Tax, credits, and payments

Standard Deduction for—
- People who checked any box on line 23a or 23b **or** who can be claimed as a dependent, see page 34.
- All others:

Single or Married filing separately, $4,750

Married filing jointly or Qualifying widow(er), $9,500

Head of household, $7,000

22	Enter the amount from line 21 (adjusted gross income).			22	24,952.00
23a	Check if: ☐ **You** were born before January 2, 1939, ☐ Blind; ☐ **Spouse** was born before January 2, 1939, ☐ Blind. **Total boxes checked** ▶ 23a ☐				
b	If you are married filing separately and your spouse itemizes deductions, see page 34 and check here ▶ 23b ☐				
24	Enter your **standard deduction** (see left margin).			24	7,000.00
25	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.			25	17,952.00
26	Multiply $3,050 by the total number of exemptions claimed on line 6d.			26	6,100.00
27	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your **taxable income.** ▶			27	11,852.00
28	**Tax,** including any alternative minimum tax (see page 35).			28	1,281.00
29	Credit for child and dependent care expenses. Attach Schedule 2.	29	293.00		
30	Credit for the elderly or the disabled. Attach Schedule 3.	30			
31	Education credits. Attach Form 8863.	31			
32	Retirement savings contributions credit. Attach Form 8880.	32			
33	Child tax credit (see page 38).	33	600.00		
34	Adoption credit. Attach Form 8839.	34			
35	Add lines 29 through 34. These are your **total credits.**			35	893.00
36	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.			36	388.00
37	Advance earned income credit payments from Form(s) W-2.			37	600.00
38	Add lines 36 and 37. This is your **total tax.** ▶			38	988.00
39	Federal income tax withheld from Forms W-2 and 1099.	39	1,964.00		
40	2003 estimated tax payments and amount applied from 2002 return.	40			
41	**Earned income credit (EIC).**	41	750.00		
42	Additional child tax credit. Attach Form 8812.	42			
43	Add lines 39 through 42. These are your **total payments.** ▶			43	2,714.00

If you have a qualifying child, attach Schedule EIC.

Refund

Direct deposit? See page 52 and fill in 45b, 45c, and 45d.

44	If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you **overpaid.**			44	1,726.00
45a	Amount of line 44 you want **refunded to you.** ▶			45a	1,726.00
▶ b	Routing number x x x x x x x x x ▶ **c** Type: ☑ Checking ☐ Savings				
▶ d	Account number x x x x x x x x x x x x x x				
46	Amount of line 44 you want **applied to your 2004 estimated tax.**	46			

Amount you owe

47	**Amount you owe.** Subtract line 43 from line 38. For details on how to pay, see page 53. ▶			47	
48	Estimated tax penalty (see page 53).	48			

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 54)? ☐ **Yes.** Complete the following. ☑ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶

Sign here

Joint return? See page 22.

Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature Date / / Your occupation mechanic Daytime phone number ( )

Spouse's signature. If a joint return, **both** must sign. Date / / Spouse's occupation

Paid preparer's use only

Preparer's signature Date / / Check if self-employed ☐ Preparer's SSN or PTIN Pxx-xx-xxxx

Firm's name (or yours if self-employed), address, and ZIP code EIN Phone no. ( )

Form **1040A** (2003)

Schedule 2
(Form 1040A)

Department of the Treasury—Internal Revenue Service

Child and Dependent Care Expenses for Form 1040A Filers **2003**

OMB No. 1545-0085

Name(s) shown on Form 1040A: Marvin Simmons

Your social security number: XXX : XX : XXXX

Before you begin: You need to understand the following terms. See **Definitions** on page 1 of the separate instructions.
- **Dependent Care Benefits**
- **Qualifying Person(s)**
- **Qualified Expenses**
- **Earned Income**

Part I

Persons or organizations who provided the care

You **must** complete this part.

1

(a) Care provider's name	**(b)** Address (number, street, apt. no., city, state, and ZIP code)	**(c)** Identifying number (SSN or EIN)	**(d)** Amount paid (see instructions)
Joy Day Care	9192 East Huron Your City, State, Zip Code	XX-XXXXXXX	978

(If you need more space, use the bottom of page 2.)

Did you receive **dependent care benefits?**
- No → Complete only Part II below.
- Yes → Complete Part III on the back next.

Caution. If the care was provided in your home, you may owe employment taxes. If you do, you must use Form 1040. See **Schedule H** and its instructions for details.

Part II

Credit for child and dependent care expenses

2 Information about your **qualifying person(s).** If you have more than two qualifying persons, see the instructions.

(a) Qualifying person's name First	Last	**(b)** Qualifying person's social security number	**(c) Qualified expenses** you incurred and paid in 2003 for the person listed in column (a)
Eric	Simmons	XXX XX XXXX	978

3 Add the amounts in column (c) of line 2. **Do not** enter more than $3,000 for one qualifying person or $6,000 for two or more persons. If you completed Part III, enter the amount from line 26.	3	978
4 Enter your **earned income.**	4	24,952
5 If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions); **all others,** enter the amount from line 4.	5	24,952
6 Enter the **smallest** of line 3, 4, or 5.	6	978
7 Enter the amount from Form 1040A, line 22.	7	24,952

8 Enter on line 8 the decimal amount shown below that applies to the amount on line 7.

If line 7 is: Over	But not over	Decimal amount is	If line 7 is: Over	But not over	Decimal amount is
$0	15,000	.35	$29,000	31,000	.27
15,000	17,000	.34	31,000	33,000	.26
17,000	19,000	.33	33,000	35,000	.25
19,000	21,000	.32	35,000	37,000	.24
21,000	23,000	.31	37,000	39,000	.23
23,000	25,000	.30	39,000	41,000	.22
25,000	27,000	.29	41,000	43,000	.21
27,000	29,000	.28	43,000	No limit	.20

8	8	× .30
9 Multiply **line 6** by the decimal amount on line 8. If you paid 2002 expenses in 2003, see the instructions.	9	293
10 Enter the amount from Form 1040A, line 28.	10	1,281
11 Credit for child and dependent care expenses. Enter the **smaller** of line 9 or line 10 here and on Form 1040A, line 29.	11	293

For Paperwork Reduction Act Notice, see Form 1040A instructions. Cat. No. 10749I **Schedule 2 (Form 1040A) 2003**

Form 1040A, Child Tax Credit Worksheet, line 33

Child Tax Credit Worksheet—Line 33

Keep for Your Records

Before you begin: √ If you received (before offset) an advance payment of the child tax credit and you filed a joint return for 2002, you and your spouse are each considered to have received one-half of the payment.

TIP If you received Notice 1319, have it available. The notice shows the amount of your advance payment (before offset). If you do not have Notice 1319, you can check the amount of your advance payment (before offset) on the IRS website at **www.irs.gov**. You will need to enter your SSN, your 2002 filing status, and the total number of exemptions you claimed on line 6d of your 2002 Form 1040 or Form 1040A.

CAUTION

- To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2003 and meet the other requirements listed on page 38.
- **Do not** use this worksheet if you answered " Yes" to question 1 or 2 on page 38. Instead, use Pub. 972.

1. Number of qualifying children: 1 × $1,000. Enter the result. **1** 1000

2. Enter the amount, if any, of your advance child tax credit (before offset). **2** 400

3. Is line 1 less than or equal to line 2?

☐ **Yes.** STOP You cannot take this credit. If line 2 is more than line 1, you do not have to pay back the difference.

☒ **No.** Subtract line 2 from line 1. **3** 600

4. Enter the amount from Form 1040A, line 28. **4** 1281

5. Add the amounts from Form 1040A, lines 29 through 32. **5** 293

6. Are the amounts on lines 4 and 5 the same?

☐ **Yes.** STOP You cannot take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit.** See the **TIP** below.

☒ **No.** Subtract line 5 from line 4. **6** 988

7. Is the amount on line 3 more than the amount on line 6?

☐ **Yes.** Enter the amount from line 6. Also, you may be able to take the **additional child tax credit.** See the **TIP** below.

☒ **No.** Enter the amount from line 3.

This is your child tax credit. **7** 600

Enter this amount on Form 1040A, line 33.

1040A

TIP You may be able to take the **additional child tax credit** on Form 1040A, line 42, if you answered "Yes" on line 6 **or** line 7 above.

- First, complete your Form 1040A through line 41.
- Then, use Form 8812 to figure any additional child tax credit.

Line 41— Earned Income Credit (EIC)

What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you **or** let the IRS figure the credit for you.
- If you have a qualifying child, complete and attached Schedule EIC.

CAUTION If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1 All Filers

1. If, in 2003:

- 2 children lived with you, is the amount on Form 1040A, line 22, less than $33,692 ($34,692 if married filing jointly)?
- 1 child lived with you, is the amount on Form 1040A, line 22, less than $29,666 ($30,666 if married filing jointly)?
- No children live with you, is the amount on Form 1040A, line 22, less than $11,230 ($12,230 if married filing jointly)?

☒ **Yes.** *Continue*

☐ **No.** STOP You cannot take the credit.

2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?

☒ **Yes.** *Continue*

☐ **No.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

3. Is you filing status married filing separately?

☐ **Yes.** STOP You cannot take the credit.

☒ **No.** *Continue*

4. Were you a nonresident alien for any part of 2003?

☐ **Yes.** *See Nonresident aliens on page 42.*

☒ **No.** *Go to Step 2.*

Step 2 Investment Income

1. Add the amounts from Form 1040A:

Line 8a ________
Line 8b + ________
Line 9a + ________
Line 10a + ________
Investment Income = 0

2. Is your investment income more than $2,600?

☐ **Yes.** STOP You cannot take the credit.

☒ **No.** *Continue*

3. Did a child live with you in 2003?

☒ **Yes.** *Go to Step 3 on page 40.*

☐ **No.** *Go to Step 4 on page 40.*

Form 1040A, Earned Income Credit Worksheet, line 41, page 2

Form 1040A—Line 41

Step 3 Qualifying Child

A qualifying child is a child who is your...

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

AND

was at the end of 2003...

Under age 19

or

Under age 24 and a student (see page 42)

or

Any age and permanently and totally disabled (see page 42)

AND

who...

Lived with you in the United States for more than half of 2003. If the child did not live with you for the required time, see Exception to "Time Lived With You" Condition on page 41.

Note. If the child was married, see page 42.

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

☒ **No.** *Continue*

2. Do you have at least one child who meets the above conditions to be your qualifying child?

☒ **Yes.** *Go to question 3.*

☐ **No.** *Skip question 3; go to Step 4, question 2.*

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2003?

☐ **Yes.** *See Qualifying Child of More Than One Person on page 42.*

☒ **No.** This child is your qualifying child. The child must have a valid social security number as defined on page 42 unless the child was born and died in 2003. *Skip Step 4; go to Step 5 on page 41.*

Step 4 Filers Without a Qualifying Child

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ **Yes.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

☐ **No.** *Continue*

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return?

☐ **Yes.** STOP You cannot take the credit.

☐ **No.** *Continue*

3. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?

☐ **Yes.** *Continue*

☐ **No.** STOP You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 42 before you answer.

☐ **Yes.** *Go to Step 5 on page 41.*

☐ **No.** STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

Form 1040A, Earned Income Credit Worksheet, line 41, page 3

Step 5 Earned Income

1. Figure earned income:

Form 1040, line 7 24,952

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

– ______

Earned Income = 24,952

2. If you have:

- 2 or more qualifying children, is your earned income less than $33,692 ($34,692 if married filing jointly)?
- 1 qualifying child, is your earned income less than $29,666 ($30,666 if married filing jointly)?
- No qualifying children, is your earned income less than $11,230 ($12,230 if married filing jointly)?

☒ **Yes.** *Go to Step 6.* ☐ **No.** STOP You cannot take the credit.

Step 6 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

☐ **Yes.** *See Credit Figured by the IRS below.* ☒ **No.** *Go to the worksheet on page 43.*

Definitions and Special Rules

(listed in alphabetical order)

Adopted Child. An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

Credit Figured by the IRS. To have the IRS figure the credit for you:

1. Put "EIC"to the left of the entry space for line 41 of Form 1040A.

2. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to "Time Lived With You" Condition. A child is considered to have lived with you for all of 2003 if the child was born or died in 2003 and your home was this child's home for the entire time he or she was alive in 2003. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military on page 42.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year **(a)** you filed Form 8862 (or other documents) and your EIC was then allowed and **(b)** your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

Form 1040A EIC Worksheet

Earned Income Credit (EIC) Worksheet—Line 41

Keep for Your Records

Part 1

All Filers

1. Enter your earned income from Step 5 on page 43. **1** 24,952

2. Look up the amount on line 1 above in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. **2** 750

If line 2 is zero, STOP You cannot take the credit. *Put "No" to the left of the entry space for line 41.*

3. Enter the amount from Form 1040A, line 22. **3** 24,952

4. Are the amounts on lines 3 and 1 the same?

☒ **Yes.** *Skip line 5; enter the amount from line 2 on line 6.*

☐ **No.** *Go to line 5.*

Part 2

Filers Who Answered "No" on Line 4

5. If you have:

- No qualifying children, is the amount on line 3 less than $6,250 ($7,250 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 3 less than $13,750 ($14,750 if married filing jointly)?

☐ **Yes.** *Leave line 5 blank; enter the amount from line 2 on line 6.*

☐ **No.** Look up the amount on line 3 in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. **5**

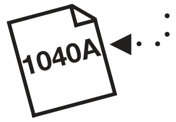
Look at the amounts on lines 5 and 2.
*Then, enter the **smaller** amount on line 6.*

Part 3

Your Earned Income Credit

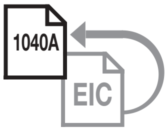
6. This is your earned income credit. **6** 750

Enter this amount on Form 1040A, line 41.



Reminder—

√ If you have a qualifying child, complete and attach Schedule EIC.



CAUTION If your EIC for a year after 1996 was reduced or disallowed, see page 43 to find out if you must file Form 8862 to take the credit for 2003.

SCHEDULE EIC
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service

Earned Income Credit

Qualifying Child Information

1040A
1040
EIC

Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

OMB No. 1545-0074

2003

Attachment Sequence No. **43**

Name(s) shown on return: Marvin Simmons

Your social security number: XXX XX XXXX

Before you begin: See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that (**a**) you can take the EIC and (**b**) you have a qualifying child.

CAUTION

- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Qualifying Child Information	**Child 1**	**Child 2**
1 Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name: Eric Last name: Simmons	First name Last name
2 Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	XXX XX XXXX	

Next, if the child was born after 1984, go to line 4. Otherwise, continue.

	Child 1	**Child 2**
3 If the child was born before 1985— **a** Was the child under age 24 at the end of 2003 and a student?	☐ **Yes.** *Go to line 4.* ☐ **No.** *Continue*	☐ **Yes.** *Go to line 4.* ☐ **No.** *Continue*
b Was the child permanently and totally disabled during any part of 2003?	☐ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.	☐ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.
4 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)	Grandchild	
5 Number of months child lived with you in the United States during 2003 • If the child lived with you for more than half of 2003 but less than 7 months, enter "7". • If the child was born or died in 2003 and your home was the child's home for the entire time he or she was alive during 2003, enter "12".	12 months *Do not enter more than 12 months.*	_____ months *Do not enter more than 12 months.*

TIP You may also be able to take the additional child tax credit if your child (**a**) was under age 17 at the end of 2003, (**b**) is claimed as your dependent on line 6c of Form 1040A or Form 1040, **and** (**c**) is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 65 of Form 1040.

For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions. Cat. No. 13339M **Schedule EIC (Form 1040A or 1040) 2003**

SALE OF STOCK

Lesson 11

OBJECTIVES

After completing this lesson you should be able to:

- Identify the items that affect the basis of a stock.
- Determine if a stock's holding period is long term or short term.
- Determine when and how to report commissions from sale of stock on Schedule D.
- Calculate the amount of the qualified 5-year gain (On transactions concluded before May 6, 2003.).
- Calculate the taxable gain or deductible loss using Schedule D.
- Calculate the tax liability using Part IV of Schedule D.
- Calculate the amount of capital loss carryover using the capital loss carryover worksheet.

What You Will Need

In order for you to complete Schedule D, the taxpayer will need to show you his or her records, including information returns he or she receives that are also forwarded to IRS.

- Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions*, which the broker gives the taxpayer to report the sale price of stock.
- The taxpayer's records of his or her basis in the stock sold. Basis is explained in this lesson.
- The taxpayer's records of the date he or she originally acquired the stock.
- Form 1099-DIV, *Dividends and Distributions*, if the taxpayer received capital gain distributions (for example, from a mutual fund).
- The taxpayer's *Capital Loss Carryover Worksheet* from last year's Schedule D instructions if the taxpayer is carrying over a loss to 2003.

The Internal Revenue Service (IRS) receives copies of Form 1099-B from the broker and copies of Form 1099-DIV from the payer. The taxpayer should not file these items with the return, but keep them with his or her records.

The Jobs and Growth Tax Relief Reconcilliation Act of 2003 reduced the 10% and 20% captial gains rates to 5% and 15% for capital gains realized on or after May 6, 2003. For tax year 2003 only the Schedule D will have a column (G) which requires an entry for capital gains transactions after May 5, 2003. The net effect of this law is that taxpayers may have two different tax rates for capital gains transactions in 2003. The key to successful completion of the form and calculation of the correct tax is to follow the Schedule D line requests for information very carefully.

Capital Asset

A **capital asset** is any asset held either for personal use or for investment. Thus, all your items of personal property, such as your home and car, are capital assets. Property held for investment includes stocks and bonds. Property used in a trade or business, such as inventory or machinery, is not a capital asset.

In this lesson, corporate stock is the only capital asset discussed. **Capital gain distributions** are also discussed. They are recognized when the entity (such as a mutual fund) that owned a capital asset disposes of it and passes gain through to its shareholders. The discussion of capital gain distributions in this lesson supplements what you previously learned in Lesson 2.

Capital Gains Distribution (Only)

The Schedule D generally is not needed for taxpayers who received capital gain distributions from mutual funds but did not sell any shares of stock and do not have any Forms 1099-B as explained in Lesson 2, Income. Instead, report the total capital gain distribution on Form 1040, line 13a, or on Form 1040A, line 10a. If the taxpayer must file Form 1040, remember to check the box next to line 13 of Form 1040 to indicate that Schedule D is not required. If the taxpayer sold stocks, he or she must file Form 1040 and cannot report capital gain distributions on Form 1040A.

Basis

The **basis** of property is usually its cost. Certain additional costs relating to its purchase are included in the basis of a capital asset. An example of an expense to include in the basis of stock is the commission or fee paid to a broker when stock is purchased.

If the taxpayer is not able to provide his or her basis in the property, the IRS will deem it to be zero. The taxpayer should make every effort to determine the basis. Refer taxpayers to their stockbroker or financial planner for assistance in determining basis. Once the taxpayer has the basis, volunteers may assist in preparing the tax return.

Adjusted Basis

Events after purchase can require adjustments to the basis of stock. The term **adjusted basis** refers to the basis after changes are made. For example, when a stock dividend or stock split is declared, the stockholder receives additional shares of stock. Some of the basis from the original stock is then allocated to the new stock. This change reduces the basis per share of the original shares.

Example 1

Fran paid $1,100 for 100 shares of ABC, Inc. stock (including the broker's commission of $25). Fran received 10 additional shares of ABC stock as a tax-free stock dividend. Her $1,100 basis must be spread over 110 shares (100 original shares plus the 10-share stock dividend). Her basis per share decreases from $11 to $10 per share.

Holding Period

Long-term or short-term. Capital gains and losses are classified as either "long-term" or "short-term," depending on how long the taxpayer owned the stock. Stock held for more than one year (12 months) has a long-term holding period. Stock held for one year or less has a short-term holding period.

Example 2

Loretta bought stock on January 11, 2002 (trade date). Her holding period began the next day, January 12. If she sells that stock on January 11, 2003, she will not have owned them for more than a year. The holding period will be short-term. However, if she sells the stock on January 12, 2003, or later, the holding period will be long-term.

Blocks. Frequently, a taxpayer owns shares of stock that were bought on different dates or for different prices. That is, the individual owns more than one block of stock. Each block may differ from the others in its holding period (long-term or short-term), its basis (amount paid for the stock), or both.

In directing a broker to sell stock, the taxpayer may specify which block, or part of a block, to sell. Specification can make a difference in determining the holding period or basis of the stock sold, giving the taxpayer an element of control and versatility in handling an investment. To be valid, any such specification must be made before or at the time of sale. It cannot be made after the sale. If the taxpayer does not identify the specific block at the time of sale, shares sold are treated as coming from the earliest block purchased.

TAX TIPS

★★★★★★★★★

To find out how long the taxpayer has held the stocks, begin counting on the day *after the day* he or she bought the shares of stock and include the day the shares were sold. This sale trade date is part of the holding period.

POTENTIAL PITFALLS

Stock splits and stock dividends do not occur often. However, do not assume that they never happen. Ask taxpayers if they received any additional shares from a stock split or stock dividend.

Example 3

In 1996, Tina bought 100 shares of Acme Corporation stock for $2,000. In 1997 she bought another 100 shares of Acme for $2,300. In 2003, Tina sold 100 shares of Acme for $3,000.

The adjusted basis of the shares sold is $2,000. However, if Tina had told her broker to sell the 100 shares bought in 1997, the adjusted basis of the shares sold would have been $2,300, reducing her profit (and any taxable amount) on the sale.

Tax-free stock dividends and stock splits. Stock acquired in a tax-free stock dividend or stock split has the same holding period as the original stock owned. Thus, if the original stock has a long-term holding period, stock received in a tax-free stock dividend also has a long-term holding period. Similarly, if the original stock has a holding period of three months, the new stock immediately has a three-month holding period.

POTENTIAL PITFALLS ⚠

Shares from a stock dividend may or may not have the same holding period as the original shares.

Example 4

On February 18, 1999, Wallace bought 500 shares of XYZ Corporation stock for $1,500, including his broker's commission. XYZ distributed a two-percent stock dividend on April 6, 2003. On April 9, 2003, Wallace sold all his XYZ stock for $2,030. He has a long-term capital gain of $530 on the sale of his stock. Although he owned the 10 shares he received as a tax-free stock dividend for only three days, all the stock has a long-term holding period.

Taxable dividends. There are several types of taxable dividends, as discussed in Lesson 2. A taxpayer who participates in a dividend reinvestment plan (one type of taxable dividend) will use the dividends to purchase more shares of the stock. The stocks acquired (including fractional shares) through the dividend reinvestment plan are added to the taxpayer's basis at fair market value on the date of distribution. Thus, the new shares of stock do not always have the same holding period as the original stock. If the taxpayer does not know their basis refer them to their stockbroker or financial planner.

Demutualization

Some taxpayers have been informed by their insurance company that the company has been demutualized. When this happens the policy holder receives either a block of stock or the cash equivalent of company stock. The holding period for such stock is the length of time the policy has been in effect, usually many years. The basis for this stock is zero. The taxpayer must report all of the proceeds as a capital gain, usually long term.

Wash Sales

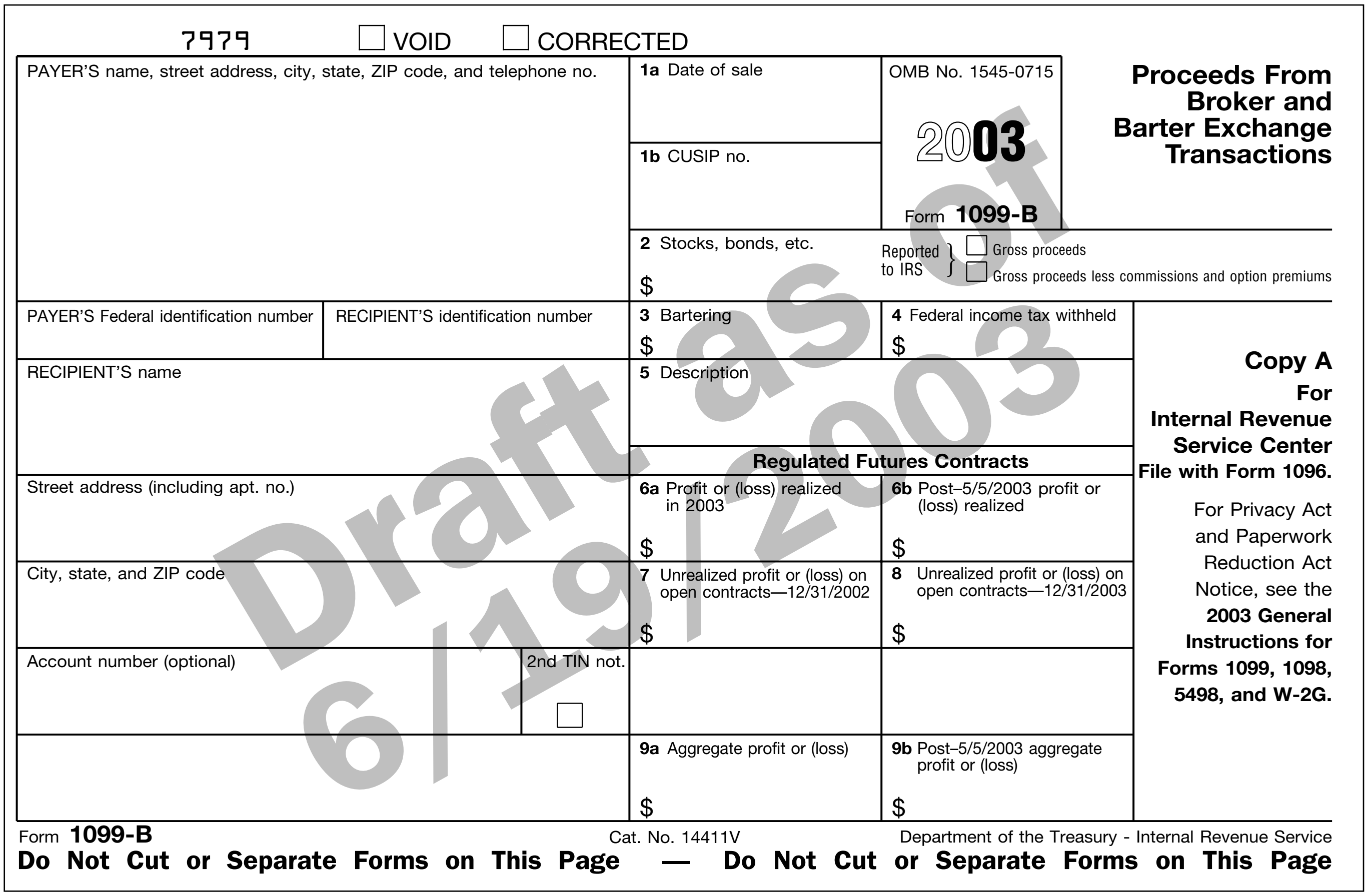
Generally, a **wash sale** occurs when stock is sold and, within 30 days before or after the sale, substantially identical stock is bought. A loss on a wash sale is not deductible, and special rules relate to the basis of the replacement stock. However, a gain on a wash sale must be reported. Any taxpayer with a wash sale should be referred to a paid professional tax preparer.

Sales Price, Form 1099-B, and Adjusted Basis

The stockbroker reports **sales price** to the Internal Revenue Service in box 2 of Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions* (see Exhibit 1). Some brokers do not subtract commissions and fees; they report the **gross proceeds** as the sales price. Other brokers do subtract commissions and fees, reporting the **gross proceeds less commissions** (referred to as ***net proceeds*** in this lesson) as the sales price. The broker checks the appropriate square at the right of box 2 to indicate whether the gross or net proceeds were reported to IRS.

If Form 1099-B reports gross proceeds, add the sales broker's commissions and fees to the basis. If Form 1099-B reports net proceeds, the broker already subtracted the commissions and fees the seller paid. Do not adjust the basis further.

Exhibit 1 **Form 1099-B**



7979 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.

1a Date of sale

1b CUSIP no.

OMB No. 1545-0715

2003

Form **1099-B**

Proceeds From Broker and Barter Exchange Transactions

2 Stocks, bonds, etc. $

Reported to IRS ☐ Gross proceeds ☐ Gross proceeds less commissions and option premiums

PAYER'S Federal identification number

RECIPIENT'S identification number

3 Bartering $

4 Federal income tax withheld $

RECIPIENT'S name

5 Description

Regulated Futures Contracts

Street address (including apt. no.)

6a Profit or (loss) realized in 2003 $

6b Post–5/5/2003 profit or (loss) realized $

City, state, and ZIP code

7 Unrealized profit or (loss) on open contracts—12/31/2002 $

8 Unrealized profit or (loss) on open contracts—12/31/2003 $

Account number (optional)

2nd TIN not. ☐

9a Aggregate profit or (loss) $

9b Post–5/5/2003 aggregate profit or (loss) $

Copy A For Internal Revenue Service Center File with Form 1096.

For Privacy Act and Paperwork Reduction Act Notice, see the **2003 General Instructions for Forms 1099, 1098, 5498, and W-2G.**

Form **1099-B** Cat. No. 14411V Department of the Treasury - Internal Revenue Service

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Example 5

George sold stock for $2,300. He paid his broker a commission of $35 on the sale and received net proceeds of $2,265. If his broker reported the gross proceeds, box 2 of Form 1099-B would show $2,300, and the box next to gross proceeds would be checked. If his broker reported the net proceeds, box 2 of Form 1099-B would show $2,265, and the box next to gross proceeds less commissions would be checked.

As a general rule, you will need the following information from Form 1099-B:

Information You Will Need From Form 1099-B	
IF Form 1099-B shows information in:	**THEN report it on:**
Box 1a, Date of sale	Schedule D, column (c), of either Part I, line 1, or Part II, line 8
Box 2, Sales price reported to Internal Revenue Service whether gross or net proceeds were reported	Schedule D, column (d), of either Part I, line 1, or Part II, (line 8
Box 4, Federal income tax withheld	Form 1040, line 61
Box 5, Description of the property sold	Schedule D, column (a) in either Part I, line 1, or Part II, line 8

If there are entries in box 3 or in boxes 6 through 9 of Form 1099-B, refer the taxpayer to a paid professional tax preparer.

Form 1099-B does **not** include the date the taxpayer bought the stock or what he or she paid for it. The taxpayer will need to provide you with this information.

Some brokers do not issue standard Forms 1099-B. Instead they issue a statement, sometimes titled “A 1099 Consolidated Statement,” which shows stock sales and other types of distributions such as dividends and interest. Exhibit 2 is an example of such a statement.

Exhibit 2 A 1099 Consolidated Statement

Payer

KING INVESTMENTS
555 CENTER STREET
NEW YORK, NY 10022

Account Number 7764366 SS# 000-00-7026

Paul J. Birch
Susan L. Birch
123 Green Street
Claremont, VA 91711

1099-INT Interest Income 2003

Interest income not included in box 3	Early withdrawal penalty	US Savings Bonds and other US Treasury interest	**Federal income tax withheld**	Foreign tax paid	Foreign country or US possession
Box 1 **$378.00**	Box 2	Box 3 **$100.00**	Box 4	Box 5	Box 6

1099-DIV Dividends & Distributions 2003

Ordinary dividends	Capital gain distributions	28% rate gain	Unrecaptured sec. 1250 gain	Section 1202 gain	Nontaxable distributions	**Federal income tax withheld**
Box 1 **$559.00**	Box 2a **$179.00**	Box 2b	Box 2c	Box 2d	Box 3	Box 4

Investment expenses	Foreign tax paid	Foreign country or US possession	Liquidation distributions—cash	Liquidation distributions—non-cash
Box 35	Box 6 **$25.00**	Box 7	Box 8	Box 9

1099-B Proceeds from Broker and Barter Exchange Transactions 2003

Reference number	Trade date (Box 1a)	CUSIP number (Box 1b)	Quantity Description (Box 5)	Price	Gross proceeds less commissions (Box 2)	**Federal income tax withheld** (Box 4)
145367	7/17/03	765298	200 shrs ABC Corp.	$16.75	$3,299.90	
239863	10/23/03	927651	300 shrs XYZ Markets, Inc.	$83.65	$25,000.20	
Totals					**$28,300.10**	

1099-R Distributions from IRAs 2003

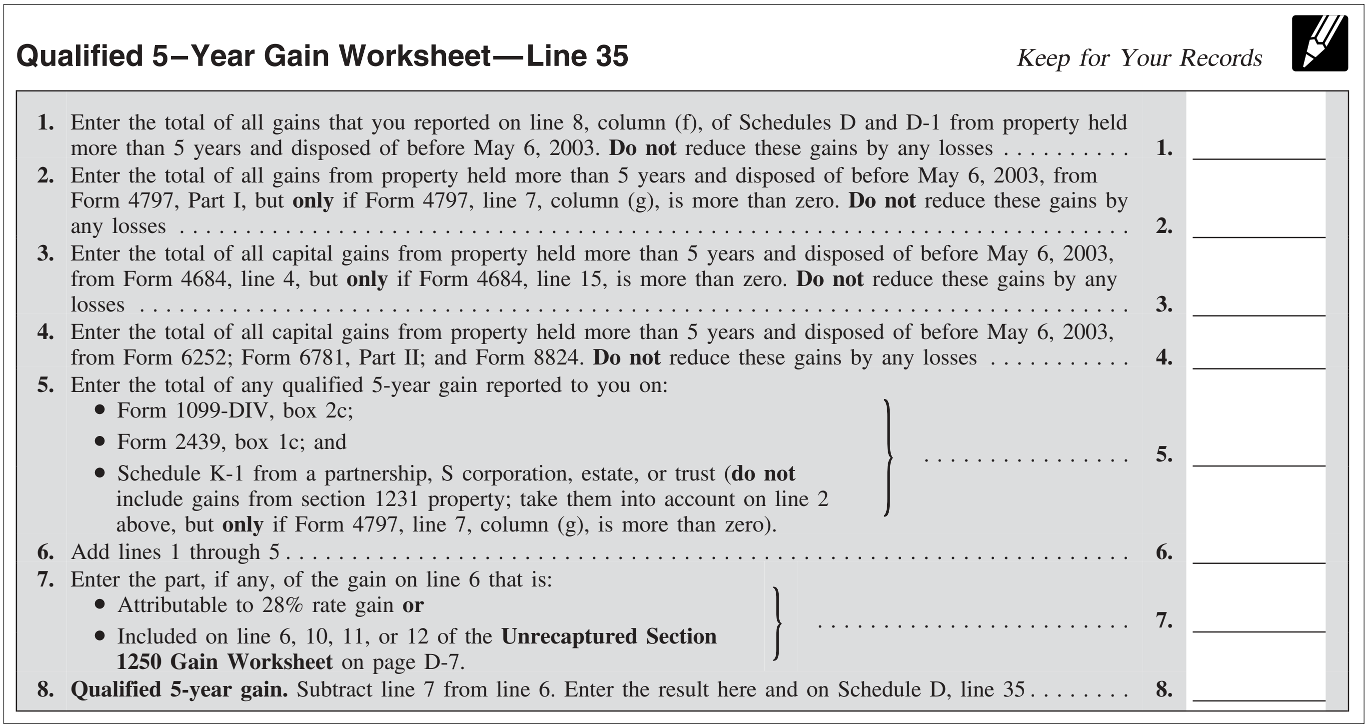
Gross distribution (Box 1)	Taxable amount (Box 2a)	Taxable amount not determined	(Box 2b) Total Distribution	Federal Income tax withheld (Box 4)	Distribution Code (Box 7)	IRA/SEP/SIMPLE
$2,000	**$2,000**			$0.00	7-Normal Distribution	Yes

Qualified 5-Year Gain Applies to transactions prior to May 6, 2003

In 2001, the capital gains rate on qualified property held for more than five years was lowered to 18% (8% for lower income taxpayers). These reduced rates continue to apply to sales of qualified property before May 6, 2003. Sales after May 5, 2003, will be taxed using the reduced tax rates introduced earlier in this lesson. The schedule D has been redesigned to accommodate the multiple tax rates that could apply for 2003. You should exercise caution when completing the Schedule D.

Exhibit 3

2003 Qualified 5-year Worksheet



Qualified 5–Year Gain Worksheet—Line 35

Keep for Your Records

1. Enter the total of all gains that you reported on line 8, column (f), of Schedules D and D-1 from property held more than 5 years and disposed of before May 6, 2003. **Do not** reduce these gains by any losses . . . . **1.** __________

2. Enter the total of all gains from property held more than 5 years and disposed of before May 6, 2003, from Form 4797, Part I, but **only** if Form 4797, line 7, column (g), is more than zero. **Do not** reduce these gains by any losses . . . . **2.** __________

3. Enter the total of all capital gains from property held more than 5 years and disposed of before May 6, 2003, from Form 4684, line 4, but **only** if Form 4684, line 15, is more than zero. **Do not** reduce these gains by any losses . . . . **3.** __________

4. Enter the total of all capital gains from property held more than 5 years and disposed of before May 6, 2003, from Form 6252; Form 6781, Part II; and Form 8824. **Do not** reduce these gains by any losses . . . . **4.** __________

5. Enter the total of any qualified 5-year gain reported to you on:
- Form 1099-DIV, box 2c;
- Form 2439, box 1c; and
- Schedule K-1 from a partnership, S corporation, estate, or trust (**do not** include gains from section 1231 property; take them into account on line 2 above, but **only** if Form 4797, line 7, column (g), is more than zero).

} . . . . **5.** __________

6. Add lines 1 through 5 . . . . **6.** __________

7. Enter the part, if any, of the gain on line 6 that is:
- Attributable to 28% rate gain **or**
- Included on line 6, 10, 11, or 12 of the **Unrecaptured Section 1250 Gain Worksheet** on page D-7.

} . . . . **7.** __________

8. **Qualified 5-year gain.** Subtract line 7 from line 6. Enter the result here and on Schedule D, line 35 . . . . **8.** __________

Exercise 1

For the following situations, determine the adjusted basis of the stock sold, whether the holding period is long-term or short-term, and how the sales price is reported.

A. On May 11, 2000, Morris bought 1,000 shares of ZZZ Corporation stock for $5,000, plus a $100 commission. On February 14, 2003, he sold 500 shares for $3,300 and paid a $45 commission. The broker reported net proceeds on the sale.

1. What is the adjusted basis of the stock sold? ____________

____

2. Is the holding period long term or short term? ___________

____

3. What amount is reported to the Internal Revenue Service in box 2 of Form 1099-B? ______________________________

____

B. In the case of Morris, above, assume that he bought 500 more shares of ZZZ stock on October 6, 2002, for $3,500, plus a $50 commission. At the time of the sale, he told the broker to sell the stock he had bought in 2002.

1. What is the adjusted basis of the stock sold? ____________

2. Is the holding period long term or short term? ___________

____

C. On November 30, 2000, Janice bought 100 shares of ABC Corporation stock for $9,965, plus a $35 commission. On January 5, 2003, the stock split two-for-one, and she then held a total of 200 shares. On March 6, 2003, she sold 100 shares for $6,470 and paid a $30 commission. Her broker reported net proceeds.

1. What is the adjusted basis of the stock sold? ____________

2. Is the holding period long term or short term? ___________

____

3. What amount is reported to the Internal Revenue Service in box 2 of Form 1099-B? ______________________________

____

REPORTING GAIN OR LOSS ON SCHEDULE D

Use Schedule D (Form 1040), *Capital Gains and Losses,* to report gain or loss on the sale of stock. Figure gain or loss by subtracting the adjusted basis of stock sold from its sales price. If the sales price is greater, the taxpayer has gain on the sale. By contrast, if the adjusted basis is greater than the sales price, the taxpayer has a loss on the sale. To denote a loss, place the number in parentheses. The taxpayer should receive Form 1099-B, reporting each sale of stock.

Also use Schedule D to report capital gain distributions that the taxpayer has in addition to any sales of stock. Enter the capital gain distributions on Schedule D, Part II, line 13. They are reported to the taxpayer on Form 1099-DIV, *Dividends and Distributions,* box 2a.

Any distributions that are qualified 5-year gain will be reported to the taxpayer in box 2c and used to complete the Qualified 5-year gain Worksheet in the Schedule D instructions.

If the taxpayer had capital gain distributions, but did not sell stock, he or she may not have to use Schedule D. Instead, report the capital gain distributions as explained in Lesson 2, Income.

Schedule D is divided into four parts. They are:

- Part I, *Short-Term Capital Gains and Losses.* For assets held one year or less.
- Part II, *Long-Term Capital Gains and Losses.* For assets held more than one year. Part II shows all long-term gains and losses and identifies the part subject to the 28% tax rate. The 28% rate applies to section 1202 gain from the sale or exchange of qualified small business stock and to collectibles.
- Part III, *Taxable Gain or Deductible Loss.*
- Part IV, *Tax Computation Using Maximum Capital Gains Rates.* You should have no trouble with Part IV if you take your time and do as the form says for each line. Using Part IV, rather than the Tax Table or Tax Rate Schedules, may result in lower tax.

Parts I and II: Short-Term and Long-Term Capital Gains and Losses

Report transactions in Parts I and II as follows:

To Report Capital Gain or Loss in Part I or II, Schedule D		
	Short-Term	**Long-Term**
Show the first four sales on:	Part I, Line 1, Schedule D	Part II, line 8, Schedule D
For additional sales, use:	Part I, line 1, Schedule D-1	Part II, line 8, Schedule D-1
And transfer the total sales amount:	**From** Part I, line 2, Schedule D-1 **Onto** Part I, line 2, Schedule D	**From** Part II, line 9, Schedule D-1 **Onto** Part II, line 9, Schedule D

Add the sales price amounts in column (d), lines 1 and 2 of Part I. Enter the result on line 3. Then add the amounts in column (d), lines 8 and 9 of Part II. Enter the result on line 10. The total of line 3 plus line 10 must equal the total from box 2 of all the taxpayer's Forms 1099-B. If they do not agree, the taxpayer should attach a statement to the return to explain the difference.

The Internal Revenue Service will compare the amounts reported on all of a taxpayer's Forms 1099-B with the sum of the amounts reported on lines 3 and 10 of Schedule D. If the numbers do not agree and the taxpayer did not explain the difference, IRS will contact the taxpayer.

Example 6

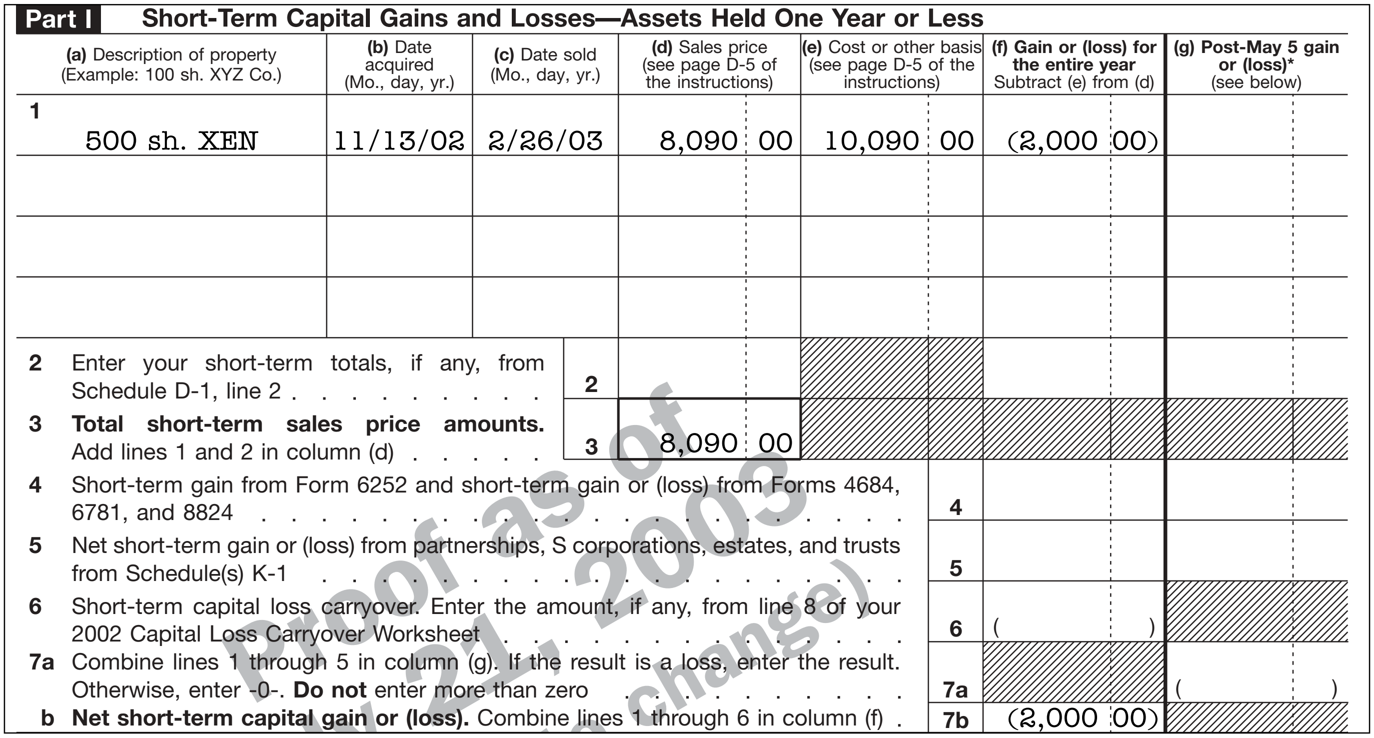
On November 13, 2002, Mary Lou bought 500 shares of XEN, Inc. stock for $20 a share ($10,000 total), plus a $50 commission. On February 26, 2003, she sold the stock for $8,090 and paid selling expenses of $40. The Form 1099-B from her broker reported a sales price of $8,090 (gross proceeds). Part I of Mary Lou's completed Schedule D appears in Exhibit 3.

Mary Lou has a short-term capital loss. Notice that Mary Lou shows the loss in column (f) of line 1 with no entry in column (g) because the transaction was completed before May 6, 2003. She completes Part I by entering the net short-term loss on line 7. This example shows that:

- Her broker reported gross proceeds on Form 1099-B. The amount shown in column (d) is $8,090 (because selling expenses have not been subtracted), and
- She works those expenses into the computation as an adjustment to basis, column (e)—and the result in column (f) reflects her true gain or loss.

Exhibit 4

Mary Lou's Schedule D, Part I



Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-5 of the instructions)	(e) Cost or other basis (see page D-5 of the instructions)	(f) Gain or (loss) for the entire year Subtract (e) from (d)	(g) Post-May 5 gain or (loss)* (see below)
1	500 sh. XEN	11/13/02	2/26/03	8,090 00	10,090 00	(2,000 00)	
2	Enter your short-term totals, if any, from Schedule D-1, line 2		2		▨		
3	**Total short-term sales price amounts.** Add lines 1 and 2 in column (d)		3	8,090 00	▨	▨	▨
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824				4		
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				5		
6	Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet				6	( )	▨
7a	Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. **Do not** enter more than zero				7a	▨	( )
b	**Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f) .				7b	(2,000 00)	▨

Example 7

Exhibit 4 shows the three long-term transactions that Tess is reporting on Schedule D, Part II, for 2003. On August 21, 1999, she bought 200 shares of XYZ Company for $1,500. On October 1, 2000, she bought 500 shares of TUV, Inc., for $8,000, and on November 18, 2000, she bought 2,000 shares of QRS, Inc., for $5,000. Each amount includes the commission.

On January 10, 2003, Tess sold the stock in XYZ and TUV. The Form 1099-B from her broker reported gross proceeds of $1,875 for the XYZ stock, and $6,000 for TUV. Tess paid commissions of $35 for selling the XYZ shares, and $40 for selling TUV. On May 27, 2003, Tess sold the QRS stock for $10,000. She paid a $50 commission. Her broker reported net proceeds of $9,950 on Form 1099-B.

This example shows how to:

- Report basis when Form 1099-B shows gross proceeds (XYZ and TUV—basis includes commissions on the sale, as well as prior adjusted basis), in contrast to when it shows net proceeds (QRS—basis does not include commissions on the sale, but only the prior adjusted basis).
- Net gains and losses in column (f).

Exhibit 5

Tess' Schedule D, Part II

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-5 of the instructions)	(e) Cost or other basis (see page D-5 of the instructions)	(f) Gain or (loss) for the entire year Subtract (e) from (d)	(g) Post-May 5 gain or (loss)* (see below)
8	200 sh. XYZ	8/21/99	1/10/03	1,875 00	1,535 00	340 00	
	500 sh. TUV	10/1/00	1/10/03	6,000 00	8,040 00	(2,040 00)	
	2,000 sh. QRS	11/18/00	5/27/03	9,950 00	5,000 00	4,950 00	4,950 00

9	Enter your long-term totals, if any, from Schedule D-1, line 9	9			
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)	10	17,825 00		
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11			
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	12			
13	Capital gain distributions. See page D-1 of the instructions	13			
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet	14		( )	
15	Combine lines 8 through 13 in column (g). If zero or less, enter -0-	15			4,950 00
16	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) **Next:** Go to Part III on the back.	16		3,250 00	

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 2003**

Exercise 2

For each of the following situations, figure the gain or loss on the sale of stock and indicate whether the gain or loss will be long term or short term.

A. On March 15, 2002, Bill bought 1,000 shares of stock for $15,000, including commission. On March 15, 2003, he sold 600 shares of the stock for $7,800, net proceeds on Form 1099-B.

1. Will Bill report a gain or a loss? ______________________

2. How much is the gain or loss? ________________________

3. Is the holding period long term or short term? __________
____

B. On January 7, 2001, Margo bought stock for $1,500, plus a $25 commission. On July 15, 2003, she sold the stock for $2,000 and paid a $25 commission. Her Form 1099-B shows the gross proceeds of $2,000 as the sales price.

1. Will Margo report a gain or a loss? ____________________

2. How much is the gain or loss? ________________________

3. Is the holding period long term or short term? __________
____

Reporting Capital Gain Distributions From Form 1099-DIV on Schedule D

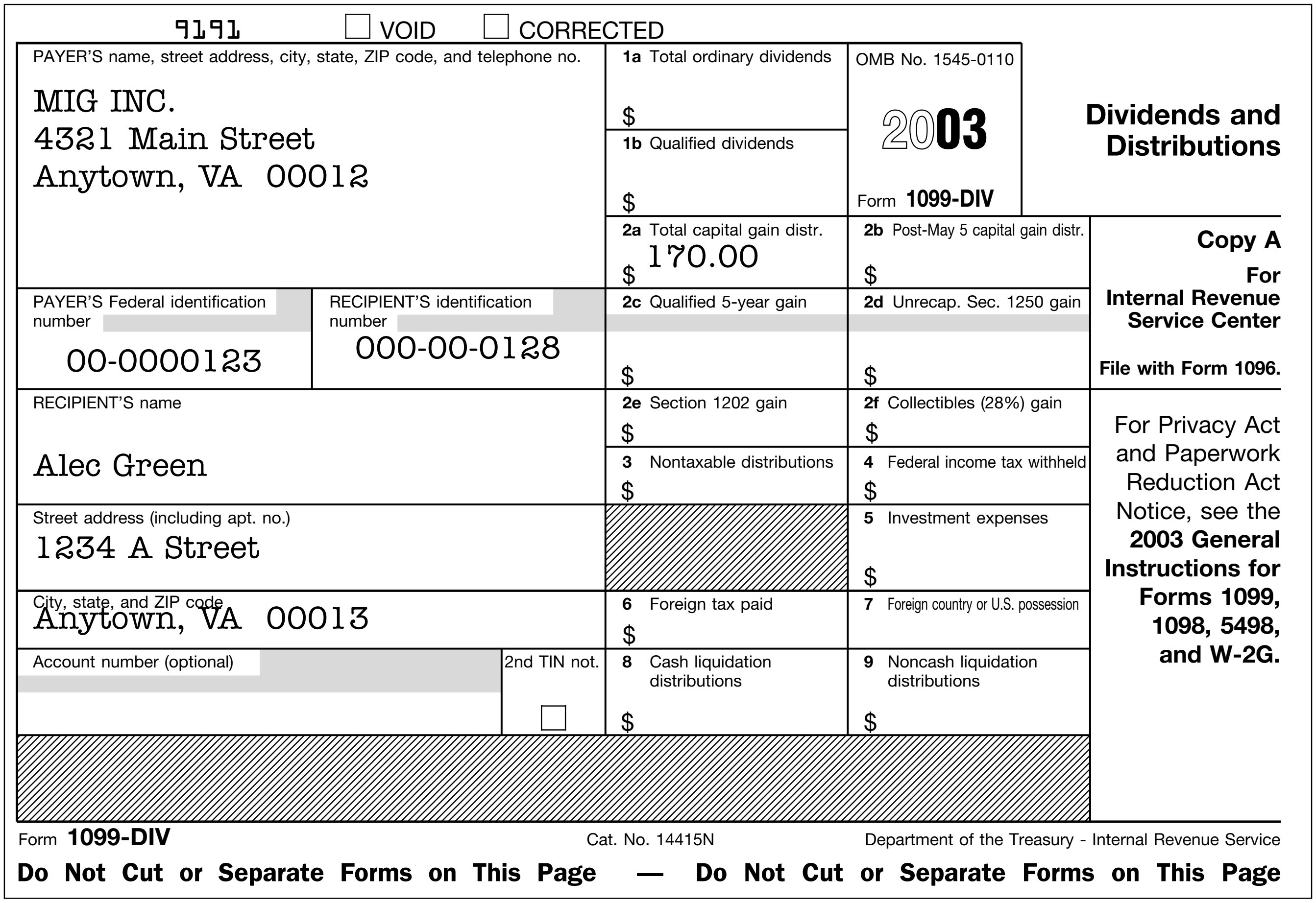
If the taxpayer received Form 1099-DIV, *Dividends and Distributions*, see whether an amount is shown in box 2a and box 2c.

- If capital gain distributions from Form 1099-DIV are the only capital gains or losses the taxpayer had for the year, the taxpayer may be able to report them directly on Form 1040A or Form 1040, as explained in Lesson 2, *Income.*
- If the taxpayer also sold stock reported on Form 1099-B, report the total capital gain distributions from Form 1099-DIV on line 13, column (f), of Schedule D. For transactions completed after May 5, 2003, include the gain or loss in Column G also.

Example 8

Alec received a Form 1099-DIV. Box 2a which shows he received a total capital gain distribution of $170. Alec also received a Form 1099-B that shows a net sales price of $1,200 on the sale of 600 shares of ABC Group, Inc. He bought the stock on February 19, 2000, and sold it on August 25, 2003. His basis in ABC, including commission, is $1,455. Alec's Form 1099-DIV, and Part II of his Schedule D, are shown in Exhibits 5 and 6. In this example, the capital gain distribution must be shown on Schedule D because Alec also sold stock in 2003 that must be reported on Schedule D.

Exhibit 6 Alec's Form 1099-DIV



9191 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.
MIG INC.
4321 Main Street
Anytown, VA 00012

1a Total ordinary dividends $
1b Qualified dividends $

OMB No. 1545-0110
2003
Form 1099-DIV

Dividends and Distributions

2a Total capital gain distr. $ 170.00
2b Post-May 5 capital gain distr. $

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File with Form 1096.

PAYER'S Federal identification number: 00-0000123
RECIPIENT'S identification number: 000-00-0128

2c Qualified 5-year gain $
2d Unrecap. Sec. 1250 gain $

RECIPIENT'S name
Alec Green

2e Section 1202 gain $
2f Collectibles (28%) gain $
3 Nontaxable distributions $
4 Federal income tax withheld $

For Privacy Act and Paperwork Reduction Act Notice, see the **2003 General Instructions for Forms 1099, 1098, 5498, and W-2G.**

Street address (including apt. no.)
1234 A Street

5 Investment expenses $

City, state, and ZIP code
Anytown, VA 00013

6 Foreign tax paid $
7 Foreign country or U.S. possession

Account number (optional)
2nd TIN not. ☐

8 Cash liquidation distributions $
9 Noncash liquidation distributions $

Form **1099-DIV** Cat. No. 14415N Department of the Treasury - Internal Revenue Service

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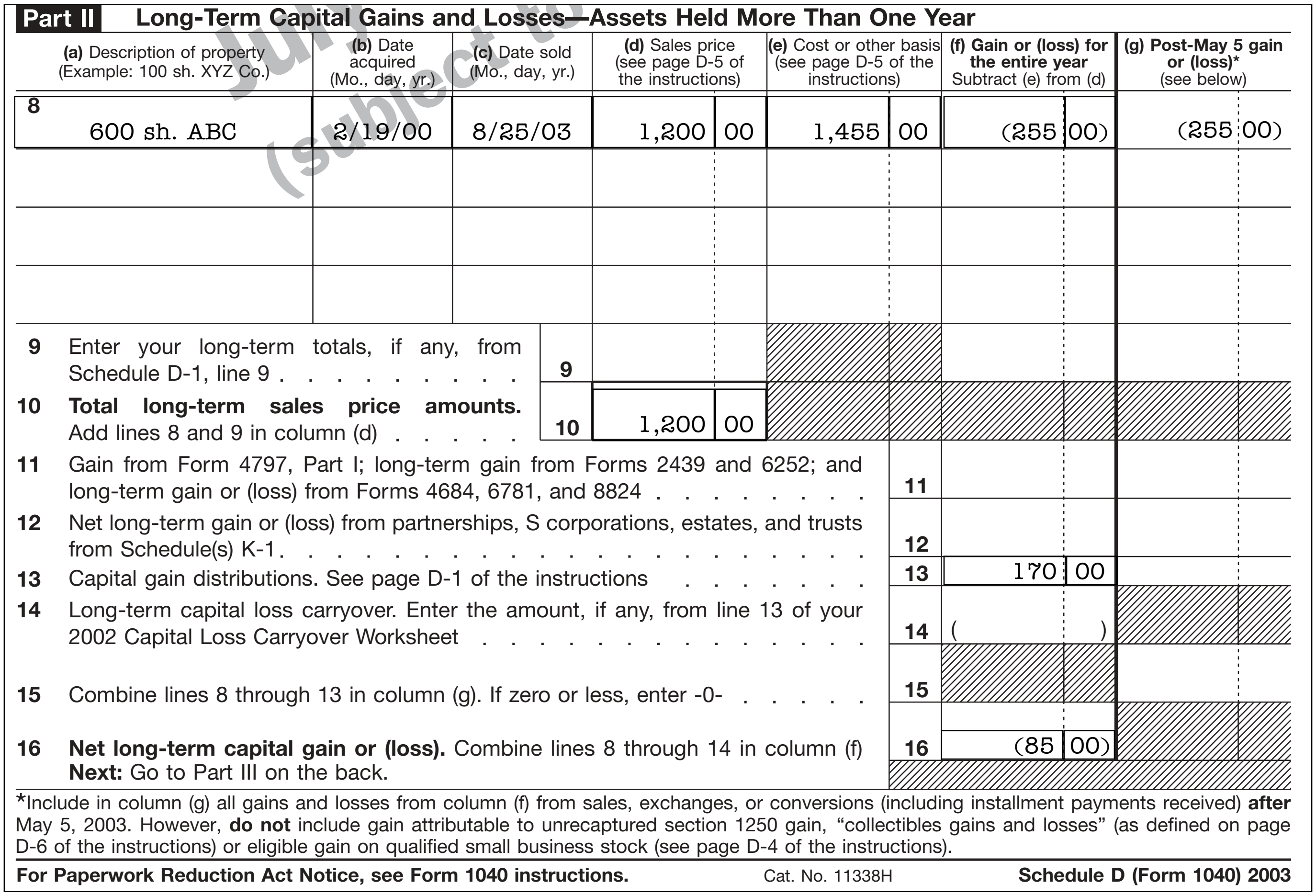
Exhibit 7

Alec's Schedule D, Part II



Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-5 of the instructions)	(e) Cost or other basis (see page D-5 of the instructions)	(f) Gain or (loss) for the entire year Subtract (e) from (d)	(g) Post-May 5 gain or (loss)* (see below)
8	600 sh. ABC	2/19/00	8/25/03	1,200 00	1,455 00	(255 00)	(255 00)

			(d)	(f)	(g)
9	Enter your long-term totals, if any, from Schedule D-1, line 9	9			
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)	10	1,200 00		
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11			
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	12			
13	Capital gain distributions. See page D-1 of the instructions	13		170 00	
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet	14		( )	
15	Combine lines 8 through 13 in column (g). If zero or less, enter -0-	15			
16	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) **Next:** Go to Part III on the back.	16		(85 00)	

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 2003**

After Completing Parts I and II of Schedule D

Double-check your entries on Schedule D up to this point.

- Check that the sales price amount from each Form 1099-B agrees with the amount entered in column (d) of either line 1 or line 8.
- Check that all entries in column (d), lines 1 and 2, add up to the amount on line 3.
- Check that all entries in column (d), lines 8 and 9, add up to the amount on line 10.
- Check that line 3, added to line 10, agrees with the total sales price reported on all of the taxpayer's Forms 1099-B.
- Check that the amount on line 13, column (f), is the same as the total from all the taxpayer's Forms 1099-DIV, box 2a.
- Check Column G of both line 1 or 8 to detail sales, exchanges or conversions completed after May 5, 2003 have been recorded.

Exercise 3

This exercise will give you practice with Schedule D. Use the following information to complete Parts I and II of Jane's Schedule D.

Jane sold five stocks during 2003. Her broker reported net proceeds as sales price.

Stock	Purchase Date	Date Sold	Net Sales Price	Adjusted Basis
500 sh LSR	1/21/02	1/4/03	$ 4,000	$9,000
250 sh BGI	3/11/02	2/12/03	10,000	2,500
75 sh ABC	1/22/01	1/29/03	2,000	7,500
400 sh XYZ	12/3/99	3/6/03	15,000	10,000
100 sh DEF	4/2/99	10/16/03	1,200	2,000

Jane also owns shares in a mutual fund that sent her a Form 1099-DIV. It reported $1,200 paid to her in total capital gain distributions for the year.

Exhibit 8

Complete Parts I and II of Jane's Schedule D.

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
1							

2	Enter your short-term totals, if any, from Schedule D-1, line 2	2		▨		
3	**Total short-term sales price amounts.** Add lines 1 and 2 in column (d)	3		▨	▨	▨

4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824	4		
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	5		
6	Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet	6	( )	▨
7a	Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. **Do not** enter more than zero	7a	▨	( )
b	**Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f)	7b		▨

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
8							

9	Enter your long-term totals, if any, from Schedule D-1, line 9	9		▨		
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)	10		▨	▨	▨

11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11		
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	12		
13	Capital gain distributions. See page D-1 of the instructions	13		
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet	14	( )	▨
15	Combine lines 8 through 13 in column (g). If zero or less, enter -0-	15	▨	
16	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) **Next:** Go to Part III on the back.	16		▨

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 2003**

Part III: Summary of Parts I and II

Combine the amounts from line 7b (net short-term capital gain or loss) and line 16 (net long-term capital gain or loss). Enter the result on line 17a in Part III. This combined number may be a gain or a loss.

- If the line 17a amount is a gain, also enter it on line 13a of Form 1040, and go to line 17b.
- If the line 17a amount is a loss, complete line 18 of Schedule D. Line 18 ensures that no more than the maximum allowable capital loss is deducted on Form 1040. The line 18 amount is limited to the smaller of:
- The loss from line 17a or
- $3,000 ($1,500 for a married taxpayer filing separately).

Also enter this amount on line 13a of Form 1040. Because it is a loss, be sure to put parentheses around the number when you enter it on Form 1040.

Part IV: Tax Computation Using the Maximum Capital Gains Rates

The law limits tax rates on net long-term capital gains. To obtain the lowest rate, taxpayers with long-term capital gains must go to Part IV of Schedule D to figure their tax. To determine whether you need Part IV, complete Form 1040 through line 40, Taxable Income. Then go to Part IV of Schedule D if:

- Both lines 16 and 17a of Schedule D are gains, and
- Form 1040, line 40, is more than zero.

Example 9

Edmund's tax return shows:

Filing status: Form 1040, line 1 box checked, single.

Amount from:	Form 1040, line 40:	$65,001
	Schedule D, line 7b:	(5,000)
	Schedule D, line 16:	16,000
	Schedule D, line 17a:	11,000
	(Transferred to Form 1040, line 13a.)	

There is capital gain on Schedule D, lines 16 and 17a, and Form 1040, line 40, is more than zero.

Exhibits 9 and 10 show Edmund's Schedule D, Parts III and IV, and his Form 1040, lines 13a and 41. His tax is $12,516. Without Schedule D, his tax from the Tax Table would be $13,066. Using Schedule D saved Edmund $1,100.

Exhibit 9

Edmund's Schedule D, Parts III and IV

Schedule D (Form 1040) 2003 Page **2**

Part III Taxable Gain or Deductible Loss

17a	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	17a	11,000 00
b	Combine lines 7a and 15. If zero or less, enter -0-. Then complete Form 1040 through line 40	17b	
	Next: • If both lines 16 and 17a of Schedule D are gains **or** you have qualified dividends on Form 1040, line 9b, complete **Part IV** below (unless Form 1040, line 40, is zero). • Otherwise, skip the rest of Schedule D and complete Form 1040.		
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the **smaller** of **(a)** that loss or **(b)** ($3,000) (or, if married filing separately, ($1,500)) (see page D-6 of the instructions)	18	( )
	Next: • If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete **Part IV** below (but skip lines 19 and 20). • Otherwise, skip **Part IV** below and complete the rest of Form 1040.		

Part IV Tax Computation Using Maximum Capital Gains Rates

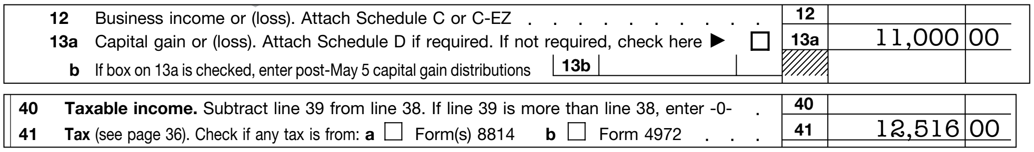
	If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to line 19.		
19	Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6	19	
20	Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions	20	
	If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 of the instructions to figure the amount to enter on lines 35 and 53 below, and skip all other lines below.		
21	Enter your taxable income from Form 1040, line 40	21	65,001 00
22	Enter the **smaller** of line 16 or line 17a, but not less than zero	22	11,000 00
23	Enter your qualified dividends from Form 1040, line 9b	23	
24	Add lines 22 and 23	24	11,000 00
25	Amount from line 4g of Form 4952 (investment interest expense)	25	
26	Subtract line 25 from line 24. If zero or less, enter -0-	26	11,000 00
27	Subtract line 26 from line 21. If zero or less, enter -0-	27	54,001 00
28	Enter the **smaller** of line 21 **or:** • $56,800 if married filing jointly or qualifying widow(er); • $28,400 if single or married filing separately; or • $38,050 if head of household	28	28,400 00
	If line 27 is more than line 28, skip lines 29–39 and go to line 40.		
29	Enter the amount from line 27	29	
30	Subtract line 29 from line 28. If zero or less, go to line 40	30	
31	Add lines 17b and 23*	31	
32	Enter the **smaller** of line 30 or line 31	32	
33	Multiply line 32 by 5% (.05)	33	
	If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.		
34	Subtract line 32 from line 30	34	
35	Enter your qualified 5-year gain, if any, from line 8 of the worksheet on page D-8	35	
36	Enter the **smaller** of line 34 or line 35	36	
37	Multiply line 36 by 8% (.08)	37	
38	Subtract line 36 from line 34	38	
39	Multiply line 38 by 10% (.10)	39	
	If lines 26 and 30 are the same, skip lines 40–49 and go to line 50.		
40	Enter the **smaller** of line 21 or line 26	40	11,000 00
41	Enter the amount from line 30 (if line 30 is blank, enter -0-)	41	
42	Subtract line 41 from line 40	42	11,000 00
43	Add lines 17b and 23*	43	
44	Enter the amount from line 32 (if line 32 is blank, enter -0-)	44	
45	Subtract line 44 from line 43	45	
46	Enter the **smaller** of line 42 or line 45	46	
47	Multiply line 46 by 15% (.15)	47	
48	Subtract line 46 from line 42	48	11,000 00
49	Multiply line 48 by 20% (.20)	49	2,200 00
50	Figure the tax on the amount on **line 27.** Use the Tax Table or Tax Rate Schedules, whichever applies	50	10,316 00
51	Add lines 33, 37, 39, 47, 49, and 50	51	12,516 00
52	Figure the tax on the amount on **line 21.** Use the Tax Table or Tax Rate Schedules, whichever applies	52	13,066 00
53	**Tax on all taxable income.** Enter the **smaller** of line 51 or line 52 here and on Form 1040, line 41	53	12,516 00

*If line 25 is more than zero, see **Lines 31 and 43** on page D-9 for the amount to enter.

Printed on recycled paper **Schedule D (Form 1040) 2003**

Exhibit 10

Edmund's Form 1040, Lines 13a and 41.



12	Business income or (loss). Attach Schedule C or C-EZ	12		
13a	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13a	11,000	00
b	If box on 13a is checked, enter post-May 5 capital gain distributions 13b	▨		
40	**Taxable income.** Subtract line 39 from line 38. If line 39 is more than line 38, enter -0- .	40		
41	**Tax** (see page 36). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 . . .	41	12,516	00

Exercise 4

Melvin sold the following stocks during 2003. His broker reported net sales proceeds on Form 1099-B.

Stock	Purchase Date	Date Sold	Net Sales Price	Adjusted Basis
50 sh ABC	3/15/02	7/26/03	$ 4,000	$5,000
200 sh MLG	5/10/02	6/7/03	1,200	1,000
150 sh XYZ	4/17/02	3/8/03	5,500	6,000
300 sh MLS	1/13/98	6/19/03	6,000	3,000

Melvin also had shares in a mutual fund. The fund sent him a Form 1099-DIV that showed he received $1,500 in total capital gain distributions. His taxable income (line 40, Form 1040) was $67,001. His filing status is single.

Use the information given to complete Melvin's Schedule D.
What amounts would be shown on his:
(A) 1. Form 1040, line 13? ______________________________
2. Form 1040, line 41? ______________________________

____

Exhibit 11

(B) Complete this form.

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040).
► Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074
2003
Attachment
Sequence No. **12**

Name(s) shown on Form 1040

Your social security number XXX XX XXXX

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
1							

2 Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . **2**

3 **Total short-term sales price amounts.** Add lines 1 and 2 in column (d) **3**

4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . **4**

5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . **5**

6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet . . . . **6** ( )

7a Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. **Do not** enter more than zero . . . . **7a** ( )

b **Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f) . **7b**

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
8							

9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . **9**

10 **Total long-term sales price amounts.** Add lines 8 and 9 in column (d) **10**

11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . **11**

12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1. . . . . **12**

13 Capital gain distributions. See page D-1 of the instructions **13**

14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet . . . . **14** ( )

15 Combine lines 8 through 13 in column (g). If zero or less, enter -0- **15**

16 **Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) **16**
Next: Go to Part III on the back.

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, “collectibles gains and losses” (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 2003**

Exhibit 12

(C) Complete this form.

Part III Taxable Gain or Deductible Loss

17a Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below **17a**

b Combine lines 7a and 15. If zero or less, enter -0-. Then complete Form 1040 through line 40 . **17b**

Next:
- If both lines 16 and 17a of Schedule D are gains **or** you have qualified dividends on Form 1040, line 9b, complete **Part IV** below (unless Form 1040, line 40, is zero).
- Otherwise, skip the rest of Schedule D and complete Form 1040.

18 If line 17a is a loss, enter here and on Form 1040, line 13a, the **smaller** of **(a)** that loss or **(b)** ($3,000) (or, if married filing separately, ($1,500)) (see page D-6 of the instructions) . . . **18** (   )

Next:
- If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete **Part IV** below (but skip lines 19 and 20).
- Otherwise, skip **Part IV** below and complete the rest of Form 1040.

Part IV Tax Computation Using Maximum Capital Gains Rates

If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to line 19.

19 Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6 . . **19**

20 Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions . . **20**

If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 of the instructions to figure the amount to enter on lines 35 and 53 below, and skip all other lines below.

21 Enter your taxable income from Form 1040, line 40 . . . . **21**

22 Enter the **smaller** of line 16 or line 17a, but not less than zero . . **22**

23 Enter your qualified dividends from Form 1040, line 9b **23**

24 Add lines 22 and 23 . . . . **24**

25 Amount from line 4g of Form 4952 (investment interest expense) . **25**

26 Subtract line 25 from line 24. If zero or less, enter -0- **26**

27 Subtract line 26 from line 21. If zero or less, enter -0- **27**

28 Enter the **smaller** of line 21 **or:**
- $56,800 if married filing jointly or qualifying widow(er);
- $28,400 if single or married filing separately; or
- $38,050 if head of household

} . . . **28**

If line 27 is more than line 28, skip lines 29–39 and go to line 40.

29 Enter the amount from line 27 . . . . **29**

30 Subtract line 29 from line 28. If zero or less, go to line 40 . . . . **30**

31 Add lines 17b and 23* **31**

32 Enter the **smaller** of line 30 or line 31 . . . . **32**

33 Multiply line 32 by 5% (.05) **33**

If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.

34 Subtract line 32 from line 30 . . . . **34**

35 Enter your qualified 5-year gain, if any, from line 8 of the worksheet on page D-8 . . **35**

36 Enter the **smaller** of line 34 or line 35 . . . . **36**

37 Multiply line 36 by 8% (.08) **37**

38 Subtract line 36 from line 34 . . . . **38**

39 Multiply line 38 by 10% (.10) **39**

If lines 26 and 30 are the same, skip lines 40–49 and go to line 50.

40 Enter the **smaller** of line 21 or line 26 . . . . **40**

41 Enter the amount from line 30 (if line 30 is blank, enter -0-) . . . **41**

42 Subtract line 41 from line 40 . . . . **42**

43 Add lines 17b and 23* **43**

44 Enter the amount from line 32 (if line 32 is blank, enter -0-) **44**

45 Subtract line 44 from line 43 . . . . . . **45**

46 Enter the **smaller** of line 42 or line 45 . . . . **46**

47 Multiply line 46 by 15% (.15) **47**

48 Subtract line 46 from line 42 . . . . **48**

49 Multiply line 48 by 20% (.20) **49**

50 Figure the tax on the amount on **line 27.** Use the Tax Table or Tax Rate Schedules, whichever applies **50**

51 Add lines 33, 37, 39, 47, 49, and 50 . . . . **51**

52 Figure the tax on the amount on **line 21.** Use the Tax Table or Tax Rate Schedules, whichever applies **52**

53 **Tax on all taxable income.** Enter the **smaller** of line 51 or line 52 here and on Form 1040, line 41 **53**

*If line 25 is more than zero, see **Lines 31 and 43** on page D-9 for the amount to enter.

Capital Loss Carryovers

Use the *Capital Loss Carryover Worksheet* in the Schedule D instructions to figure how much capital loss the taxpayer can carry from 2003 to 2004. As you learned earlier, a taxpayer cannot take net losses of more than $3,000 ($1,500 for married taxpayers filing separately) in figuring taxable income. The allowable loss for the year is also referred to as the deduction limit.

Unused losses are not gone forever. Rather, they are carried over to the next year. The carryover losses are combined with the gains and losses that actually occur in that next year. Unused losses are recycled this way, year after year, until they are all deducted. There is no limit on how many times a loss can be carried over during the taxpayer's life.

Unused losses keep their short-term or long-term classification when they are carried over. If the taxpayer has a short-term capital loss carryover from 2002, enter it on line 6, Part I, Schedule D. Enter it on line 14, Part II, if it is long-term.

TAX TIPS

★★★★★★★★★

It is easy to double check the carryover from 2003 to 2004. Take as much as possible of the $3,000 (or $1,500) deduction from short-term capital losses first. Then take any remaining amount of the $3,000 (or $1,500) from long-term capital losses. What is left is the carryover to 2004.

NOTE: If a capital loss is limited and the remainder must be carried forward to 2004, remind the Taxpayer to bring a copy of the 2003 return for 2004 return preparation.

Example 10

Andrew sold two stocks in 2003, as summarized here.

Stock	Purchase Date	Date Sold	Net Sales Price	Adjusted Basis
200 sh FFF	5/8/02	1/6/03	$ 4,000	$ 3,025
50 sh WWW	11/6/00	3/12/03	8,700	11,000

Andrew's 2002 return showed the following capital loss carryovers to 2003: a $4,200 short-term loss (line 8 of the 2002 *Capital Loss Carryover Worksheet*) and a $240 long-term loss (line 13 of the 2002 worksheet). His 2003 Form 1040, line 40, shows $55,825.

Andrew's Schedule D, Parts I through III, his 2003 Form 1040, line 13a, and his 2002 *Capital Loss Carryover Worksheet* appear below as Exhibits 13 through 16. This example shows how to:

- Report a capital loss carryover from 2002 and work it into the computation on Schedule D as if it had resulted from a 2003 sale. This example shows both a short-term loss (reported on Schedule D, Part I, line 6) and a long-term loss (reported on Schedule D, Part II, line 14).

- Combine a short-term capital loss and a long-term capital loss and apply the deduction limit ($3,000 for Andrew). Andrew reports the combined long-term and short-term loss on Schedule D, Part III, line 17. Line 18 applies Andrew’s deduction limit, his allowable loss for the year.
- Show the allowable loss for the year ($3,000 for Andrew) in the Income section of Form 1040.
- Use the *Capital Loss Carryover Worksheet* to apply the $3,000 deduction limit against the short-term loss first and figure the capital loss carryover to 2004. In this case, the carryover is a short-term loss of $225 (line 8 of the worksheet) and a long-term loss of $2,540 (line 13 of the worksheet).

Exhibit 13 Andrew's Schedule D, Parts I and II

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedule D (Form 1040).**
▶ **Use Schedule D-1 to list additional transactions for lines 1 and 8.**

OMB No. 1545-0074
2003
Attachment Sequence No. **12**

Name(s) shown on Form 1040

Your social security number XXX XX XXXX

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
1	200 sh. FFF	5/8/02	1/6/03	4,000 00	3,025 00	975 00	
2	Enter your short-term totals, if any, from Schedule D-1, line 2		2				
3	**Total short-term sales price amounts.** Add lines 1 and 2 in column (d)		3	4,000 00			

			(f)	(g)
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824	4		
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	5		
6	Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet	6	(4,200 00)	
7a	Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. **Do not** enter more than zero	7a		( )
b	**Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f) .	7b	(3,225 00)	

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

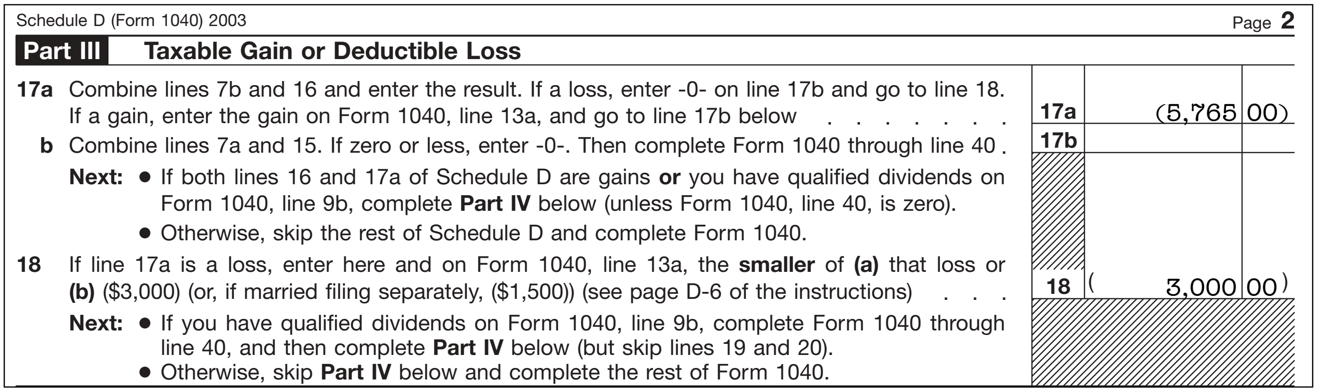
	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
8	50 sh. WWW	11/6/00	3/12/03	8,700 00	11,000 00	(2,300 00)	
9	Enter your long-term totals, if any, from Schedule D-1, line 9		9				
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)		10	8,700 00			

			(f)	(g)
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11		
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.	12		
13	Capital gain distributions. See page D-1 of the instructions	13		
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet	14	(240 00)	
15	Combine lines 8 through 13 in column (g). If zero or less, enter -0-	15		
16	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) **Next:** Go to Part III on the back.	16	(2,540 00)	

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 2003**

Exhibit 14 **Andrew's Schedule D, Part III**

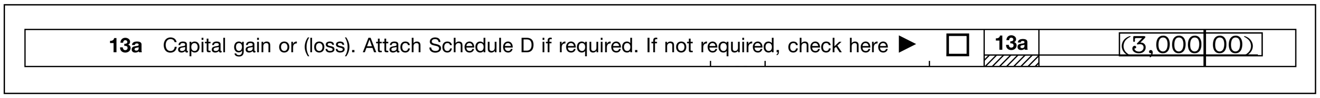


Schedule D (Form 1040) 2003 Page **2**

Part III **Taxable Gain or Deductible Loss**

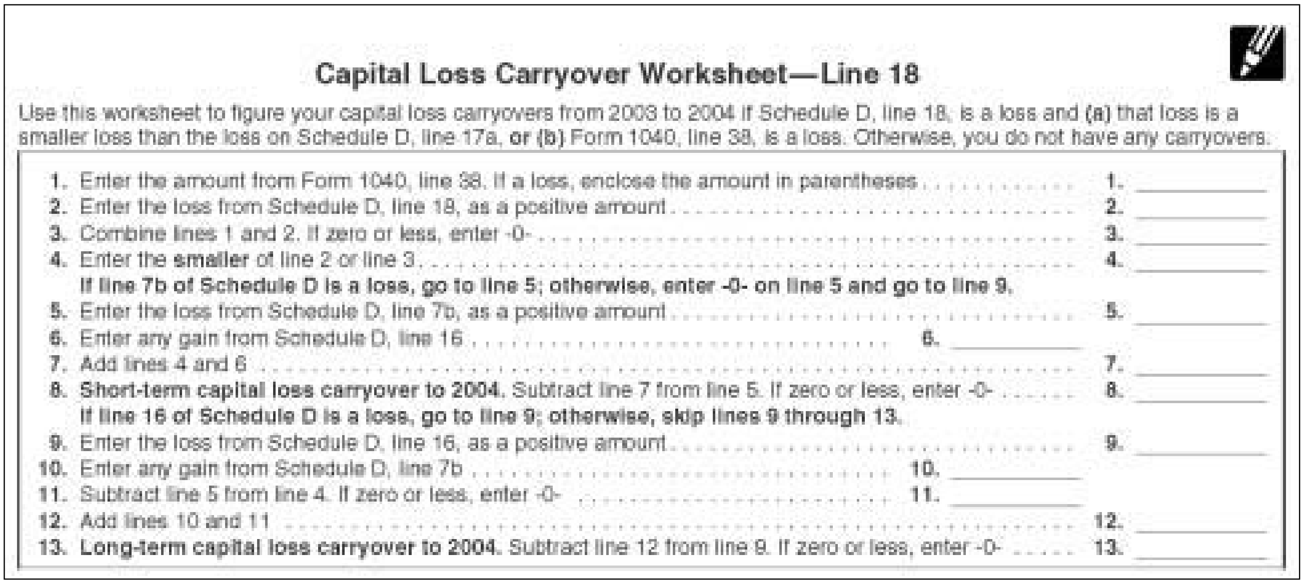
17a	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	**17a**	(5,765 00)
b	Combine lines 7a and 15. If zero or less, enter -0-. Then complete Form 1040 through line 40 .	**17b**	
	Next: ● If both lines 16 and 17a of Schedule D are gains **or** you have qualified dividends on Form 1040, line 9b, complete **Part IV** below (unless Form 1040, line 40, is zero). ● Otherwise, skip the rest of Schedule D and complete Form 1040.		
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the **smaller** of **(a)** that loss or **(b)** ($3,000) (or, if married filing separately, ($1,500)) (see page D-6 of the instructions) . . .	**18**	(3,000 00)
	Next: ● If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete **Part IV** below (but skip lines 19 and 20). ● Otherwise, skip **Part IV** below and complete the rest of Form 1040.		

Exhibit 15 **Andrew's Form 1040, line 13a**



13a Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐ **13a** (3,000 00)

Exhibit 16 **Andrew's Capital Loss Carryover Worksheet**



Capital Loss Carryover Worksheet—Line 18

Use this worksheet to figure your capital loss carryovers from 2003 to 2004 if Schedule D, line 18, is a loss and **(a)** that loss is a smaller loss than the loss on Schedule D, line 17a, **or (b)** Form 1040, line 38, is a loss. Otherwise, you do not have any carryovers.

1. Enter the amount from Form 1040, line 38. If a loss, enclose the amount in parentheses . . . . 1. ____
2. Enter the loss from Schedule D, line 18, 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. ____

If line 7b of Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.

5. Enter the loss from Schedule D, line 7b, as a positive amount . . . . 5. ____
6. Enter any gain from Schedule D, line 16 . . . . 6. ____
7. Add lines 4 and 6 . . . . 7. ____
8. **Short-term capital loss carryover to 2004.** Subtract line 7 from line 5. If zero or less, enter -0- . . . . 8. ____

If line 16 of Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.

9. Enter the loss from Schedule D, line 16, as a positive amount . . . . 9. ____
10. Enter any gain from Schedule D, line 7b . . . . 10. ____
11. Subtract line 5 from line 4. If zero or less, enter -0- . . . . 11. ____
12. Add lines 10 and 11 . . . . 12. ____
13. **Long-term capital loss carryover to 2004.** Subtract line 12 from line 9. If zero or less, enter -0- . . . . . . 13. ____

Exercise 5

This exercise and the next one review the concepts covered in this lesson. They will measure your ability to apply what you have learned.

Matthew has a Form 1099-B from Broker One, who reported gross proceeds:

Stock	Date Sold	Sales Price
100 sh MNO	2/8/03	$5,050
500 sh ZYX	8/7/03	5,250

Broker One reported sales commissions to Matthew separately. They were:

MNO: $50 ZYX; $200

Matthew also has a Form 1099-B from Broker Two, who reported net proceeds:

Stock	Date Sold	Sales Price
200 sh BCA	8/7/03	$4,000
300 sh JKL	8/7/03	5,910

Matthew gave you the following information about the stocks he sold:

- He paid $6,940, plus a $60 commission, to buy the MNO stock on February 9, 2002.
- He bought the ZYX on March 11, 2000, for $5,200, plus a $100 commission.
- He paid $3,900, plus a $50 commission, to buy the BCA stock on January 29, 2003.
- He bought the JKL on June 26, 2001, for $6,300, plus a $30 commission.

Matthew's filing status is head of household. His Form 1040, line 40, shows $55,282. When you look at Matthew's Form 1040 and Capital Loss Carryover Worksheet from 2002, you see that he has a $450 short-term loss and a $325 long-term loss that he can carry over to his 2003 return.

Use this information to complete Matthew's Schedule D, Parts I, II, and III, and his Form 1040, line 13a, for 2003. Also complete the *Capital Loss Carryover Worksheet* to figure how much capital loss he can carry over to 2004.

Exhibit 17

(A) Complete this form.

Schedule D, Parts I and II

SCHEDULE D
(Form 1040)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedule D (Form 1040).**

▶ **Use Schedule D-1 to list additional transactions for lines 1 and 8.**

OMB No. 1545-0074

2003

Attachment
Sequence No. **12**

Name(s) shown on Form 1040

Your social security number XXX XX XXXX

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
1						

2 Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . **2**

3 **Total short-term sales price amounts.** Add lines 1 and 2 in column (d) **3**

4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . **4**

5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . **5**

6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet . . . . **6** ( )

7a Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. **Do not** enter more than zero . . . . **7a** ( )

b **Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f) . **7b**

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
8						

9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . **9**

10 **Total long-term sales price amounts.** Add lines 8 and 9 in column (d) **10**

11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . **11**

12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1. . . . . **12**

13 Capital gain distributions. See page D-1 of the instructions **13**

14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet . . . . **14** ( )

15 Combine lines 8 through 13 in column (g). If zero or less, enter -0- **15**

16 **Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) **16**
Next: Go to Part III on the back.

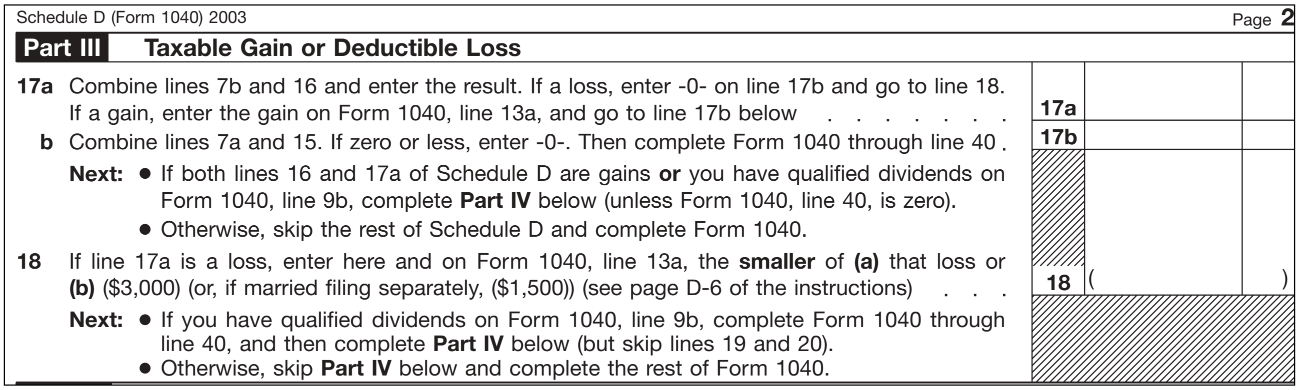
*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 2003**

Exhibit 18

(B) Complete this form.

Schedule D, Part III



Schedule D (Form 1040) 2003 Page **2**

Part III **Taxable Gain or Deductible Loss**

17a Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below . . . . **17a** ____

b Combine lines 7a and 15. If zero or less, enter -0-. Then complete Form 1040 through line 40 . **17b** ____

Next:
- If both lines 16 and 17a of Schedule D are gains **or** you have qualified dividends on Form 1040, line 9b, complete **Part IV** below (unless Form 1040, line 40, is zero).
- Otherwise, skip the rest of Schedule D and complete Form 1040.

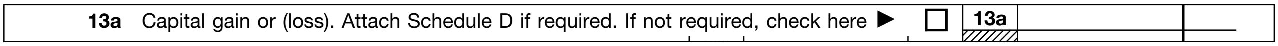
18 If line 17a is a loss, enter here and on Form 1040, line 13a, the **smaller** of **(a)** that loss or **(b)** ($3,000) (or, if married filing separately, ($1,500)) (see page D-6 of the instructions) . . . **18** ( )

Next:
- If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete **Part IV** below (but skip lines 19 and 20).
- Otherwise, skip **Part IV** below and complete the rest of Form 1040.

Exhibit 19

(C) Complete this line on Matthew's Form 1040.

Form 1040, line 13a

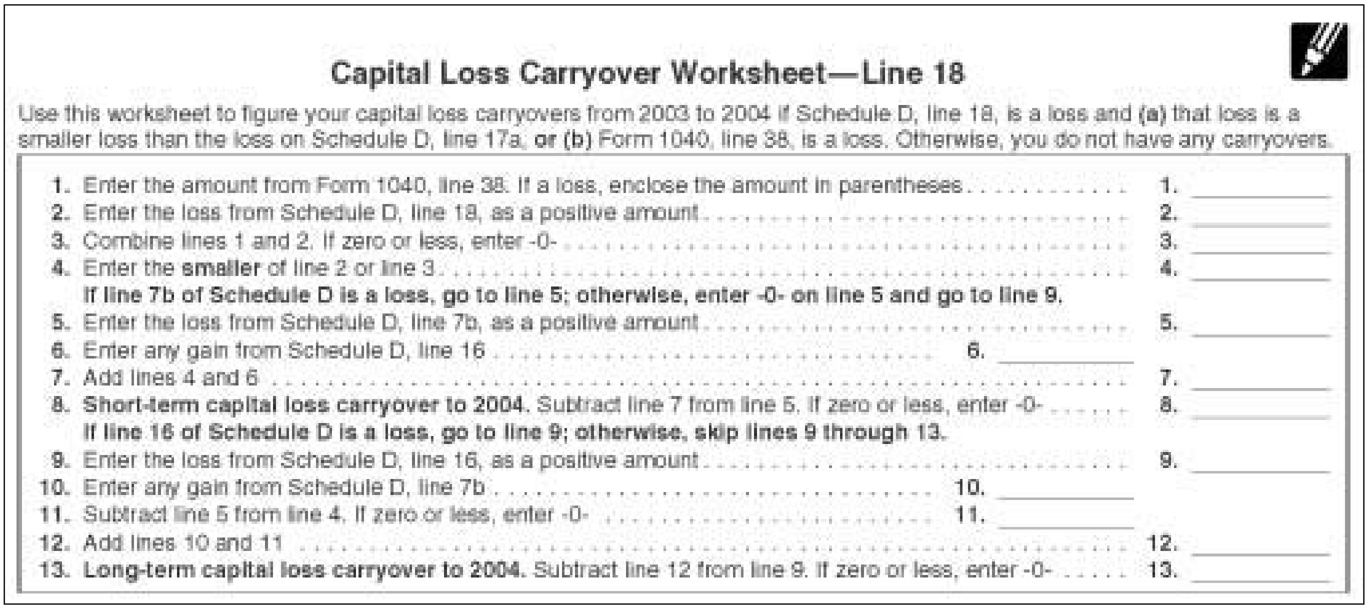


13a Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐ **13a** ____

Exhibit 20

(D) Complete this worksheet.

Capital Loss Carryover Worksheet



Capital Loss Carryover Worksheet—Line 18

Use this worksheet to figure your capital loss carryovers from 2003 to 2004 if Schedule D, line 18, is a loss and **(a)** that loss is a smaller loss than the loss on Schedule D, line 17a, **or (b)** Form 1040, line 38, is a loss. Otherwise, you do not have any carryovers.

1. Enter the amount from Form 1040, line 38. If a loss, enclose the amount in parentheses . . . . 1. ____
2. Enter the loss from Schedule D, line 18, 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. ____
   If line 7b of Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.
5. Enter the loss from Schedule D, line 7b, as a positive amount . . . . 5. ____
6. Enter any gain from Schedule D, line 16 . . . . 6. ____
7. Add lines 4 and 6 . . . . 7. ____
8. **Short-term capital loss carryover to 2004.** Subtract line 7 from line 5. If zero or less, enter -0- . . . . . . 8. ____
   If line 16 of Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.
9. Enter the loss from Schedule D, line 16, as a positive amount . . . . 9. ____
10. Enter any gain from Schedule D, line 7b . . . . 10. ____
11. Subtract line 5 from line 4. If zero or less, enter -0- . . . . 11. ____
12. Add lines 10 and 11 . . . . 12. ____
13. **Long-term capital loss carryover to 2004.** Subtract line 12 from line 9. If zero or less, enter -0- . . . . . . 13. ____

Exercise 6

Katherine has two Forms 1099-B. They show:

From Broker No. 1 (gross proceeds reported):

Stock	Date Sold	Sales Price
100 sh LMN	4/20/03	$3,000
50 sh PQR	4/17/03	2,600
500 OLE	6/17/03	7,800

Expenses for selling the stock through Broker No. 1 (reported to Katherine separately from Form 1099-B) were:

On the sale of: LMN stock: $175 PQR stock: $105 OLE: $590

From Broker No. 2 (net proceeds reported):

Stock	Date Sold	Sales Price
75 sh ABC	1/24/03	$2,500
125 sh XYZ	3/22/03	6,000

Katherine gave you the following information about these stocks:

- She bought 100 shares of LMN stock on March 6, 2000, for $12.50 a share ($1,250), plus a 10% broker's commission ($125).
- She bought 200 shares of PQR stock on January 8, 2003, for $14 a share ($2,800), plus a 10% broker's commission ($280).
- Katherine bought OLE stock on two dates. On November 27, 2000, she bought 800 shares for $10 a share ($8,000), plus 10% broker's commission ($800). On March 6, 2002, she bought 600 more shares for $18 a share ($10,800), plus a 10% broker's commission ($1,080). When Katherine sold 500 shares of OLE in 2002, she did not specify which block they came from.
- Katherine bought 100 shares of ABC on October 15, 1999, for $72 a share ($7,200), plus a 5% broker's commission ($360). On May 8, 2000, the stock split two-for-one, so Katherine owned 200 shares after the split.
- She bought 125 shares of XYZ stock on October 26, 2002, for $74 a share ($9,250), plus a broker's commission of $250.

Katherine also gave you a Form 1099-DIV from the Acme Mutual Fund. It showed $1,050 in total capital gain distributions. From Katherine's tax return and worksheets for last year (2002), you found she has a $150 long-term capital loss carryover from 2002 to 2003.

Complete Katherine's Schedule D, Parts I through IV, and her Form 1040, lines 13 and 42. She is single, and her taxable income shown on line 40 of her Form 1040 is $61,221.

Exhibit 21

(A) Complete this form.

Schedule D, Parts I and II

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-5 of the instructions)	(e) Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
1							

2	Enter your short-term totals, if any, from Schedule D-1, line 2	2				
3	**Total short-term sales price amounts.** Add lines 1 and 2 in column (d)	3				
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824			4		
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1			5		
6	Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet			6	( )	
7a	Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. **Do not** enter more than zero			7a		( )
b	**Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f)			7b		

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-5 of the instructions)	(e) Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
8							

9	Enter your long-term totals, if any, from Schedule D-1, line 9	9				
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)	10				
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824			11		
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1			12		
13	Capital gain distributions. See page D-1 of the instructions			13		
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet			14	( )	
15	Combine lines 8 through 13 in column (g). If zero or less, enter -0-			15		
16	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) **Next:** Go to Part III on the back.			16		

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 2003**

Exhibit 22

(B) Complete this form.

Schedule D (Form 1040) 2003 Page **2**

Part III Taxable Gain or Deductible Loss

17a Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below **17a**

b Combine lines 7a and 15. If zero or less, enter -0-. Then complete Form 1040 through line 40 . **17b**

Next:
- If both lines 16 and 17a of Schedule D are gains **or** you have qualified dividends on Form 1040, line 9b, complete **Part IV** below (unless Form 1040, line 40, is zero).
- Otherwise, skip the rest of Schedule D and complete Form 1040.

18 If line 17a is a loss, enter here and on Form 1040, line 13a, the **smaller** of **(a)** that loss or **(b)** ($3,000) (or, if married filing separately, ($1,500)) (see page D-6 of the instructions) . . . **18** ( )

Next:
- If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete **Part IV** below (but skip lines 19 and 20).
- Otherwise, skip **Part IV** below and complete the rest of Form 1040.

Part IV Tax Computation Using Maximum Capital Gains Rates

If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to line 19.

19 Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6 . . **19**

20 Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions . . **20**

If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 of the instructions to figure the amount to enter on lines 35 and 53 below, and skip all other lines below.

21 Enter your taxable income from Form 1040, line 40 . . . . **21**

22 Enter the **smaller** of line 16 or line 17a, but not less than zero . . **22**

23 Enter your qualified dividends from Form 1040, line 9b **23**

24 Add lines 22 and 23 . . . . **24**

25 Amount from line 4g of Form 4952 (investment interest expense) . **25**

26 Subtract line 25 from line 24. If zero or less, enter -0- **26**

27 Subtract line 26 from line 21. If zero or less, enter -0- **27**

28 Enter the **smaller** of line 21 **or:**
- $56,800 if married filing jointly or qualifying widow(er);
- $28,400 if single or married filing separately; or
- $38,050 if head of household

} . . . **28**

If line 27 is more than line 28, skip lines 29–39 and go to line 40.

29 Enter the amount from line 27 . . . . **29**

30 Subtract line 29 from line 28. If zero or less, go to line 40 . . . . **30**

31 Add lines 17b and 23* **31**

32 Enter the **smaller** of line 30 or line 31 . . . . **32**

33 Multiply line 32 by 5% (.05) **33**

If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.

34 Subtract line 32 from line 30 . . . . **34**

35 Enter your qualified 5-year gain, if any, from line 8 of the worksheet on page D-8 . . **35**

36 Enter the **smaller** of line 34 or line 35 . . . . **36**

37 Multiply line 36 by 8% (.08) **37**

38 Subtract line 36 from line 34 . . . . **38**

39 Multiply line 38 by 10% (.10) **39**

If lines 26 and 30 are the same, skip lines 40–49 and go to line 50.

40 Enter the **smaller** of line 21 or line 26 . . . . **40**

41 Enter the amount from line 30 (if line 30 is blank, enter -0-) . . . **41**

42 Subtract line 41 from line 40 . . . . **42**

43 Add lines 17b and 23* **43**

44 Enter the amount from line 32 (if line 32 is blank, enter -0-) **44**

45 Subtract line 44 from line 43 . . . . . **45**

46 Enter the **smaller** of line 42 or line 45 . . . . **46**

47 Multiply line 46 by 15% (.15) **47**

48 Subtract line 46 from line 42 . . . . **48**

49 Multiply line 48 by 20% (.20) **49**

50 Figure the tax on the amount on **line 27.** Use the Tax Table or Tax Rate Schedules, whichever applies **50**

51 Add lines 33, 37, 39, 47, 49, and 50 . . . . **51**

52 Figure the tax on the amount on **line 21.** Use the Tax Table or Tax Rate Schedules, whichever applies **52**

53 **Tax on all taxable income.** Enter the **smaller** of line 51 or line 52 here and on Form 1040, line 41 **53**

*If line 25 is more than zero, see **Lines 31 and 43** on page D-9 for the amount to enter. *Printed on recycled paper* **Schedule D (Form 1040) 2003**

Exhibit 23

(C) Complete these lines from Katherine's Form 1040.

Form 1040, lines 13a and 40

13a	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13a	

40	**Taxable income.** Subtract line 39 from line 38. If line 39 is more than line 38, enter -0- .	40	
41	**Tax** (see page 36). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 . . .	41	

▶ ▶ Summing Up This Lesson ◀ ◀

To figure and properly report a taxpayer's gain or loss on a sale of stock, you need to know:

1. Sales price (reported to the taxpayer and to the IRS on Form 1099-B),
2. Adjusted basis, and
3. Holding period.

To determine gain or loss, subtract adjusted basis from sales price. The holding period determines whether the gain or loss is long-term or short-term. Long-term capital gains are generally taxed at lower rates than short-term capital gains. In 2003, capital gains will be subject to different tax rates depending on the date of the sale. Transactions completed after May 5, 2003 will be taxed at a different rate than transactions completed before May 6, 2003.

Use Schedule D, Parts I though IV, to figure capital gain or loss and the correct tax. Be sure the total sales price you report on line 3 plus line 10 of Schedule D is the same as the total sales price from all the taxpayer's Forms 1099-B, box 2.

Include capital gain distributions (reported to the taxpayer and to IRS on Form 1099-DIV) in the computation of longterm capital gains. Show them on Schedule D, Part II, line 13. Report capital gains distributions directly on Form 1040, line 13a (or on Form 1040A, line 10), if a Schedule D is not required to be completed for the gain or loss on a sale of stock.

A taxpayer can deduct up to $3,000 ($1,500 for a married taxpayer filing separately) in net capital loss for the year. The taxpayer can carry over any remaining loss to the next year. If the taxpayer has a carryover loss from 2002, include it on Schedule D, Part I, line 6, or Part II, line 14. The *Capital Loss Carryover Worksheet*, in the Schedule D instructions, can help you figure the carryover amount for 2004.

Report capital gain or loss on Form 1040, line 13a.

Exercise 1

A. 1. $2,550. [($5,000 + $100) ÷ 1,000] x 500 = $2,550
   2. Long-term.
   3. $3,255. $3,300 - $45 = $3,255
B. 1. $3,550. $3,500 + $50 = $3,550
   2. Short-term.
C. 1. $5,000. [($9,965 + $35) ÷ 200] x 100 = $5,000
   2. Long-term.
   3. $6,440. $6,470 - $30 = $6,440

Exercise 2

A. 1. Loss.
   2. $1,200. $7,800 - [($15,000 ÷ 1,000) x 600] = ($1,200)
   3. Short-term.
B. 1. Gain.
   2. $450. $2,000 - ($1,500 + $25 + $25) = $450
   3. Long-term.

Exercise 3

Jane's Schedule D, Parts I and II

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
1	500 sh. LSR	1/12/02	1/4/03	4,000.00	9,000.00	(5,000.00)	
	250 sh. BGI	3/11/02	2/12/03	10,000.00	2,500.00	7,500.00	

2	Enter your short-term totals, if any, from Schedule D-1, line 2	2			
3	**Total short-term sales price amounts.** Add lines 1 and 2 in column (d)	3	14,000.00		
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824	4			
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	5			
6	Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet	6		( )	
7a	Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. **Do not** enter more than zero	7a			( )
b	**Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f)	7b		2,500.00	

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
8	75 sh. ABC	1/22/01	1/29/03	2,000.00	7,500.00	(5,500.00)	
	400 sh. XYZ	12/3/99	3/6/03	15,000.00	10,000.00	5,000.00	
	100 sh. DEF	4/2/99	1/16/03	1,200.00	2,000.00	(800.00)	

9	Enter your long-term totals, if any, from Schedule D-1, line 9	9			
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)	10	18,200.00		
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11			
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	12			
13	Capital gain distributions. See page D-1 of the instructions	13		1,200.00	
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet	14		( )	
15	Combine lines 8 through 13 in column (g). If zero or less, enter -0-	15			
16	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) **Next:** Go to Part III on the back.	16		(100.00)	

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

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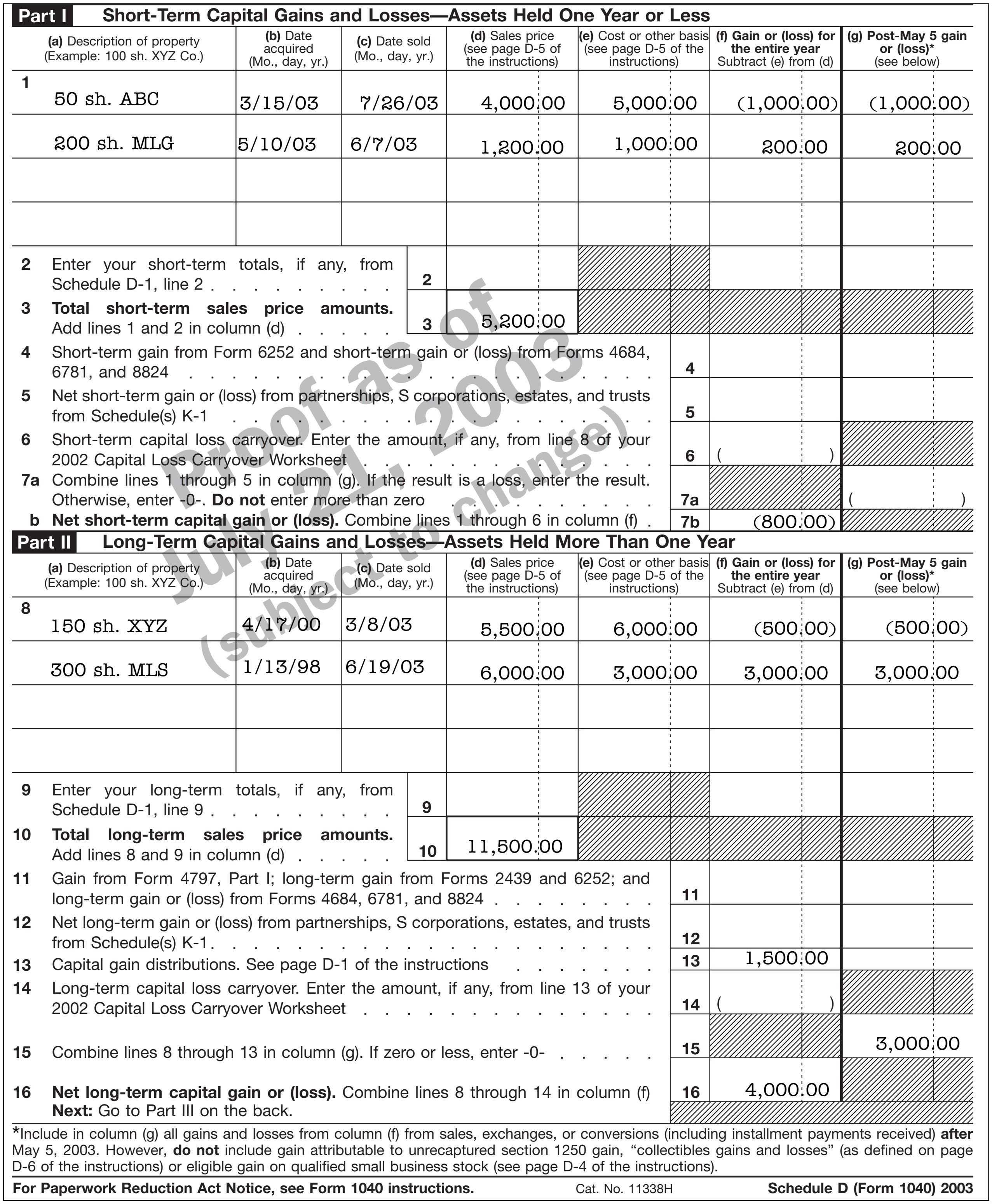
Exercise 4

(A) 1. Form 1040, line 13: $3,200

2. Form 1040, line 41: $12,766

(B) Melvin's Schedule D, Page 1



Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-5 of the instructions)	(e) Cost or other basis (see page D-5 of the instructions)	(f) Gain or (loss) for the entire year Subtract (e) from (d)	(g) Post-May 5 gain or (loss)* (see below)
1	50 sh. ABC	3/15/03	7/26/03	4,000.00	5,000.00	(1,000.00)	(1,000.00)
	200 sh. MLG	5/10/03	6/7/03	1,200.00	1,000.00	200.00	200.00

2	Enter your short-term totals, if any, from Schedule D-1, line 2	2			
3	**Total short-term sales price amounts.** Add lines 1 and 2 in column (d)	3	5,200.00		
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824	4			
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	5			
6	Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet	6		( )	
7a	Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. **Do not** enter more than zero	7a			( )
b	**Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f) .	7b		(800.00)	

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

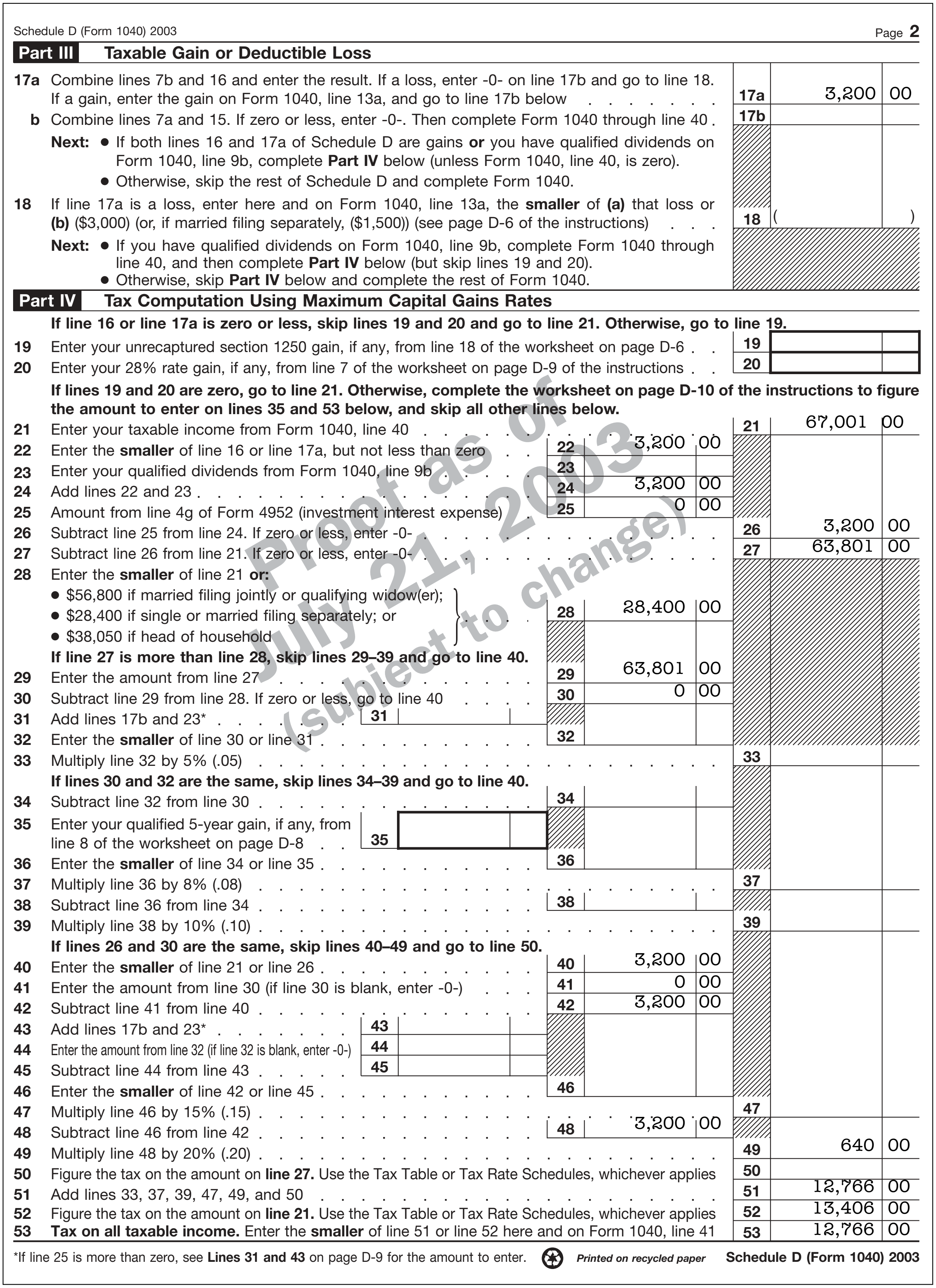
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-5 of the instructions)	(e) Cost or other basis (see page D-5 of the instructions)	(f) Gain or (loss) for the entire year Subtract (e) from (d)	(g) Post-May 5 gain or (loss)* (see below)
8	150 sh. XYZ	4/17/00	3/8/03	5,500.00	6,000.00	(500.00)	(500.00)
	300 sh. MLS	1/13/98	6/19/03	6,000.00	3,000.00	3,000.00	3,000.00

9	Enter your long-term totals, if any, from Schedule D-1, line 9	9			
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)	10	11,500.00		
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11			
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	12			
13	Capital gain distributions. See page D-1 of the instructions	13		1,500.00	
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet	14		( )	
15	Combine lines 8 through 13 in column (g). If zero or less, enter -0-	15			3,000.00
16	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) **Next:** Go to Part III on the back.	16		4,000.00	

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 2003**

(C) Melvin's Schedule D, Page 2



Schedule D (Form 1040) 2003 Page **2**

Part III Taxable Gain or Deductible Loss

17a	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	17a	3,200 00
b	Combine lines 7a and 15. If zero or less, enter -0-. Then complete Form 1040 through line 40	17b	
	Next: ● If both lines 16 and 17a of Schedule D are gains **or** you have qualified dividends on Form 1040, line 9b, complete **Part IV** below (unless Form 1040, line 40, is zero). ● Otherwise, skip the rest of Schedule D and complete Form 1040.		
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the **smaller** of **(a)** that loss or **(b)** ($3,000) (or, if married filing separately, ($1,500)) (see page D-6 of the instructions)	18	( )
	Next: ● If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete **Part IV** below (but skip lines 19 and 20). ● Otherwise, skip **Part IV** below and complete the rest of Form 1040.		

Part IV Tax Computation Using Maximum Capital Gains Rates

If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to line 19.

19	Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6	19	
20	Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions	20	
	If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 of the instructions to figure the amount to enter on lines 35 and 53 below, and skip all other lines below.		
21	Enter your taxable income from Form 1040, line 40	21	67,001 00
22	Enter the **smaller** of line 16 or line 17a, but not less than zero	22	3,200 00
23	Enter your qualified dividends from Form 1040, line 9b	23	
24	Add lines 22 and 23	24	3,200 00
25	Amount from line 4g of Form 4952 (investment interest expense)	25	0 00
26	Subtract line 25 from line 24. If zero or less, enter -0-	26	3,200 00
27	Subtract line 26 from line 21. If zero or less, enter -0-	27	63,801 00
28	Enter the **smaller** of line 21 **or:** ● $56,800 if married filing jointly or qualifying widow(er); ● $28,400 if single or married filing separately; or ● $38,050 if head of household	28	28,400 00
	If line 27 is more than line 28, skip lines 29–39 and go to line 40.		
29	Enter the amount from line 27	29	63,801 00
30	Subtract line 29 from line 28. If zero or less, go to line 40	30	0 00
31	Add lines 17b and 23*	31	
32	Enter the **smaller** of line 30 or line 31	32	
33	Multiply line 32 by 5% (.05)	33	
	If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.		
34	Subtract line 32 from line 30	34	
35	Enter your qualified 5-year gain, if any, from line 8 of the worksheet on page D-8	35	
36	Enter the **smaller** of line 34 or line 35	36	
37	Multiply line 36 by 8% (.08)	37	
38	Subtract line 36 from line 34	38	
39	Multiply line 38 by 10% (.10)	39	
	If lines 26 and 30 are the same, skip lines 40–49 and go to line 50.		
40	Enter the **smaller** of line 21 or line 26	40	3,200 00
41	Enter the amount from line 30 (if line 30 is blank, enter -0-)	41	0 00
42	Subtract line 41 from line 40	42	3,200 00
43	Add lines 17b and 23*	43	
44	Enter the amount from line 32 (if line 32 is blank, enter -0-)	44	
45	Subtract line 44 from line 43	45	
46	Enter the **smaller** of line 42 or line 45	46	
47	Multiply line 46 by 15% (.15)	47	
48	Subtract line 46 from line 42	48	3,200 00
49	Multiply line 48 by 20% (.20)	49	640 00
50	Figure the tax on the amount on **line 27.** Use the Tax Table or Tax Rate Schedules, whichever applies	50	
51	Add lines 33, 37, 39, 47, 49, and 50	51	12,766 00
52	Figure the tax on the amount on **line 21.** Use the Tax Table or Tax Rate Schedules, whichever applies	52	13,406 00
53	**Tax on all taxable income.** Enter the **smaller** of line 51 or line 52 here and on Form 1040, line 41	53	12,766 00

*If line 25 is more than zero, see **Lines 31 and 43** on page D-9 for the amount to enter. *Printed on recycled paper* **Schedule D (Form 1040) 2003**

Exercise 5

(A) Matthew's Schedule D, Parts I and II

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
1	100 sh. MNO	2/9/02	2/8/03	5,050 00	7,050 00	(2000 00)	
	200 sh. BCA	1/29/03	8/7/03	4,000 00	3,950 00	50 00	
2	Enter your short-term totals, if any, from Schedule D-1, line 2						
3	**Total short-term sales price amounts.** Add lines 1 and 2 in column (d)			9,050 00			
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824						
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1						
6	Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet					(450 00)	
7a	Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. **Do not** enter more than zero						( )
b	**Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f) .					(2,400 00)	

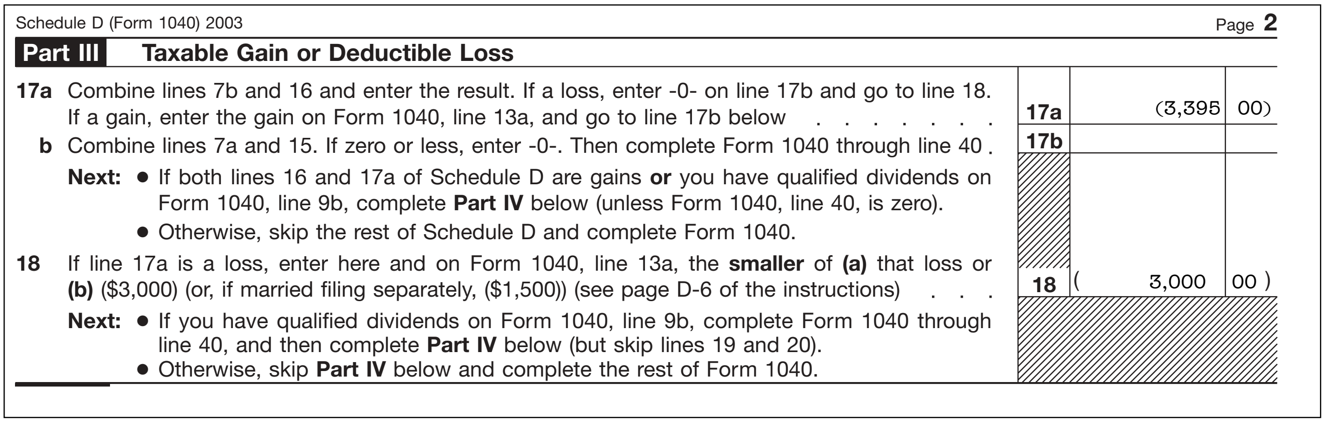
Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
8	500 sh. ZYX	3/11/00	8/7/03	5,250 00	5,500 00	(250 00)	(250 00)
	300 sh. JKL	6/26/01	8/7/03	5,910 00	6.330 00	(420 00)	(420 00)
9	Enter your long-term totals, if any, from Schedule D-1, line 9						
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)			11,160 00			
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824						
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1						
13	Capital gain distributions. See page D-1 of the instructions						
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet					(325 00)	
15	Combine lines 8 through 13 in column (g). If zero or less, enter -0-						(660 00)
16	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) **Next:** Go to Part III on the back.					(995 00)	

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 2003**

(B) Matthew's Schedule D, Part III



Schedule D (Form 1040) 2003 Page **2**

Part III **Taxable Gain or Deductible Loss**

17a Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below **17a** (3,395 00)

b Combine lines 7a and 15. If zero or less, enter -0-. Then complete Form 1040 through line 40 . **17b**

Next: ● If both lines 16 and 17a of Schedule D are gains **or** you have qualified dividends on Form 1040, line 9b, complete **Part IV** below (unless Form 1040, line 40, is zero).

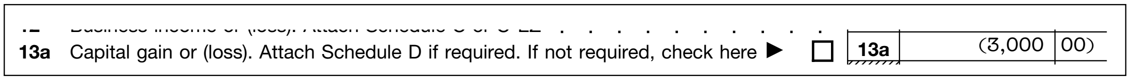
● Otherwise, skip the rest of Schedule D and complete Form 1040.

18 If line 17a is a loss, enter here and on Form 1040, line 13a, the **smaller** of **(a)** that loss or **(b)** ($3,000) (or, if married filing separately, ($1,500)) (see page D-6 of the instructions) . . . **18** (3,000 00)

Next: ● If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete **Part IV** below (but skip lines 19 and 20).

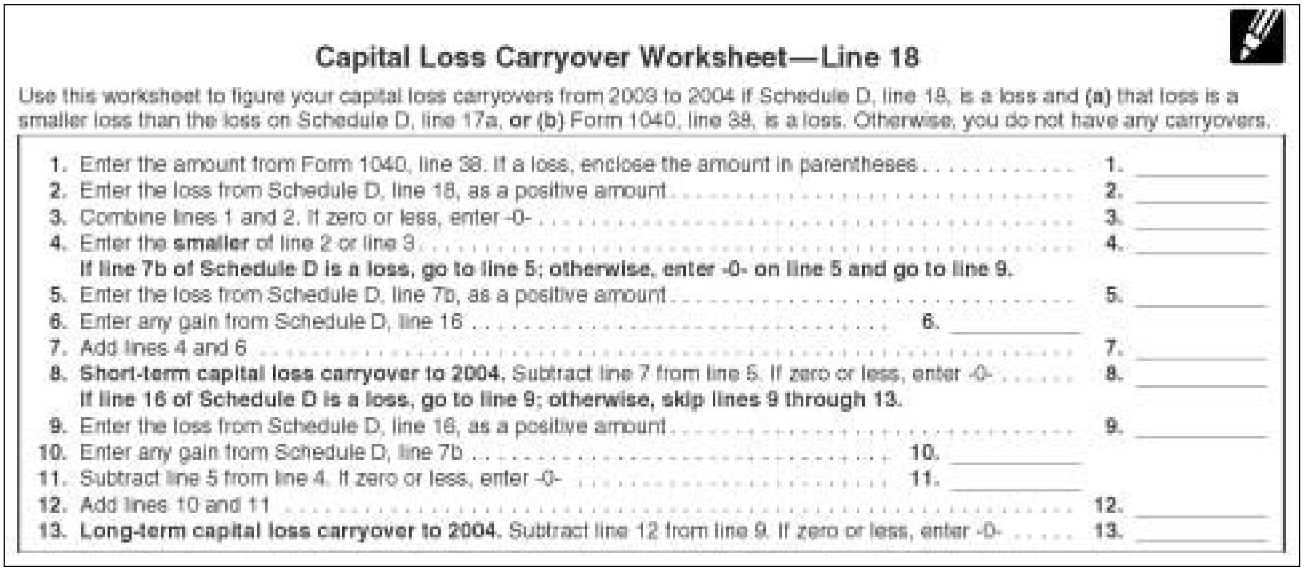
● Otherwise, skip **Part IV** below and complete the rest of Form 1040.

(C) Matthew's Form 1040, Line 13a



13a Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐ **13a** (3,000 00)

(D) Matthew's Capital Loss Carryover Worksheet



Capital Loss Carryover Worksheet—Line 18

Use this worksheet to figure your capital loss carryovers from 2003 to 2004 if Schedule D, line 18, is a loss and **(a)** that loss is a smaller loss than the loss on Schedule D, line 17a, **or (b)** Form 1040, line 38, is a loss. Otherwise, you do not have any carryovers.

1. Enter the amount from Form 1040, line 38. If a loss, enclose the amount in parentheses . . . . 1. ______
2. Enter the loss from Schedule D, line 18, 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. ______

If line 7b of Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.

5. Enter the loss from Schedule D, line 7b, as a positive amount . . . . 5. ______
6. Enter any gain from Schedule D, line 16 . . . . 6. ______
7. Add lines 4 and 6 . . . . 7. ______
8. **Short-term capital loss carryover to 2004.** Subtract line 7 from line 5. If zero or less, enter -0- . . . . 8. ______

If line 16 of Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.

9. Enter the loss from Schedule D, line 16, as a positive amount . . . . 9. ______
10. Enter any gain from Schedule D, line 7b . . . . 10. ______
11. Subtract line 5 from line 4. If zero or less, enter -0- . . . . 11. ______
12. Add lines 10 and 11 . . . . 12. ______
13. **Long-term capital loss carryover to 2004.** Subtract line 12 from line 9. If zero or less, enter -0- . . . . . . 13. ______

Exercise 6

Basis Computations:

LMN:

100 shares bought at $12.50	=	$1,250
Commission on purchase	=	125
Commission on sale	=	+ 175
Adjusted basis, LMN sold	=	$1,550

PQR:

200 shares bought at $14	=	$2,800
Commission on purchase	=	+ 280
Total paid for purchase	=	3,080
Divided by number of shares bought		÷ 200
Per share basis after purchase	=	15.40
Times number of shares sold		x 50
	=	770
Commission on sale	=	+ 105
Adjusted basis, PQR sold		$ 875

OLE: Katherine did not specify which block of stock to sell; the stocks sold are assumed to be from the block purchased first.

800 shares bought at $10	=	$8,000
Commission on purchase	=	+ 800
Total paid for purchase	=	8,800
Divided by number of shares bought		÷ 800
Per share basis after purchase	=	11
Times number of shares sold		x 500
	=	5,500
Commission on sale	=	+ 590
Adjusted basis, OLE sold		$6,090

ABC:

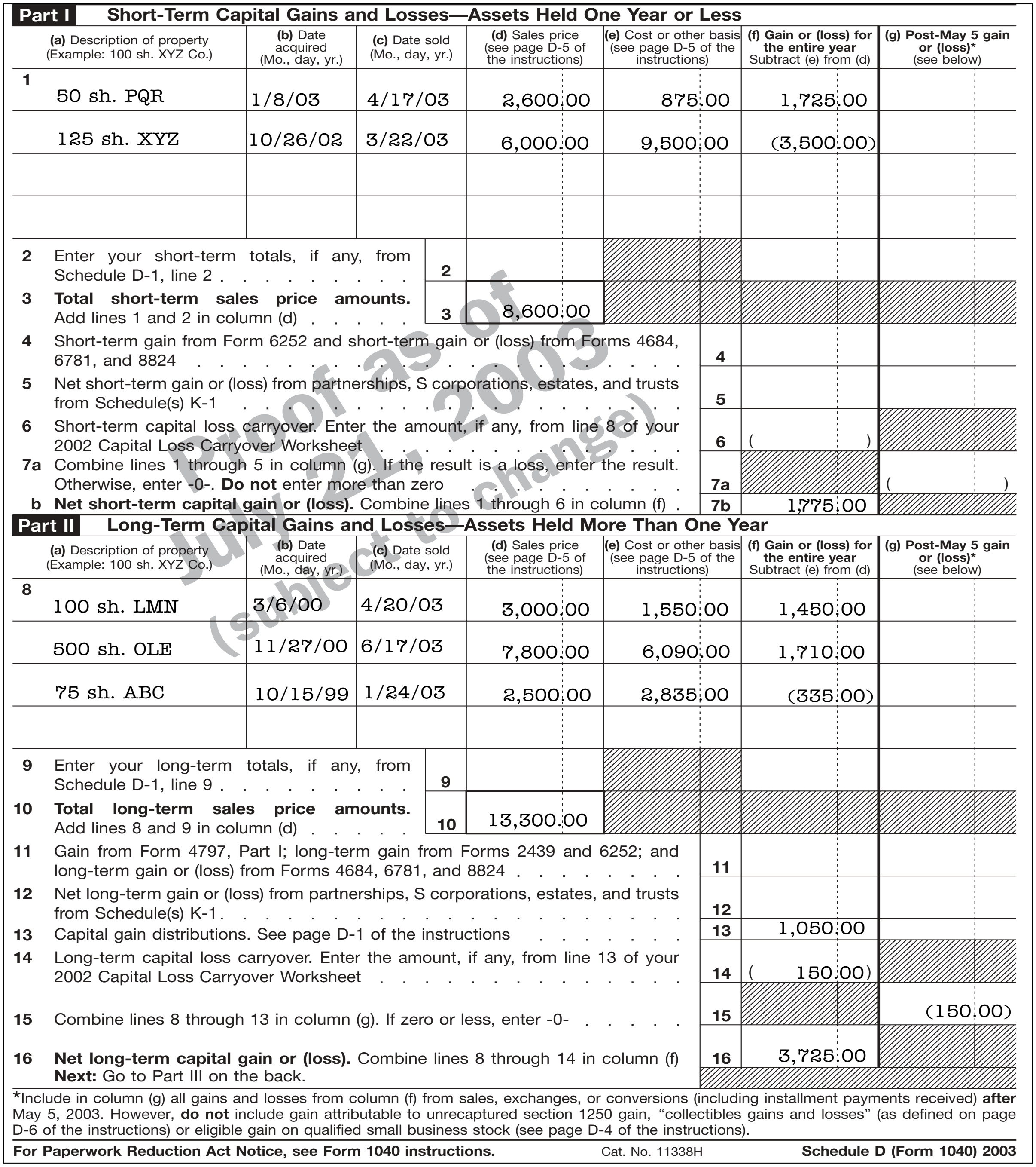
100 shares bought at $72	=	$7,200
Commission on purchase	=	+ 360
Total paid for purchase	=	7,560
Divided by number of shares Katherine held after the two-for-one split		÷ 200
Per share basis after the split	=	37.80
Times number of sheres sold	=	x 75
Adjusted basis, ABC sold	=	$2,835

XYZ:

125 shares bought at $74	=	$9,250
Commission on purchase	=	+ 250
Adjusted basis, XYZ sold	=	$9,500

Exercise 6

(A) Katherine's Schedule D, Parts I and II



Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
1	50 sh. PQR	1/8/03	4/17/03	2,600.00	875.00	1,725.00	
	125 sh. XYZ	10/26/02	3/22/03	6,000.00	9,500.00	(3,500.00)	

2	Enter your short-term totals, if any, from Schedule D-1, line 2	**2**			
3	**Total short-term sales price amounts.** Add lines 1 and 2 in column (d)	**3**	8,600.00		
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824	**4**			
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	**5**			
6	Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet	**6**		( )	
7a	Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. **Do not** enter more than zero	**7a**			( )
b	**Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f) .	**7b**		1,775.00	

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

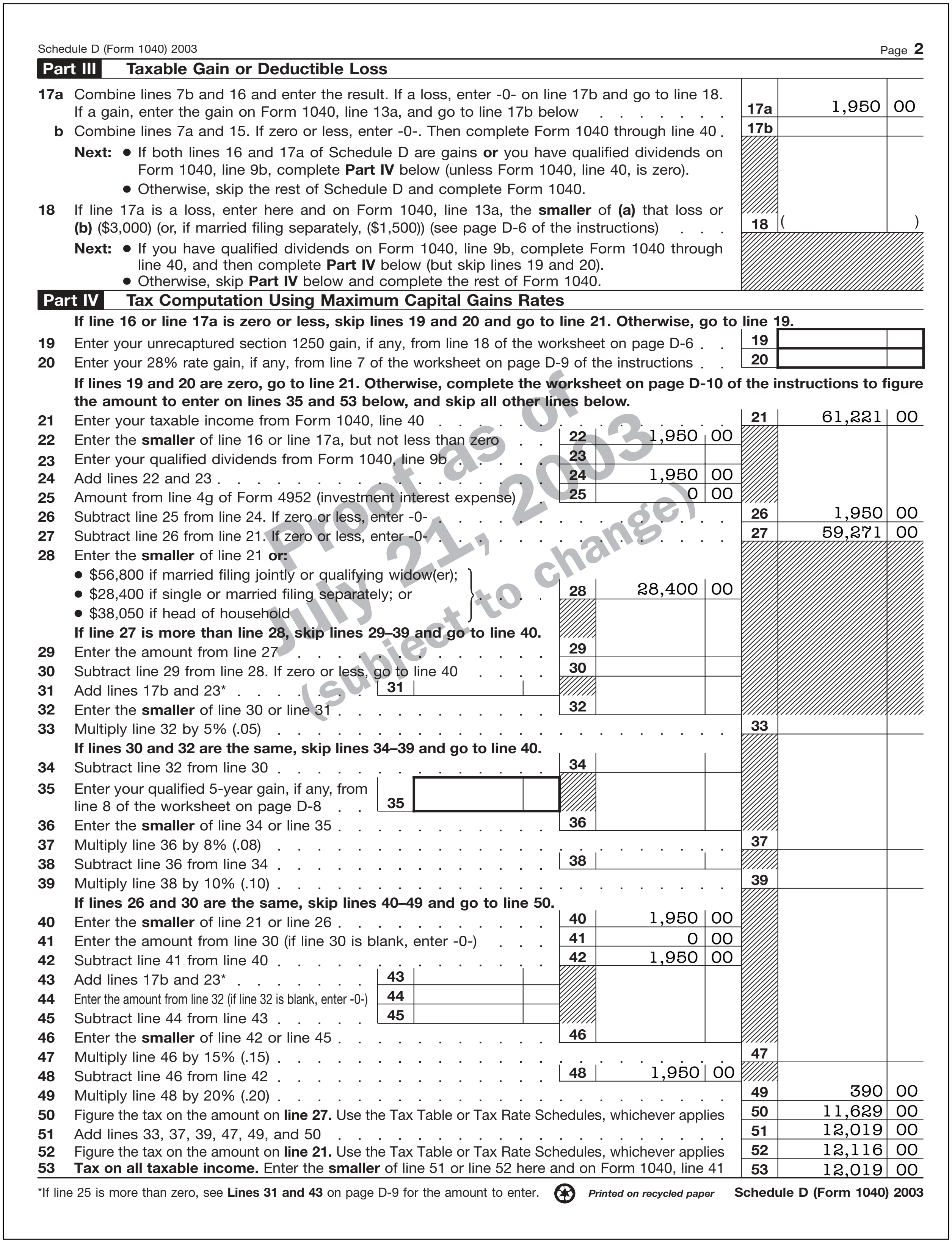
	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
8	100 sh. LMN	3/6/00	4/20/03	3,000.00	1,550.00	1,450.00	
	500 sh. OLE	11/27/00	6/17/03	7,800.00	6,090.00	1,710.00	
	75 sh. ABC	10/15/99	1/24/03	2,500.00	2,835.00	(335.00)	

9	Enter your long-term totals, if any, from Schedule D-1, line 9	**9**			
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)	**10**	13,300.00		
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	**11**			
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.	**12**			
13	Capital gain distributions. See page D-1 of the instructions	**13**		1,050.00	
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet	**14**		(150.00)	
15	Combine lines 8 through 13 in column (g). If zero or less, enter -0-	**15**			(150.00)
16	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) **Next:** Go to Part III on the back.	**16**		3,725.00	

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 2003**

(B) Katherine's Schedule D, Parts III and IV



Schedule D (Form 1040) 2003 Page **2**

Part III **Taxable Gain or Deductible Loss**

17a	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below			**17a**	1,950 00
b	Combine lines 7a and 15. If zero or less, enter -0-. Then complete Form 1040 through line 40			**17b**	
	Next: ● If both lines 16 and 17a of Schedule D are gains **or** you have qualified dividends on Form 1040, line 9b, complete **Part IV** below (unless Form 1040, line 40, is zero). ● Otherwise, skip the rest of Schedule D and complete Form 1040.				
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the **smaller** of **(a)** that loss or **(b)** ($3,000) (or, if married filing separately, ($1,500)) (see page D-6 of the instructions)			**18**	( )
	Next: ● If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete **Part IV** below (but skip lines 19 and 20). ● Otherwise, skip **Part IV** below and complete the rest of Form 1040.				

Part IV **Tax Computation Using Maximum Capital Gains Rates**

If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to line 19.

19	Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6			**19**	
20	Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions			**20**	

If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 of the instructions to figure the amount to enter on lines 35 and 53 below, and skip all other lines below.

21	Enter your taxable income from Form 1040, line 40			**21**	61,221 00
22	Enter the **smaller** of line 16 or line 17a, but not less than zero		**22** 1,950 00		
23	Enter your qualified dividends from Form 1040, line 9b		**23**		
24	Add lines 22 and 23		**24** 1,950 00		
25	Amount from line 4g of Form 4952 (investment interest expense)		**25** 0 00		
26	Subtract line 25 from line 24. If zero or less, enter -0-			**26**	1,950 00
27	Subtract line 26 from line 21. If zero or less, enter -0-			**27**	59,271 00
28	Enter the **smaller** of line 21 **or:** ● $56,800 if married filing jointly or qualifying widow(er); ● $28,400 if single or married filing separately; or ● $38,050 if head of household		**28** 28,400 00		
	If line 27 is more than line 28, skip lines 29–39 and go to line 40.				
29	Enter the amount from line 27		**29**		
30	Subtract line 29 from line 28. If zero or less, go to line 40		**30**		
31	Add lines 17b and 23*	**31**			
32	Enter the **smaller** of line 30 or line 31		**32**		
33	Multiply line 32 by 5% (.05)			**33**	
	If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.				
34	Subtract line 32 from line 30		**34**		
35	Enter your qualified 5-year gain, if any, from line 8 of the worksheet on page D-8	**35**			
36	Enter the **smaller** of line 34 or line 35		**36**		
37	Multiply line 36 by 8% (.08)			**37**	
38	Subtract line 36 from line 34		**38**		
39	Multiply line 38 by 10% (.10)			**39**	
	If lines 26 and 30 are the same, skip lines 40–49 and go to line 50.				
40	Enter the **smaller** of line 21 or line 26		**40** 1,950 00		
41	Enter the amount from line 30 (if line 30 is blank, enter -0-)		**41** 0 00		
42	Subtract line 41 from line 40		**42** 1,950 00		
43	Add lines 17b and 23*	**43**			
44	Enter the amount from line 32 (if line 32 is blank, enter -0-)	**44**			
45	Subtract line 44 from line 43	**45**			
46	Enter the **smaller** of line 42 or line 45		**46**		
47	Multiply line 46 by 15% (.15)			**47**	
48	Subtract line 46 from line 42		**48** 1,950 00		
49	Multiply line 48 by 20% (.20)			**49**	390 00
50	Figure the tax on the amount on **line 27.** Use the Tax Table or Tax Rate Schedules, whichever applies			**50**	11,629 00
51	Add lines 33, 37, 39, 47, 49, and 50			**51**	12,019 00
52	Figure the tax on the amount on **line 21.** Use the Tax Table or Tax Rate Schedules, whichever applies			**52**	12,116 00
53	**Tax on all taxable income.** Enter the **smaller** of line 51 or line 52 here and on Form 1040, line 41			**53**	12,019 00

*If line 25 is more than zero, see **Lines 31 and 43** on page D-9 for the amount to enter. *Printed on recycled paper* **Schedule D (Form 1040) 2003**

(C) Katherine's Form 1040, lines 13 and 42

13a	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	**13a**	1,950	00

41	**Tax** (see page 36). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 . . .	**41**	12,019	00

STUDENT NOTES

SALE OF HOME

Lesson 12

INTRODUCTION AND OBJECTIVES

Introduction

This lesson generally discusses the tax rules that apply when a taxpayer sells his or her **main home** in 2003. The taxpayer's **main home** is the one in which he or she lives most of the time.

A taxpayer does not need to report the sale of his or her main home on his or her tax return if the gain on the sale is less than or equal to an **exclusion amount** (discussed later). Generally, if the taxpayer meets the **ownership and use tests** (discussed later), he or she can exclude any gain from income up to $250,000 ($500,000, if married filing jointly).

This lesson does not cover the sale of a main home used as rental property or partially for business.

Objective

At the end of this lesson you will be able to determine the amount of gain a taxpayer may exclude if a primary residence is sold.

MAIN HOME

Only the gain from the sale of the taxpayer's main home is eligible for the rules discussed in this lesson. If a home that is not the taxpayer's main home is sold during the year, the gain generally will have to be reported as income. Any gain that must be reported as income is taxable gain and is reported on Schedule D (Form 1040), *Capital Gains and Losses*. Therefore, a clear understanding of what is, and what is not, an individual's main home is very important.

A **main home** is where the taxpayer lives most of the time. The home does not necessarily have to be a house. A houseboat, a mobile home, a cooperative apartment, or a condominium (house or apartment) may also qualify as a main home. Taxpayers cannot choose which home to designate as their main home. Facts and circumstances determine which home is the main home.

POTENTIAL PITFALLS ⚠

A taxpayer's main home is not necessarily a home that is owned by the taxpayer. A rental home may be a main home..

If a taxpayer has more than one home, it is necessary to determine which home he or she lives in most of the time. In many, if not most cases, the taxpayer owns a single home in which he or she lives all the time.

It may seem easy to evaluate this situation, since it is not necessary to determine which home is the main home. However, you must be sure that the owner of a single home also meets the requirement of living in the home most of the time. If not, it cannot be considered the main home.

Never assume that the house sold during the year was the taxpayer's main home, even if the house was the only one owned by the taxpayer. Be sure to check that the house was, in fact, the individual's main home.

Example 1

Lucille owns a home in a Colorado ski area (the ski home). She stays at the ski home most weekends and spends the entire months of December, January, and February there. When she is not at the ski home, she lives in a four-room apartment that she rents in Denver. For over half the year, she lives in Denver. Lucille's main home is her rental apartment in Denver, because she lives there most of the time. This is so even though she does not own the apartment in Denver.

POTENTIAL PITFALLS ⚠

If there is a loss on the sale of a taxpayer's main home, the taxpayer cannot deduct it on his or her tax return.

GAIN ON SALE OF MAIN HOME

To figure the gain (or loss) on the sale of the taxpayer's main home, you must know the **selling price**, the **amount realized,** and the **adjusted basis.**

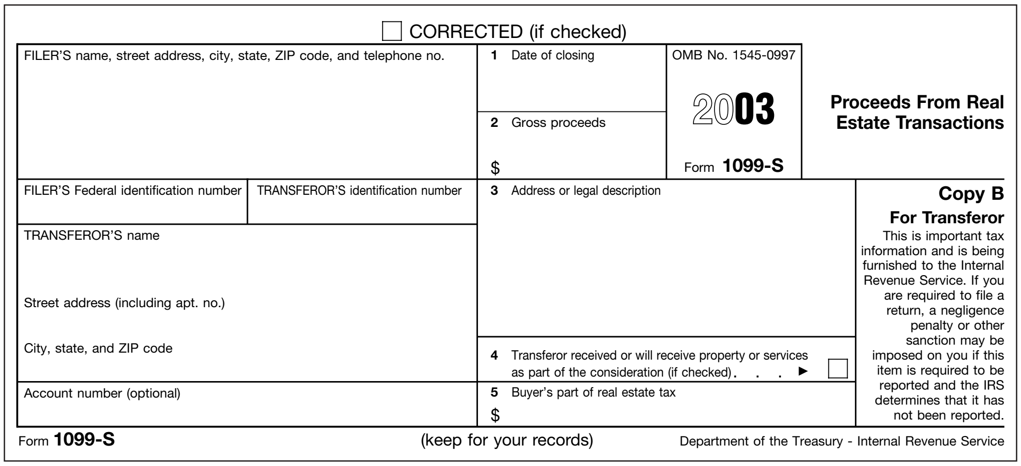
Selling price

The selling price is the total amount the taxpayer (seller) received for his or her main home. It includes money, all notes, mortgages, or other debts taken over by the buyer as part of the sale, and the fair market value of any other property or services that the seller received.

Form 1099-S

If the taxpayer received Form 1099-S, *Proceeds From Real Estate Transactions*, box 1 shows the date of sale (closing) and box 2 shows the **gross proceeds** received from the sale of his or her main home. (Exhibit 1 shows a blank Form 1099-S.) If the taxpayer can exclude the entire gain from a sale in 2003, the person responsible for closing the sale (for example, a real estate broker or settlement agent) generally will not have to report it on Form 1099-S.

Exhibit 1 Form 1099-S



☐ CORRECTED (if checked)

FILER'S name, street address, city, state, ZIP code, and telephone no.

1 Date of closing

2 Gross proceeds
$

OMB No. 1545-0997

2003

Form **1099-S**

Proceeds From Real Estate Transactions

FILER'S Federal identification number

TRANSFEROR'S identification number

3 Address or legal description

TRANSFEROR'S name

Street address (including apt. no.)

City, state, and ZIP code

4 Transferor received or will receive property or services as part of the consideration (if checked) . . . ▶ ☐

Account number (optional)

5 Buyer's part of real estate tax
$

Copy B
For Transferor
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this item is required to be reported and the IRS determines that it has not been reported.

Form **1099-S** (keep for your records) Department of the Treasury - Internal Revenue Service

Amount realized

The amount realized is the selling price minus **selling expenses**.

Selling expenses

Selling expenses include commissions, advertising fees, legal fees, and loan charges paid by the seller, such as points (points were discussed in lesson 4).

Adjusted basis

While the taxpayer owned his or her main home, he or she may have made adjustments (increases or decreases) to the **basis**. This adjusted basis is used to figure gain or loss on the sale of the taxpayer's main home. For information on how to figure the home's adjusted basis, see *Basis* in Publication 523.

Amount of gain (or loss)

When you know the amount realized and the home's adjusted basis, you can figure the taxpayer's **gain or loss.** If the amount realized is more than the adjusted basis, the difference is a gain and the taxpayer may be able to exclude all or part of it. If the amount realized is less than the adjusted basis, the difference is a loss. ***A loss on the sale of the taxpayer's main home cannot be deducted***.

POTENTIAL PITFALLS ⚠

A taxpayer cannot exclude the part of any depreciation allowed or allowable for the business use of his or her home.

Refer a taxpayer who used his or her main home for business to a paid professional tax preparer.

AMOUNT OF EXCLUSION

A single homeowner can generally exclude up to $250,000 of gain from the sale of a main home. A married couple can exclude up to $500,000 if they meet all of the following conditions.

1. They filed a joint return.
2. Either spouse or both meet the ownership test.
3. Both individuals meet the use test.
4. Neither individual excluded gain in the 2 years before the current sale of the home (not counting any sales before May 7, 1997).

For married individuals filing jointly who do not qualify for the $500,000 exclusion of gain on the sale of a home because they do not satisfy the two-year ownership test, two-year use test, and the prohibition on any other sale or exchange of a residence within the last two years, the limit on the amount of excludable gain should be calculated separately for each spouse. In that case, the maximum exclusion for the couple is equal to the sum of the exclusions to which the spouses would otherwise be entitled if they had not been married.

OWNERSHIP AND USE TESTS

The **exclusion** is allowed each time a taxpayer sells or exchanges his or her main home, but generally no more than once every 2 years. To be eligible, the property must have been:

1. Owned by the taxpayer for a combined period of at least 2 years out of a 5-year period ending on the date of sale (the ownership test).
2. Lived in as the taxpayer's main home for at least 2 years of that 5-year period (the use test).

Period of ownership and use

The required 2 years of ownership and use do not have to be continuous. The taxpayer meets the tests if the taxpayer can show that he or she owned and lived in the property as his or her main home for either 24 full months or 730 days during the 5-year period. Short temporary absences, even if the property is rented during those absences, are counted as periods of use.

Ownership and use tests can be met during different 2-year periods. However, a taxpayer must meet both tests during the 5-year period ending on the date of the sale.

Example 2

In 1995, Helen Jones lived in a rented apartment. The apartment building was later changed to a condominium, and she bought her apartment on December 1, 2000. In 2001, Helen became ill and on April 14 of that year she moved in to her daughter's home. On July 10, 2003, while still living in her daughter's home, she sold her apartment.

Helen can exclude all the gain on the sale of her apartment because she met the ownership and use tests. Her 5-year period is from July 11, 1998, to July 10, 2003, the date she sold the apartment. She owned her apartment from December 1, 2000, to July 10, 2003 (over 2 years). She lived in the apartment from July 11, 1998 (the beginning of the 5-year period), to April 14, 2001 (over 2 years).

Reduced Exclusion

If the property was owned and used as a main home for less than 2 years, a taxpayer may be able to claim a reduced exclusion. If this situation applies to a taxpayer, use the worksheet in Publication 523 to figure how to claim the reduced exclusion.

Example 3

Amanda, who is single, bought her first home in August 2001. In December 2002, the company she worked for notified her that she would be transferred to another town by the end of 2003. She continued to live in the home until June 2003, when she sold it at a gain and moved to the new town. Amanda owned and lived in the home less than 2 years, so she does not meet the ownership and use tests. However, she qualifies to exclude the gain because she sold the home due to a change in place of employment.

Exercise 1

John is single and sold his home in July 2003, for $300,000. The amount he realized from the sale was $297,500. His adjusted basis in the home was $255,500. Assuming he meets the ownership and use tests,

a. What is the amount of the gain?

b. What is his exclusion amount?

Exercise 2

Tim owns two homes. One residence is located in St. Louis where he works and the other is located in a resort area approximately 100 miles away. Tim lives in his St. Louis home during the week (Monday through Friday) and travels to his weekend home for Saturday and Sunday. His office allows him to work from home so approximately 5 months of the year he works from his weekend home. Which home is his main home?

TAXWISE HINTS

If a gain on the sale of a main home must be reported on the taxpayer's Form 1040. Link to a Schedule D, enter the description of property, and complete the remaining entries annotated in red. The software will calculate the gain and carry the calculation to the Form 1040.

▶ ▶ SUMMING UP THIS LESSON ◀ ◀

In this lesson you have learned about the simplified rules that apply to homeowners who sell or exchange their principal residence. For more information on the tax rules that apply on the sale of a main home, see Publication 523.

ANSWERS TO EXERCISES

Exercise 1a. $42,000 ($297,500 minus $255,500)

1b. $42,000

Exercise 2. His main home is the St. Louis residence.

STUDENT NOTES

PENSIONS

INTRODUCTION

In this lesson, you will learn about ***Pensions and Annuities***.

Pensions and annuities provide cash payments, usually after a person has retired. The payments may be for life or for a fixed period of time. They may begin at retirement or at a specific age.

OBJECTIVES

After completing this lesson, you should be able to:

- Identify different types of Retirement Income
- Determine the taxable portion of the Retirement Income
- Report Retirement Income on the Tax Return
- Explain when a Minimum Distribution is required
- Determine when an adjustment to withholding should be made

DEFINITIONS

A **pension** is generally a series of definitely determinable payments made to an employee or survivor (the beneficiary of a deceased employee's pension) after the employee retires from work. Payments are made regularly and are for past services with an employer. A pension is fully or partially taxable depending on whether the employee contributed to the pension plan. The total amount of the pension will usually depend on how long the taxpayer worked for the company and how much the taxpayer earned over the years.

Employee contributions that are "after-tax" contributions are amounts that the employer usually deducts from wages and deposits them into the pension fund on behalf of the employee. Each year, the employee pays tax on the amount that he or she contributed that year. The employee's contributions are included in his or her Form W-2. Employee contributions are often referred to as the cost of the pension or as the investment in the annuity contract.

Employee contributions that are "before-tax" include amounts deposited to a 401(K) or 403(b) program. Each year, the employee pays income tax on the salary after the "before-tax" contributions have been deducted.

A **disability pension** is generally paid to a taxpayer who retires because of a disability before the minimum retirement age (set by the employer). The disability pension is considered regular pension income when the taxpayer reaches the minimum retirement age.

An **annuity** is a series of payments under a contract from an insurance company, a trust company, or an individual. Annuity payments are made at regular intervals over a period of more than one full year.

An **Individual Retirement Arrangement (IRA)** is a personal savings plan that provides tax advantages for setting money aside for retirement.

Social Security Benefits are payments made under Title II of the Social Security Act. They include old-age, survivors, disability insurance, and some workers' compensation benefits. Social security benefits are reported to the taxpayer on Form SSA-1099, *Social Security Benefit Statement.*

Railroad Retirement Benefits (RRB) are based on the number of months that the taxpayer was working in a job that was covered by the Railroad Retirement Act. The RRA has two components. Tier 1 is the equivalent of Social Security Benefits and Tier 2 is like an employer's pension plan.

There are several other types of pension plans, including 403(b), Keogh, SEP and SIMPLE. Payments from any of these types of plans should be reported to the taxpayer on Form 1099R. You will use this form to prepare the tax return. It is not necessary for you to understand all of the contribution rules associated with the many types of pension plans.

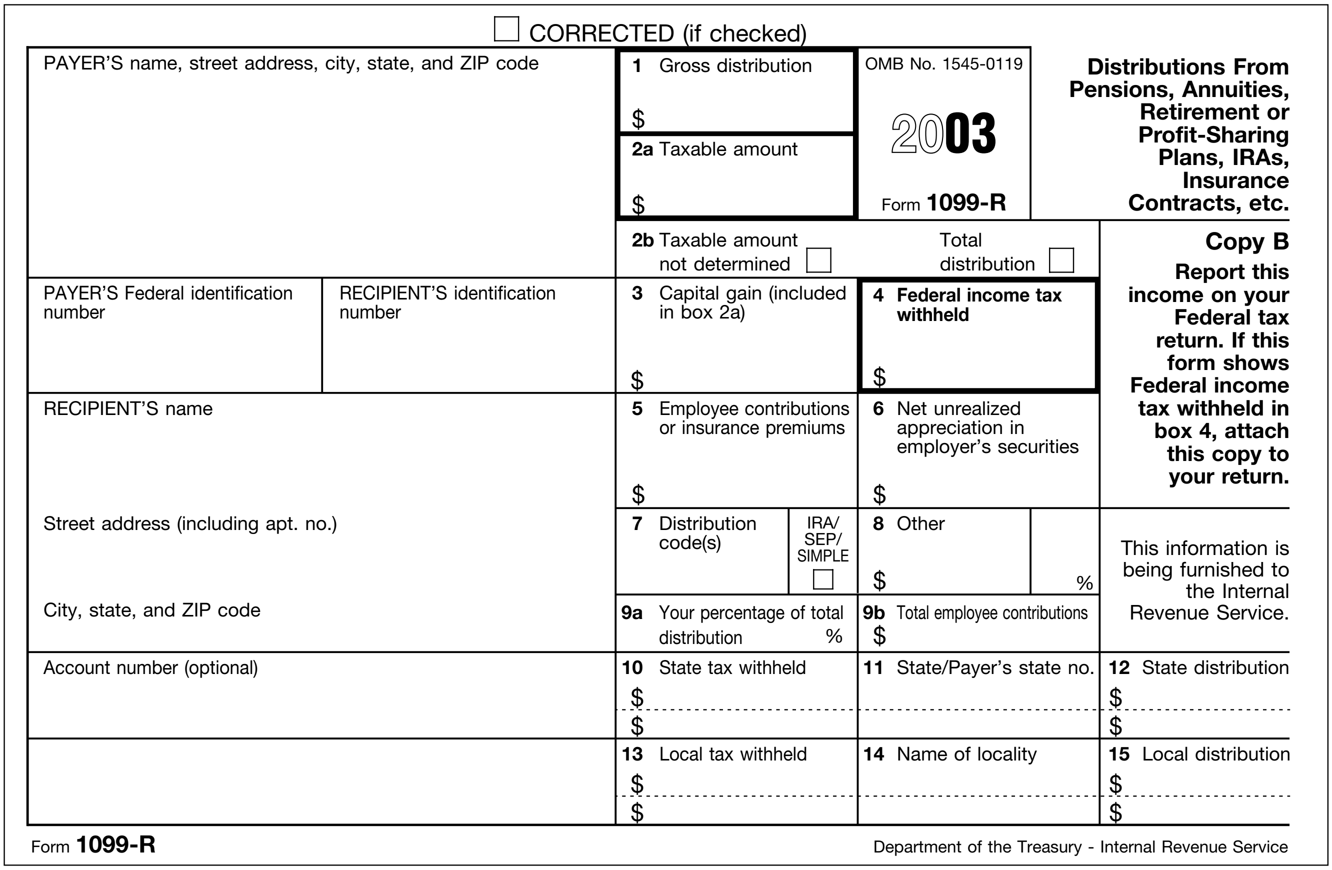
TAKING A LOOK AT THE FORMS

Retirement income may be reported on Form 1099R, Form SSA-1099, Form RRB-1099 or Form RRB-1099-R. Disability income may be reported on Form W-2 or Form 1099R. It is very important to enter all of the required information from these forms when using tax preparation software. This allows the software to do its job and help you with the calculations.

Form 1099-R

The **Form 1099-R** (as seen in Exhibit 1) is used by payers to report distributions from Pensions, Annuities, Retirement or Profit Sharing plans, IRAs, Insurance Contracts etc. While it is important to review all of the boxes on the form, you will be most concerned about the entries in Boxes 1, 2a, 2b, 4, 5, 7 and the little box that indicates whether this is an IRA/SEP/SIMPLE payment.

Exhibit 1



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code

1 Gross distribution $

2a Taxable amount $

OMB No. 1545-0119

2003

Form **1099-R**

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2b Taxable amount not determined ☐ Total distribution ☐

Copy B

Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.

PAYER'S Federal identification number

RECIPIENT'S identification number

3 Capital gain (included in box 2a) $

4 Federal income tax withheld $

RECIPIENT'S name

5 Employee contributions or insurance premiums $

6 Net unrealized appreciation in employer's securities $

Street address (including apt. no.)

7 Distribution code(s)

IRA/ SEP/ SIMPLE ☐

8 Other $ %

This information is being furnished to the Internal Revenue Service.

City, state, and ZIP code

9a Your percentage of total distribution %

9b Total employee contributions $

Account number (optional)

10 State tax withheld $ $

11 State/Payer's state no.

12 State distribution $ $

13 Local tax withheld $ $

14 Name of locality

15 Local distribution $ $

Form **1099-R**

Department of the Treasury - Internal Revenue Service

Some 1099-R forms may not look like the one above. Some payer's receive permission to customize the form. In all cases, the box numbers will remain the same.

Exhibit 2 is the instructions for the recipient of the Form 1099-R. While these instructions can be found on the back of copies B and C of the Form 1099-R, the print is small and may be difficult to read. Therefore, we are duplicating the information here in a larger print.

Exhibit 2

Instructions for Recipient

Generally, distributions from pensions, annuities, profit-sharing and retirement plans (including section 457 state and local government plans), IRAs, insurance contracts, etc., are reported to recipients on Form 1099-R.

Qualified plans. If your annuity starting date is after 1997, you must use the simplified method to figure your taxable amount if your payer did not show the taxable amount in box 2a. See **Pub. 575,** Pension and Annuity Income.

IRAs. For distributions from a traditional individual retirement arrangement (IRA), simplified employee pension (SEP), or savings incentive match plan for employees (SIMPLE), generally the payer is not required to compute the taxable amount. Therefore, the amounts in boxes 1 and 2a will be the same most of the time. See the Form 1040 or 1040A instructions to determine the taxable amount. If you are at least age 70½, you must take minimum distributions from your IRA (other than a Roth IRA). If you do not, you may be subject to a 50% excise tax on the amount that should have been distributed. See **Pub. 590,** Individual Retirement Arrangements (IRAs), and **Pub. 560,** Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans), for more information on IRAs.

Roth IRAs. For distributions from a Roth IRA, generally the payer is not required to compute the taxable amount. You must compute any taxable amount on **Form 8606,** Nondeductible IRAs. An amount shown in box 2a may be taxable earnings on an excess contribution.

Loans treated as distributions. If you borrow money from a qualified plan, tax-sheltered annuity, or government plan, you may have to treat the loan as a distribution and include all or part of the amount borrowed in your income. There are exceptions to this rule. If your loan is taxable, Code L will be shown in box 7. See Pub. 575.

Box 1. Shows the total amount you received this year. The amount may have been a direct rollover, a transfer or conversion to a Roth IRA, a recharacterized IRA contribution; or you may have received it as periodic payments, as nonperiodic payments, or as a total distribution. Report the amount on Form 1040 or 1040A on the line for "IRA distributions" or "Pensions and annuities" (or the line for "Taxable amount"), and on Form 8606, whichever applies. However, if this is a lump-sum distribution, report it on **Form 4972,** Tax on Lump-Sum Distribution. If you have not reached minimum retirement age, report your disability payments on the line for "Wages, salaries, tips, etc." Also report on that line corrective distributions of excess deferrals, excess contributions, or excess aggregate contributions.

If a life insurance, annuity, or endowment contract was transferred tax free to another trustee or contract issuer, an amount will be shown in this box and Code 6 will be shown in box 7. You need not report this on your tax return.

Box 2a. This part of the distribution is generally taxable. If there is no entry in this box, the payer may not have all the facts needed to figure the taxable amount. In that case, the first box in box 2b should be checked. You may want to get one of the following publications from the IRS to help you figure the taxable amount: **Pub. 560, Pub. 571,** Tax-Sheltered Annuity Plans (403(b) Plans) for Employees of Public Schools and Certain Tax-Exempt Organizations, **Pub. 575, Pub. 590, Pub. 721,** Tax Guide to U.S. Civil Service Retirement Benefits, or **Pub. 939,** General Rule for Pensions and Annuities. For an IRA distribution, see **IRAs** and **Roth IRAs** above. For a direct rollover, zero should be shown, and you must enter zero (-0-) on the "Taxable amount" line of your tax return.

If this is a total distribution from a qualified plan (other than an IRA or tax-sheltered annuity) and you were born before January 2, 1936 (or you are the beneficiary of someone born before January 2, 1936), you may be eligible for the 10-year tax option. See the **Instructions for Form 4972** for more information.

Box 2b. If the first box is checked, the payer was unable to determine the taxable amount, and box 2a should be blank. However, if this is a traditional IRA, SEP, or SIMPLE distribution, then see **IRAs** above. If the second box is checked, the distribution was a total distribution that closed out your account.

Box 3. If you received a lump-sum distribution from a qualified plan and were born before January 2, 1936 (or you are the beneficiary of someone born before January 2, 1936), you may be able to elect to treat this amount as a capital gain on Form 4972 (not on Schedule D (Form 1040)). See the Instructions for Form 4972. For a charitable gift annuity, report as a long-term capital gain on Schedule D (Form 1040).

(Continued on the back of Copy C.)

Instructions for Recipient *(Continued)*

Box 4. This is the amount of Federal income tax withheld. **Include this on your income tax return as tax withheld, and if box 4 shows an amount (other than zero), attach Copy B to your return.** Generally, if you will receive payments next year that are not eligible rollover distributions, you can change your withholding or elect not to have income tax withheld by giving the payer **Form W-4P,** Withholding Certificate for Pension or Annuity Payments.

Box 5. Generally, this shows the employee's investment in the contract (after-tax contributions), if any, recovered tax free this year; the part of premiums paid on commercial annuities or insurance contracts recovered tax free; or the nontaxable part of a charitable gift annuity. This box does not show any IRA contributions.

Box 6. If you received a lump-sum distribution from a qualified plan that includes securities of the employer's company, the net unrealized appreciation (NUA) (any increase in value of such securities while in the trust) is taxed only when you sell the securities unless you choose to include it in your gross income this year. See Pub. 575 and the Instructions for Form 4972. If you did not receive a lump-sum distribution, the amount shown is the NUA attributable to employee contributions, which is not taxed until you sell the securities.

Box 7. The following codes identify the distribution you received. **1—**Early distribution, no known exception (in most cases, under age 59½). See **Form 5329**, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts. For a rollover to a traditional IRA of the entire taxable part of the distribution, do not file Form 5329. See the Form 1040/1040A instructions. **2—**Early distribution, exception applies (under age 59½)*. **3—**Disability*. **4—**Death*. **5—**Prohibited transaction. **6—**Section 1035 exchange (a tax-free exchange of life insurance, annuity, or endowment contracts). **7—**Normal distribution. **8—**Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in 2003. **9—**Cost of current life insurance protection (premiums paid by a trustee or custodian for current insurance protection, taxable to you currently). **A—**May be eligible for 10-year tax option. See Form 4972. **D—**Excess contributions plus earnings/excess deferrals taxable in 2001. **E—**Excess annual additions under section 415 and certain excess amounts under section 403(b) plans. Report on Form 1040/1040A on the line for taxable pension or annuity income*. **F—**Charitable gift annuity. **G—**Direct rollover to a qualified plan, a tax-sheltered annuity, a governmental 457(b) plan, or an IRA. May also include a transfer from a conduit IRA to a qualified plan*. **J—**Early distribution from a Roth IRA, no known exception (in most cases, under age 59½). Report on Forms 1040 and 8606 and see Form 5329. **L—**Loans treated as distributions. **N—**Recharacterized IRA contribution made for 2003 and recharacterized in 2003. Report on 2003 Form 1040/1040A and Form 8606, if applicable. **P—**Excess contributions plus earnings/excess deferrals taxable in 2002. **Q—**Roth IRA qualified distribution. You are age 59½ or over and meet the 5-year holding period for a Roth IRA. See the Form 1040/1040A instructions*. **R—**Recharacterized IRA contribution made for 2002 and recharacterized in 2003. Report on 2002 Form 1040/1040A and Form 8606, if applicable. **S—**Early distribution from a SIMPLE IRA in first 2 years, no known exception (under age 59½). May be subject to an additional 25% tax. See Form 5329. **T—**Roth IRA distribution, exception applies. You are either age 59½ or over or an exception (code 3 or 4) applies. See the Form 1040/1040A instructions.

If the IRA/SEP/SIMPLE box is checked, you have received a traditional IRA, SEP, or SIMPLE distribution.

Box 8. If you received an annuity contract as part of a distribution, the value of the contract is shown. It is not taxable when you receive it and should not be included in boxes 1 and 2a. When you receive periodic payments from the annuity contract, they are taxable at that time. If the distribution is made to more than one person, the percentage of the annuity contract distributed to you is also shown. You will need this information if you use the 10-year tax option (Form 4972).

Box 9a. If a total distribution was made to more than one person, the percentage you received is shown.

Box 9b. For a life annuity from a qualified plan or from a tax-sheltered annuity (with after-tax contributions), an amount may be shown for the employee's total investment in the contract. It is used to compute the taxable part of the distribution. See Pub. 575.

Boxes 10–15. If state or local income tax was withheld from the distribution, these boxes may be completed. Boxes 12 and 15 may show the part of the distribution subject to state and/or local tax.

---

*You are not required to file Form 5329.

Exercise 1

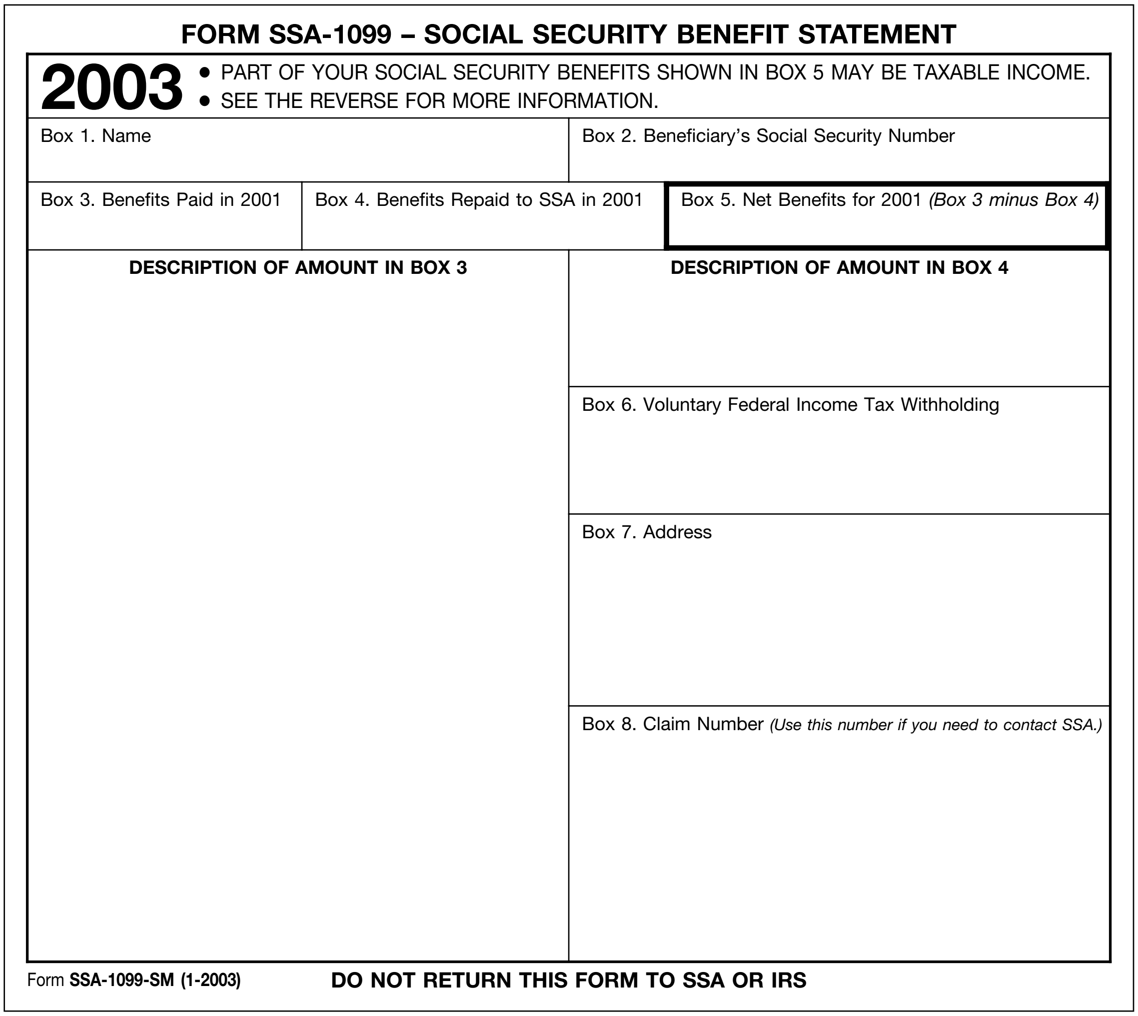
Alisha received a Form 1099R for 2003. In box 7 of the form there is a number 7. What does this mean? ____________________________

____

Form SSA-1099

Every person who received Social Security Benefits will receive a Form SSA-1099. Sometimes the taxpayer does not bring this form with them because they didn't think that their Social Security is taxable. You need to know how much is in box 5 of the Form SSA-1099 to correctly calculate the taxpayers return. You may need to ask the taxpayer to go home and get the form. If the taxpayer did not receive the form or has misplaced it, they can get a printout of benefits from the local Social Security office. The amount in box 5 should be entered in the tax software program, even if the benefits aren't taxable (we will explain later how to determine if the benefits are taxable). This is a critical step to calculating the correct tax.

Exhibit 3



FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT

2003
- PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME.
- SEE THE REVERSE FOR MORE INFORMATION.

Box 1. Name

Box 2. Beneficiary's Social Security Number

Box 3. Benefits Paid in 2001

Box 4. Benefits Repaid to SSA in 2001

Box 5. Net Benefits for 2001 *(Box 3 minus Box 4)*

DESCRIPTION OF AMOUNT IN BOX 3

DESCRIPTION OF AMOUNT IN BOX 4

Box 6. Voluntary Federal Income Tax Withholding

Box 7. Address

Box 8. Claim Number *(Use this number if you need to contact SSA.)*

Form **SSA-1099-SM (1-2003)**

DO NOT RETURN THIS FORM TO SSA OR IRS

Exercise 2

Ralph comes to your site to get help with his taxes. You ask him if he received Social Security benefits. He tells you that he gets the benefits but that they have never been taxable so he didn't bring that informaiton with him. Can you accurately complete his return without the information? ______________________________

____

Forms RRB-1099 and Form RRB-1099R

Benefits paid under the Railroad Retirement Act fall into two categories. These categories are treated differently for income tax purposes.

The first category is the amount of tier 1 railroad retirement benefits that equals the social security benefit that a railroad employee or beneficiary would have been entitled to receive under the social security system. This part of the tier 1 benefit is called the "social security equivalent benefit" and is treated for tax purposes like social security benefits. It is shown on the **BLUE** part of the Form RRB-1099, *Payments by the Railroad Retirement Board*. (An example of this form is contained in Publication 915, *Social Security and Tier 1 Railroad Retirement Benefits*.) Use the amount from box 5 of Form RRB-1099 to complete the Social Security worksheet.

The second category contains the rest of the tier 1 benefits, called the "non-social security equivalent benefit," any tier 2 benefits, vested dual benefits, and supplemental annuity benefits. This category of benefits, shown on the **GREEN** part of the Form RRB-1099-R, *Annuities or Pensions by the Railroad Retirement Board*, is treated as an amount received from a qualified employer plan. Vested dual benefits and supplemental annuity benefits are fully taxable pensions. Publication 575, *Pension and Annuity Income* shows an example of this form and explains the items shown on the form.

Exercise 3

Jacob is a retired railroad switchyard operator. He receives Railroad Retirement Benefits. What Railroad Retirement forms does he need to bring with him when he gets his taxes done?

____

____

DETERMINING THE TAXABLE PORTION OF THE RETIREMENT INCOME

To make the correct determinations about the taxability of the taxpayer's retirement income, you may need to ask the taxpayer several questions. Be considerate when probing for the information you need to complete the return.

If the taxpayer cannot provide the required information, suggest that the former employer or annuity administrator be contacted. You may want to give the taxpayer a written list of questions that should be answered by the employer.

Pensions In General

Generally, if the taxpayer did not pay any part of the cost of his or her employee pension or annuity and his or her employer did not withhold part of the cost from his or her pay while he or she worked, the amounts received each year are fully taxable.

Example 1

Delilah worked for a software development company for 20 years. She retired in 2003 and she receives a monthly pension of $1,348. She never contributed to the pension plan while she was working, her employer made all of the contributions. Her pension is fully taxable.

Exercise 4

Dotty worked for the local tire plant for 32 years. She retired in June of 2003 and she receives a monthly pension of $1,679 (she received 6 payments in 2003). Dotty never contributed to the pension plan. Her employer made all of the contributions. How much of her pension is taxable? ____________________________________

____

If the taxpayer made contributions to a pension plan with "before tax" dollars, then the entire distribution will be taxable. The contribution that the taxpayer made was with money that had not been taxed. This is common in 401(K) and Thrift Savings plans.

If the taxpayer paid part of the cost of the annuity or pension with "after tax" dollars, he or she is not taxed on the part of the annuity or pension he or she receives that represents a return of his or her cost. Generally, this amount will be clearly stated on the Form 1099R. See the next section for more information on determining the taxable portion of an annuity or pension.

Example 2

Joseph retired in 2003 after working 30 years for a construction company. Each week, he contributed to the Carpenter's Pension Plan. Every year, he paid tax on the gross amount of his salary. His pension contributions were made with dollars that had already been taxed. Joseph's pension payments will be partially taxable.

Partially Taxable Pensions and Annuities Other Than IRAs

General Rule

The General Rule is one of the two methods used to figure the tax-free part of each pension/annuity payment. It is based on the ratio of the investment in the contract to the total expected return.

Most taxpayers who retire after 1996 can no longer use the General Rule. Unless the exception applies, retirees must use the Simplified Method for annuity payments from a qualified plan.

The General Rule must be used if the pension or annuity payment is from a nonqualified plan (for example, a private annuity, a purchased commercial annuity, or a nonqualified employee plan).

The calculation of the taxable portion of a payment under the General Rule is outside of the scope of the volunteer program. However, if the exclusion percentage has already been computed, you can assist the taxpayer with the return.

If you need more information, please see Publication 939, *General Rule for Pensions and Annuities*.

Simplified Method

Under the Simplified Method, the tax-free portion of each pension/annuity payment is figured by dividing the taxpayer's cost in the contract by the total number of expected monthly payments. For a pension/annuity that is payable for the life of the taxpayer (and his or her beneficiary), the number of expected months is based on the age of the taxpayer and is determined from a table.

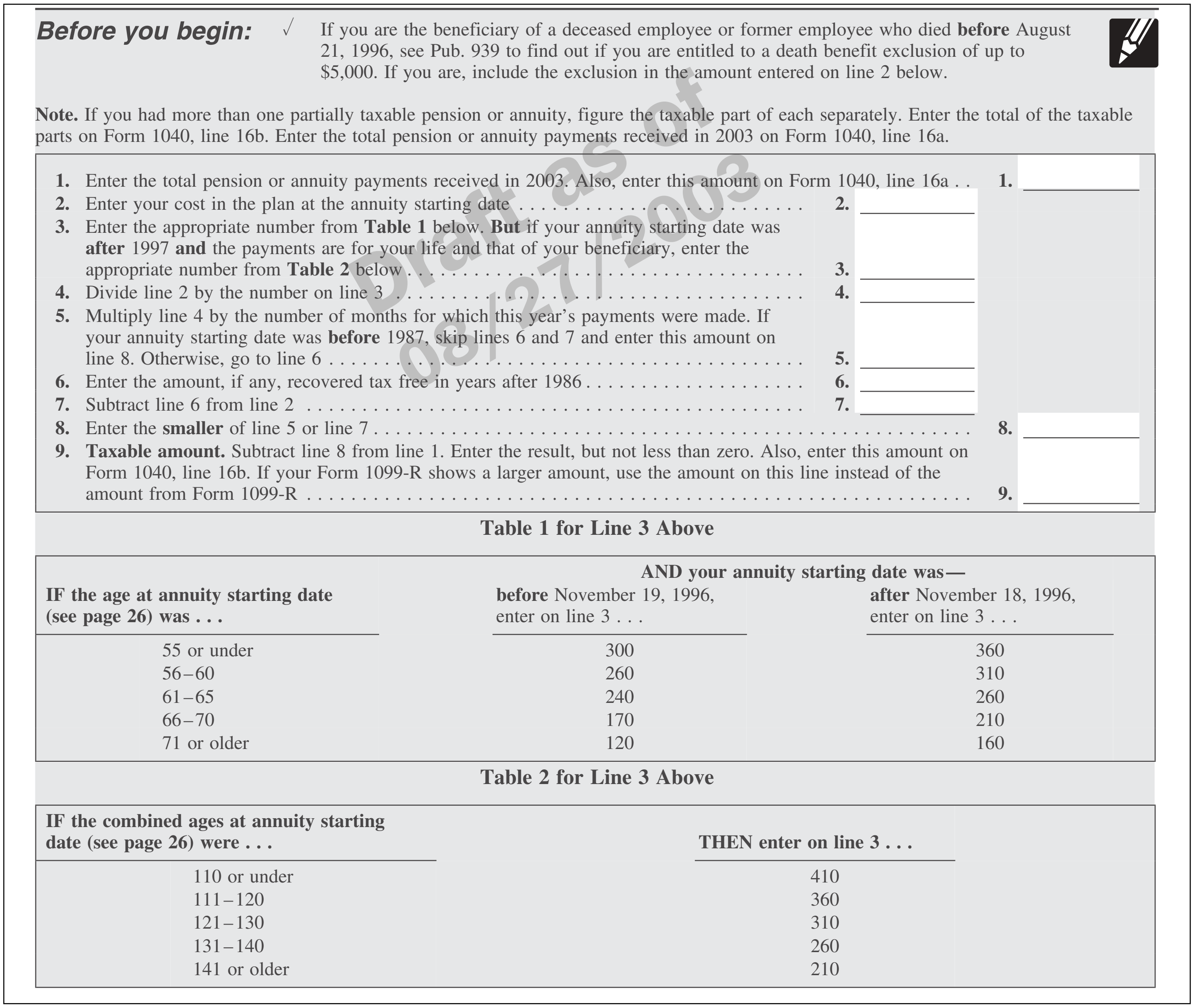
Example 3

James retired from a manufacturing plant in 2003. While he was working at the plant, his employer withheld money from each paycheck and sent it to the Engineer's Pension Fund. James will receive a monthly pension payment for the rest of his life. James will use the table at the bottom of the Simplified Method worksheet to determine the number of expected monthly payments.

To determine the taxable portion of a pension or annuity, you will use the Simplified General Rule Worksheet (see Exhibit 4). Once figured, the monthly exclusion amount remains the same even when the pension income increases.

Exhibit 4

Blank Simplified Method Worksheet



Before you begin: √ If you are the beneficiary of a deceased employee or former employee who died **before** August 21, 1996, see Pub. 939 to find out if you are entitled to a death benefit exclusion of up to $5,000. If you are, include the exclusion in the amount entered on line 2 below.

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 2003 on Form 1040, line 16a.

1. Enter the total pension or annuity payments received in 2003. Also, enter this amount on Form 1040, line 16a . . **1.** ____________

2. Enter your cost in the plan at the annuity starting date . . . . **2.** ____________

3. Enter the appropriate number from **Table 1** below. **But** if your annuity starting date was **after** 1997 **and** the payments are for your life and that of your beneficiary, enter the appropriate number from **Table 2** below . . . . **3.** ____________

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.** ____________

Table 1 for Line 3 Above

	AND your annuity starting date was—	
IF the age at annuity starting date (see page 26) was . . .	**before** November 19, 1996, enter on line 3 . . .	**after** November 18, 1996, enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

Table 2 for Line 3 Above

IF the combined ages at annuity starting date (see page 26) were . . .	**THEN enter on line 3 . . .**
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

For pensions starting after December 31, 1986, the taxpayer will exclude the nontaxable pension amount until the pension cost is recovered. Once the pension cost is recovered, the entire pension income is taxable.

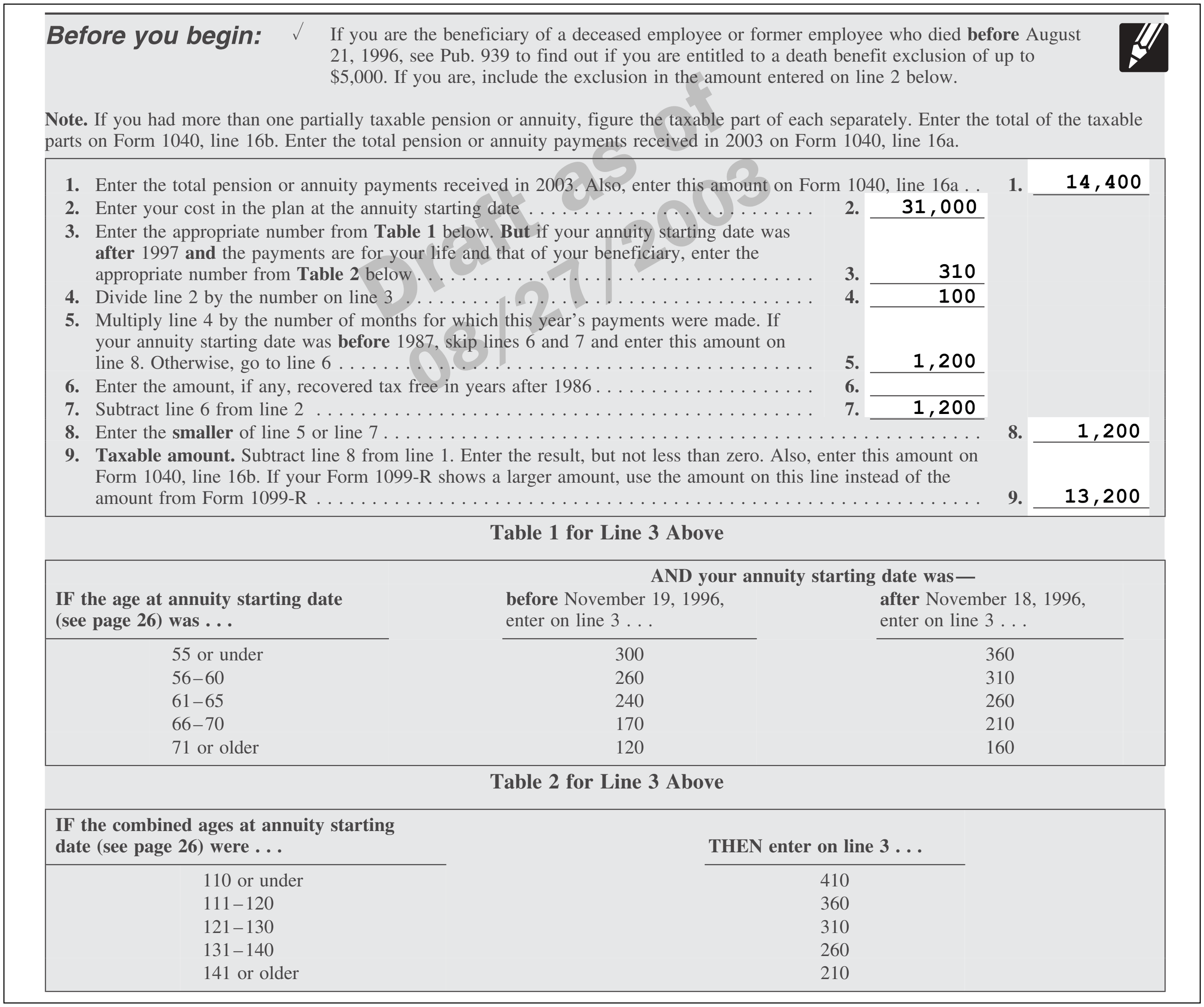
Example 4

Peter, age 65, receives retirement benefits under a joint and survivor annuity, to be paid over the joint lives of Peter and his wife, Mary, age 62. Peter's annuity starting date is January 1, 2003.

He contributed $31,000 to a qualified plan and did not receive any distributions before the annuity starting date. Peter receives monthly payments of $1,200 and his tax-free monthly amount is $100. Mary will receive monthly survivor benefits of $600 upon her husband's death.

See Exhibit 5 for a completed Simplified Method Worksheet for Peter.

Exhibit 5 Simplified Method Worksheet from Peter and Mary



Before you begin: √ If you are the beneficiary of a deceased employee or former employee who died **before** August 21, 1996, see Pub. 939 to find out if you are entitled to a death benefit exclusion of up to $5,000. If you are, include the exclusion in the amount entered on line 2 below.

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 2003 on Form 1040, line 16a.

1.	Enter the total pension or annuity payments received in 2003. Also, enter this amount on Form 1040, line 16a . .			**1.**	14,400
2.	Enter your cost in the plan at the annuity starting date	**2.**	31,000		
3.	Enter the appropriate number from **Table 1** below. **But** if your annuity starting date was **after** 1997 **and** the payments are for your life and that of your beneficiary, enter the appropriate number from **Table 2** below	**3.**	310		
4.	Divide line 2 by the number on line 3	**4.**	100		
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.**	1,200		
6.	Enter the amount, if any, recovered tax free in years after 1986	**6.**			
7.	Subtract line 6 from line 2	**7.**	1,200		
8.	Enter the **smaller** of line 5 or line 7			**8.**	1,200
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.**	13,200

Table 1 for Line 3 Above

	AND your annuity starting date was—	
IF the age at annuity starting date (see page 26) was . . .	**before** November 19, 1996, enter on line 3 . . .	**after** November 18, 1996, enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

Table 2 for Line 3 Above

IF the combined ages at annuity starting date (see page 26) were . . .	**THEN enter on line 3 . . .**
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

We use the Simplified Method for Peter because his annuity starting date is after November 18, 1986, and the payments are from a qualified plan. In addition, because his annuity starting date is after December 31, 1997, and his annuity is payable over the lives of more than one annuitant, you must combine his age with his wife's age in completing line 3 of the worksheet.

After Peter has excluded a total of $31,000 the rest of his retirement benefits will be fully taxable.

Because this is a joint and survivor annuity, if Peter dies before recovering all of the pension cost, his wife will also exclude $100 from her $600 monthly payment until the pension cost is fully recovered. If she dies before recovering all of the pension cost, the remaining unrecovered cost will be deducted on her final income tax return as a miscellaneous itemized deduction on Schedule A (Form 1040) (not subject to the 2-percent of adjusted-gross-income limitation).

Exercise 5

George, age 65, began receiving pension income under a joint and survivor annuity. George's annuity starting date is January 1, 2003. George had contributed $26,000 to a qualified plan and had received no distribution before 2003. George is to receive a monthly retirement benefit of $1,000 and his wife, age 66, is to receive a monthly survivor benefit of $500 upon George's death.

Complete the Simplified Method Worksheet for George.

Exhibit 6 George's Simplified Method Worksheet

Before you begin: √ If you are the beneficiary of a deceased employee or former employee who died **before** August 21, 1996, see Pub. 939 to find out if you are entitled to a death benefit exclusion of up to $5,000. If you are, include the exclusion in the amount entered on line 2 below.

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 2003 on Form 1040, line 16a.

1. Enter the total pension or annuity payments received in 2003. Also, enter this amount on Form 1040, line 16a . . **1.** ____________

2. Enter your cost in the plan at the annuity starting date . . . . **2.** ____________

3. Enter the appropriate number from **Table 1** below. **But** if your annuity starting date was **after** 1997 **and** the payments are for your life and that of your beneficiary, enter the appropriate number from **Table 2** below . . . . **3.** ____________

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.** ____________

Table 1 for Line 3 Above

IF the age at annuity starting date (see page 26) was . . .	**AND your annuity starting date was—**	
	before November 19, 1996, enter on line 3 . . .	**after** November 18, 1996, enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

Table 2 for Line 3 Above

IF the combined ages at annuity starting date (see page 26) were . . .	**THEN enter on line 3 . . .**
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

Exercise 6

Gustav retired in 2003 at the age of 63. He has never been married. He paid in to his pension with after tax dollars, so part of his pension payments will not be taxable. How many months of life expectancy will you use when you determine the taxable portion of his pension? ______________________________________

____

Individual Retirement Arrangement

A taxpayer establishes an **individual retirement arrangement (IRA)** and makes ***contributions*** to it through a bank, credit union, brokerage, or other entity approved by the IRS. Earnings and gains generally accumulate tax free until they are withdrawn as taxable, non-taxable or partly taxable ***distributions***.

There are four kinds of IRAs, each of which offer tax advantages.

Traditional IRA

If the taxpayer made **nondeductible** contributions into the IRA, he or she need not pay income tax on those contributions again when receiving them later as part of a distribution from the traditional IRA.

If the taxpayer made nondeductible contributions to a traditional IRA he or she has a cost basis (investment in the contract) equal to the amount of those contributions. The nondeductible contributions are not taxed when they are distributed. They are a return of investment.

Form 8606, *Nondeductible IRAs*, must be completed and attached to the return if the taxpayer received a distribution from a traditional IRA and he or she has ever made a nondeductible contribution to any traditional IRAs.

The taxpayer cannot withdraw only nondeductible contributions from a traditional IRA; if there have been any earnings or gains on contributions or deductible contributions have been made to any traditional IRA, part of each distribution will be taxable.

Example 5

Tyrone contributed $500 a year to a traditional IRA. Each year he deducted his traditional IRA contribution from his income. This year he received his first distribution from the traditional IRA. It is fully taxable. Tyrone will pay income tax on the distributions he receives which represent the contributions he made and deducted as well as the money the contributions have earned over the years.

Example 6

Dorothy contributed $750 a year to a traditional IRA. She did not qualify to deduct her contributions from her income. This year she received her first distribution from the traditional IRA. She will pay income tax only on the part of the distribution from the traditional IRA that represents earnings on the contributions. She will use Form 8606, Nondeductible IRAs to determine the taxable portion of her distribution.

Savings Incentive Match Plans for Employees (SIMPLE) IRA

Some employers offer their employees, including a self employed individual, the chance to contribute part of their pay to an IRA as part of a SIMPLE plan. The employer is also generally required to make contributions on behalf of eligible employees. The employee is not currently taxed on his or her contributions when they are paid into the IRA. Distributions from a SIMPLE IRA are generally fully taxable.

Simplified Employee Pension (SEP) IRA

Some employers offer their employees the chance to take part in a SEP. Self employed people also can establish a SEP-IRA for themselves. Generally, SEP-IRA contributions are not included in an employee's income when paid into the IRA. Distributions are generally fully taxable when the employee receives them in later years.

Roth IRA

Contributions to a Roth IRA are not deductible. Distributions from a Roth IRA are tax free if they meet certain conditions, even if they represent earnings that accumulated in the Roth IRA. For the distribution of earnings to be excluded from income, the following requirements must be met:

1. The distribution is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for the taxpayer's benefit, and
2. The distribution is:
   a) Made on or after age 59 1/2,
   b) made becasue the taxpayer was disabled,
   c) made to a beneficiary or to an estate, or
   d) to pay certain qualified first-time homebuyer amounts.

Social Security Benefits

Social security benefits are reported to the taxpayer on Form SSA-1099, *Social Security Benefit Statement*. Part of the social security benefits or Part of the social security equivalent portion of tier 1 railroad retirement benefits a taxpayer receives may be taxable. The taxable amount, if any, depends upon the rest of the taxpayer's income and filing status.

Generally, if Social Security benefits were the taxpayers only source of income, the benefits are not taxable and the taxpayer probably does not need to file a federal income tax return. If the taxpayer received Social Security benefits plus other income, the answer to how much, if any, is taxable can be found by completing the Social Security Benefits Worksheet.

The *Social Security Benefits Worksheet* is found in the instruction booklets for Forms 1040 and 1040A. The worksheet is also available on tax software packages. If you are using Taxwise you will not need to complete the worksheet. The software will calculate the taxable portion of the benefits. The worksheet is used to figure the taxable portion of benefits received. Some of the benefits received are taxable if total income, plus one-half of the benefits received, is more than certain **base amounts**. The current base income amounts are:

- $32,000 if married and filing a joint return
- $25,000 if taxpayer is filing as single, head of household, or qualifying widow(er) with dependent child
- $25,000 if married but filing separately, and the taxpayer **did not** live with his or her spouse at any time during 2003
- $0 if married filing separately, and the taxpayer **did** live with his or her spouse at any time during 2003

The taxable amount of benefits received is figured using the worksheet provided in the instruction booklets for Forms 1040and 1040A. The amount in box 5, Net benefits for 2003, is entered on a worksheet to figure if any of the benefits are taxable. Net benefits are the gross benefits less any repayments made by the taxpayer in the tax year. Make sure you enter only the amount from box 5 of Form SSA-1099 on line 1 of the worksheet or on the tax preparation software.

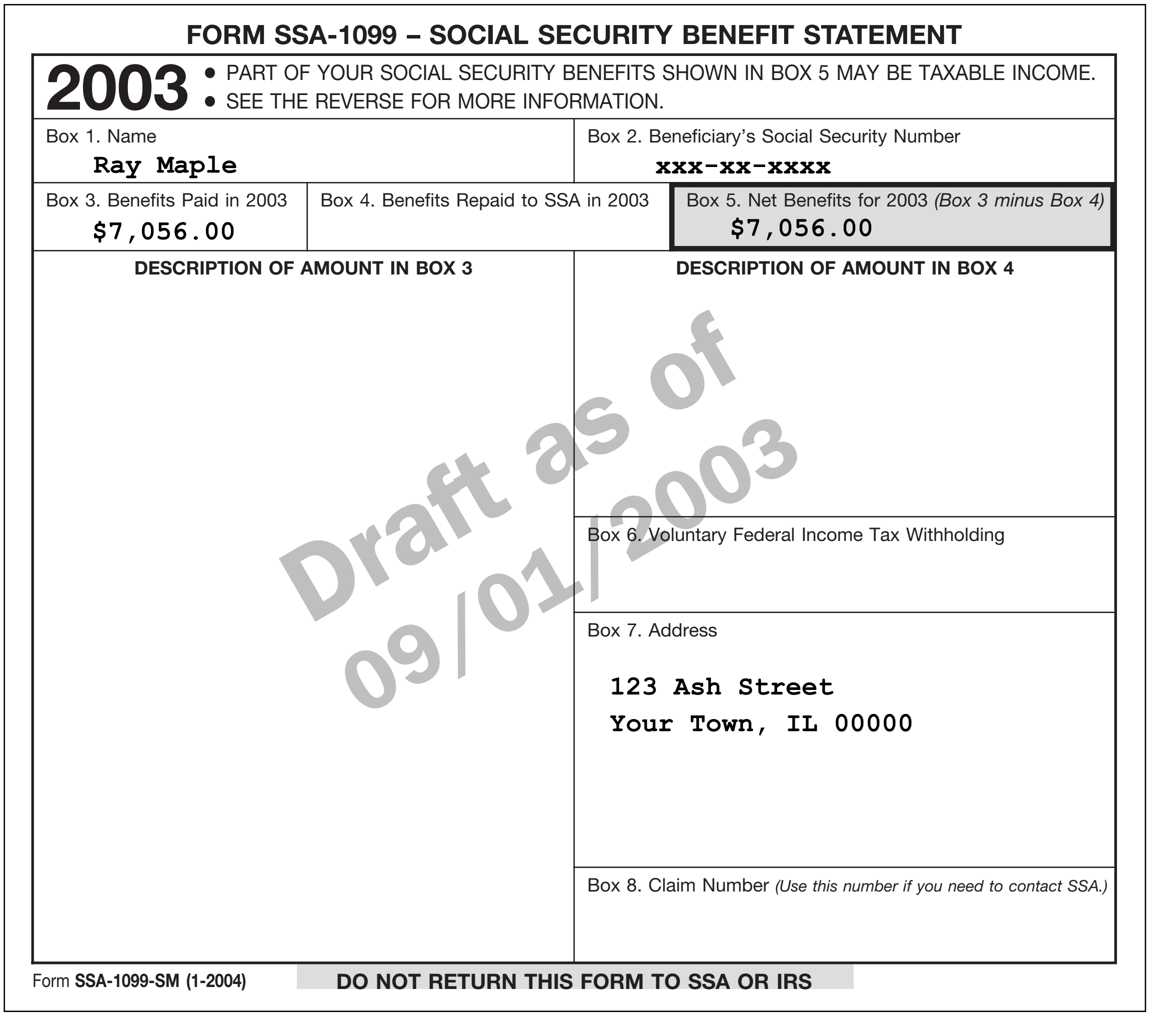
Example 7

Ray and Susan are married and file a joint Form 1040. Ray is retired and receives a fully taxable pension of $12,000 (Form 1040, line 16b). Ray received a $3,000 short-term capital gain from the sale of stock.

Ray also receives social security benefits. His Form SSA-1099 is shown in Exhibit 7. Susan worked and earned wages of $21,000 (Form 1040, line 7) in 2003. She also contributed $560 to her traditional IRA (Form 1040, line 23). Susan is not covered at work by a pension plan.

Ray and Susan's completed *Social Security Benefits Worksheet* is shown in Exhibit 8.

Exhibit 7 Ray's Form SSA-1099



FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT

2003
- PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME.
- SEE THE REVERSE FOR MORE INFORMATION.

Box 1. Name: Ray Maple

Box 2. Beneficiary's Social Security Number: xxx-xx-xxxx

Box 3. Benefits Paid in 2003: $7,056.00

Box 4. Benefits Repaid to SSA in 2003:

Box 5. Net Benefits for 2003 *(Box 3 minus Box 4)*: $7,056.00

DESCRIPTION OF AMOUNT IN BOX 3

DESCRIPTION OF AMOUNT IN BOX 4

Box 6. Voluntary Federal Income Tax Withholding

Box 7. Address

123 Ash Street
Your Town, IL 00000

Box 8. Claim Number *(Use this number if you need to contact SSA.)*

Form **SSA-1099-SM (1-2004)** **DO NOT RETURN THIS FORM TO SSA OR IRS**

Exhibit 8

Ray and Susan's Social Security Benefits Worksheet

Before you begin:

- √ Complete Form 1040, lines 21, 23, 24, and 27 through 32a, if they apply to you.
- √ Figure any amount to be entered on the dotted line next to line 33 (see page 32.)
- √ If you are married filing separately and you **lived apart** from your spouse for all of 2003, enter "D" to the right of the word "benefits" on line 20a.
- √ Be sure you have read the **Exception** on page 26 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.

1. Enter the total amount from **box 5** of **all** your **Forms SSA-1099** and **Forms RRB-1099** **1.** 7,056

2. Enter one-half of line 1 . . . . **2.** 3,528

3. Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 12, 13a, 14, 15b, 16b, 17 through 19, and 21. Do not include amounts from box 5 of Forms SSA-1099 or RRB-1099 . . . . **3.** 36,000

4. Enter the amount, if any, from Form 1040, line 8b . . . . **4.**

5. Add lines 2, 3, and 4 . . . . **5.** 39,528

6. Enter the total of the amounts from Form 1040, lines 23, 24, and 27 through 32a, plus any amount you entered on the dotted line next to line 33 . . . . **6.** 560

7. Is the amount on line 6 less than the amount on line 5?

☐ **No.** STOP None of your social security benefits are taxable.

☑ **Yes.** Subtract line 6 from line 5 . . . . **7.** 38,968

8. If you are:

- ✔ Married filing jointly, enter $32,000
- Single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2003, enter $25,000
- Married filing separately and you lived with your spouse at any time in 2003, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17

. . . . **8.** 32,000

9. Is the amount on line 8 less than the amount on line 7?

☐ **No.** STOP None of your social security benefits are taxable. You do not have to enter any amounts on lines 20a or 20b of Form 1040. **But** if you are married filing separately and you **lived apart** from your spouse for all of 2003, enter -0- on line 20b. Be sure you entered "D" to the right of the word "benefits" on line 20a.

☑ **Yes.** Subtract line 8 from line 7 . . . . **9.** 6,968

10. Enter: $12,000 if married filing jointly; $9,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2003 **10.** 12,000

11. Subtract line 10 from line 9. If zero or less, enter -0- **11.** 0

12. Enter the **smaller** of line 9 or line 10 . . . . **12.** 6,968

13. Enter one-half of line 12 . . . . **13.** 3,484

14. Enter the **smaller** of line 2 or line 13 . . . . **14.** 3,484

15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- **15.** 0

16. Add lines 14 and 15 . . . . **16.** 3,484

17. Multiply line 1 by 85% (.85) **17.** 5,998

18. **Taxable social security benefits.** Enter the **smaller** of line 16 or line 17 . . . . **18.** 3,484

- Enter the amount from line 1 above on Form 1040, line 20a.
- ✔ Enter the amount from line 18 above on Form 1040, line 20b.

TIP If part of your benefits are taxable for 2003 **and** they include benefits paid in 2003 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

Exercise 7

Jules and Olga are both over 65 and they both received Social Security benefits. They will file a joint return. They had $2,093 of tax-exempt interest income. Do you need to include this amount on the Social Security benefits worksheet ? ____________________

____

Example 8

Anne and her son, Tony, both receive survivor social security benefits. Anne receives a benefit check for $400 each month.

A portion of these benefits belongs to Tony. He was sent a Form SSA-1099, which showed $1,800 of net benefits received. Tony also had $4,000 income from a summer job and some interest income. When you prepare his tax return, you would complete a *Social Security Benefits Worksheet* for Tony to figure if any of his social security benefits are taxable.

When you complete Anne's tax return, you would include only the $3,000 of her social security benefits on her worksheet to figure if any of her benefits are taxable.

Exercise 8

Antoinette's husband was killed by a drunk driver. He was only 34 and he left behind three young children in addition to his wife. Each of the three kids will receive Social Security benefits until they turn 18. Antoinette does not receive a survivor's benefit for herself. Since Antoinette will claim the children on her return, should she include the children's Social Security benefits on her return? ____

If the taxpayer files a joint return, you must combine the income and benefits of both spouses when completing the worksheet. Even if the spouse received no social security benefits, include the spouse's other income when completing the worksheet. If both spouses received benefits, combine both their benefits and income, and complete only one worksheet.

Example 9

Wanda and Dan are both retired and they file a joint return. Wanda received a Form SSA-1099 with an amount of $4,300 appearing in box 5. Dan retired from the railroad, and box 5 of his Form RRB-1099 shows an amount of $6,800. Wanda and Dan will use benefits of $11,100 and only one worksheet to figure if any of their benefits are taxable.

Disability Pension Income

Generally, a taxpayer who retires on disability must include all of his or her disability payments in income. Disability payments are taxed as wages until the taxpayer reaches the minimum retirement age set by the employer. After the taxpayer reaches the minimum retirement age, disability payments are treated as pension income. Minimum retirement age is generally the earliest age at which the taxpayer may receive a pension whether or not disabled.

(Some taxpayers with retirement income may be eligible for the credit for the elderly or the disabled. See Lesson 14 for more information.)

REPORTING THE RETIREMENT INCOME

Reporting Pension Income

Total pension income is entered on Form 1040, line 16a, or Form 1040A, line 12a. The taxable part is entered on Form 1040, line 16b, or on Form 1040A, line 12b. If the pension is fully taxable, enter it on Form 1040, line 16b, or Form 1040A, line 12b and leave Form 1040, line 16a, or Form 1040A, line 12a, blank. Social Security benefits and IRA distributions are not reported on the pension line of the tax return. Later in this lesson, you will learn where to report these payments. If the taxpayer has more than one pension or annuity that is not fully taxable, figure the taxable part of each separately. Enter only totals on the proper lines of Form 1040 and Form 1040A. If you are using tax preparation software, the totals will be computed for you and placed on the appropriate lines, if you correctly enter all of the information from the 1099 forms.

When the taxpayer has more than one pension or annuity, and you are preparing the return by hand, use a separate piece of paper as a worksheet to group together detailed information. Only the summary information is entered on Form 1040 or Form 1040A. The worksheet should be kept for future reference.

Be sure to add the amounts shown on all Forms 1099-R as federal income tax withheld and enter the total on Form 1040, line 62, or on Form 1040A, line 39. The omission of pension withholding is a frequent error that results in an incorrect amount owed or refunded (and an unhappy taxpayer).

Exercise 9

Verna comes to you for help with her tax return. She tells you that she worked for 17 years in a factory and then she worked for 22 years in a state job. She opens up a big brown envelope and takes out many pieces of paper. After you help her sort through the papers, you determine that she had the follwing income:

- Form 1099INT for Interest on her savings - $3,951
- Form 1099INT for Interest on her checking - $504
- Form 1099INT for Interest on her CDs - $1,832
- Form 1099R for Pension from her Factory employer - $2,637 (fully taxable)
- Form 1099R for IRA distribution - $1,030 (fully taxable)
- Form 1099R for Pension from her state employer - $17,044 (she has been getting this for several years and she shows you the simplified general rule worksheet that indicates that $219 of each monthly payment is non-taxable).
- Form SSA1099 with an amount of $3,692 in box 5.

She also had receipts for medical bills, prescriptions, real estate taxes and contributions. They totaled $3,904.

What amount should you enter on lines 12 a and 12b of Verna's form 1040A? ______________________________

DISABILITY REPORTING

An employer may report disability income on Form W-2, *Wage and Tax Statement*. However, an employer may also report disability income on Form 1099-R, *Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc*. Enter disability income reported on Form W-2 on line 7 of either Form 1040 or Form 1040A.

If the employer reports disability income on Form 1099-R, Box 2a shows the taxable amount. Check to see if Box 7 (Distribution Code) shows the code number 3 (Disability). If Box 7 indicates that the taxpayer is receiving disability payments, then determine if the taxpayer has reached the minimum retirement age.

1. Until the taxpayer reaches the minimum retirement age, report the disability income as wages on line 7 of Form 1040 or Form 1040A.

2. After the taxpayer has reached the minimum retirement age, report the disability income as a taxable pension. If the disability payments are partially taxable, use lines 16a and 16b (Form 1040) or lines 12a and 12b (Form 1040A). If the payments are fully taxable, enter the taxable amount on line 16b or line 12b; do not make an entry on line 16a or line 12a.

Exercise 10

Annie Jo is 47 years old and she tells you that she has retired on disability from her job. She used to load cargo for a tractor-trailer company, but a large box fell on her and left her paralyzed. She receives a monthly payment from her former employer's pension plan. She has not reached the minimum retirement age set by her company's pension plan. Where should you report her disability income? ____

Reporting Social Security Benefits

Report taxable social security benefits on Form 1040, line 20b, or Form 1040A, line 14b. Complete the other income and adjustment items on page 1 of Form 1040 or Form 1040A before you use the *Social Security Benefits Worksheet*. Then complete the other lines of the worksheet to figure if any of the benefits are taxable.

If the worksheet shows that no benefits are taxable, leave the line blank for social security benefits on Form 1040 or Form 1040A. Then total page 1 and complete the remainder of the tax return. If you determine that any benefits are taxable, complete line 20 of Form 1040 or line 14 of Form 1040A.

Enter the social security benefits received on Form 1040, line 20a, and enter the taxable portion (from line 18 of the worksheet) on line 20b. On Form 1040A, enter the benefits received on line 14a, and enter the taxable portion of benefits on line 14b.

The taxable portion of social security benefits is never more than 85 percent of the net benefits the taxpayer has received. In many cases, the taxable portion is less than 50 percent.

Exercise 11

Hank comes to your site for some help with his tax return. He is really upset because his neighbor told him that he would have to pay tax on all of his Social Security benefits this year. After talking to Hank, you learn that his wife died in 2002 and that he decided to sell his farm and move into senior housing in 2003. The sale of the farm created $31,896 of taxable income for Hank. His neighbor told him that with that much income, the entire $11,724 of his Social Security benefits would be taxable. What is the maximum taxable amount of Hank's benefits? ______________

____

Reporting IRA Distributions

IRA distributions are reported on Form 1099-R, *Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc*.

Traditional IRA, SIMPLE IRA, or SEP-IRA: Box 7 of Form 1099-R shows "7" as the distribution code for a normal distribution, and the box "IRA/SEP/SIMPLE" is checked. Ask the taxpayer whether he or she deducted all traditional IRA contributions from income in the year they were made. If so, the entire distribution is taxable. Report it on Form 1040A, lines 11a and 11b, or on Form 1040, lines 15a and 15b. Distributions from a SIMPLE IRA and from a SEP-IRA are generally fully taxable.

Exercise 12

Steve and Sally need you to help them with their taxes. They have done most of the work, but they are not sure what to put on lines 11a, 11b, 12a and 12b of their Form 1040A. You look at the 1099R forms that they have brought with them and you make the following observations:

- ABC Pension - fully taxable - $4,382
- XYZ Pension - partially taxable - Gross amount = $9,202, Taxable portion = $7,834
- Sally's IRA withdrawal - fully taxable - $3,809
- Steve's IRA withdrawal - partially taxable - Gross amount = $4,800, Taxable mount $4,193

What amount should Steve and Sally put on:

Line 11a ______________
Line 11b ______________
Line 12a ______________
Line 12b ______________

Premature Distributions

Most distributions (both periodic and lump-sum) from qualified retirement plans made before the taxpayer has reached age 59 1/2 are subject to an additional tax of 10%. The tax applies to the taxable portion of the distribution or payment. Certain early distributions are excepted for the early distribution tax. If the distribution code in box 7 of Form 1099R is 2, 3, or 4, the taxpayer does not have to pay the additional tax. If the Form 1099R shows a code 1 in box 7 you may need to complete Form 5329 to determine the additional tax on the distribution. However, if the taxpayer does not meet one of the exceptions to the additional tax (as noted on Form 5329), you can just enter 10% of the distribution on line 57 of Form 1040.

Lump-sum Distributions

A **lump-sum distribution** is the distribution or payment within one tax year of an employee's entire balance (less deductible voluntary employee contributions and certain amounts forfeited or subject to forfeiture) from all qualified pension, stock bonus, or profit-sharing plans that the employer maintains. To qualify as a lump-sum distribution, the payment must have been made:

- Because the plan participant died, or
- After the participant reached age 59 1/2, or
- Because the participant (not including a self-employed individual) separated from service with the employer, or
- After the participant, if a self-employed individual, becomes totally and permanently disabled.

Lump-sum distributions are reported on Form 1099-R like any other pension distribution. Some lump-sum distributions qualify for special tax treatments. Code A in box 7 of the 1099-R indicates that it is a lump-sum distribution and it qualifies for special tax treatments such as:

- Distributions allocable to pre-1974 participation being taxed at a special rate (there will be an amount in box 3 of Form 1099-R) (The part after 1973 is ordinary income)
- Ten-year tax option of the distributions
- Tax-free rollover of the distribution into an Individual Retirement Arrangement (IRA).

Minimum Distributions

Taxpayers are required to receive **minimum distributions** from qualified employee retirement plans, qualified annuity plans, deferred compensation plans, tax-sheltered annuity plans and Individual Retirement Arrangements (IRAs) other than Roth IRAs.

Distributions must begin by April 1 of the calendar year that follows the calendar year in which the taxpayer reaches age 70 1/2 or retires, if later. (For IRAs, it does not matter whether the taxpayer is employed. Distributions must begin by April 1 of the year following the calendar year in which the taxpayer reaches age 70 1/2.) Required distributions for later years must be made by December 31 of that year.

IMPORTANT! If the taxpayer does not receive the minimum distribution, an excise tax may be imposed. The tax is 50 percent of the difference between the minimum distribution and the amount actually distributed for the tax year.

Exercise 13

Helen turned 71 on March 17, 2004. She retired in 1998. She has never taken any distribution from her traditional IRA accounts. She is asking for your help, because she knows that she will have to take a distribution from the IRA this year. The bank where she has her IRA told her that she needs to take a minimum distribution of $1,479 per year. What does Helen need to do?

a) Helen only needs to take a distribution of $1,479 by 12-31-04.

b) Helen needs to take a distribution of at least $1,479 by 4-1-04 and at least another $1,479 by 12-31-04.

c) Helen needs to take a distribution of $2,958 by 12-31-04.

d) Helen does not need to take any distributions until 2005.

Lump-Sum Benefit Payments

Some taxpayers may have received a **lump-sum benefit payment** in 2003. This payment could be for both the current tax year and the prior tax year. The lump-sum payment will be included in box 3 of the Form SSA-1099 or Form RRB-1099 that the taxpayer receives.

The form will also show the year, or years, of the payment. When figuring the taxable portion of social security benefits, two options are available for lump-sum benefit payments. The first option allows the taxpayer to report the whole payment in 2003, the year it was received. When the taxpayer chooses this option, complete the *Social Security Benefits Worksheet* as usual by including the entire lump-sum payment on line 1.

The taxpayer also has the option of treating the payment as received in the earlier year or years. This is done by figuring whether any part of these benefits is taxable, based on the earlier year's income. Any part that is taxable is then added to any taxable benefits for the current year (2003) and included on Form 1040, line 20b.

If the taxpayer chooses to spread the payments back to earlier years, only 2003 income will be adjusted. The taxpayer does not file amended returns for the earlier years. However, a special procedure ***must*** be used to figure the taxable portion of the benefits assigned to the earlier years. If the taxpayer wants to use this option, refer him or her to a paid professional tax preparer or to IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*.

IRAs Withdrawal of Excess Contributions

If the taxpayer withdraws excess contributions and any earnings by the due date of the return, he or she will not be subject to an additional 6% tax on the excess contribution. The withdrawal must be completed by the due date of the tax return for that year, including extensions.

The withdrawn excess contribution is not included in the taxpayer's gross income if both of the following conditions are met.1) No deduction was allowed for the excess contribution. 2) All interest or other income earned on the excess contribution is withdrawn. However, the taxpayer must include in his or her gross income the interest or other income that was earned on the excess contribution. Report it on the return for the year in which the excess contribution was made.

The withdrawal of interest or other income may be subject to an additional 10% tax on early withdrawals. Taxpayers will receive Form 1099-R indicating the amount of the withdrawal. If the excess contribution was made in a previous tax year, the form will indicate the year in which the earnings are taxable.

In general, a taxpayer must include all withdrawals from his or her traditional IRA in gross income. However, if the total contributions to an IRA (other than rollover contributions for the year) are $3,000 or less ($3,500 or less if taxpayer is age 50 or older), and there are no employer contributions for the year, the taxpayer can withdraw any excess contribution after the due date for filing the tax return for that year, including extensions, and not include the amount withdrawn in his or her gross income.

This applies only to the part of the excess for which the taxpayer did not take a deduction. For more information on excess contributions, see Publication 590.

Pension Withholding and Estimated Tax Payments

Income tax is normally withheld from the taxable part of a pension or annuity. At the taxpayer's request, the payer of the pension or annuity can adjust the withholding amount or stop the withholding completely. Generally, Form W-4P is used to request a change in withholding on a pension. The taxpayer should complete the form and send it to the payer of the pension. The taxpayer can request withholding from their Social Security benefits by completing Form W-4V, Voluntary Wihholding Request, and filing it with the Social Security Administration.

A taxpayer who chooses not to have tax withheld may have to pay estimated tax. For more information about estimated tax or withholding, see Lesson 7 and Publication 505, *Tax Withholding and Estimated Tax*. Failure to have enough federal income tax paid in throughout the year can result in an estimated tax penalty. Also, it can result in a large amount of tax due when the return is filed. If the taxpayer owes more than $1,000 on the tax return, you should discuss their withholding and estimated tax options with them.

Exercise 14

FaithMae comes to your site to get her 2003 tax return done. When you finish her return, you explain to her that she owes $985. You tell her that she needs to pay this amount by April 15, 2004. She says that she will pay the amount, but she wants to know if there is some way to have more tax withheld from her pension so that she doesn't owe so much at the end of the year. What form should she complete to increase the withholding from her pension? Who does she give the form to? ___________________

____

Health Coverage Tax Credit

The following information is provided for awareness only. You are not expected to calculate this new credit.

The Health Coverage Tax Credit (HCTC) is a federal tax credit that was established to assist the following groups of people:

1. Workers who lose their jobs due to the effects of international trade. The worker must be eligible for either certain Trade Adjustment Assistance benefits or Alternative Trade Adjustment Assistance.
2. People who receive benefits from the Pension Benefit Guaranty Corporation (PBGC) and are at least 55 years old.

Taxpayers who are potentially eligible for this credit will be notified by mail. Shortly after the mailing, the HCTC Customer Contact Center will mail the taxpayer a packet describing the program and eligibility requirements.

For additional information on this topic, you can visit the IRS website at: *www.irs.gov*.

▶ ▶ SUMMING UP THIS LESSON ◀ ◀

Pensions or annuities may have a tax-free portion if the taxpayer made after-tax contributions to the plan.

To determine the taxable portion of the annuity payments of a taxpayer, use:

a. The Simplified Method if the taxpayer's annuity starting date is after November 18, 1996, and annuity payments are from a qualified plan. For annuity starting dates after 1997, use the annuitant's age (or combined ages if more than one annuitant) at the annuity starting date of the taxpayer(s).

b. The General Rule for annuity payments from a nonqualified plan and for certain retirees age 75 or older.

▶ Total pension or annuity income and taxable pension or annuity income are entered on Form 1040, lines 16a and 16b, or Form 1040A, lines 12a and 12b.

▶ Social security – Nontaxable or taxable To determine taxable portion of social security payments received by a taxpayer, use: Social Security Benefits Worksheet.

▶ Total social security income and taxable portion are entered on Form 1040, lines 20a and 20b, or Form 1040A, lines 14a and 14b.

▶ Federal income tax on pension, annuity and social security income can be withheld by the payer, or the taxpayer may choose to pay estimated tax.

Answers to Exercises

Exercise 1

The distribution was a “normal distribution”.

Exercise 2

No

Exercise 3

Form RRB-1099 and Form RRB 1099-R.

Exercise 4

All of it. $10,074

Exercise 5

Before you begin: √ If you are the beneficiary of a deceased employee or former employee who died **before** August 21, 1996, see Pub. 939 to find out if you are entitled to a death benefit exclusion of up to $5,000. If you are, include the exclusion in the amount entered on line 2 below.

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 2003 on Form 1040, line 16a.

1.	Enter the total pension or annuity payments received in 2003. Also, enter this amount on Form 1040, line 16a . .		**1.** 12,000
2.	Enter your cost in the plan at the annuity starting date	**2.** 26,000	
3.	Enter the appropriate number from **Table 1** below. **But** if your annuity starting date was **after** 1997 **and** the payments are for your life and that of your beneficiary, enter the appropriate number from **Table 2** below	**3.** 260	
4.	Divide line 2 by the number on line 3	**4.** 100	
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.** 1,200	
6.	Enter the amount, if any, recovered tax free in years after 1986	**6.**	
7.	Subtract line 6 from line 2	**7.** 1,200	
8.	Enter the **smaller** of line 5 or line 7		**8.** 1,200
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.** 10,800

Table 1 for Line 3 Above

IF the age at annuity starting date (see page 26) was . . .	**AND your annuity starting date was—** **before** November 19, 1996, enter on line 3 . . .	**after** November 18, 1996, enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

Table 2 for Line 3 Above

IF the combined ages at annuity starting date (see page 26) were . . .	**THEN enter on line 3 . . .**
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

Exercise 6

260 months

Exercise 7

Yes

Exercise 8

No

Exercise 9

Line 12a $19,681

Line 12b $17,053

Exercise 10

Line 7 - Wages

Exercise 11

$9,965.40   85%

Exercise 12

Line 11a $8,609

Line 11b $8,002

Line 12a $13,584

Line 12b $12,216

Exercise 13

B

Exercise 14

Form W-4P

Give to the payer of the pension.

STUDENT NOTES

THRIFT SAVINGS PLAN

INTRODUCTION AND OBJECTIVE

In the basic lesson we learned how to handle pension income, both regular and disability. In this segment we will learn about Thrift Savings Plan (TSP) that affects many military participants. The TSP is a retirement saving and investment plan that has been available to civilian employees of the Federal Government since 1987 and was made available to members of the Armed Forces in 2002. It offers participants the same type of savings and tax benefits that many private corporations offer their employees in a 401(k) type plan. The TSP allows participants to save a portion of their pay in a special retirement account administered by the Federal Retirement Thrift Investment Board. The money that participants invest in TSP comes from pre-tax dollars and reduces their current taxable income and therefore their federal income tax. Investments and earnings are not taxed until they are withdrawn.

Participation in TSP is optional. Armed Forces members must sign up with their respective service to participate in TSP. Uniformed members of the Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration serving on active duty and members of the Ready Reserve or National Guard of those services in any pay status can contribute to TSP.

At the end of this segment you will be able to:

- Determine the maximum amount a uniformed service member can contribute to TSP.
- Explain the combat zone rule for uniformed service members.
- Determine the Tax Saver's Credit for uniformed service members.

CONTRIBUTIONS

Your participation in the TSP does not affect your eligibility to contribute to an IRA.

The IRS sets annual limits on the amounts that a participant can contribute to TSP. For tax-deferred contributions, the IRS imposes an annual elective deferral limit. Law adjusts it each year to take into account increases in the cost of living. The elective deferral limit does not affect most uniformed services participants. Their contributions to the TSP are limited to 8 percent of their basic pay each pay period. For 2003, the limit is $12,000. However, participants who are also making contributions from incentive, special, or bonus pay must be aware of these limits because they can contribute all or any portion of these payments to the TSP (as long as they are also contributing from basic pay). The TSP will not accept contributions that exceed this limit, unless you are over age 50, in which case your contributions cannot exceed the sum of the elective deferral limit plus the “catch-up” contribution limit ($2,000 for 2003.)

If you are a member of the Ready Reserve and also contribute to a Federal civil service TSP account or to another qualified plan, the total tax-deferred contributions you make to all TSP plans cannot exceed the elective deferral limit. If you contribute to a civilian and uniformed services TSP account in a single calendar year, the TSP will refund to you any excess contributions to your TSP account.

In addition to the elective deferral limit, for participants who are age 50 or older there is an **IRS limit on the amount of catch-up contributions** that a participant can make. These contributions are in addition to regular (including incentive, special and bonus pay) tax-deferred contributions, and thus have their own limits that are in addition to the annual elective deferral limit. As with regular tax-deferred contributions, the combined total of catch-up contributions to all eligible plans cannot exceed the annual catch-up contribution limit.

If you contribute to two TSP accounts (civilian and uniformed services) during the year, your combined contributions to both plans cannot exceed the IRS limit. If you exceed the elective deferral limit because you made excess contributions to two TSP accounts, the TSP will notify you that the excess money will be returned to you from your uniformed services account (unless you specify otherwise) in order to reduce the effect on matching contributions.

A service members’ payroll office will deduct contributions from military pay each pay period based on the election and will remit these contributions to the TSP. Service members cannot send a check to the TSP; once the service member receives his pay, he or she cannot contribute any of it to the TSP.

Combat Zone rules.

If the service member served in a combat zone, special rules apply. Because all or part of pay earned during a month in a combat zone is tax exempt, they do not receive the benefit of tax deferral when they contribute it to the TSP. As a consequence, contributions from tax-exempt pay are not subject to the elective deferral limit.

Tax Saver’s Credit

Members, who participate in the TSP during tax years 2003 through 2006, may be eligible for a tax credit on their federal income tax return for each year they contribute to the plan. For married members who file a joint return, the maximum credit is $2,000.

For single members, the maximum credit is $1,000. However, the amount of the tax credit may be offset by any taxable distribution paid directly to them by the TSP. This benefit, called the saver's tax credit, is available to participants with an adjusted gross income of no more than $50,000 if married filing jointly, $37,500 if head of household, or $25,000 if single or married filing separately.

▶ ▶ SUMMING UP THIS SEGMENT ◀ ◀

In this segment you have learned that:

- ▶ Military members deployed to a combat zone have 180 days of additional time, to make qualified retirement contribution to an IRA, after they leave the combat zone.
- ▶ The Thrift Savings Plan is a retirement savings and investment plan that is now available to members of the Armed Forces. Service members could contribute up to 8 percent of their basic pay earned each pay period in 2003. Service members were also able to contribute all or any whole percentage of special, incentive, or bonus pay they received. The maximum amount they could contribute in 2003 was $12,000.

STUDENT NOTES

CREDIT FOR THE ELDERLY OR DISABLED

Lesson 14

INTRODUCTION AND OBJECTIVES

Although few taxpayers will qualify for this credit, we still get questions about who qualifies for the credit. Even if a taxpayer meets the basic qualifications, he or she may not have a credit due to the income limits on their nontaxable social security, veterans benefits, or other excludable pension, annuity, or disability benefit.

In this lesson, you will learn about the credit for the elderly or the disabled. After completing this lesson you should be able to:

- Determine who is a qualified individual for the "credit for the elderly or disabled"
- Apply the income limits to the qualified individual
- Calculate the credit

WHO IS A QUALIFIED INDIVIDUAL FOR THE "CREDIT FOR THE ELDERLY OR THE DISABLED"?

Elderly individuals and individuals who are permanently and totally disabled may be able to claim a special credit on their tax returns if they are a U.S. citizen or resident.

To be eligible for the credit, an individual must be:

- At least 65 years old by the end of the year, or
- Under age 65, retired on permanent and total disability by the end of the year and did not reach mandatory retirement age before this year. They must also have received taxable disability income for this year.

Although physician statements are no longer required to be attached to the return, they must be completed and kept with the taxpayer's records.

Certain work offered at qualified locations to persons with disabilities or with mental retardation is considered sheltered employment. Because a person has accepted sheltered employment is not proof of the person's ability to engage in substantial gainful activity.

Exhibit 1 helps to determine if the taxpayer is a qualified individual for this credit.

Income Limits

Taxpayers cannot exceed the income limits for their filing status (see **Exhibit 2**).

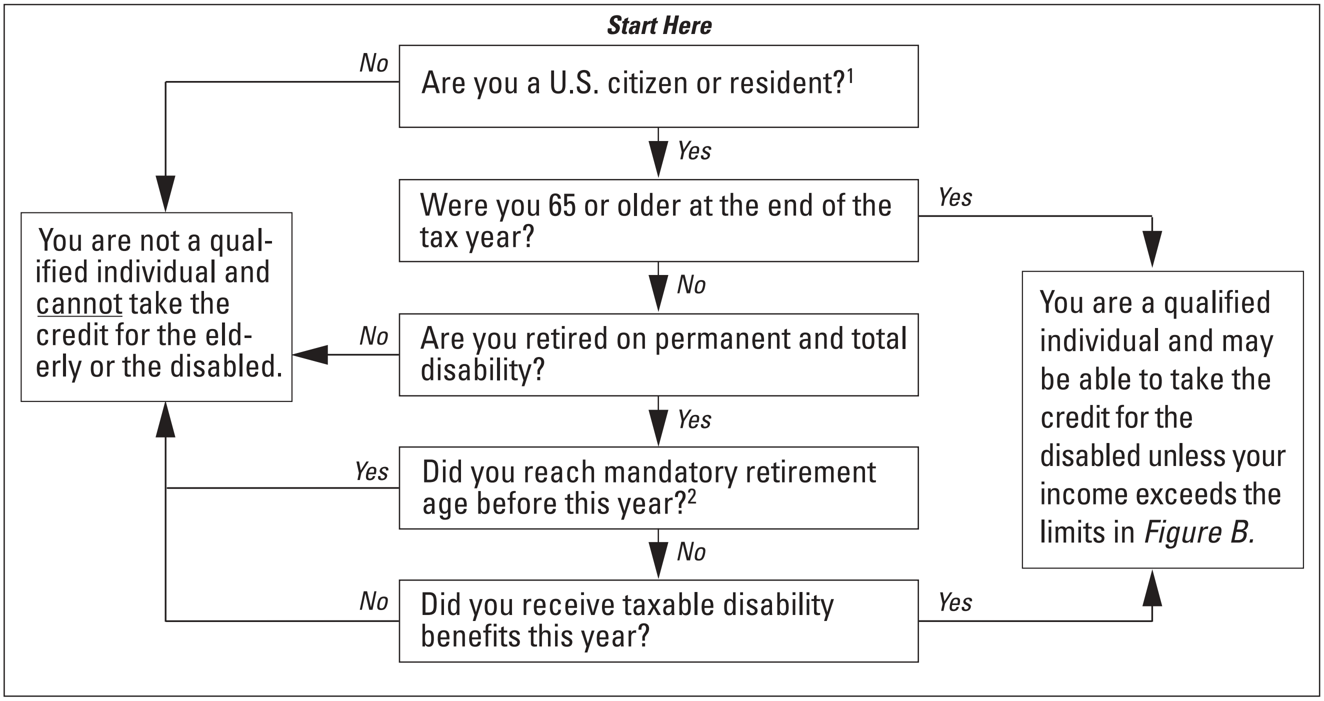
CALCULATE THE CREDIT

If the taxpayer is a qualified individual and meets the income limits, complete a Schedule 3 for 1040A filers or a Schedule R for 1040 filers. Schedule R (Form 1040) and Schedule 3 (Form 1040A) are nearly identical.

Example 1

John (000-00-9850) and Sarah Hillsdale are married and file a joint return. Their respective ages are 66 and 68. They received nontaxable social security benefits of $4,500 in 2003. They had adjusted gross income (line 35, Form 1040) of $13,000. Parts I and III of the Schedule R will be completed and the schedule attached to their Form 1040 for 2003. (Part II need not be completed since both are age 65 or older.) See Exhibits 3 and 4.

Exhibit 1 Are you a Qualified Individual?



[1] If you were a nonresident alien at any time during the tax year and were married to a U.S. citizen or resident at the end of the tax year, see U.S. citizen or resident under *Qualified individual*. If you and your spouse both choose to be treated as U.S. residents, answer yes to this question.

[2] Mandatory retirement age is the age set by your employer at which you would have been required to retire, had you not become disabled.

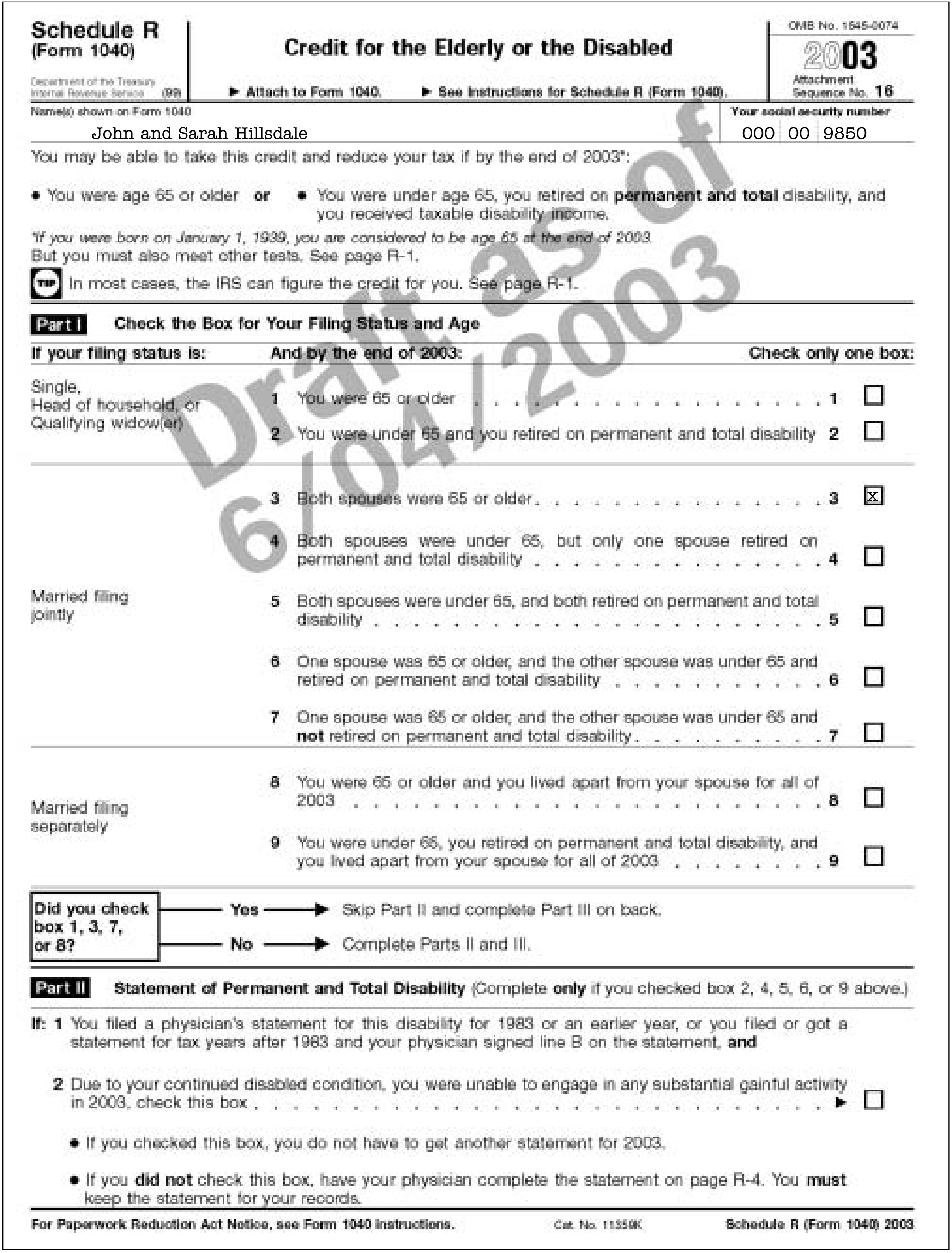
Exhibit 2 Income Limits

Even if you qualify (see Figure A), you CANNOT take the credit if:		
Your filing status is	**AND your adjusted gross income (AGI)* is equal to or more than**	**OR your nontaxable social security or other nontaxable pension(s) is equal to or more than**
Single, Head of household, or Qualifying widow(er) with dependent child	$17,500	$5,000
Married filing a joint return **and** both spouses qualify in *Figure A*	$25,000	$7,500
Married filing a joint return **and** only one spouse qualifies in *Figure A*	$20,000	$5,000
Married filing a separate return **and** you did not live with your spouse at any time during the year	$12,500	$3,750

*AGI is the amount on Form 1040A, line 21, or Form 1040, line 35.

Exhibit 3

John and Sarah Hillsdale's Schedule R, page 1



Schedule R (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Credit for the Elderly or the Disabled

▶ Attach to Form 1040. ▶ See Instructions for Schedule R (Form 1040).

OMB No. 1545-0074

2003

Attachment Sequence No. 16

Name(s) shown on Form 1040	Your social security number
John and Sarah Hillsdale	000 00 9850

You may be able to take this credit and reduce your tax if by the end of 2003*:

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

**If you were born on January 1, 1939, you are considered to be age 65 at the end of 2003.*

But you must also meet other tests. See page R-1.

TIP In most cases, the IRS can figure the credit for you. See page R-1.

Part I **Check the Box for Your Filing Status and Age**

If your filing status is:	And by the end of 2003:	Check only one box:
Single, Head of household, or Qualifying widow(er)	1 You were 65 or older 1	☐
	2 You were under 65 and you retired on permanent and total disability 2	☐
Married filing jointly	3 Both spouses were 65 or older 3	☒
	4 Both spouses were under 65, but only one spouse retired on permanent and total disability 4	☐
	5 Both spouses were under 65, and both retired on permanent and total disability 5	☐
	6 One spouse was 65 or older, and the other spouse was under 65 and retired on permanent and total disability 6	☐
	7 One spouse was 65 or older, and the other spouse was under 65 and **not** retired on permanent and total disability 7	☐
Married filing separately	8 You were 65 or older and you lived apart from your spouse for all of 2003 8	☐
	9 You were under 65, you retired on permanent and total disability, and you lived apart from your spouse for all of 2003 9	☐

Did you check box 1, 3, 7, or 8?

Yes ▶ Skip Part II and complete Part III on back.

No ▶ Complete Parts II and III.

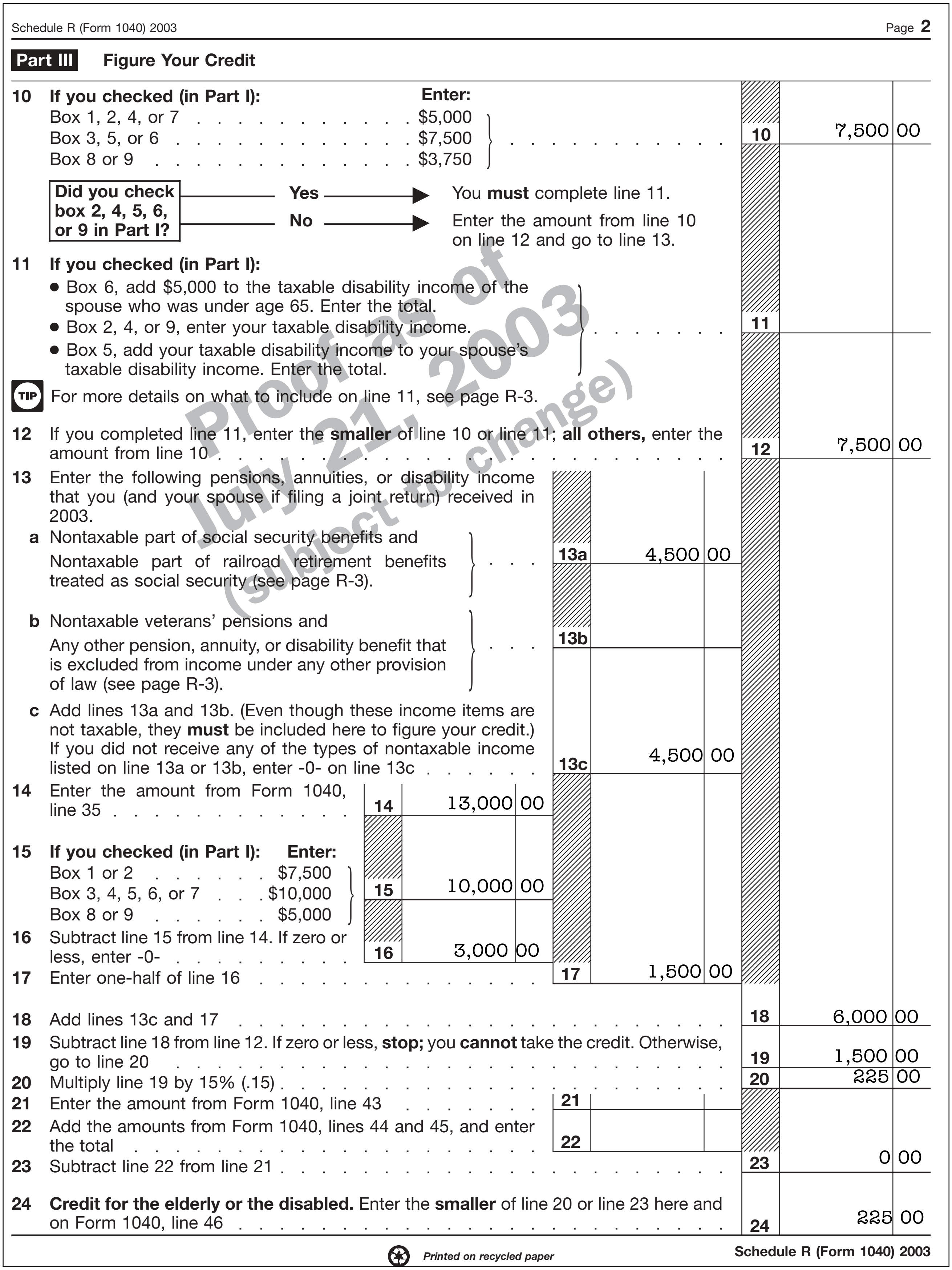
Part II **Statement of Permanent and Total Disability** (Complete **only** if you checked box 2, 4, 5, 6, or 9 above.)

If: **1** You filed a physician's statement for this disability for 1983 or an earlier year, or you filed or got a statement for tax years after 1983 and your physician signed line B on the statement, **and**

2 Due to your continued disabled condition, you were unable to engage in any substantial gainful activity in 2003, check this box . . . . ▶ ☐

- If you checked this box, you do not have to get another statement for 2003.
- If you **did not** check this box, have your physician complete the statement on page R-4. You **must** keep the statement for your records.

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11359K **Schedule R (Form 1040) 2003**



Schedule R (Form 1040) 2003 Page **2**

Part III **Figure Your Credit**

10 **If you checked (in Part I):** **Enter:**

Box 1, 2, 4, or 7 . . . . $5,000
Box 3, 5, or 6 . . . . $7,500
Box 8 or 9 . . . . $3,750

. . . . **10** 7,500 00

Did you check box 2, 4, 5, 6, or 9 in Part I?
Yes → You **must** complete line 11.
No → Enter the amount from line 10 on line 12 and go to line 13.

11 **If you checked (in Part I):**

- Box 6, add $5,000 to the taxable disability income of the spouse who was under age 65. Enter the total.
- Box 2, 4, or 9, enter your taxable disability income.
- Box 5, add your taxable disability income to your spouse's taxable disability income. Enter the total.

. . . . **11**

TIP For more details on what to include on line 11, see page R-3.

12 If you completed line 11, enter the **smaller** of line 10 or line 11; **all others,** enter the amount from line 10 . . . . **12** 7,500 00

13 Enter the following pensions, annuities, or disability income that you (and your spouse if filing a joint return) received in 2003.

a Nontaxable part of social security benefits and Nontaxable part of railroad retirement benefits treated as social security (see page R-3). . . . **13a** 4,500 00

b Nontaxable veterans' pensions and Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law (see page R-3). . . . **13b**

c Add lines 13a and 13b. (Even though these income items are not taxable, they **must** be included here to figure your credit.) If you did not receive any of the types of nontaxable income listed on line 13a or 13b, enter -0- on line 13c **13c** 4,500 00

14 Enter the amount from Form 1040, line 35 . . . . **14** 13,000 00

15 **If you checked (in Part I):** **Enter:**

Box 1 or 2 . . . . $7,500
Box 3, 4, 5, 6, or 7 . . . $10,000
Box 8 or 9 . . . . $5,000

15 10,000 00

16 Subtract line 15 from line 14. If zero or less, enter -0- **16** 3,000 00

17 Enter one-half of line 16 . . . . **17** 1,500 00

18 Add lines 13c and 17 . . . . **18** 6,000 00

19 Subtract line 18 from line 12. If zero or less, **stop;** you **cannot** take the credit. Otherwise, go to line 20 . . . . **19** 1,500 00

20 Multiply line 19 by 15% (.15) **20** 225 00

21 Enter the amount from Form 1040, line 43 . . . . **21**

22 Add the amounts from Form 1040, lines 44 and 45, and enter the total **22**

23 Subtract line 22 from line 21 . . . . **23** 0 00

24 **Credit for the elderly or the disabled.** Enter the **smaller** of line 20 or line 23 here and on Form 1040, line 46 . . . . **24** 225 00

Printed on recycled paper **Schedule R (Form 1040) 2003**

TAXWISE HINTS

The credit for the elderly will be calculated automatically. The software will check age, income, and filing status to determine eligibility. However, it is extremely important to input Social Security Benefit income even if you know it is not taxable. Without this information the software may incorrectly calculate the credit.

▶ ▶ SUMMING UP THIS LESSON ◀◀

- ▶ The credit for the elderly or disabled is a nonrefundable credit which allows a taxpayer to reduce their liability.
- ▶ Due to the income limitations, very few taxpayers are eligible to receive this credit.
- ▶ The credit is based on filing status, age, and income.
- ▶ The credit is calculated and reported on Form 1040, Schedule R, or Form 1040A, Schedule 3.

PENSION EARNER COMPREHENSIVE PROBLEMS

INTRODUCTION

In this section, you will complete tax returns for several common pension earner scenarios often encountered at volunteer assistance sites. This will be valuable practice as you prepare to help taxpayers. Although answers to each of the problems are shown at the end of this section, you should try to complete the blank forms for each problem before referring to its answers.

After completing this section, you will be able to:

- accurately complete a basic tax return with some advanced topics.

PROBLEM 1

Stuart Morehouse (born July 2, 1935) and Donna Morehouse (born December 28, 1950) are married and will file a joint tax return. Neither one wishes to contribute to the presidential campaign fund.

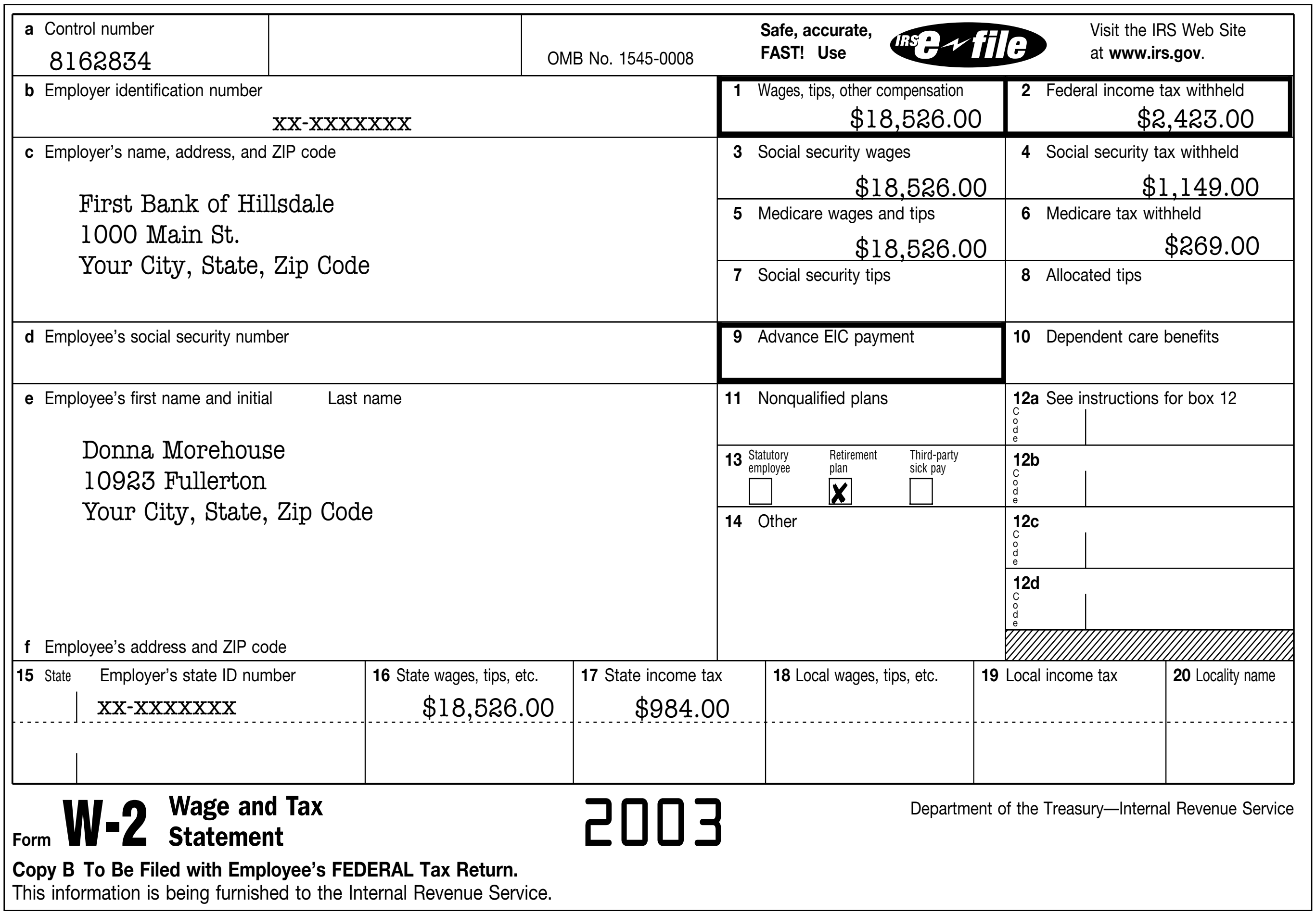
Stuart is retired and received a pension from his former employer as well as social security benefits.

Donna is a secretary and received a Form W-2. She made a $900 payment to her 2003 traditional IRA on January 15, 2004. Stuart and Donna do not want to name a third party designee.

If they are entitled to a refund they would like the check mailed to them. Their address and social security numbers are correct on their income statements.

PENSION EARNER COMPREHENSIVE PROBLEMS

2003 Form W-2, First Bank of Hillsdale



a Control number
8162834

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number
XX-XXXXXXX

c Employer's name, address, and ZIP code

First Bank of Hillsdale
1000 Main St.
Your City, State, Zip Code

d Employee's social security number

e Employee's first name and initial   Last name

Donna Morehouse
10923 Fullerton
Your City, State, Zip Code

f Employee's address and ZIP code

1 Wages, tips, other compensation: $18,526.00

2 Federal income tax withheld: $2,423.00

3 Social security wages: $18,526.00

4 Social security tax withheld: $1,149.00

5 Medicare wages and tips: $18,526.00

6 Medicare tax withheld: $269.00

7 Social security tips

8 Allocated tips

9 Advance EIC payment

10 Dependent care benefits

11 Nonqualified plans

12a See instructions for box 12 — Code

13 ☐ Statutory employee ☒ Retirement plan ☐ Third-party sick pay

12b Code

14 Other

12c Code

12d Code

15 State	Employer's state ID number	**16** State wages, tips, etc.	**17** State income tax	**18** Local wages, tips, etc.	**19** Local income tax	**20** Locality name
	XX-XXXXXXX	$18,526.00	$984.00			

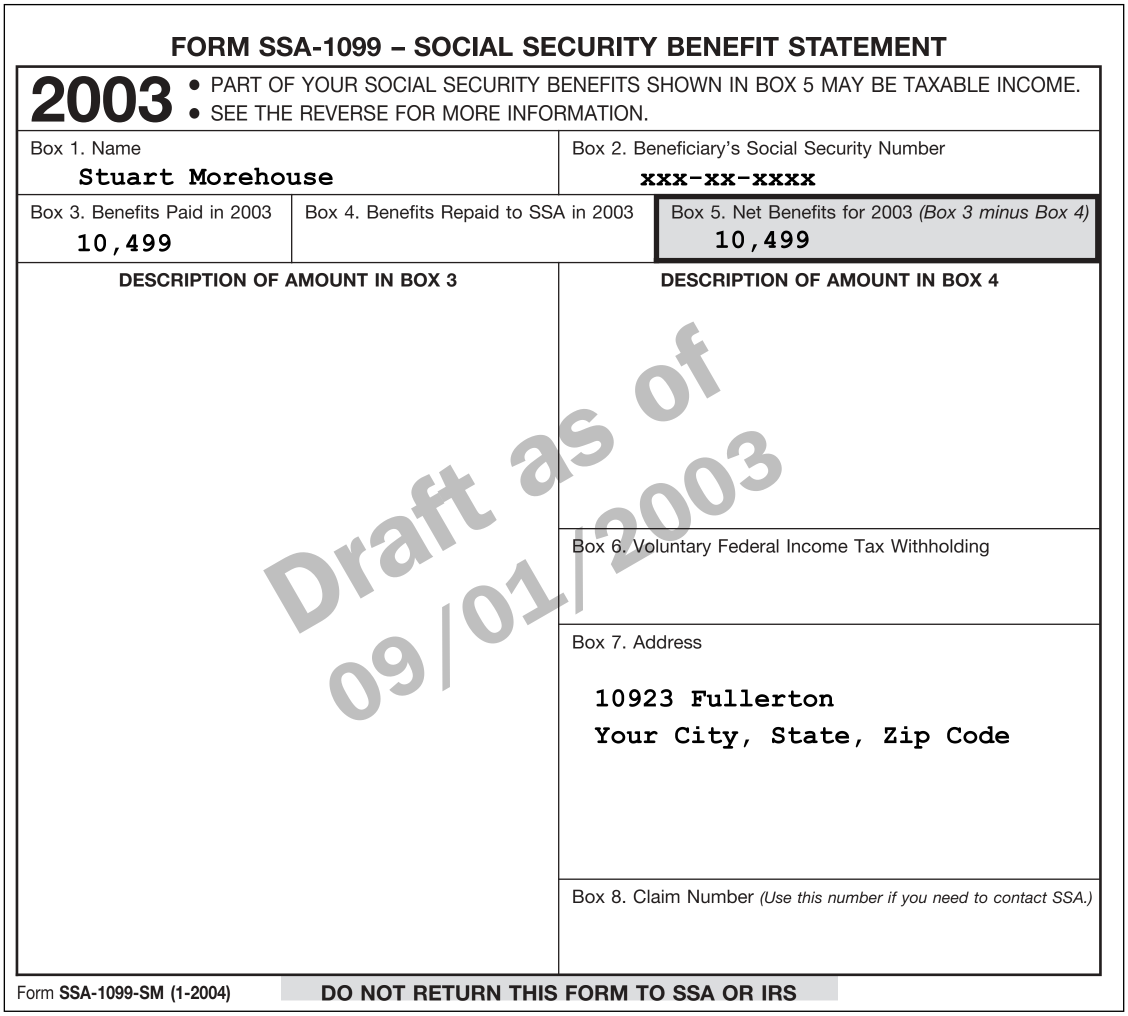
Form **W-2** **Wage and Tax Statement** 2003

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

PENSION EARNER COMPREHENSIVE PROBLEMS

Form 1099, Social Security Benefit Statement



FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT

2003
- PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME.
- SEE THE REVERSE FOR MORE INFORMATION.

Box 1. Name Stuart Morehouse		Box 2. Beneficiary's Social Security Number xxx-xx-xxxx
Box 3. Benefits Paid in 2003 10,499	Box 4. Benefits Repaid to SSA in 2003	Box 5. Net Benefits for 2003 *(Box 3 minus Box 4)* 10,499

DESCRIPTION OF AMOUNT IN BOX 3

DESCRIPTION OF AMOUNT IN BOX 4

Box 6. Voluntary Federal Income Tax Withholding

Box 7. Address

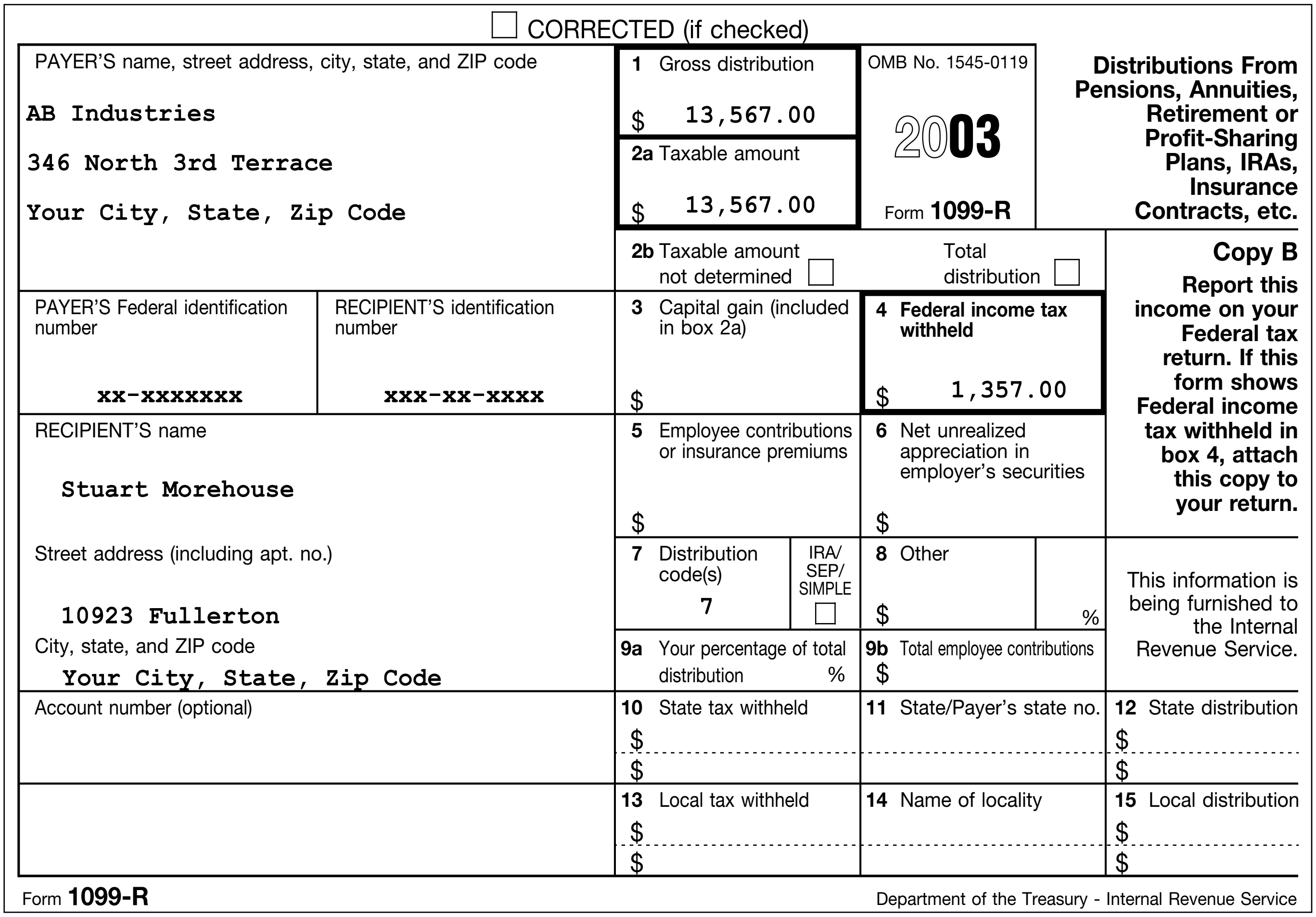
10923 Fullerton
Your City, State, Zip Code

Box 8. Claim Number *(Use this number if you need to contact SSA.)*

Form **SSA-1099-SM (1-2004)** **DO NOT RETURN THIS FORM TO SSA OR IRS**

PENSION EARNER COMPREHENSIVE PROBLEMS

2003 Form 1099-R, AB Industries



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code

AB Industries
346 North 3rd Terrace
Your City, State, Zip Code

1 Gross distribution $ 13,567.00

2a Taxable amount $ 13,567.00

OMB No. 1545-0119

2003

Form **1099-R**

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2b Taxable amount not determined ☐ Total distribution ☐

Copy B

Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.

PAYER'S Federal identification number: xx-xxxxxxx

RECIPIENT'S identification number: xxx-xx-xxxx

3 Capital gain (included in box 2a) $

4 Federal income tax withheld $ 1,357.00

RECIPIENT'S name: Stuart Morehouse

5 Employee contributions or insurance premiums $

6 Net unrealized appreciation in employer's securities $

Street address (including apt. no.): 10923 Fullerton

City, state, and ZIP code: Your City, State, Zip Code

7 Distribution code(s): 7

IRA/ SEP/ SIMPLE ☐

8 Other $ %

This information is being furnished to the Internal Revenue Service.

9a Your percentage of total distribution %

9b Total employee contributions $

Account number (optional)

10 State tax withheld $ / $

11 State/Payer's state no.

12 State distribution $ / $

13 Local tax withheld $ / $

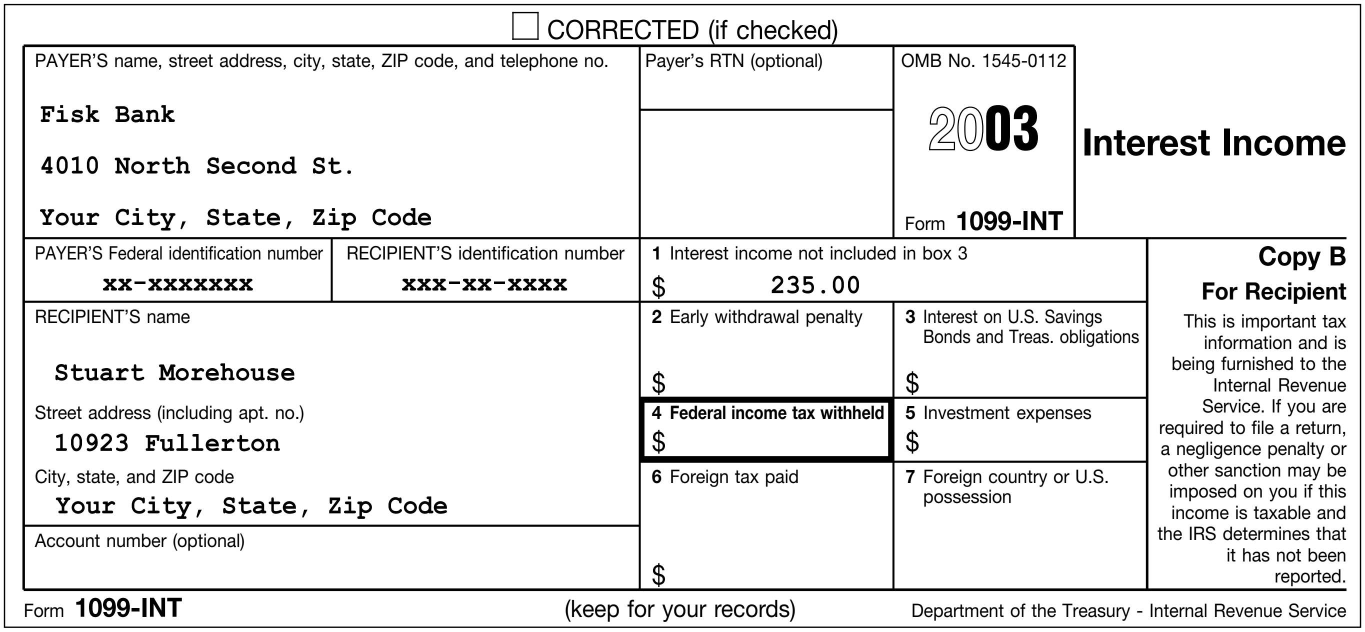
14 Name of locality

15 Local distribution $ / $

Form **1099-R** Department of the Treasury - Internal Revenue Service

PENSION EARNER COMPREHENSIVE PROBLEMS

2003 Form 1099-INT, Fisk Bank



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

Fisk Bank
4010 North Second St.
Your City, State, Zip Code

Payer's RTN (optional)

OMB No. 1545-0112

2003

Form **1099-INT**

Interest Income

PAYER'S Federal identification number: xx-xxxxxxx

RECIPIENT'S identification number: xxx-xx-xxxx

1 Interest income not included in box 3: $ 235.00

RECIPIENT'S name: Stuart Morehouse

2 Early withdrawal penalty: $

3 Interest on U.S. Savings Bonds and Treas. obligations: $

Street address (including apt. no.): 10923 Fullerton

4 Federal income tax withheld: $

5 Investment expenses: $

City, state, and ZIP code: Your City, State, Zip Code

6 Foreign tax paid: $

7 Foreign country or U.S. possession

Account number (optional)

Copy B

For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-INT** (keep for your records) Department of the Treasury - Internal Revenue Service

PENSION EARNER COMPREHENSIVE PROBLEMS

Form **1040A** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2003** IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0085

Label (See page 21.)

Use the IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial | Last name | **Your social security number**

If a joint return, spouse's first name and initial | Last name | **Spouse's social security number**

Home address (number and street). If you have a P.O. box, see page 22. | Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 22.

▲ Important! ▲ You **must** enter your SSN(s) above.

Presidential Election Campaign (See page 22.)
Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want $3 to go to this fund? . . . ▶
You ☐**Yes** ☐**No** **Spouse** ☐**Yes** ☐**No**

Filing status Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 23.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ ______
5 ☐ Qualifying widow(er) with dependent child (See page 24.)

Exemptions

6a ☐ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a.
b ☐ **Spouse**
c **Dependents:**

If more than six dependents, see page 24.

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓if qualifying child for child tax credit (see page 25)
			☐
			☐
			☐
			☐
			☐
			☐

d Total number of exemptions claimed.

No. of boxes checked on 6a and 6b ______
No. of children on 6c who:
- **lived with you** ______
- **did not live with you due to divorce or separation (see page 26)** ______

Dependents on 6c not entered above ______
Add numbers on lines above ☐

Income

Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 27.

Enclose, but do not attach, any payment.

7 Wages, salaries, tips, etc. Attach Form(s) W-2. 7
8a **Taxable** interest. Attach Schedule 1 if required. 8a
b **Tax-exempt** interest. **Do not** include on line 8a. 8b
9a Ordinary dividends. Attach Schedule 1 if required. 9a
b Qualified dividends (see page XX). 9b
10a Capital gain distributions (see page 27). 10a
b Post-May 5 capital gain distributions (see page 27). 10b
11a IRA distributions. 11a | 11b Taxable amount (see page 27). 11b
12a Pensions and annuities. 12a | 12b Taxable amount (see page 28). 12b
13 Unemployment compensation and Alaska Permanent Fund dividends. 13
14a Social security benefits. 14a | 14b Taxable amount (see page 30). 14b
15 Add lines 7 through 14b (far right column). This is your **total income.** ▶ 15

Adjusted gross income

16 Educator expenses (see page 30). 16
17 IRA deduction (see page 30). 17
18 Student loan interest deduction (see page 33). 18
19 Tuition and fees deduction (see page 33). 19
20 Add lines 16 through 19. These are your **total adjustments.** 20
21 Subtract line 20 from line 15. This is your **adjusted gross income.** ▶ 21

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 57. Cat. No. 11327A Form **1040A** (2003)

PENSION EARNER COMPREHENSIVE PROBLEMS

2003 Form 1040A, page 2

Form 1040A (2003) Page **2**

Tax, credits, and payments

22 Enter the amount from line 21 (adjusted gross income). 22

23a Check if: ☐ **You** were born before January 2, 1939, ☐ Blind; ☐ **Spouse** was born before January 2, 1939, ☐ Blind } **Total boxes checked** ▶ 23a ☐

b If you are married filing separately and your spouse itemizes deductions, see page 34 and check here ▶ 23b ☐

Standard Deduction for—

- People who checked any box on line 23a or 23b **or** who can be claimed as a dependent, see page 34.
- All others:

Single or Married filing separately, $4,750

Married filing jointly or Qualifying widow(er), $9,500

Head of household, $7,000

24 Enter your **standard deduction** (see left margin). 24

25 Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-. 25

26 Multiply $3,050 by the total number of exemptions claimed on line 6d. 26

27 Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your **taxable income.** ▶ 27

28 **Tax,** including any alternative minimum tax (see page 35). 28

29 Credit for child and dependent care expenses. Attach Schedule 2. 29

30 Credit for the elderly or the disabled. Attach Schedule 3. 30

31 Education credits. Attach Form 8863. 31

32 Retirement savings contributions credit. Attach Form 8880. 32

33 Child tax credit (see page 38). 33

34 Adoption credit. Attach Form 8839. 34

35 Add lines 29 through 34. These are your **total credits.** 35

36 Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-. 36

37 Advance earned income credit payments from Form(s) W-2. 37

38 Add lines 36 and 37. This is your **total tax.** ▶ 38

39 Federal income tax withheld from Forms W-2 and 1099. 39

40 2003 estimated tax payments and amount applied from 2002 return. 40

If you have a qualifying child, attach Schedule EIC.

41 **Earned income credit (EIC).** 41

42 Additional child tax credit. Attach Form 8812. 42

43 Add lines 39 through 42. These are your **total payments.** ▶ 43

Refund

44 If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you **overpaid.** 44

45a Amount of line 44 you want **refunded to you.** ▶ 45a

Direct deposit? See page 52 and fill in 45b, 45c, and 45d.

▶ **b** Routing number ☐☐☐☐☐☐☐☐☐ ▶ **c** Type: ☐ Checking ☐ Savings

▶ **d** Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

46 Amount of line 44 you want **applied to your 2004 estimated tax.** 46

Amount you owe

47 **Amount you owe.** Subtract line 43 from line 38. For details on how to pay, see page 53. ▶ 47

48 Estimated tax penalty (see page 53). 48

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 54)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign here

Joint return? See page 22.

Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature | Date | Your occupation | Daytime phone number ( )

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation

Paid preparer's use only

Preparer's signature ▶ | Date | Check if self-employed ☐ | Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code ▶ | EIN | Phone no. ( )

Printed on recycled paper

Form **1040A** (2003)

PENSION EARNER COMPREHENSIVE PROBLEMS

Form 1040A, Social Security Benefits Worksheet

Before you begin:

√ Complete Form 1040A, lines 16 and 17, if they apply to you.

√ If you are married filing separately and you **lived apart** from your spouse for all of 2003, enter "D" to the right of the word "benefits" on line 14a.

√ Be sure you have read the **Exception** on page 27 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.

1. Enter the total amount from **box 5** of **all** your **Forms SSA-1099** and **Forms RRB-1099** . . . . . 1. ____________

2. Enter one-half of line 1 . . . . 2. ____________

3. Enter the total of the amounts from Form 1040A, lines 7, 8a, 9a, 10a, 11b, 12b, and 13 . . . . 3. ____________

4. Enter the amount, if any, from Form 1040A, line 8b . . . . 4. ____________

5. Add lines 2, 3, and 4 . . . . 5. ____________

6. Enter the total of the amounts from Form 1040A, lines 16 and 17 . . . . 6. ____________

7. Is the amount on line 6 less than the amount on line 5?

☐ **No.** STOP None of your social security benefits are taxable.

☐ **Yes.** Subtract line 6 from line 5 . . . . 7. ____________

8. If:

- Married filing jointly, enter $32,000.
- Single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2003, enter $25,000.
- Married filing separately and you lived with your spouse at any time in 2003, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.

} . . . . 8. ____________

9. Is the amount on line 8 less than the amount on line 7?

☐ **No.** STOP None of your social security benefits are taxable. You do not have to enter any amount on line 14a or 14b of Form 1040A. **But** if you are married filing separately and you **lived apart** from your spouse for all of 2003, enter -0- on line 14b. Be sure you entered "D" to the right of the word "benefits" on line 14a.

☐ **Yes.** Subtract line 8 from line 7 . . . . 9. ____________

10. Enter: $12,000 if married filing jointly; $9,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2003 . . . . 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 above on Form 1040A, line 14a.
- Enter the amount from line 18 above on Form 1040A, line 14b.

TIP If part of your benefits are taxable for 2003 **and** they include benefits paid in 2003 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

PENSION EARNER COMPREHENSIVE PROBLEMS

PROBLEM 2

Jay Lehigh (born February 10, 1930) and Sandra Lehigh (November 27, 1935) are married and will file a joint return. They both wish to contribute to the presidential election campaign. Jay's social security number and address are correct as shown on his income statements. Sandra's social security number is xxx-xx-xxxx. Jay and Sandra do not want to name a third party designee.

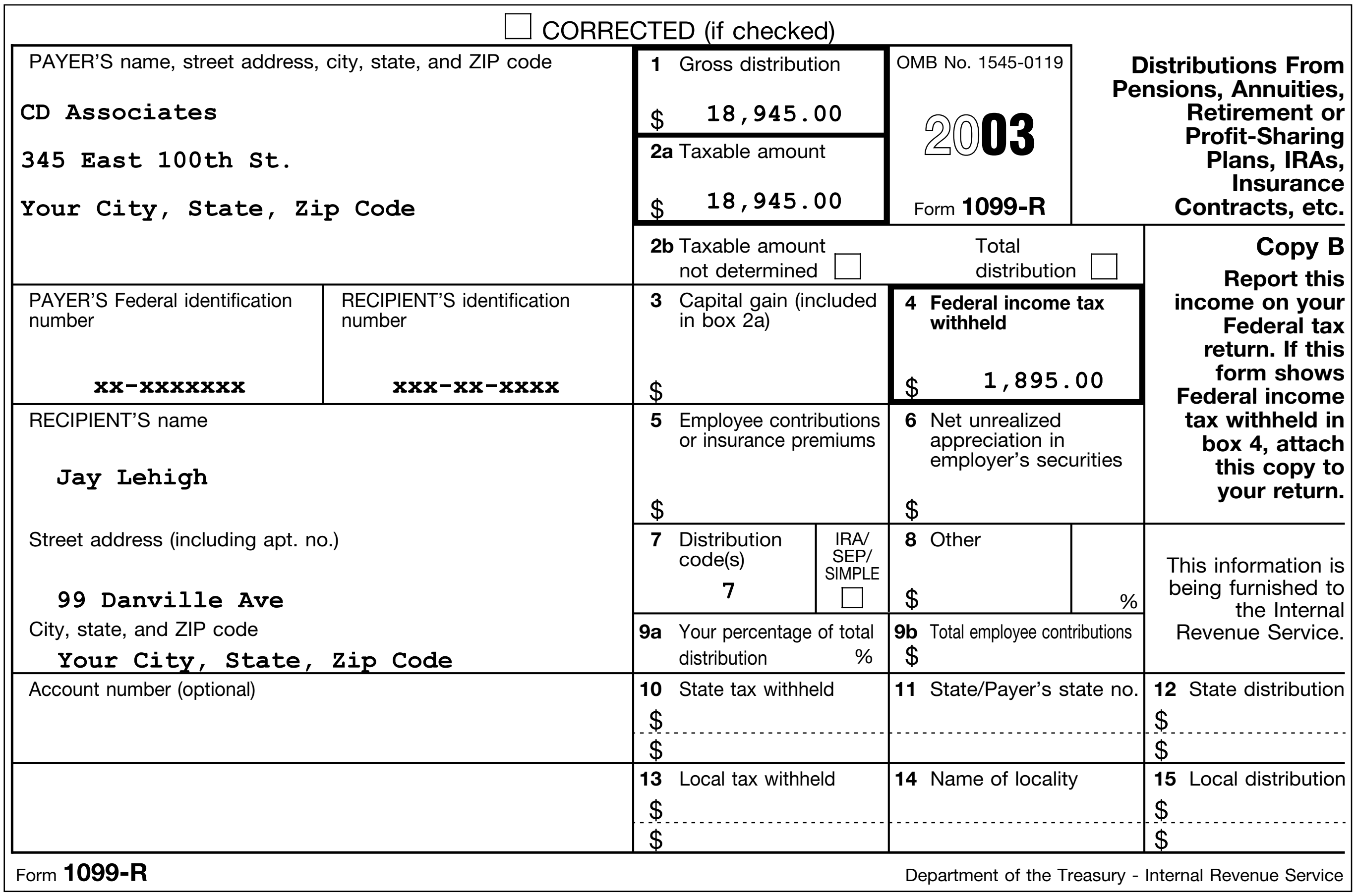
Jay is retired, receives a pension from his former employer, and receives social security benefits.

Sandra is a housewife. She provided day care for her 3 grandchildren. The state paid her for this service and issued her a Form 1099-MISC. She incurred no expenses.

Jay and Sandra sold some stock in 2003 and provided the following information: The principal business code for child care is 624410.

Company	# of Shares	Purchase Date	Per Share Basis	Sale Date	Per Share Sales Price
ABC Inc	100	12/01/1985	24.00	07/15/2003	51.24
XYZ Inc	200	12/20/1987	28.50	11/14/2003	53.98

2003 Form 1099-R, CD Associates



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code

CD Associates
345 East 100th St.
Your City, State, Zip Code

1 Gross distribution $ 18,945.00

2a Taxable amount $ 18,945.00

OMB No. 1545-0119

2003

Form 1099-R

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2b Taxable amount not determined ☐ Total distribution ☐

Copy B

Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.

PAYER'S Federal identification number: xx-xxxxxxx

RECIPIENT'S identification number: xxx-xx-xxxx

3 Capital gain (included in box 2a) $

4 Federal income tax withheld $ 1,895.00

RECIPIENT'S name: Jay Lehigh

5 Employee contributions or insurance premiums $

6 Net unrealized appreciation in employer's securities $

Street address (including apt. no.): 99 Danville Ave

City, state, and ZIP code: Your City, State, Zip Code

7 Distribution code(s): 7

IRA/ SEP/ SIMPLE ☐

8 Other $ %

This information is being furnished to the Internal Revenue Service.

9a Your percentage of total distribution %

9b Total employee contributions $

Account number (optional)

10 State tax withheld $ $

11 State/Payer's state no.

12 State distribution $ $

13 Local tax withheld $ $

14 Name of locality

15 Local distribution $ $

Form **1099-R**

Department of the Treasury - Internal Revenue Service

PENSION EARNER COMPREHENSIVE PROBLEMS

Form 1099, Social Security Benefit Statement

FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT

2003
- PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME.
- SEE THE REVERSE FOR MORE INFORMATION.

Box 1. Name Jay Lehigh		Box 2. Beneficiary's Social Security Number xxx-xx-xxxx
Box 3. Benefits Paid in 2003 $14,263.00	Box 4. Benefits Repaid to SSA in 2003	Box 5. Net Benefits for 2003 *(Box 3 minus Box 4)* $14,263.00

DESCRIPTION OF AMOUNT IN BOX 3

DESCRIPTION OF AMOUNT IN BOX 4

Box 6. Voluntary Federal Income Tax Withholding

Box 7. Address

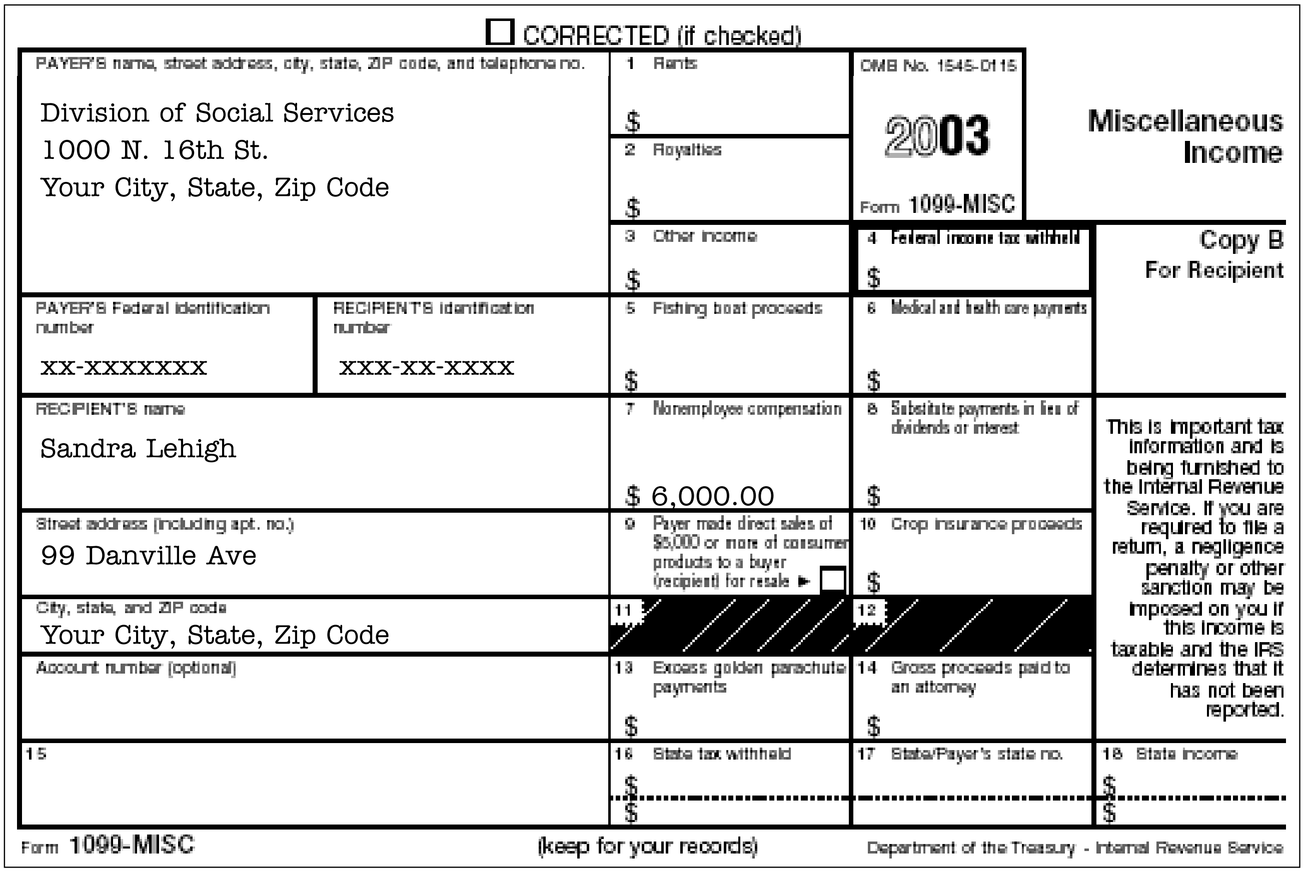
99 Danville
Your City, State, Zip Code

Box 8. Claim Number *(Use this number if you need to contact SSA.)*

Form **SSA-1099-SM (1-2004)** **DO NOT RETURN THIS FORM TO SSA OR IRS**

PENSION EARNER COMPREHENSIVE PROBLEMS

Reserved for Form 1099-MISC



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

Division of Social Services
1000 N. 16th St.
Your City, State, Zip Code

1 Rents $

2 Royalties $

OMB No. 1545-0115

2003

Form 1099-MISC

Miscellaneous Income

3 Other income $

4 Federal income tax withheld $

Copy B For Recipient

PAYER'S Federal identification number: xx-xxxxxxx

RECIPIENT'S identification number: xxx-xx-xxxx

5 Fishing boat proceeds $

6 Medical and health care payments $

RECIPIENT'S name: Sandra Lehigh

7 Nonemployee compensation $ 6,000.00

8 Substitute payments in lieu of dividends or interest $

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Street address (including apt. no.): 99 Danville Ave

9 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale ► ☐

10 Crop insurance proceeds $

City, state, and ZIP code: Your City, State, Zip Code

11

12

Account number (optional)

13 Excess golden parachute payments $

14 Gross proceeds paid to an attorney $

15

16 State tax withheld $ $

17 State/Payer's state no.

18 State income $ $

Form 1099-MISC (keep for your records) Department of the Treasury - Internal Revenue Service

PENSION EARNER COMPREHENSIVE PROBLEMS

2003 Form 1040, page1

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2003** IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2003, or other tax year beginning , 2003, ending , 20 OMB No. 1545-0074

Label

(See instructions on page 21.)

Use the IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial	Last name	**Your social security number**
If a joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Home address (number and street). If you have a P.O. box, see page 21.	Apt. no.	▲ **Important!** ▲ You **must** enter your SSN(s) above.
City, town or post office, state, and ZIP code. If you have a foreign address, see page 21.		

Presidential Election Campaign (See page 21.)
Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want $3 to go to this fund? . . . ▶ You ☐ Yes ☐ No Spouse ☐ Yes ☐ No

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 21.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child. (See page 21.)

Exemptions

6a ☐ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a . . . .
b ☐ **Spouse** . . . .
c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see page 22)
			☐
			☐
			☐
			☐
			☐

If more than five dependents, see page 22.

d Total number of exemptions claimed . . . .

No. of boxes checked on 6a and 6b ______
No. of children on 6c who:
- **lived with you** ______
- **did not live with you due to divorce or separation (see page 22)** ______

Dependents on 6c not entered above ______
Add numbers on lines above ▶ ☐

Income

Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 23.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7
8a	**Taxable** interest. Attach Schedule B if required		8a
b	**Tax-exempt** interest. **Do not** include on line 8a	8b	
9a	Ordinary dividends. Attach Schedule B if required		9a
b	Qualified dividends (see page 25)	9b	
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 25)		10
11	Alimony received		11
12	Business income or (loss). Attach Schedule C or C-EZ		12
13a	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13a
b	If box on 13a is checked, enter post-May 5 capital gain distributions	13b	
14	Other gains or (losses). Attach Form 4797		14
15a	IRA distributions 15a	b Taxable amount (see page 25)	15b
16a	Pensions and annuities 16a	b Taxable amount (see page 25)	16b
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17
18	Farm income or (loss). Attach Schedule F		18
19	Unemployment compensation		19
20a	Social security benefits 20a	b Taxable amount (see page 27)	20b
21	Other income. List type and amount (see page 29)		21
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22

Adjusted Gross Income

23	Educator expenses (see page 29)	23	
24	IRA deduction (see page 29)	24	
25	Student loan interest deduction (see page 31)	25	
26	Tuition and fees deduction (see page 32)	26	
27	Moving expenses. Attach Form 3903	27	
28	One-half of self-employment tax. Attach Schedule SE	28	
29	Self-employed health insurance deduction (see page 33)	29	
30	Self-employed SEP, SIMPLE, and qualified plans	30	
31	Penalty on early withdrawal of savings	31	
32a	Alimony paid b Recipient's SSN ▶	32a	
33	Add lines 23 through 32a		33
34	Subtract line 33 from line 22. This is your **adjusted gross income** ▶		34

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 76. Cat. No. 11320B Form **1040** (2003)

2003 Form 1040, page 2

Form 1040 (2003) Page **2**

Tax and Credits

Standard Deduction for—

- People who checked any box on line 36a or 36b **or** who can be claimed as a dependent, see page 34.
- All others:

Single or Married filing separately, $4,750

Married filing jointly or Qualifying widow(er), $9,500

Head of household, $7,000

35 Amount from line 34 (adjusted gross income) 35

36a Check if: ☐ **You** were born before January 2, 1939, ☐ Blind. ☐ **Spouse** was born before January 2, 1939, ☐ Blind. **Total boxes checked** ▶ **36a** ☐

b If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 34 and check here . . . . . . ▶ **36b** ☐

37 **Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin) . . 37

38 Subtract line 37 from line 35 38

39 If line 35 is $104,625 or less, multiply $3,050 by the total number of exemptions claimed on line 6d. If line 35 is over $104,625, see the worksheet on page 35 39

40 **Taxable income.** Subtract line 39 from line 38. If line 39 is more than line 38, enter -0- . 40

41 **Tax** (see page 36). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 . . . 41

42 **Alternative minimum tax** (see page 37). Attach Form 6251 42

43 Add lines 41 and 42 . . . . ▶ 43

44 Foreign tax credit. Attach Form 1116 if required 44

45 Credit for child and dependent care expenses. Attach Form 2441 45

46 Credit for the elderly or the disabled. Attach Schedule R . . 46

47 Education credits. Attach Form 8863 47

48 Retirement savings contributions credit. Attach Form 8880 . 48

49 Child tax credit (see page 39) 49

50 Adoption credit. Attach Form 8839 50

51 Credits from: **a** ☐ Form 8396 **b** ☐ Form 8859 . . 51

52 Other credits. Check applicable box(es): **a** ☐ Form 3800 **b** ☐ Form 8801 **c** ☐ Specify ________ 52

53 Add lines 44 through 52. These are your **total credits** 53

54 Subtract line 53 from line 43. If line 53 is more than line 43, enter -0- . . . . ▶ 54

Other Taxes

55 Self-employment tax. Attach Schedule SE 55

56 Social security and Medicare tax on tip income not reported to employer. Attach Form 4137 . . 56

57 Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required . 57

58 Advance earned income credit payments from Form(s) W-2 58

59 Household employment taxes. Attach Schedule H 59

60 Add lines 54 through 59. This is your **total tax** . . . . ▶ 60

Payments

If you have a qualifying child, attach Schedule EIC.

61 Federal income tax withheld from Forms W-2 and 1099 . . 61

62 2003 estimated tax payments and amount applied from 2002 return . 62

63 **Earned income credit (EIC)** 63

64 Excess social security and tier 1 RRTA tax withheld (see page 56) 64

65 Additional child tax credit. Attach Form 8812 65

66 Amount paid with request for extension to file (see page 56) 66

67 Other payments from: **a** ☐ Form 2439 **b** ☐ Form 4136 **c** ☐ Form 8885 . 67

68 Add lines 61 through 67. These are your **total payments** . . . . ▶ 68

Refund

Direct deposit? See page 56 and fill in 70b, 70c, and 70d.

69 If line 68 is more than line 60, subtract line 60 from line 68. This is the amount you **overpaid** 69

70a Amount of line 69 you want **refunded to you** . . . . ▶ 70a

▶ b Routing number ☐☐☐☐☐☐☐☐☐ ▶ **c** Type: ☐ Checking ☐ Savings

▶ d Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

71 Amount of line 69 you want **applied to your 2004 estimated tax** ▶ 71

Amount You Owe

72 **Amount you owe.** Subtract line 68 from line 60. For details on how to pay, see page 57 ▶ 72

73 Estimated tax penalty (see page 57) 73

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 58)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶ ☐☐☐☐☐

Sign Here

Joint return? See page 21. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature | Date | Your occupation | Daytime phone number ( )

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶ | Date | Check if self-employed ☐ | Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code ▶ | EIN | Phone no. ( )

Form **1040** (2003)

PENSION EARNER COMPREHENSIVE PROBLEMS

2003 Schedule C-EZ

SCHEDULE C-EZ (Form 1040)

Department of the Treasury
Internal Revenue Service

Net Profit From Business

(Sole Proprietorship)

► Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.

► Attach to Form 1040 or 1041. ► See instructions on back.

OMB No. 1545-0074

2003

Attachment Sequence No. **09A**

Name of proprietor

Social security number (SSN)

Part I **General Information**

You May Use Schedule C-EZ Instead of Schedule C Only If You:

- Had business expenses of $2,500 or less.
- Use the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as a sole proprietor.

And You:

- Had no employees during the year.
- Are not required to file **Form 4562,** Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, on page C-4 to find out if you must file.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

A Principal business or profession, including product or service

B **Enter code from pages C-7, 8, & 9** ►

C Business name. If no separate business name, leave blank.

D **Employer ID number (EIN), if any**

E Business address (including suite or room no.). Address not required if same as on Form 1040, page 1.

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

Part II **Figure Your Net Profit**

1 **Gross receipts. Caution.** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see **Statutory Employees** in the instructions for Schedule C, line 1, on page C-3 and check here . . . . ► ☐ **1**

2 **Total expenses** (see instructions). If more than $2,500, you **must** use Schedule C **2**

3 **Net profit.** Subtract line 2 from line 1. If less than zero, you **must** use Schedule C. Enter on **Form 1040, line 12,** and **also** on **Schedule SE, line 2.** (Statutory employees **do not** report this amount on Schedule SE, line 2. Estates and trusts, enter on Form 1041, line 3.) **3**

Part III **Information on Your Vehicle.** Complete this part **only** if you are claiming car or truck expenses on line 2.

4 When did you place your vehicle in service for business purposes? (month, day, year) ► ..../........./......... .

5 Of the total number of miles you drove your vehicle during 2003, enter the number of miles you used your vehicle for:

a Business .... **b** Commuting .... **c** Other ....

6 Do you (or your spouse) have another vehicle available for personal use? . . . . ☐ **Yes** ☐ **No**

7 Was your vehicle available for personal use during off-duty hours? . . . . ☐ **Yes** ☐ **No**

8a Do you have evidence to support your deduction? . . . . ☐ **Yes** ☐ **No**

b If "Yes," is the evidence written? . . . . ☐ **Yes** ☐ **No**

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 14374D **Schedule C-EZ (Form 1040) 2003**

SCHEDULE SE
(Form 1040)
Department of the Treasury
Internal Revenue Service

Self-Employment Tax

▶ Attach to Form 1040. ▶ See Instructions for Schedule SE (Form 1040).

OMB No. 1545-0074
2003
Attachment
Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040)

Social security number of person with **self-employment** income ▶

Who Must File Schedule SE

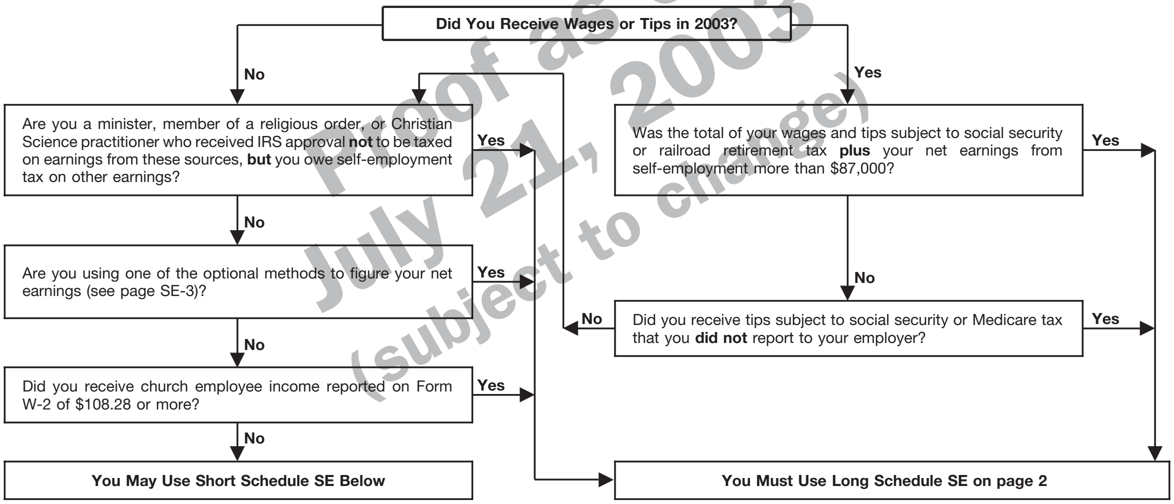
You must file Schedule SE if:

- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of $400 or more **or**
- You had church employee income of $108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income (see page SE-1).

Note. Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE (see page SE-3).

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt–Form 4361" on Form 1040, line 55.

May I Use Short Schedule SE or Must I Use Long Schedule SE?



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1	
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report	2	
3	Combine lines 1 and 2	3	
4	**Net earnings from self-employment.** Multiply line 3 by 92.35% (.9235). If less than $400, **do not** file this schedule; you do not owe self-employment tax ▶	4	
5	**Self-employment tax.** If the amount on line 4 is: • $87,000 or less, multiply line 4 by 15.3% (.153). Enter the result here and on **Form 1040, line 55.** • More than $87,000, multiply line 4 by 2.9% (.029). Then, add $10,788.00 to the result. Enter the total here and on **Form 1040, line 55.**	5	
6	**Deduction for one-half of self-employment tax.** Multiply line 5 by 50% (.5). Enter the result here and on **Form 1040, line 28** 6		

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11358Z **Schedule SE (Form 1040) 2003**

PENSION EARNER COMPREHENSIVE PROBLEMS

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040).
► Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074
2003
Attachment Sequence No. **12**

Name(s) shown on Form 1040

Your social security number XXX | XX | XXXX

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
1							

2 Enter your short-term totals, if any, from Schedule D-1, line 2 2

3 **Total short-term sales price amounts.** Add lines 1 and 2 in column (d) 3

4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 4

5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 5

6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet . . . . 6 ( )

7a Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. **Do not** enter more than zero . . . . 7a ( )

b **Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f) . 7b

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

	(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-5 of the instructions)	**(e)** Cost or other basis (see page D-5 of the instructions)	**(f) Gain or (loss) for the entire year** Subtract (e) from (d)	**(g) Post-May 5 gain or (loss)*** (see below)
8							

9 Enter your long-term totals, if any, from Schedule D-1, line 9 9

10 **Total long-term sales price amounts.** Add lines 8 and 9 in column (d) 10

11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 11

12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1. 12

13 Capital gain distributions. See page D-1 of the instructions 13

14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet . . . . 14 ( )

15 Combine lines 8 through 13 in column (g). If zero or less, enter -0- 15

16 **Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) 16
Next: Go to Part III on the back.

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 2003**

2003 Schedule D, page 2

Schedule D (Form 1040) 2003 Page **2**

Part III Taxable Gain or Deductible Loss

17a Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below **17a**

b Combine lines 7a and 15. If zero or less, enter -0-. Then complete Form 1040 through line 40 . **17b**

Next:
- If both lines 16 and 17a of Schedule D are gains **or** you have qualified dividends on Form 1040, line 9b, complete **Part IV** below (unless Form 1040, line 40, is zero).
- Otherwise, skip the rest of Schedule D and complete Form 1040.

18 If line 17a is a loss, enter here and on Form 1040, line 13a, the **smaller** of **(a)** that loss or **(b)** ($3,000) (or, if married filing separately, ($1,500)) (see page D-6 of the instructions) . . . **18** ( )

Next:
- If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete **Part IV** below (but skip lines 19 and 20).
- Otherwise, skip **Part IV** below and complete the rest of Form 1040.

Part IV Tax Computation Using Maximum Capital Gains Rates

If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to line 19.

19 Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6 . . **19**

20 Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions . . **20**

If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 of the instructions to figure the amount to enter on lines 35 and 53 below, and skip all other lines below.

21 Enter your taxable income from Form 1040, line 40 . . . . **21**

22 Enter the **smaller** of line 16 or line 17a, but not less than zero . . **22**

23 Enter your qualified dividends from Form 1040, line 9b **23**

24 Add lines 22 and 23 . . . . **24**

25 Amount from line 4g of Form 4952 (investment interest expense) . **25**

26 Subtract line 25 from line 24. If zero or less, enter -0- **26**

27 Subtract line 26 from line 21. If zero or less, enter -0- **27**

28 Enter the **smaller** of line 21 **or:**
- $56,800 if married filing jointly or qualifying widow(er);
- $28,400 if single or married filing separately; or
- $38,050 if head of household

} . . . **28**

If line 27 is more than line 28, skip lines 29–39 and go to line 40.

29 Enter the amount from line 27 . . . . **29**

30 Subtract line 29 from line 28. If zero or less, go to line 40 . . . . **30**

31 Add lines 17b and 23* **31**

32 Enter the **smaller** of line 30 or line 31 . . . . **32**

33 Multiply line 32 by 5% (.05) **33**

If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.

34 Subtract line 32 from line 30 . . . . **34**

35 Enter your qualified 5-year gain, if any, from line 8 of the worksheet on page D-8 . . **35**

36 Enter the **smaller** of line 34 or line 35 . . . . **36**

37 Multiply line 36 by 8% (.08) **37**

38 Subtract line 36 from line 34 . . . . **38**

39 Multiply line 38 by 10% (.10) **39**

If lines 26 and 30 are the same, skip lines 40–49 and go to line 50.

40 Enter the **smaller** of line 21 or line 26 . . . . **40**

41 Enter the amount from line 30 (if line 30 is blank, enter -0-) . . . **41**

42 Subtract line 41 from line 40 . . . . **42**

43 Add lines 17b and 23* **43**

44 Enter the amount from line 32 (if line 32 is blank, enter -0-) **44**

45 Subtract line 44 from line 43 . . . . . **45**

46 Enter the **smaller** of line 42 or line 45 . . . . **46**

47 Multiply line 46 by 15% (.15) **47**

48 Subtract line 46 from line 42 . . . . **48**

49 Multiply line 48 by 20% (.20) **49**

50 Figure the tax on the amount on **line 27.** Use the Tax Table or Tax Rate Schedules, whichever applies **50**

51 Add lines 33, 37, 39, 47, 49, and 50 . . . . **51**

52 Figure the tax on the amount on **line 21.** Use the Tax Table or Tax Rate Schedules, whichever applies **52**

53 **Tax on all taxable income.** Enter the **smaller** of line 51 or line 52 here and on Form 1040, line 41 **53**

*If line 25 is more than zero, see **Lines 31 and 43** on page D-9 for the amount to enter.

Printed on recycled paper **Schedule D (Form 1040) 2003**

PENSION EARNER COMPREHENSIVE PROBLEMS

2003 Social Security Benefits Worksheet

Before you begin:
- √ Complete Form 1040, lines 21, 23, 24, and 27 through 32a, if they apply to you.
- √ Figure any amount to be entered on the dotted line next to line 33 (see page 32.)
- √ If you are married filing separately and you **lived apart** from your spouse for all of 2003, enter "D" to the right of the word "benefits" on line 20a.
- √ Be sure you have read the **Exception** on page 26 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.

1. Enter the total amount from **box 5** of **all** your **Forms SSA-1099** and **Forms RRB-1099** . . . . **1.** ________

2. Enter one-half of line 1 . . . . **2.** ________

3. Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 12, 13a, 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 total of the amounts from Form 1040, lines 23, 24, and 27 through 32a, plus any amount you entered on the dotted line next to line 33 . . . . **6.** ________

7. Is the amount on line 6 less than the amount on line 5?

☐ **No.** STOP None of your social security benefits are taxable.

☐ **Yes.** Subtract line 6 from line 5 . . . . **7.** ________

8. If you are:
- Married filing jointly, enter $32,000
- Single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2003, enter $25,000
- Married filing separately and you lived with your spouse at any time in 2003, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17

. . . . **8.** ________

9. Is the amount on line 8 less than the amount on line 7?

☐ **No.** STOP None of your social security benefits are taxable. You do not have to enter any amounts on lines 20a or 20b of Form 1040. **But** if you are married filing separately and you **lived apart** from your spouse for all of 2003, enter -0- on line 20b. Be sure you entered "D" to the right of the word "benefits" on line 20a.

☐ **Yes.** Subtract line 8 from line 7 . . . . **9.** ________

10. Enter: $12,000 if married filing jointly; $9,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2003 **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 above on Form 1040, line 20a.
- Enter the amount from line 18 above on Form 1040, line 20b.

TIP If part of your benefits are taxable for 2003 **and** they include benefits paid in 2003 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

PENSION EARNER COMPREHENSIVE PROBLEMS

ANSWERS TO PROBLEMS

Comprehensive Problem 1 — 2003 Form 1040A, page 1

Form **1040A** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return (99) **2003** IRS Use Only—Do not write or staple in this space.
OMB No. 1545-0085

Label (See page 21.)
Use the IRS label. Otherwise, please print or type.
LABEL HERE

Your first name and initial: Stuart	Last name: Morehouse	**Your social security number**: xxx xx xxxx
If a joint return, spouse's first name and initial: Donna	Last name: Morehouse	**Spouse's social security number**: xxx xx xxxx
Home address (number and street). If you have a P.O. box, see page 22.: 10923 Fullerton	Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, see page 22.: Your City, State, Zip Code		

▲ Important! ▲ You **must** enter your SSN(s) above.

Presidential Election Campaign (See page 22.)
Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want $3 to go to this fund? . . . ▶ You ☐ Yes ☒ No Spouse ☐ Yes ☒ No

Filing status Check only one box.
1 ☐ Single
2 ☒ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 23.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child (See page 24.)

Exemptions
6a ☒ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a.
b ☒ **Spouse**
No. of boxes checked on 6a and 6b: 2
c **Dependents:**
If more than six dependents, see page 24.

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see page 25)
				☐
				☐
				☐
				☐
				☐
				☐

No. of children on 6c who:
- **lived with you**
- **did not live with you due to divorce or separation (see page 26)**

Dependents on 6c not entered above

d Total number of exemptions claimed. **Add numbers on lines above**: 2

Income
Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.
If you did not get a W-2, see page 27.
Enclose, but do not attach, any payment.

7	Wages, salaries, tips, etc. Attach Form(s) W-2.			7	18,526 00
8a	**Taxable** interest. Attach Schedule 1 if required.			8a	235 00
b	**Tax-exempt** interest. **Do not** include on line 8a.	8b			
9a	Ordinary dividends. Attach Schedule 1 if required.			9a	
b	Qualified dividends (see page XX).	9b			
10a	Capital gain distributions (see page 27).			10a	
b	Post-May 5 capital gain distributions (see page 27).	10b			
11a	IRA distributions.	11a		11b Taxable amount (see page 27). 11b	
12a	Pensions and annuities.	12a		12b Taxable amount (see page 28). 12b	13,567 00
13	Unemployment compensation and Alaska Permanent Fund dividends.			13	
14a	Social security benefits.	14a	10,499.00	14b Taxable amount (see page 30). 14b	2,339 00
15	Add lines 7 through 14b (far right column). This is your **total income.** ▶			15	34,667 00

Adjusted gross income

16	Educator expenses (see page 30).	16			
17	IRA deduction (see page 30).	17	900 00		
18	Student loan interest deduction (see page 33).	18			
19	Tuition and fees deduction (see page 33).	19			
20	Add lines 16 through 19. These are your **total adjustments.**			20	900 00
21	Subtract line 20 from line 15. This is your **adjusted gross income.** ▶			21	33,767 00

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 57. Cat. No. 11327A Form **1040A** (2003)

2003 Form 1040A, page 2

Form 1040A (2003) Page **2**

Tax, credits, and payments

22	Enter the amount from line 21 (adjusted gross income).			22	33,767.00
23a	Check if: ☑ **You** were born before January 2, 1939, ☐ Blind ☐ **Spouse** was born before January 2, 1939, ☐ Blind **Total boxes checked** ▶ 23a		1		
b	If you are married filing separately and your spouse itemizes deductions, see page 34 and check here ▶ 23b ☐				
24	Enter your **standard deduction** (see left margin).			24	10,450.00
25	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.			25	23,317.00
26	Multiply $3,050 by the total number of exemptions claimed on line 6d.			26	6,100.00
27	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your **taxable income.** ▶			27	17,217.00
28	**Tax,** including any alternative minimum tax (see page 35).			28	1,884.00
29	Credit for child and dependent care expenses. Attach Schedule 2.	29			
30	Credit for the elderly or the disabled. Attach Schedule 3.	30			
31	Education credits. Attach Form 8863.	31			
32	Retirement savings contributions credit. Attach Form 8880.	32			
33	Child tax credit (see page 38).	33			
34	Adoption credit. Attach Form 8839.	34			
35	Add lines 29 through 34. These are your **total credits.**			35	0.00
36	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.			36	1,884.00
37	Advance earned income credit payments from Form(s) W-2.			37	
38	Add lines 36 and 37. This is your **total tax.** ▶			38	1,884.00
39	Federal income tax withheld from Forms W-2 and 1099.	39	3,780.00		
40	2003 estimated tax payments and amount applied from 2002 return.	40			
41	**Earned income credit (EIC).**	41			
42	Additional child tax credit. Attach Form 8812.	42			
43	Add lines 39 through 42. These are your **total payments.** ▶			43	3,780.00

Standard Deduction for—

- People who checked any box on line 23a or 23b **or** who can be claimed as a dependent, see page 34.
- All others:

Single or Married filing separately, $4,750

Married filing jointly or Qualifying widow(er), $9,500

Head of household, $7,000

If you have a qualifying child, attach Schedule EIC.

Refund

44	If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you **overpaid.**			44	1,896.00
45a	Amount of line 44 you want **refunded to you.** ▶			45a	1,896.00
▶ **b**	Routing number ▶ **c** Type: ☐ Checking ☐ Savings				
▶ **d**	Account number				
46	Amount of line 44 you want **applied to your 2004 estimated tax.**	46			

Direct deposit? See page 52 and fill in 45b, 45c, and 45d.

Amount you owe

47	**Amount you owe.** Subtract line 43 from line 38. For details on how to pay, see page 53. ▶			47	
48	Estimated tax penalty (see page 53).	48			

Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 54)? ☐ **Yes.** Complete the following. ☑ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶

Sign here

Joint return? See page 22.

Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature	Date / /	Your occupation Retired	Daytime phone number ( )
Spouse's signature. If a joint return, **both** must sign.	Date / /	Spouse's occupation Secretary	

Paid preparer's use only

Preparer's signature ▶ Date / / Check if self-employed ☐ Preparer's SSN or PTIN Pxx-xx-xxxx

Firm's name (or yours if self-employed), address, and ZIP code ▶ EIN

Phone no. ( )

Form **1040A** (2003)

2003 Social Security Benefits Worksheet

Social Security Benefits Worksheet—Lines 20a and 20b

Keep for Your Records

Before you begin:
- √ Complete Form 1040, lines 21, 23, 24, and 27 through 32a, if they apply to you.
- √ Figure any amount to be entered on the dotted line next to line 33 (see page 32.)
- √ If you are married filing separately and you **lived apart** from your spouse for all of 2003, enter "D" to the right of the word "benefits" on line 20a.
- √ Be sure you have read the **Exception** on page 26 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.

1. Enter the total amount from **box 5** of **all** your **Forms SSA-1099** and **Forms RRB-1099** **1.** 10,499

2. Enter one-half of line 1 . . . . . **2.** 5,250

3. Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 12, 13a, 14, 15b, 16b, 17 through 19, and 21. Do not include amounts from box 5 of Forms SSA-1099 or RRB-1099 . . . . . **3.** 32,328

4. Enter the amount, if any, from Form 1040, line 8b **4.** 0

5. Add lines 2, 3, and 4 . . . . . **5.** 37,578

6. Enter the total of the amounts from Form 1040, lines 23, 24, and 27 through 32a, plus any amount you entered on the dotted line next to line 33 . . . . . **6.** 900

7. Is the amount on line 6 less than the amount on line 5?

☐ **No.** STOP None of your social security benefits are taxable.

☑ **Yes.** Subtract line 6 from line 5 . . . . . **7.** 36,678

8. If you are:
- ✔ Married filing jointly, enter $32,000
- Single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2003, enter $25,000
- Married filing separately and you lived with your spouse at any time in 2003, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17

} **8.** 32,000

9. Is the amount on line 8 less than the amount on line 7?

☐ **No.** STOP None of your social security benefits are taxable. You do not have to enter any amounts on lines 20a or 20b of Form 1040. **But** if you are married filing separately and you **lived apart** from your spouse for all of 2003, enter -0- on line 20b. Be sure you entered "D" to the right of the word "benefits" on line 20a.

☑ **Yes.** Subtract line 8 from line 7 . . . . . **9.** 4,678

10. Enter: $12,000 if married filing jointly; $9,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2003 **10.** 12,000

11. Subtract line 10 from line 9. If zero or less, enter -0- **11.** 0

12. Enter the **smaller** of line 9 or line 10 . . . . . **12.** 4,678

13. Enter one-half of line 12 . . . . . **13.** 2,339

14. Enter the **smaller** of line 2 or line 13 . . . . . **14.** 2,339

15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- **15.** 0

16. Add lines 14 and 15 . . . . . **16.** 2,339

17. Multiply line 1 by 85% (.85) **17.** 8,924

18. **Taxable social security benefits.** Enter the **smaller** of line 16 or line 17 . . . . . **18.** 2,339
- Enter the amount from line 1 above on Form 1040, line 20a.
- Enter the amount from line 18 above on Form 1040, line 20b.

TIP If part of your benefits are taxable for 2003 **and** they include benefits paid in 2003 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

Comprehensive Problem 2 — 2003 Form 1040, page 1

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2003** (99) IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2003, or other tax year beginning , 2003, ending , 20 — OMB No. 1545-0074

Label (See instructions on page 21.) **Use the IRS label.** Otherwise, please print or type. LABEL HERE

Your first name and initial: Jay	Last name: Lehigh	**Your social security number:** xxx xx xxxx
If a joint return, spouse's first name and initial: Sandra	Last name: Lehigh	**Spouse's social security number:** xxx xx xxxx
Home address (number and street). If you have a P.O. box, see page 21.: 99 Danville	Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, see page 21.: Your City, State Zip Code		

▲ **Important!** ▲ You **must** enter your SSN(s) above.

Presidential Election Campaign (See page 21.) **Note.** Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want $3 to go to this fund? ▶ You: ☒ Yes ☐ No Spouse: ☒ Yes ☐ No

Filing Status Check only one box.

1 ☐ Single
2 ☒ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 21.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child. (See page 21.)

Exemptions

6a ☒ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a
b ☒ **Spouse**

No. of boxes checked on 6a and 6b: 2

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see page 22)
			☐
			☐
			☐
			☐
			☐

If more than five dependents, see page 22.

No. of children on 6c who:
- lived with you
- did not live with you due to divorce or separation (see page 22)

Dependents on 6c not entered above

Add numbers on lines above ▶ 2

d Total number of exemptions claimed

Income

Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 23.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

Line	Description	Inner entry	Line	Amount
7	Wages, salaries, tips, etc. Attach Form(s) W-2		7	
8a	**Taxable** interest. Attach Schedule B if required		8a	
b	**Tax-exempt** interest. **Do not** include on line 8a	8b		
9a	Ordinary dividends. Attach Schedule B if required		9a	
b	Qualified dividends (see page 25)	9b		
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 25)		10	
11	Alimony received		11	
12	Business income or (loss). Attach Schedule C or C-EZ		12	6,000.00
13a	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13a	7,820.00
b	If box on 13a is checked, enter post-May 5 capital gain distributions	13b		
14	Other gains or (losses). Attach Form 4797		14	
15a	IRA distributions 15a; b Taxable amount (see page 25)		15b	
16a	Pensions and annuities 16a; b Taxable amount (see page 25)		16b	18,945.00
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
18	Farm income or (loss). Attach Schedule F		18	
19	Unemployment compensation		19	
20a	Social security benefits 20a; b Taxable amount (see page 27)	20a 14,263.00	20b	3,737.00
21	Other income. List type and amount (see page 29)		21	
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22	36,502.00

Adjusted Gross Income

Line	Description	Inner entry	Line	Amount
23	Educator expenses (see page 29)	23		
24	IRA deduction (see page 29)	24		
25	Student loan interest deduction (see page 31)	25		
26	Tuition and fees deduction (see page 32)	26		
27	Moving expenses. Attach Form 3903	27		
28	One-half of self-employment tax. Attach Schedule SE	28 424.00		
29	Self-employed health insurance deduction (see page 33)	29		
30	Self-employed SEP, SIMPLE, and qualified plans	30		
31	Penalty on early withdrawal of savings	31		
32a	Alimony paid b Recipient's SSN ▶	32a		
33	Add lines 23 through 32a		33	424.00
34	Subtract line 33 from line 22. This is your **adjusted gross income** ▶		34	36,078.00

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 76. Cat. No. 11320B Form **1040** (2003)

2003 Form 1040, page 2

Form 1040 (2003) Page **2**

Tax and Credits	35	Amount from line 34 (adjusted gross income)			35	36,078.00
	36a	Check if: ☑ **You** were born before January 2, 1939, ☐ Blind. ☑ **Spouse** was born before January 2, 1939, ☐ Blind. **Total boxes checked ▶ 36a** 2				
	b	If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 34 and check here ▶ **36b** ☐				
	37	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)			37	11,400.00
	38	Subtract line 37 from line 35			38	24,678.00
	39	If line 35 is $104,625 or less, multiply $3,050 by the total number of exemptions claimed on line 6d. If line 35 is over $104,625, see the worksheet on page 35			39	6,100.00
	40	**Taxable income.** Subtract line 39 from line 38. If line 39 is more than line 38, enter -0-			40	18,578.00
	41	**Tax** (see page 36). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972			41	2,086.00
	42	**Alternative minimum tax** (see page 37). Attach Form 6251			42	
	43	Add lines 41 and 42 ▶			43	2,086.00
	44	Foreign tax credit. Attach Form 1116 if required	44			
	45	Credit for child and dependent care expenses. Attach Form 2441	45			
	46	Credit for the elderly or the disabled. Attach Schedule R	46			
	47	Education credits. Attach Form 8863	47			
	48	Retirement savings contributions credit. Attach Form 8880	48			
	49	Child tax credit (see page 39)	49			
	50	Adoption credit. Attach Form 8839	50			
	51	Credits from: **a** ☐ Form 8396 **b** ☐ Form 8859	51			
	52	Other credits. Check applicable box(es): **a** ☐ Form 3800 **b** ☐ Form 8801 **c** ☐ Specify ______	52			
	53	Add lines 44 through 52. These are your **total credits**			53	0.00
	54	Subtract line 53 from line 43. If line 53 is more than line 43, enter -0- ▶			54	2086.00
Other Taxes	55	Self-employment tax. Attach Schedule SE			55	848.00
	56	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137			56	
	57	Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required			57	
	58	Advance earned income credit payments from Form(s) W-2			58	
	59	Household employment taxes. Attach Schedule H			59	
	60	Add lines 54 through 59. This is your **total tax** ▶			60	2934.00
Payments	61	Federal income tax withheld from Forms W-2 and 1099	61	1,895.00		
	62	2003 estimated tax payments and amount applied from 2002 return	62			
If you have a qualifying child, attach Schedule EIC.	63	**Earned income credit (EIC)**	63			
	64	Excess social security and tier 1 RRTA tax withheld (see page 56)	64			
	65	Additional child tax credit. Attach Form 8812	65			
	66	Amount paid with request for extension to file (see page 56)	66			
	67	Other payments from: **a** ☐ Form 2439 **b** ☐ Form 4136 **c** ☐ Form 8885	67			
	68	Add lines 61 through 67. These are your **total payments** ▶			68	1,895.00
Refund	69	If line 68 is more than line 60, subtract line 60 from line 68. This is the amount you **overpaid**			69	
Direct deposit? See page 56 and fill in 70b, 70c, and 70d.	70a	Amount of line 69 you want **refunded to you** ▶			70a	
	▶ b	Routing number ▶ **c** Type: ☐ Checking ☐ Savings				
	▶ d	Account number				
	71	Amount of line 69 you want **applied to your 2004 estimated tax** ▶	71			
Amount You Owe	72	**Amount you owe.** Subtract line 68 from line 60. For details on how to pay, see page 57 ▶			72	1,039.00
	73	Estimated tax penalty (see page 57)	73			

Standard Deduction for—

- People who checked any box on line 36a or 36b **or** who can be claimed as a dependent, see page 34.
- All others:

Single or Married filing separately, $4,750

Married filing jointly or Qualifying widow(er), $9,500

Head of household, $7,000

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 58)? ☐ **Yes.** Complete the following. ☑ **No**

Designee's name ▶ Phone no. ▶ ( ) Personal identification number (PIN) ▶

Sign Here

Joint return? See page 21. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature | Date / / | Your occupation | Daytime phone number ( )

Spouse's signature. If a joint return, **both** must sign. | Date / / | Spouse's occupation

Paid Preparer's Use Only

Preparer's signature | Date / / | Check if self-employed ☐ | Preparer's SSN or PTIN Pxx-xx-xxxx

Firm's name (or yours if self-employed), address, and ZIP code | EIN | Phone no. ( )

Form **1040** (2003)

SCHEDULE C-EZ (Form 1040)

Department of the Treasury
Internal Revenue Service

Net Profit From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.

▶ Attach to Form 1040 or 1041. ▶ See instructions on back.

OMB No. 1545-0074

2003

Attachment Sequence No. **09A**

Name of proprietor	**Social security number (SSN)**
Sandra Leigh	xxx xx xxxx

Part I General Information

You May Use Schedule C-EZ Instead of Schedule C Only If You:

- Had business expenses of $2,500 or less.
- Use the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as a sole proprietor.

And You:

- Had no employees during the year.
- Are not required to file **Form 4562,** Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, on page C-4 to find out if you must file.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

A Principal business or profession, including product or service
Day Care

B **Enter code from pages C-7, 8, & 9** ▶ 6 2 4 4 1 0

C Business name. If no separate business name, leave blank.

D **Employer ID number (EIN), if any**

E Business address (including suite or room no.). Address not required if same as on Form 1040, page 1.

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

Part II Figure Your Net Profit

1	**Gross receipts. Caution.** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see **Statutory Employees** in the instructions for Schedule C, line 1, on page C-3 and check here . . . . ▶ ☐	**1**	6,000
2	**Total expenses** (see instructions). If more than $2,500, you **must** use Schedule C	**2**	
3	**Net profit.** Subtract line 2 from line 1. If less than zero, you **must** use Schedule C. Enter on **Form 1040, line 12,** and **also** on **Schedule SE, line 2.** (Statutory employees **do not** report this amount on Schedule SE, line 2. Estates and trusts, enter on Form 1041, line 3.)	**3**	6,000

Part III Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 2.

4 When did you place your vehicle in service for business purposes? (month, day, year) ▶ ____/____/____ .

5 Of the total number of miles you drove your vehicle during 2003, enter the number of miles you used your vehicle for:

a Business ____________ **b** Commuting ____________ **c** Other ____________

6 Do you (or your spouse) have another vehicle available for personal use? . . . . ☐ **Yes** ☐ **No**

7 Was your vehicle available for personal use during off-duty hours? . . . . ☐ **Yes** ☐ **No**

8a Do you have evidence to support your deduction? . . . . ☐ **Yes** ☐ **No**

b If "Yes," is the evidence written? . . . . ☐ **Yes** ☐ **No**

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 14374D **Schedule C-EZ (Form 1040) 2003**

2003 Schedule SE

SCHEDULE SE
(Form 1040)
Department of the Treasury
Internal Revenue Service

Self-Employment Tax

► **Attach to Form 1040.** ► **See Instructions for Schedule SE (Form 1040).**

OMB No. 1545-0074
2003
Attachment
Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040): Sandra Leigh

Social security number of person with **self-employment** income ►: xxx xx xxxx

Who Must File Schedule SE

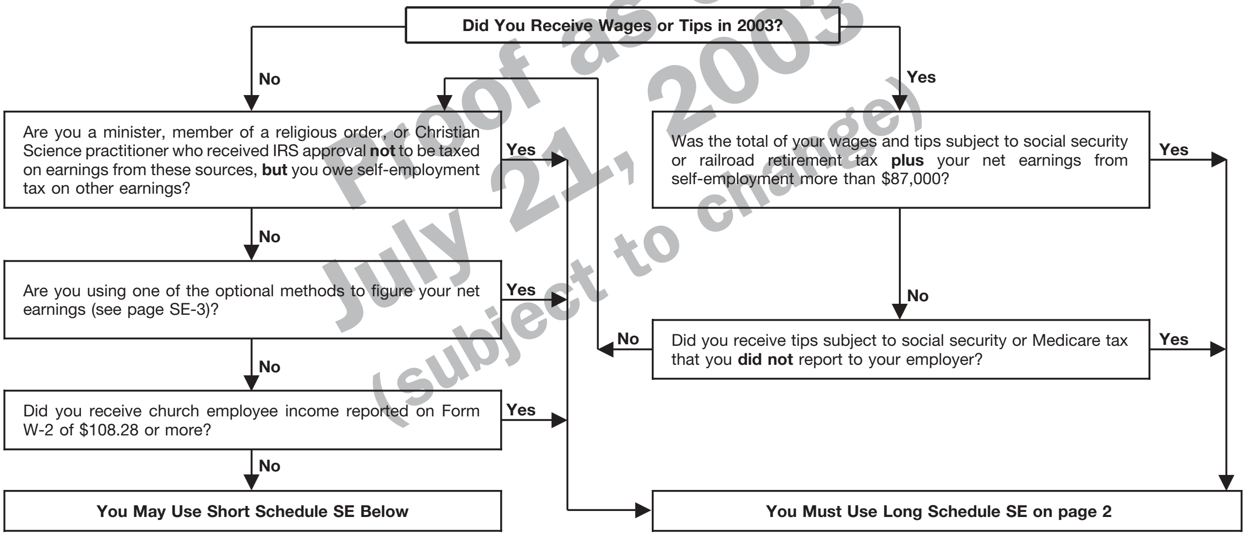
You must file Schedule SE if:

- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of $400 or more **or**
- You had church employee income of $108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income (see page SE-1).

Note. Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE (see page SE-3).

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt–Form 4361" on Form 1040, line 55.

May I Use Short Schedule SE or Must I Use Long Schedule SE?



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1		
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report	2	6,000	00
3	Combine lines 1 and 2	3	6,000	00
4	**Net earnings from self-employment.** Multiply line 3 by 92.35% (.9235). If less than $400, **do not** file this schedule; you do not owe self-employment tax ►	4	5,541	00
5	**Self-employment tax.** If the amount on line 4 is: • $87,000 or less, multiply line 4 by 15.3% (.153). Enter the result here and on **Form 1040, line 55.** • More than $87,000, multiply line 4 by 2.9% (.029). Then, add $10,788.00 to the result. Enter the total here and on **Form 1040, line 55.**	5	848	00
6	**Deduction for one-half of self-employment tax.** Multiply line 5 by 50% (.5). Enter the result here and on **Form 1040, line 28** . . . . 6 — 424 00			

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11358Z **Schedule SE (Form 1040) 2003**

2003 Schedule D, page 1

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040).
► Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074
2003
Attachment
Sequence No. 12

Name(s) shown on Form 1040: Jay and Sandra Lehigh

Your social security number: xxx xx xxxx

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-5 of the instructions)	(e) Cost or other basis (see page D-5 of the instructions)	(f) Gain or (loss) for the entire year Subtract (e) from (d)	(g) Post-May 5 gain or (loss)* (see below)
1						

2 Enter your short-term totals, if any, from Schedule D-1, line 2	2		▨			
3 **Total short-term sales price amounts.** Add lines 1 and 2 in column (d)	3		▨	▨	▨	▨
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824				4		
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				5		
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet				6	( )	▨
7a Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. **Do not** enter more than zero				7a	▨	( )
b **Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f)				7b		▨

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-5 of the instructions)	(e) Cost or other basis (see page D-5 of the instructions)	(f) Gain or (loss) for the entire year Subtract (e) from (d)	(g) Post-May 5 gain or (loss)* (see below)
8 100 sh. ABC Inc	12/01/85	07/15/03	5,124 00	2,400 00	2,724 00	2,724 00
200 sh. XYZ Inc	12/20/87	11/14/03	10,796 00	5,700 00	5,096 00	5,096 00

9 Enter your long-term totals, if any, from Schedule D-1, line 9	9		▨			
10 **Total long-term sales price amounts.** Add lines 8 and 9 in column (d)	10	105 22	▨	▨	▨	▨
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11		
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12		
13 Capital gain distributions. See page D-1 of the instructions				13		
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 2002 Capital Loss Carryover Worksheet				14	( )	▨
15 Combine lines 8 through 13 in column (g). If zero or less, enter -0-				15	▨	7,820 00
16 **Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) **Next:** Go to Part III on the back.				16	7,820 00	▨

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 2003**

Schedule D (Form 1040) 2003 Page **2**

Part III Taxable Gain or Deductible Loss

17a	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below				**17a**	7,820	00
b	Combine lines 7a and 15. If zero or less, enter -0-. Then complete Form 1040 through line 40				**17b**	7,820	00
	Next: ● If both lines 16 and 17a of Schedule D are gains **or** you have qualified dividends on Form 1040, line 9b, complete **Part IV** below (unless Form 1040, line 40, is zero). ● Otherwise, skip the rest of Schedule D and complete Form 1040.						
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the **smaller** of **(a)** that loss or **(b)** ($3,000) (or, if married filing separately, ($1,500)) (see page D-6 of the instructions)				**18**	(	)
	Next: ● If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete **Part IV** below (but skip lines 19 and 20). ● Otherwise, skip **Part IV** below and complete the rest of Form 1040.						

Part IV Tax Computation Using Maximum Capital Gains Rates

	If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to line 19.						
19	Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6				**19**		
20	Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions				**20**		
	If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 of the instructions to figure the amount to enter on lines 35 and 53 below, and skip all other lines below.						
21	Enter your taxable income from Form 1040, line 40				**21**	18,578	00
22	Enter the **smaller** of line 16 or line 17a, but not less than zero	**22**	7,820	00			
23	Enter your qualified dividends from Form 1040, line 9b	**23**					
24	Add lines 22 and 23	**24**	7,820	00			
25	Amount from line 4g of Form 4952 (investment interest expense)	**25**					
26	Subtract line 25 from line 24. If zero or less, enter -0-				**26**	7,820	00
27	Subtract line 26 from line 21. If zero or less, enter -0-				**27**	10,758	00
28	Enter the **smaller** of line 21 **or:** ● $56,800 if married filing jointly or qualifying widow(er); ● $28,400 if single or married filing separately; or ● $38,050 if head of household	**28**	18,578	00			
	If line 27 is more than line 28, skip lines 29–39 and go to line 40.						
29	Enter the amount from line 27	**29**	10,758	00			
30	Subtract line 29 from line 28. If zero or less, go to line 40	**30**	7,820	00			
31	Add lines 17b and 23* **31** 7,820 00						
32	Enter the **smaller** of line 30 or line 31	**32**	7,820	00			
33	Multiply line 32 by 5% (.05)				**33**	391	00
	If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.						
34	Subtract line 32 from line 30	**34**					
35	Enter your qualified 5-year gain, if any, from line 8 of the worksheet on page D-8 **35**						
36	Enter the **smaller** of line 34 or line 35	**36**					
37	Multiply line 36 by 8% (.08)				**37**		
38	Subtract line 36 from line 34	**38**					
39	Multiply line 38 by 10% (.10)				**39**		
	If lines 26 and 30 are the same, skip lines 40–49 and go to line 50.						
40	Enter the **smaller** of line 21 or line 26	**40**					
41	Enter the amount from line 30 (if line 30 is blank, enter -0-)	**41**					
42	Subtract line 41 from line 40	**42**					
43	Add lines 17b and 23* **43**						
44	Enter the amount from line 32 (if line 32 is blank, enter -0-) **44**						
45	Subtract line 44 from line 43 **45**						
46	Enter the **smaller** of line 42 or line 45	**46**					
47	Multiply line 46 by 15% (.15)				**47**		
48	Subtract line 46 from line 42	**48**					
49	Multiply line 48 by 20% (.20)				**49**		
50	Figure the tax on the amount on **line 27.** Use the Tax Table or Tax Rate Schedules, whichever applies				**50**	1,078	00
51	Add lines 33, 37, 39, 47, 49, and 50				**51**	1,469	00
52	Figure the tax on the amount on **line 21.** Use the Tax Table or Tax Rate Schedules, whichever applies				**52**	2,086	00
53	**Tax on all taxable income.** Enter the **smaller** of line 51 or line 52 here and on Form 1040, line 41				**53**	1,469	00

*If line 25 is more than zero, see **Lines 31 and 43** on page D-9 for the amount to enter. *Printed on recycled paper* **Schedule D (Form 1040) 2003**

Social Security Benefits Worksheet.

Before you begin:
- √ Complete Form 1040, lines 21, 23, 24, and 27 through 32a, if they apply to you.
- √ Figure any amount to be entered on the dotted line next to line 33 (see page 32.)
- √ If you are married filing separately and you **lived apart** from your spouse for all of 2003, enter "D" to the right of the word "benefits" on line 20a.
- √ Be sure you have read the **Exception** on page 26 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.

1. Enter the total amount from **box 5** of **all** your **Forms SSA-1099** and **Forms RRB-1099** **1.** 14,263

2. Enter one-half of line 1 . . . . . **2.** 7,132

3. Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 12, 13a, 14, 15b, 16b, 17 through 19, and 21. Do not include amounts from box 5 of Forms SSA-1099 or RRB-1099 . . . . . **3.** 32,765

4. Enter the amount, if any, from Form 1040, line 8b **4.** 0

5. Add lines 2, 3, and 4 . . . . . **5.** 39,897

6. Enter the total of the amounts from Form 1040, lines 23, 24, and 27 through 32a, plus any amount you entered on the dotted line next to line 33 . . . . . **6.** 424

7. Is the amount on line 6 less than the amount on line 5?

☐ **No.** STOP None of your social security benefits are taxable.

☑ **Yes.** Subtract line 6 from line 5 . . . . . **7.** 39,473

8. If you are:
- Married filing jointly, enter $32,000
- Single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2003, enter $25,000
- Married filing separately and you lived with your spouse at any time in 2003, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17

. . . . . **8.** 32,000

9. Is the amount on line 8 less than the amount on line 7?

☐ **No.** STOP None of your social security benefits are taxable. You do not have to enter any amounts on lines 20a or 20b of Form 1040. **But** if you are married filing separately and you **lived apart** from your spouse for all of 2003, enter -0- on line 20b. Be sure you entered "D" to the right of the word "benefits" on line 20a.

☑ **Yes.** Subtract line 8 from line 7 . . . . . **9.** 7,473

10. Enter: $12,000 if married filing jointly; $9,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2003 **10.** 12,000

11. Subtract line 10 from line 9. If zero or less, enter -0- **11.** 0

12. Enter the **smaller** of line 9 or line 10 . . . . . **12.** 7,473

13. Enter one-half of line 12 . . . . . **13.** 3,737

14. Enter the **smaller** of line 2 or line 13 . . . . . **14.** 3,737

15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- **15.** 0

16. Add lines 14 and 15 . . . . . **16.** 3,737

17. Multiply line 1 by 85% (.85) **17.** 12,124

18. **Taxable social security benefits.** Enter the **smaller** of line 16 or line 17 . . . . . **18.** 3,737
- Enter the amount from line 1 above on Form 1040, line 20a.
- Enter the amount from line 18 above on Form 1040, line 20b.

TIP If part of your benefits are taxable for 2003 **and** they include benefits paid in 2003 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

FOREIGN EARNED INCOME EXCLUSION

INTRODUCTION AND OBJECTIVES

This lesson will discuss the ***foreign earned income exclusion***. Certain taxpayers can exclude income earned in foreign countries. For 2003, the maximum exclusion amount is $80,000. However, the foreign earned income exclusion **does not apply** to wages and salaries of military and civilian employees of the U.S. Government. Employees of the U.S Government, include those who work at Armed Forces post exchanges, officers' and enlisted personnel clubs, and embassy commissaries. Other foreign income earned by military personnel for their spouses may be eligible for the exclusion.

To qualify for the foreign earned income exclusion, the taxpayer's tax home must be in a foreign country throughout your period of stay. This lesson will explain this requirement.

After completing this lesson, you should be able to:

- Determine whether the taxpayer qualifies for the foreign earned income exclusion.
- Calculate the foreign earned income exclusion.

REQUIREMENTS TO QUALIFY FOR THE FOREIGN EARNED INCOME EXCLUSION

There are two requirements to qualify for the foreign earned income exclusion. First, the taxpayer must show that his or her **tax home** is in a foreign country. ("Foreign country" does not include Puerto Rico, Guam, the Northern Mariana Islands, the Virgin Islands, or U.S. possessions such as America Samoa, Wake Island, the Midway Islands and Johnston Island.) The second requirement is that the taxpayer must meet either the **bona fide residence test** or **the physical presence test.**

Exercise 1

Miranda has lived in Puerto Rico since 1998. Is she eligible for the foreign earned income exclusion?

Answer ____

The requirements are applied separately to each individual. If a husband and wife are each working overseas, each must meet both requirements, to apply the exclusion. If they do so, each is entitled to an exclusion of up to $80,000 (on qualified income) for 2003. **(Remember military pay is not eligible for the exclusion.)**

Tax Home. To claim the foreign earned income exclusion, the taxpayer's home must be in a foreign country. Generally, one's tax home is the area of the taxpayer's main place of business, employment or post of duty, regardless of where the taxpayer maintains his or her family home. If the taxpayer does not have a regular place of business because of the nature of the work, their tax home is the place where they regularly live.

Military Note: The tax home for military personnel is the permanent duty station, either land based or on a ship. This is true whether it is feasible or permissible for the taxpayer's family to live with him or her. **Generally, most military personnel and their dependents will not qualify for the Foreign Earned Income Exclusion.**

Example 1

John and Mary are both in the armed forces and have been permanently stationed in Germany since August 2001. Their tax home for 2003 would be Germany.

Exercise 2

Alan has lived and worked in China since August 16, 1999. For 2003, what country is his tax home?

Answer ____

When the taxpayer has a tax home in the U.S. and goes overseas temporarily, or on business, the tax home has not changed. If the taxpayer is assigned overseas on business for an indefinite period, the tax home is overseas and the taxpayer may be eligible for the foreign earned income exclusion.

The law provides that the taxpayer will not be treated as temporarily away from home if the employment away from home exceeds one year. Therefore the person will generally be considered to have a tax home in a foreign country if the employment in the foreign country will be for more than one year. However for purposes of the foreign earned income exclusion a person will not be considered to have a tax home in a foreign country for any time during which his abode is in the United States.

DETERMINING THE REGULAR PLACE OF ABODE

Three questions are important in showing whether or not a U.S. home is the regular place of abode. The questions that you should ask the taxpayer are:

1. Did you use your home in the United States as a residence while you worked at your job in the United States just before going abroad to your new job, and did you continue to maintain

work contacts, job seeking, leave of absence, ongoing business, etc.) in that area in the United States during the time you worked abroad?

2. Are your living expenses duplicated at the U.S. and foreign home because your work requires you to be away from your U.S. home?
3. Do you have a family member or members continuing to live at your U.S. home, or do you frequently use your U.S. home for lodging during the period you work abroad?

If the taxpayer **cannot** answer “yes” to at least two of these three questions, the taxpayer will be considered indefinitely assigned to the new location abroad. Thus, since the tax home is abroad, no expenses for travel, meals, or lodging while there are deductible. However, one may be able to exclude earnings from income under the foreign earned income exclusion rules.

If he/she realistically expects the job to last, and it does last, less than 1 year and that he/she will return to the U.S. home, and can answer “yes” to all three questions, the taxpayer is considered temporarily away from home. The taxpayer does not qualify for the foreign earned income exclusion, but may qualify to deduct away-from-home expenses.

If the taxpayer can answer “yes” to two of the questions, with the same expectation of job duration and return to the U.S. home, the location of the tax home depends on all the facts and circumstances.

Example 2

Henry is in the Armed Forces. He was assigned to a post in Japan in 2003. This assignment was for an indefinite period. Margaret, his wife, accompanied him to Japan and has foreign earned income. Their tax home for 2003 would be Japan.

Period of Stay. Another qualification for the exclusion is the length of time the taxpayer stays overseas. This requirement can be satisfied in one of two ways.

The taxpayer must be:

1. A U.S. citizen or resident alien from a tax treaty country who is a **bona fide resident** of a foreign country (or countries) for an uninterrupted period that includes an entire tax year, or
2. A U.S. citizen or U.S. resident alien who is physically present in a foreign country or countries for at least 330 full days during any period of 12 consecutive months.

Exercise 3

Jennifer is a U.S. citizen who has lived in Israel since October 1, 2003. She expects to return to the U.S. in May, 2004. Does she meet either period of stay test?

Answer ____

Bona Fide Resident Test. To meet the test, the taxpayer must show that he or she has set up permanent quarters in a foreign country. The period must be for an uninterrupted period that includes an entire tax year. Taking a brief trip to the U.S. will not prevent the taxpayer from being a bona fide resident, as long as the intention is clear to return to the foreign country.

Example 3

Jane is a military spouse who has lived in England since 1999. Her mother still lives in the U.S. Jane came to the U.S. for two weeks in 2003 to be with her mother after she had surgery. Jane's trip to the U.S. does not affect her status as a bona fide resident of a foreign country.

Physical Presence Test. The other test that may be met instead of the bona fide residence test is the physical presence test. To qualify, the taxpayer must be physically present in a foreign country 330 full days during a period of twelve consecutive months.

In order for a day to count for the test, it must be a full day in a foreign country. When arriving from the U.S., or returning to the U.S., any day in which part of the time is spent in the U.S. or over international waters does not count as a qualifying day in a foreign country.

The taxpayer may move about from one place to another in a foreign country, or to another foreign country without losing full days. But if any part of the taxpayer's travel is not within a foreign country or countries and takes 24 hours or more, the taxpayer will lose full days.

Example 4

The taxpayer leaves Southampton, England, by ship at 10:00 p.m. on July 6 and arrives in Lisbon at 6:00 a.m. on July 8. Since the trip takes more than 24 hours, the taxpayer loses as full days, July 6, 7, and 8. If the taxpayer remains in Lisbon, the first full day is July 9.

Exercise 4

Shauntell is using the twelve months of 2003 to determine if she qualifies for the physical presence test. She arrived in Kenya on January 3, 2003 and worked there until August 12, 2003 when she returned to the U.S. for 6 weeks. On October 1, 2003 she returned to Kenya and worked there until she permanently returned to the U.S. on January 1, 2004. Does she meet the physical presence test for 2003?

Answer ____

Figuring the 12 Month Period. Any 12-month period may be used if the 330 days in a foreign country fall within that period. If necessary, more than one period may be used, including periods that overlap. By using more than one period, it may be possible to meet the physical presence test for an entire stay, even though there may have been intervening visits to the U.S.

Waiver of Time Requirements. The minimum time requirements for period of stay may be waived, if the taxpayer is forced to leave a foreign country because of war, civil unrest, or similar adverse conditions in that country. The taxpayer must show that he/she could have met the minimum time requirements if it had not been for the adverse conditions.

QUALIFYING INCOME

To qualify for the exclusion, income must be **earned income.** Examples of earned income are salaries, wages, commissions and professional fees. Earned income does not include dividends, interest, capital gains, alimony, social security benefits, pensions or annuities. To qualify for the exclusion, the earned income must be for services (other than military or U.S. government) performed in a foreign country.

Amounts paid by the United States or its agencies to its employees **do not qualify** for the exclusion. This includes military pay and payment for such activities as post exchanges, commissaries, and officers clubs.

Example 5

Maria, a U.S. resident, is in the armed forces and has lived in Lisbon since 1999. Her military pay is not eligible for the foreign earned income exclusion. In her spare time, she is a self-employed DJ in Lisbon and the surrounding area. The income from her self-employment may qualify for the exclusion.

Source of earned income. The source of earned income is the place where the services are performed. To qualify for the exclusion, services must be performed in a foreign country. Where the payments come from for the service or where they are deposited is not a factor in the determining source of the income. If a taxpayer works predominantly in a foreign country, but does some work in the U.S., an adjustment must be made to the total of foreign earned income.

Example 6

Charles Thompson works and lives in the Bahamas. After vacation, he worked 50 weeks in 2003. For one week, he attended a business meeting in Florida. 1/50 or 2% of his wages are not foreign earned income, because that week was spent working in Florida.

Exercise 5

Maurice is stationed in Germany. His only income is from his U.S. military salary. Does he qualify for the foreign earned income exclusion?

Answer ____

Exercise 6

Juanita lives in Scotland. She is retired and her income consists of U.S. Social Security, a pension and several stock dividends. Does she qualify for the foreign earned income exclusion?

Answer ____

Exercise 7

Jose and Kim live in a foreign country. Jose has wages from the U.S. military. Kim has wages from a bank that she works at in the foreign country. Do they have qualifying income for the foreign earned income exclusion?

Answer ____

CHOOSING THE EXCLUSION

The foreign earned income exclusion is voluntary. (There are times when it may be to the taxpayer's advantage to not claim the exclusion. An example is that a taxpayer may not claim the Earned Income Tax Credit, if foreign income is excluded.) The initial choice of the exclusion on Form 2555 or Form 2555EZ must be filed with a timely return (including extensions). Exceptions do apply that allow the initial choice to be made after a return is filed. Taxpayers who wish to take advantage of these exceptions should seek professional tax assistance.

The taxpayer may revoke the election for any tax year. When the exclusion is revoked, the taxpayer may not claim the exclusion again for the next five tax years without the approval of the IRS.

COMPLETING AND FILING FORM 2555 OR FORM 2555EZ

If the taxpayer is qualified to, and wishes to claim the foreign earned income exclusion, it is necessary to complete Form 2555 or 2555EZ and attach it to Form 1040. The tax return should be filed with Internal Revenue Service Processing Campus, Philadelphia, PA, 19255.

To be able to use Form 2555EZ, the taxpayer must be a U.S. citizen or resident alien who has wages and salaries, but not self-employment income. The total foreign earned income must be $80,000 or less, and the person cannot be claiming any business or moving expenses. Taxpayers, who do not meet these restrictions, should file Form 2555 to claim the credit.

Example 7

Michael and his wife Melissa have been stationed in Hong Kong since 2001. Michael is employed by the armed forces. Melissa operates a home day care business. Their tax home is Hong Kong. They meet the physical presence test. Melissa wants to exclude her self-employment income from U.S. taxation.

She will need to complete Form 2555 instead of Form 2555EZ, because her income is from self-employment.

Exercise 8

Assuming that the following taxpayers meet the period of stay test, should they file a Form 2555, or Form 2555EZ?

a. Mallory has $34,000 of foreign earned income. She has no other income. Which form should she file?

Answer ____

b. Jacob has U.S. military wages and self-employment income he earned in a foreign country. Which form should he file?

Answer ____

c. Ramie has $86,000 of foreign earned income. Which form should he file?

Answer ____

Taxpayers, who are eligible to file Form 2555EZ, should complete all four sections of the form.

On the following two pages, you will find a blank copy of Form 2555EZ for your reference.

Exhibit 1

Form **2555-EZ**

Department of the Treasury
Internal Revenue Service (99)

Foreign Earned Income Exclusion

▶ **See separate instructions.** ▶ **Attach to Form 1040.**

OMB No. 1545-1326

2003

Attachment
Sequence No. **34A**

Name shown on Form 1040

Your social security number

You May Use This Form If You:

- Are a U.S. citizen or a resident alien.
- Earned wages/salaries in a foreign country.
- Had total foreign earned income of $80,000 or less.
- Are filing a calendar year return that covers a 12-month period.

And You:

- Do not have self-employment income.
- Do not have business/moving expenses.
- Do not claim the foreign housing exclusion or deduction.

Part I Tests To See If You Can Take the Foreign Earned Income Exclusion

1 Bona Fide Residence Test

a Were you a bona fide resident of a foreign country or countries for a period that includes an entire tax year (see page 2 of the instructions)? . . . . ☐ **Yes** ☐ **No**

- If you answered "Yes," you meet this test. Fill in line 1b and then go to line 3.
- If you answered "No," you **do not** meet this test. Go to line 2 to see if you meet the Physical Presence Test.

b Enter the date your bona fide residence began ▶ ______________, and ended (see instructions) ▶ ______________.

2 Physical Presence Test

a Were you physically present in a foreign country or countries for at least 330 full days during—
{ 2003 **or**
any other period of 12 months in a row starting or ending in 2003? } . . . . ☐ **Yes** ☐ **No**

- If you answered "Yes," you meet this test. Fill in line 2b and then go to line 3.
- If you answered "No," you **do not** meet this test. You **cannot** take the exclusion unless you meet the Bona Fide Residence Test above.

b The physical presence test is based on the 12-month period from ▶ ______________ through ▶ ______________.

3 **Tax Home Test.** Was your tax home in a foreign country or countries throughout your period of bona fide residence or physical presence, whichever applies? . . . . ☐ **Yes** ☐ **No**

- If you answered "Yes," you can take the exclusion. Complete Part II below and then go to page 2.
- If you answered "No," you **cannot** take the exclusion. **Do not** file this form.

Part II General Information

4 Your foreign address (including country)

5 Your occupation

6 Employer's name

7 Employer's U.S. address (including ZIP code)

8 Employer's foreign address

9 Employer is (check any that apply):

a A U.S. business . . . . ☐

b A foreign business . . . . ☐

c Other (specify) ▶ ______________________________ ☐

10a If you filed Form 2555 or 2555-EZ after 1981, enter the last year you filed the form. ▶ ______________

b If you did not file Form 2555 or 2555-EZ after 1981, check here ▶ ☐ and go to line 11a now.

c Have you ever revoked the foreign earned income exclusion? . . . . ☐ **Yes** ☐ **No**

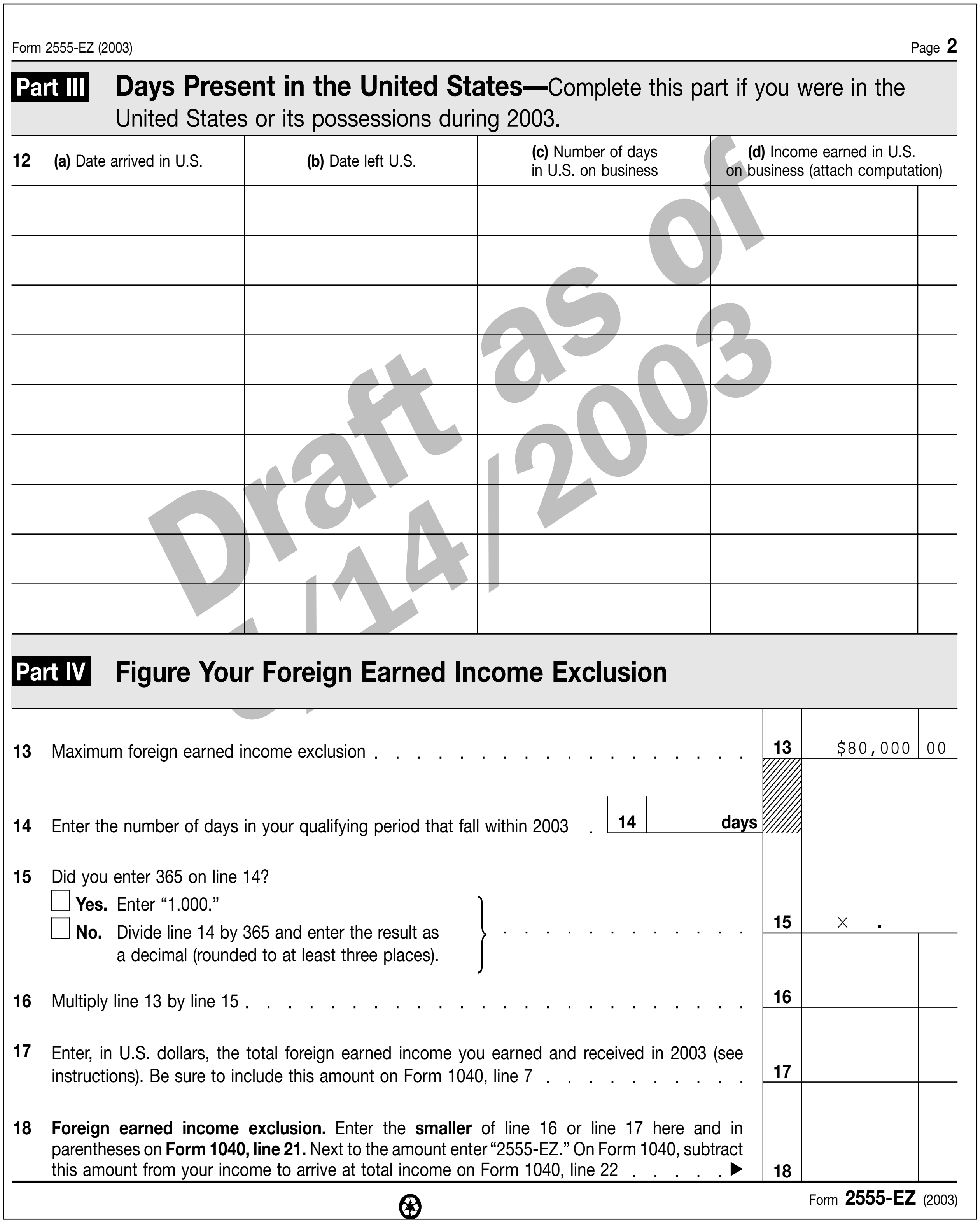
d If you answered "Yes," enter the tax year for which the revocation was effective. ▶ ______________

11a List your tax home(s) during 2003 and date(s) established. ▶ ______________

b Of what country are you a citizen/national? ▶

For Paperwork Reduction Act Notice, see page 3 of separate instructions. Cat. No. 13272W Form **2555-EZ** (2003)

Exhibit 2



Form 2555-EZ (2003) Page 2

Part III Days Present in the United States—Complete this part if you were in the United States or its possessions during 2003.

12

(a) Date arrived in U.S.	(b) Date left U.S.	(c) Number of days in U.S. on business	(d) Income earned in U.S. on business (attach computation)	

Part IV Figure Your Foreign Earned Income Exclusion

13 Maximum foreign earned income exclusion 13 $80,000 00

14 Enter the number of days in your qualifying period that fall within 2003 . 14 days

15 Did you enter 365 on line 14?
☐ **Yes.** Enter “1.000.”
☐ **No.** Divide line 14 by 365 and enter the result as a decimal (rounded to at least three places). . . . . 15 × .

16 Multiply line 13 by line 15 16

17 Enter, in U.S. dollars, the total foreign earned income you earned and received in 2003 (see instructions). Be sure to include this amount on Form 1040, line 7 17

18 **Foreign earned income exclusion.** Enter the **smaller** of line 16 or line 17 here and in parentheses on **Form 1040, line 21.** Next to the amount enter “2555-EZ.” On Form 1040, subtract this amount from your income to arrive at total income on Form 1040, line 22 . . . . . ▶ 18

Form **2555-EZ** (2003)

For those who must file Form 2555, the first section of the form is for general information, and must be completed by all taxpayers who claim the exclusion.

Taxpayers who claim the bona fide residence test must complete Part II of Form 2555. Taxpayers who qualify under the physical presence test must complete Part III.

Part IV, completed by all taxpayers, is where foreign earned income is listed. It must be completed in U.S. dollars. If the taxpayer has difficulty in converting income, IRS can provide exchange rates to be used. However, the taxpayer is not required to use only rates provided by the IRS or the federal government. Note that earned income includes not only wages and salaries but also non-cash income and allowances and reimbursements received by the taxpayer.

Military Note: Do not list military wages in this section; they are not considered foreign earned income.

Page 3 of the form is where the exclusion is computed. Taxpayers claiming only the basic exclusion fill out Parts V and VII. Most of the lines are self-explanatory. The concept of qualifying period is essential. For those qualifying under the bona fide residence test, this qualifying period is the period of actual residence. For the physical presence test, the qualifying period or periods is chosen by the taxpayer. Any period may be chosen as long as 330 days are spent in a foreign country during the period.

Military Note: Generally, armed forces personnel and their spouses will not qualify for the housing exclusion (the housing allowance is already considered non-taxable income).

On the following three pages, you will find a blank Form 2555 for your reference.

Exhibit 3

Form **2555**

Department of the Treasury
Internal Revenue Service (99)

Foreign Earned Income

▶ **See separate instructions.** ▶ **Attach to Form 1040.**

OMB No. 1545-0067

2003

Attachment
Sequence No. **34**

For Use by U.S. Citizens and Resident Aliens Only

Name shown on Form 1040 | **Your social security number**

Part I General Information

1 Your foreign address (including country) | 2 Your occupation

3 Employer's name ▶ ....

4a Employer's U.S. address ▶ ....

b Employer's foreign address ▶ ....

5 Employer is (check any that apply): ▶ **a** ☐ A foreign entity **b** ☐ A U.S. company **c** ☐ Self
d ☐ A foreign affiliate of a U.S. company **e** ☐ Other (specify) ▶ ....

6a If, after 1981, you filed Form 2555 to claim either of the exclusions or Form 2555-EZ to claim the foreign earned income exclusion, enter the last year you filed the form. ▶ ....

b If you did not file Form 2555 or 2555-EZ after 1981 to claim either of the exclusions, check here ▶ ☐ and go to line 7.

c Have you ever revoked either of the exclusions? . . . . ☐ **Yes** ☐ **No**

d If you answered "Yes," enter the type of exclusion and the tax year for which the revocation was effective. ▶ ....

7 Of what country are you a citizen/national? ▶ ....

8a Did you maintain a separate foreign residence for your family because of adverse living conditions at your tax home? See **Second foreign household** on page 3 of the instructions . . . . ☐ **Yes** ☐ **No**

b If "Yes," enter city and country of the separate foreign residence. Also, enter the number of days during your tax year that you maintained a second household at that address. ▶ ....

9 List your tax home(s) during your tax year and date(s) established. ▶ ....

Next, complete either Part II or Part III. If an item does not apply, enter "NA." If you do not give the information asked for, any exclusion or deduction you claim may be disallowed.

Part II Taxpayers Qualifying Under Bona Fide Residence Test (See page 2 of the instructions.)

10 Date bona fide residence began ▶ ...., and ended ▶ ....

11 Kind of living quarters in foreign country ▶ **a** ☐ Purchased house **b** ☐ Rented house or apartment **c** ☐ Rented room
d ☐ Quarters furnished by employer

12a Did any of your family live with you abroad during any part of the tax year? . . . . ☐ **Yes** ☐ **No**

b If "Yes," who and for what period? ▶ ....

13a Have you submitted a statement to the authorities of the foreign country where you claim bona fide residence that you are not a resident of that country? (See instructions.) . . . . ☐ **Yes** ☐ **No**

b Are you required to pay income tax to the country where you claim bona fide residence? (See instructions.) ☐ **Yes** ☐ **No**

If you answered "Yes" to 13a and "No" to 13b, you do not qualify as a bona fide resident. Do not complete the rest of this part.

14 If you were present in the United States or its possessions during the tax year, complete columns **(a)–(d)** below. **Do not** include the income from column **(d)** in Part IV, but report it on Form 1040.

(a) Date arrived in U.S.	**(b)** Date left U.S.	**(c)** Number of days in U.S. on business	**(d)** Income earned in U.S. on business (attach computation)	**(a)** Date arrived in U.S.	**(b)** Date left U.S.	**(c)** Number of days in U.S. on business	**(d)** Income earned in U.S. on business (attach computation)

15a List any contractual terms or other conditions relating to the length of your employment abroad. ▶ ....

b Enter the type of visa under which you entered the foreign country. ▶ ....

c Did your visa limit the length of your stay or employment in a foreign country? If "Yes," attach explanation ☐ **Yes** ☐ **No**

d Did you maintain a home in the United States while living abroad? . . . . ☐ **Yes** ☐ **No**

e If "Yes," enter address of your home, whether it was rented, the names of the occupants, and their relationship to you. ▶ ....

For Paperwork Reduction Act Notice, see page 4 of separate instructions. Cat. No. 11900P Form **2555** (2003)

Exhibit 4

Part III Taxpayers Qualifying Under Physical Presence Test (See page 2 of the instructions.)

16 The physical presence test is based on the 12-month period from ▶ ______________ through ▶ ______________

17 Enter your principal country of employment during your tax year. ▶ ______________________________

18 If you traveled abroad during the 12-month period entered on line 16, complete columns **(a)–(f)** below. Exclude travel between foreign countries that did not involve travel on or over international waters, or in or over the United States, for 24 hours or more. If you have no travel to report during the period, enter “Physically present in a foreign country or countries for the entire 12-month period.” **Do not** include the income from column **(f)** below in Part IV, but report it on Form 1040.

(a) Name of country (including U.S.)	**(b)** Date arrived	**(c)** Date left	**(d)** Full days present in country	**(e)** Number of days in U.S. on business	**(f)** Income earned in U.S. on business (attach computation)

Part IV All Taxpayers

Note: *Enter on lines 19 through 23 all income, including noncash income, you earned and actually or constructively received during your 2003 tax year for services you performed in a foreign country. If any of the foreign earned income received this tax year was earned in a prior tax year, or will be earned in a later tax year (such as a bonus), see the instructions.* ***Do not*** *include income from line 14, column* ***(d),*** *or line 18, column* ***(f).*** *Report amounts in U.S. dollars, using the exchange rates in effect when you actually or constructively received the income.*

If you are a cash basis taxpayer, report on Form 1040 all income you received in 2003, no matter when you performed the service.

	2003 Foreign Earned Income				**Amount (in U.S. dollars)**
19	Total wages, salaries, bonuses, commissions, etc.			**19**	
20	Allowable share of income for personal services performed (see instructions):				
a	In a business (including farming) or profession			**20a**	
b	In a partnership. List partnership's name and address and type of income. ▶ ______________			**20b**	
21	Noncash income (market value of property or facilities furnished by employer—attach statement showing how it was determined):			▨	
a	Home (lodging)			**21a**	
b	Meals			**21b**	
c	Car			**21c**	
d	Other property or facilities. List type and amount. ▶ ______________			**21d**	
22	Allowances, reimbursements, or expenses paid on your behalf for services you performed:			▨	
a	Cost of living and overseas differential	**22a**		▨	
b	Family	**22b**		▨	
c	Education	**22c**		▨	
d	Home leave	**22d**		▨	
e	Quarters	**22e**		▨	
f	For any other purpose. List type and amount. ▶ ______________	**22f**		▨	
g	Add lines 22a through 22f			**22g**	
23	Other foreign earned income. List type and amount. ▶ ______________			**23**	
24	Add lines 19 through 21d, line 22g, and line 23			**24**	
25	Total amount of meals and lodging included on line 24 that is excludable (see instructions)			**25**	
26	Subtract line 25 from line 24. Enter the result here and on line 27 on page 3. This is your **2003 foreign earned income** ▶			**26**	

Form **2555** (2003)

Exhibit 5

Part V All Taxpayers

27 Enter the amount from line 26 . . . . **27**

Are you claiming the housing exclusion or housing deduction?

☐ **Yes.** Complete Part VI.

☐ **No.** Go to Part VII.

Part VI Taxpayers Claiming the Housing Exclusion and/or Deduction

28 Qualified housing expenses for the tax year (see instructions) **28**

29 Number of days in your qualifying period that fall within your 2003 tax year (see instructions) . . . . **29** **days**

30 Multiply $30.77 by the number of days on line 29. If 365 is entered on line 29, enter $11,233.00 here **30**

31 Subtract line 30 from line 28. If the result is zero or less, do not complete the rest of this part or any of Part IX **31**

32 Enter employer-provided amounts (see instructions) **32**

33 Divide line 32 by line 27. Enter the result as a decimal (rounded to at least three places), but do not enter more than “1.000” . . . . **33** × .

34 **Housing exclusion.** Multiply line 31 by line 33. Enter the result but do not enter more than the amount on line 32. Also, complete Part VIII . . . . ▶ **34**

Note: *The housing deduction is figured in Part IX. If you choose to claim the foreign earned income exclusion, complete Parts VII and VIII before Part IX.*

Part VII Taxpayers Claiming the Foreign Earned Income Exclusion

35 Maximum foreign earned income exclusion **35** $80,000 00

36
- If you completed Part VI, enter the number from line 29.
- All others, enter the number of days in your qualifying period that fall within your 2003 tax year (see the instructions for line 29).

36 **days**

37
- If line 36 and the number of days in your 2003 tax year (usually 365) are the same, enter “1.000.”
- Otherwise, divide line 36 by the number of days in your 2003 tax year and enter the result as a decimal (rounded to at least three places).

37 × .

38 Multiply line 35 by line 37 . . . . **38**

39 Subtract line 34 from line 27 . . . . **39**

40 **Foreign earned income exclusion.** Enter the **smaller** of line 38 or line 39. Also, complete Part VIII ▶ **40**

Part VIII Taxpayers Claiming the Housing Exclusion, Foreign Earned Income Exclusion, or Both

41 Add lines 34 and 40 . . . . **41**

42 Deductions allowed in figuring your adjusted gross income (Form 1040, line 34) that are allocable to the excluded income. See instructions and attach computation **42**

43 Subtract line 42 from line 41. Enter the result here and in parentheses on **Form 1040, line 21.** Next to the amount enter “Form 2555.” On Form 1040, subtract this amount from your income to arrive at total income on Form 1040, line 22 . . . . ▶ **43**

Part IX Taxpayers Claiming the Housing Deduction—Complete this part only if (a) line 31 is more than line 34 and (b) line 27 is more than line 41.

44 Subtract line 34 from line 31 . . . . **44**

45 Subtract line 41 from line 27 . . . . **45**

46 Enter the **smaller** of line 44 or line 45 . . . . **46**

Note: *If line 45 is **more than** line 46 and you could not deduct all of your 2002 housing deduction because of the 2002 limit, use the worksheet on page 4 of the instructions to figure the amount to enter on line 47. Otherwise, go to line 48.*

47 Housing deduction carryover from 2002 (from worksheet on page 4 of the instructions) . . . **47**

48 **Housing deduction.** Add lines 46 and 47. Enter the total here and on Form 1040 to the left of line 33. Next to the amount on Form 1040, enter “Form 2555.” Add it to the total adjustments reported on that line . . . . ▶ **48**

Although the exclusion may never be more than the foreign earned income, it may be less. The exclusion can be no more than $80,000. If the number of qualifying days in the tax year is less than 365, the $80,000 limit is lowered proportionally.

Example 8

Tina York is claiming the exclusion. Her qualifying period is March 15, 2002 to March 14, 2003. On line 36 of Form 2555, Tina enters 73 days because 73 days of her qualifying period fall in the 2003 tax year.

On line 37, she divides 73 by 365, and enters the result, ".200."

On line 38, $80,000 is multiplied by .200, which results in $16,000."

Exhibit 6 **Form 2555, lines 35-40**

Part VII **Taxpayers Claiming the Foreign Earned Income Exclusion**

35	Maximum foreign earned income exclusion		35	$80,000	00
36	• If you completed Part VI, enter the number from line 29. • All others, enter the number of days in your qualifying period that fall within your 2003 tax year (see the instructions for line 29).	**36** 73 **days**			
37	• If line 36 and the number of days in your 2003 tax year (usually 365) are the same, enter "1.000." • Otherwise, divide line 36 by the number of days in your 2003 tax year and enter the result as a decimal (rounded to at least three places).		37	× .200	
38	Multiply line 35 by line 37		38	$16,000	.00
39	Subtract line 34 from line 27		39		
40	**Foreign earned income exclusion.** Enter the **smaller** of line 38 or line 39. Also, complete Part VIII ▶		40		

Regardless of how much foreign earned income Tina had, her exclusion can be no more than $16,000.

DEDUCTIONS ALLOCABLE TO EXCLUDED INCOME

In section VIII of Form 2555, the taxpayer is required to list the deductions allowed in figuring adjusted gross income that are allocable to the excluded income. To the extent a deduction that is allocable to the excluded income is claimed, the exclusion must be reduced by the deduction.

The three most common deductions that may affect the exclusion are **self-employment tax**, **itemized deductions** and **moving expenses.**

1. **Self-Employment Tax.** The taxpayer must take all earned income into account in figuring self-employment tax, even though the income is exempt from income tax because of the foreign earned income exclusion.

An individual is allowed a deduction for one-half of self-employment tax on the Form 1040. This deduction is related to the operation of the business. If foreign earned income is excluded, the deduction for S.E. tax must be allocated to the excluded income. The amount allocated to the excluded income reduces the Foreign Earned Income exclusion allowed.

The following formula is used to determine the amount of the deduction allocable to excluded income:

$$\frac{\text{Excluded Earned Income}}{\text{Qualifying Earned Income}} \times \begin{array}{l}\text{Self-Employment Tax Deduction}\\\text{(From Form 1040, Line 28)}\end{array}$$

When the qualifying earned income is fully excluded, none of the self-employment tax deduction is allowed; therefore the full amount of this deduction is put on line 42 of Form 2555. This will reduce your Foreign Earned Income exclusion by the amount of the deduction. However, the self-employment tax deduction is still entered on line 28 of Form 1040.

2. **Itemized Deductions.** The treatment for itemized deductions is somewhat different. In reporting itemized deductions on Schedule A (Form 1040) that are wholly or partly allocable to excluded income, the taxpayer must reduce the gross deduction by the disallowed amount in arriving at the net deduction shown on Schedule A. Then the taxpayer attaches a statement showing how the deductible amount was figured and writes "Form 2555" in the upper right corner of Schedule A. The most common itemized deductions that are allocable to excluded foreign earned income are unreimbursed employee business expenses. The same formula, as presented above, is used to determine the amounts allocable to the excluded foreign income.
3. **Moving Expenses.** The rules for deducting moving expenses allocable to excluded income are still more complex. ln the year of the move, if the taxpayer has at least 120 days of his qualifying period during the tax year, the moving expense is allocated solely to the year of the move. If the taxpayer has less than 120 full days in the tax year, the moving expense is allocated to income in the year of the move, and the year after. Taxpayers affected by this provision may want to seek assistance from the IRS or a tax preparer.

After adjusting the exclusion for any deductions allocable to excluded income the net exclusion needs to be carried to Form 1040. The amount from Form 2555 EZ line 18 or Form 2555 line 43 is entered in parenthesis on Form 1040 line 21. It is subtracted from other sources of income.

▶▶ SUMMING UP THIS LESSON ◀◀

The foreign earned income exclusion does not apply to income from the U.S. government, regardless of the tax home. The exclusion can be up to $80,000 for income earned in a foreign country. It is necessary to complete either Form 2555 or 2555EZ to claim the exclusion.

In this lesson, we have discussed the basic examples of the exclusion. When a taxpayer has a more complex situation, he or she will need to seek professional tax assistance.

FOREIGN EARNED INCOME EXCLUSION

ANSWERS TO EXERCISES

1. No, Puerto Rico is not considered a foreign country.

2. His 2003 tax home is China.

3. No.

4. No, she was not present in the foreign country for a full 330 days.

5. No, U.S. military pay is not eligible.

6. No, only earned income is eligible.

7. Yes, Kim's salary.

8. **a.** Form 2555EZ
  b. Form 2555
  c. Form 2555

SUMMARY EXERCISES

1. List the two forms that the foreign earned income exclusion can be claimed on.
2. Is a taxpayer required to take the exclusion on foreign earned income?
3. Are military wages eligible for the foreign earned income exclusion?
4. Complete the form 2555EZ on the next two pages using the following information.

Robert (000-00-0001) and Sara (000-00-0002) Johnson (both U.S. citizens) have lived in Germany since August, 2002.Robert is employed by the U.S. Armed Forces. In 2003, Sara worked at a local bakery (Gulden's, 349028 Gulden Lane, Munich, Germany) in Germany and earned the equivalent of $12,000. Robert and Sara do not consider themselves bona fide residents of Germany. During 2003, they resided in Germany for the full year, except for a three day vacation period in France. Their address in Germany is 239084 Marzolf Lane, Munich, Germany. They have never claimed the foreign earned income exclusion before.

Form **2555-EZ**

Department of the Treasury
Internal Revenue Service (99)

Foreign Earned Income Exclusion

▶ **See separate instructions.** ▶ **Attach to Form 1040.**

OMB No. 1545-1326

2003

Attachment
Sequence No. **34A**

Name shown on Form 1040

Your social security number

You May Use This Form If You:

- Are a U.S. citizen or a resident alien.
- Earned wages/salaries in a foreign country.
- Had total foreign earned income of $80,000 or less.
- Are filing a calendar year return that covers a 12-month period.

And You:

- Do not have self-employment income.
- Do not have business/moving expenses.
- Do not claim the foreign housing exclusion or deduction.

Part I Tests To See If You Can Take the Foreign Earned Income Exclusion

1 Bona Fide Residence Test

a Were you a bona fide resident of a foreign country or countries for a period that includes an entire tax year (see page 2 of the instructions)? . . . . ☐ **Yes** ☐ **No**

- If you answered "Yes," you meet this test. Fill in line 1b and then go to line 3.
- If you answered "No," you **do not** meet this test. Go to line 2 to see if you meet the Physical Presence Test.

b Enter the date your bona fide residence began ▶ ______________, and ended (see instructions) ▶ ______________.

2 Physical Presence Test

a Were you physically present in a foreign country or countries for at least 330 full days during—
{ 2003 **or**
any other period of 12 months in a row starting or ending in 2003? } . . . . ☐ **Yes** ☐ **No**

- If you answered "Yes," you meet this test. Fill in line 2b and then go to line 3.
- If you answered "No," you **do not** meet this test. You **cannot** take the exclusion unless you meet the Bona Fide Residence Test above.

b The physical presence test is based on the 12-month period from ▶ ______________ through ▶ ______________.

3 Tax Home Test. Was your tax home in a foreign country or countries throughout your period of bona fide residence or physical presence, whichever applies? . . . . ☐ **Yes** ☐ **No**

- If you answered "Yes," you can take the exclusion. Complete Part II below and then go to page 2.
- If you answered "No," you **cannot** take the exclusion. **Do not** file this form.

Part II General Information

4 Your foreign address (including country)

5 Your occupation

6 Employer's name

7 Employer's U.S. address (including ZIP code)

8 Employer's foreign address

9 Employer is (check any that apply):

a A U.S. business . . . . ☐

b A foreign business . . . . ☐

c Other (specify) ▶ ______________________________ ☐

10a If you filed Form 2555 or 2555-EZ after 1981, enter the last year you filed the form. ▶ ______________

b If you did not file Form 2555 or 2555-EZ after 1981, check here ▶ ☐ and go to line 11a now.

c Have you ever revoked the foreign earned income exclusion? . . . . ☐ **Yes** ☐ **No**

d If you answered "Yes," enter the tax year for which the revocation was effective. ▶ ______________

11a List your tax home(s) during 2003 and date(s) established. ▶ ______________________________

b Of what country are you a citizen/national? ▶

For Paperwork Reduction Act Notice, see page 3 of separate instructions. Cat. No. 13272W Form **2555-EZ** (2003)

Part III Days Present in the United States—Complete this part if you were in the United States or its possessions during 2003.

12 (a) Date arrived in U.S.	(b) Date left U.S.	(c) Number of days in U.S. on business	(d) Income earned in U.S. on business (attach computation)	

Part IV Figure Your Foreign Earned Income Exclusion

13 Maximum foreign earned income exclusion **13** $80,000 00

14 Enter the number of days in your qualifying period that fall within 2003 . **14** **days**

15 Did you enter 365 on line 14?
☐ **Yes.** Enter “1.000.”
☐ **No.** Divide line 14 by 365 and enter the result as a decimal (rounded to at least three places). . . . . **15** × .

16 Multiply line 13 by line 15 . . . . **16**

17 Enter, in U.S. dollars, the total foreign earned income you earned and received in 2003 (see instructions). Be sure to include this amount on Form 1040, line 7 . . . . **17**

18 **Foreign earned income exclusion.** Enter the **smaller** of line 16 or line 17 here and in parentheses on **Form 1040, line 21.** Next to the amount enter “2555-EZ.” On Form 1040, subtract this amount from your income to arrive at total income on Form 1040, line 22 . . . . . . ▶ **18**

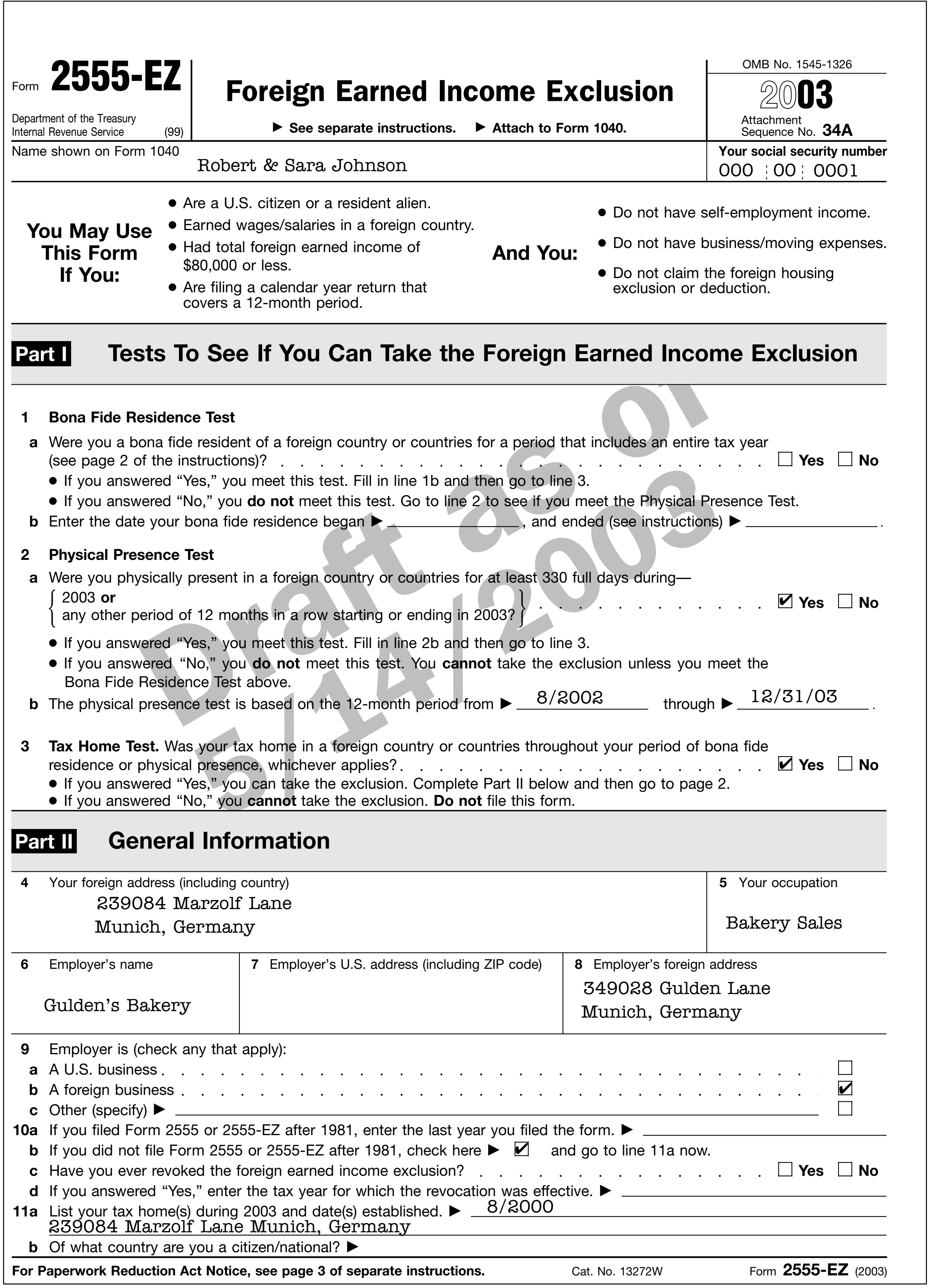
FOREIGN EARNED INCOME EXCLUSION

ANSWERS TO EXERCISES

ANSWERS TO SUMMARY EXERCISE

1. Form 2555 and Form 2555EZ.
2. No, it is voluntary.
3. No.
4. See the completed form on the next two pages.

Form 2555EZ, page 1



Form **2555-EZ**

Department of the Treasury
Internal Revenue Service (99)

Foreign Earned Income Exclusion

▶ See separate instructions. ▶ Attach to Form 1040.

OMB No. 1545-1326

2003

Attachment Sequence No. **34A**

Name shown on Form 1040: Robert & Sara Johnson

Your social security number: 000 : 00 : 0001

You May Use This Form If You:

- Are a U.S. citizen or a resident alien.
- Earned wages/salaries in a foreign country.
- Had total foreign earned income of $80,000 or less.
- Are filing a calendar year return that covers a 12-month period.

And You:

- Do not have self-employment income.
- Do not have business/moving expenses.
- Do not claim the foreign housing exclusion or deduction.

Part I Tests To See If You Can Take the Foreign Earned Income Exclusion

1 Bona Fide Residence Test

a Were you a bona fide resident of a foreign country or countries for a period that includes an entire tax year (see page 2 of the instructions)? . . . ☐ **Yes** ☐ **No**

- If you answered "Yes," you meet this test. Fill in line 1b and then go to line 3.
- If you answered "No," you **do not** meet this test. Go to line 2 to see if you meet the Physical Presence Test.

b Enter the date your bona fide residence began ▶ ______, and ended (see instructions) ▶ ______.

2 Physical Presence Test

a Were you physically present in a foreign country or countries for at least 330 full days during—
{ 2003 **or**
any other period of 12 months in a row starting or ending in 2003? } . . . ☑ **Yes** ☐ **No**

- If you answered "Yes," you meet this test. Fill in line 2b and then go to line 3.
- If you answered "No," you **do not** meet this test. You **cannot** take the exclusion unless you meet the Bona Fide Residence Test above.

b The physical presence test is based on the 12-month period from ▶ 8/2002 through ▶ 12/31/03.

3 Tax Home Test. Was your tax home in a foreign country or countries throughout your period of bona fide residence or physical presence, whichever applies? . . . ☑ **Yes** ☐ **No**

- If you answered "Yes," you can take the exclusion. Complete Part II below and then go to page 2.
- If you answered "No," you **cannot** take the exclusion. **Do not** file this form.

Part II General Information

4 Your foreign address (including country):
239084 Marzolf Lane
Munich, Germany

5 Your occupation: Bakery Sales

6 Employer's name: Gulden's Bakery

7 Employer's U.S. address (including ZIP code):

8 Employer's foreign address:
349028 Gulden Lane
Munich, Germany

9 Employer is (check any that apply):

a A U.S. business . . . ☐

b A foreign business . . . ☑

c Other (specify) ▶ ______ ☐

10a If you filed Form 2555 or 2555-EZ after 1981, enter the last year you filed the form. ▶ ______

b If you did not file Form 2555 or 2555-EZ after 1981, check here ▶ ☑ and go to line 11a now.

c Have you ever revoked the foreign earned income exclusion? . . . ☐ **Yes** ☐ **No**

d If you answered "Yes," enter the tax year for which the revocation was effective. ▶ ______

11a List your tax home(s) during 2003 and date(s) established. ▶ 8/2000
239084 Marzolf Lane Munich, Germany

b Of what country are you a citizen/national? ▶

For Paperwork Reduction Act Notice, see page 3 of separate instructions. Cat. No. 13272W Form **2555-EZ** (2003)

Form 2555EZ, page 2

Form 2555-EZ (2003) Page **2**

Part III **Days Present in the United States—**Complete this part if you were in the United States or its possessions during 2003.

12 **(a)** Date arrived in U.S.	**(b)** Date left U.S.	**(c)** Number of days in U.S. on business	**(d)** Income earned in U.S. on business (attach computation)	

Part IV **Figure Your Foreign Earned Income Exclusion**

13 Maximum foreign earned income exclusion	13	$80,000	00
14 Enter the number of days in your qualifying period that fall within 2003 . **14** 362 **days**			
15 Did you enter 365 on line 14? ☐ **Yes.** Enter "1.000." ☑ **No.** Divide line 14 by 365 and enter the result as a decimal (rounded to at least three places).	15	× . 992	
16 Multiply line 13 by line 15	16	79,360	00
17 Enter, in U.S. dollars, the total foreign earned income you earned and received in 2003 (see instructions). Be sure to include this amount on Form 1040, line 7	17	12,000	00
18 **Foreign earned income exclusion.** Enter the **smaller** of line 16 or line 17 here and in parentheses on **Form 1040, line 21.** Next to the amount enter "2555-EZ." On Form 1040, subtract this amount from your income to arrive at total income on Form 1040, line 22 . . . . . ▶	18	12,000	00

Form **2555-EZ** (2003)

STUDENT NOTES

TAX OPTIONS FOR COMBAT ZONE PARTICIPANTS

INTRODUCTION AND OBJECTIVES

This lesson will discuss some of the tax benefits that are available to Armed Services personnel serving in a combat zone. Service in the Persian Gulf area, the former Yugoslavia, Afghanistan and its airspace, and Yemen are eligible for combat zone tax treatment. In addition, U. S. military personnel located in the Federal Republic of Yugoslavia, Albania, the Adriatic Sea, and the northern Ionian Sea, including all of their air space in connection with the Kosovo operation, are eligible for combat zone tax treatment.

Members of the Armed Forces deployed overseas away from their permanent duty station in support of operations in a qualified hazardous duty area, but outside the qualified hazardous duty area, are treated as if they are in a combat zone solely for the purposes of the extension deadlines. These personnel are not entitled to other combat zone tax benefits. The IRS will not impose penalties or interest on members during an extension period.

After completing this lesson, you should be able to:

1. Determine who qualifies for an extension of deadline.
2. Identify special tax benefits that are available to persons who die in a combat zone or from a terrorist or military action.
3. Explain how to file claims for tax forgiveness for these individuals.

EXTENSION OF DEADLINE

Members of the Armed Forces who served in a combat zone are allowed additional time to take care of tax matters. This extension also applies to any individual who is deployed from his or her permanent duty station in support of operations in a qualified hazardous duty area, or performing qualifying service outside the qualified hazardous duty area. The law provides that certain periods of time are disregarded when determining whether certain tax matters have been taken care of on time. For ease of understanding, this publication refers to these provisions as “extensions of deadlines. ” These deadline extensions should not be confused with other parts of the tax law that refer to extensions of time for performing acts.

The deadline for filing tax returns, paying taxes, filing claims for refund, and taking other actions with the IRS is automatically extended if the taxpayer serves in the Armed Forces in a combat zone. The deadline for IRS to take certain actions, such as collection and examination actions, is also extended.

Additionally, if members of the Armed Forces are deployed overseas away from their permanent duty station in support of operations in a qualified hazardous duty area, but outside the qualified hazardous duty area, they also receive these extensions (but not other combat zone benefits). The deadline for IRS to take certain actions, such as collection and examination actions, is also extended. See Lesson 1 for the beginning dates for the Afghanistan area combat zone, the Kosovo area combat zone, the Persian Gulf area combat zone, and the qualified hazardous duty areas.

The deadline for taking actions with the IRS is extended for 180 days after the later of:

1. The last day the taxpayer is in a combat zone/qualified hazardous duty area or have qualifying service outside of the combat zone/qualified hazardous duty area (or the last day the area qualifies as a combat zone or qualified hazardous duty area), or
2. The last day of any continuous qualified hospitalization (defined later)for injury from service in the combat zone/qualified hazardous duty area or while performing qualifying service outside of the combat zone/qualified hazardous duty area.

In addition to the 180 days, the deadline is also extended by the number of days remaining for the member to take the action with the IRS when he/she entered a combat zone/qualified hazardous duty area (or began performing qualifying service outside the combat zone/qualified hazardous duty area). If a taxpayer entered the combat zone/qualified hazardous duty area (or began performing qualifying service outside the combat zone/qualified hazardous duty area)before the period of time to take the action began, the deadline is extended by the entire period of time he/she has to take the action.

Example 1

Captain Margaret Jones entered Saudi Arabia on December 1, 2001. She remained there through March 31, 2003, when she departed for the United States. She was not injured and did not return to the combat zone. The deadlines for filing Captain Jones' 2001, 2002, and 2003 returns are figured as follows.

- **The 2001 tax return.** The deadline is January 10, 2004. This deadline is 285 days (180 plus 105) after Captain Jones' last day in the combat zone (March 31, 2003). The 105 additional days are the number of days in the 3 1/2 month filing period that were left when she entered the combat zone (January 1 - April 15, 2002).
- **The 2002 tax return.** The deadline is January 10, 2004. The deadline is 285 days (180 plus 105) after Capt. Jones' last day in the combat zone (March 31, 2003).
- **The 2003 tax return.** The deadline is not extended because the 180-day extension period after March 31, 2003, ends on September 27, 2003, which is before the start of the filing period for her 2003 return (January 1 - April 15, 2004).

Example 2

Petty Officer Leonard Brown's ship entered the Persian Gulf on January 5, 2002. On February 15, 2002, Leonard was injured and was flown to a U. S. hospital. He remained in the hospital through April 20, 2003. The deadlines for filing Petty Officer Brown's 2001, 2002, and 2003 returns are figured as follows.

- **The 2001 tax return.** The deadline is January 27, 2004. Petty Officer Brown has 280 days (180 plus 100) after his last day in the hospital (April 21, 2003) to file his 2001 return. The 100 additional days are the number of days in the 3 1/2 month filing period that were left when he entered the combat zone (January 5 - April 15).
- **The 2002 tax return.** The deadline is January 27, 2004. Petty Officer Brown has 280 days (180 plus 100) after April 21, 2003, to file his 2002 tax return. The 100 additional days are the number of days in the 2003 filing period that were left when he entered the combat zone.
- **The 2003 tax return.** The deadline is not extended because the 180-day extension period after April 21, 2003, ends on October 18, 2003, which is before the start of the filing period for his 2003 return (January 1 - April 15, 2004).

Example 3

You generally have 3 years from April 15, 1999, to file a claim for refund against your timely filed 1998 tax return. This means that your claim normally must be filed by April 15, 2002. However, if you served in a combat zone from November 1, 2001, through March 23, 2002, and were not injured, your deadline for filing that claim is extended 346 days (180 plus 166) after you leave the combat zone. This extends your deadline to March 4, 2003. The 166 additional days are the number of days in the 3-year period for filing the refund claim that were left when you entered the combat zone on November 1 (November 1, 2001 - April 15, 2002).

Missing status. Time in a missing status (missing in action or prisoner of war)counts as time in a combat zone or a qualified hazardous duty area.

Support personnel. The deadline extension provision also applies if a taxpayer is serving in a combat zone or a qualified hazardous duty area in support of the Armed Forces. This includes Red Cross personnel, accredited correspondents, and civilian personnel acting under the direction of the Armed Forces in support of those forces.

Qualified hospitalization. The hospitalization must be the result of an injury received while serving in a combat zone or a qualified hazardous duty area. Qualified hospitalization means:

1. Any hospitalization outside the United States, and
2. Up to 5 years of hospitalization in the United States.

Actions Extended

The actions to which the deadline extension provision applies include:

- Filing any return of income, estate, or gift tax (except employment and withholding taxes),
- Paying any income, estate, or gift tax (except employment and withholding taxes),
- Filing a petition with the Tax Court for redetermination of a deficiency or for review of a Tax Court decision,
- Filing a claim for credit or refund of any tax,
- Bringing suit for any claim for credit or refund,
- Making a qualified retirement contribution to an IRA,
- Allowing a credit or refund of any tax by IRS,
- Assessment of any tax by the IRS,
- Giving or making any notice or demand by the IRS for the payment of any tax or for any liability for any tax,
- Collection by the IRS of any tax due, and
- Bringing suit by the United States for any tax due.

If the IRS takes any actions covered by these provisions or sends the taxpayer a notice of examination before learning that they are entitled to an extension of the deadline, the taxpayer should contact their legal assistance office. No penalties or interest will be imposed for failure to file a return or pay taxes during the extension period.

Spouses. Spouses of individuals who served in a combat zone are entitled to the same deadline extension with two exceptions.

1. The extension does not apply to a spouse for any tax year beginning more than 2 years after the date the area ceases to be a combat zone.
2. The extension does not apply to a spouse for any period the qualifying individual is hospitalized in the United States for injuries incurred in a combat zone.

Not in a combat zone. Reservists called to active duty or regular military member who are not in a combat zone may still qualify to defer the payment of back taxes. To qualify, these individuals must:

- Be serving their initial period of service and
- Show that their ability to pay the back taxes has been materially impaired.

Initial period of service. The initial period of service is defined as the period of active duty following recall to active duty from an inactive reserve or National Guard unit. For regular military personnel, it is the period following induction or first enlistment in the Armed Forces or the first period of reenlistment for a person who has been out of the service for a year or more. For an officer, the initial period of service is limited to two years of active service after one of the above occurrences.

Material impairment. To indicate material impairment, the taxpayer must show that his or her income dropped as a result of going into military service.

Request for deferment. Military members who have a current payment agreement or who have received a notice requesting payment must make a written request for deferment to the IRS office where you have the agreement.

Information needed. The request for deferment must include the member 's name, social security number, monthly income and source of income before military service, current monthly income, military rank, date of entry into the military service, and date the member is eligible for discharge. Enclosing a copy of the military orders is helpful.

The IRS will review each request and advise the taxpayer in writing of its decision. Should the taxpayer need further assistance, they can call the IRS at **1-800-829-1040** to discuss their situation. If the IRS grants the request for deferment, the taxpayer will be able to defer payment of back taxes until 6 months after the end of his/her initial period of service.

DECEDENTS

Special tax forgiveness provisions apply to individuals who:

- Die while serving in a combat zone or from wounds, disease, or injury incurred while serving in a combat zone, or
- Die from wounds or injury incurred in a terrorist or military action while a U. S. employee.

Filing a Decedent Return

The personal representative (executor, administrator, or anyone who is in charge of the decedent 's property)must file the final income tax return (Form 1040)of the decedent for the year of death and any returns not filed for preceding years. A surviving spouse, under certain circumstances, may have to file the returns for the decedent. See *Joint Return*, later.

Return for preceding year. If an individual died after the close of the tax year, but before the return for that year was filed, the return for the year just closed will not be the final return. The return for that year will be a regular return and the personal representative must file it.

Example 4

Samantha Smith died on March 21, 2002, before filing her 2001 tax return. Her personal representative must file her 2001 return by April 15, 2002. Her final tax return is due April 15, 2003.

When and Where To File

The final income tax return is due at the same time the decedent 's return would have been due had death not occurred. A final return for a decedent who was a calendar year taxpayer is generally due on April 15 following the year of death, regardless of when during that year death occurred.

The tax return must be prepared on a form for the year of death regardless of when during the year death occurred.

Generally, you must file the final income tax return of the decedent with the Internal Revenue Service center for the place where you live. A tax return for a decedent cannot be electronically filed. A paper tax return must be filed for the decedent.

Combat Zone Forgiveness

Federal income tax liability is forgiven for U. S. military personnel who die while serving in a combat zone or as a result of wounds, disease, or injury incurred while so serving. The forgiveness of tax applies for the year of death and for any prior year ending on or after the first day that the individual served in a combat zone in active service. Any forgiven tax liability that has already been paid will be refunded, and any unpaid tax liability at the date of death will be forgiven.

This forgiveness provision also applies to a member of the Armed Forces serving outside the combat zone if the service:

1. Was in direct support of military operations in the zone, and
2. Qualified the member for special military pay for duty subject to hostile fire or imminent danger.

Missing status. The date of death for a member of the Armed Forces who was in a missing status (missing in action or prisoner of war)is the date his or her name is removed from missing status for military pay purposes. This is true even if death actually occurred earlier.

Tax Forgiveness for Deaths Due to Military or Terroristic Actions

A decedent 's income tax liability may be forgiven if his or her death was due to service in a combat zone or to military or terroristic actions.

The Victims of Terrorism Tax Relief Act of 2001 provides tax relief for those injured or killed as a result of terrorist attacks, certain survivors of those killed as a result of terrorist attacks, and others who were affected by terrorist attacks. For information on that Act, see Publication 3920.

Military or Terroristic Actions

The decedent 's income tax liability is forgiven if, at death, he or she was a military or civilian employee of the United States who died because of wounds or injury incurred:

- While a U. S. employee, and
- In a military or terroristic action.

For tax years ending after September 10, 2001, tax liability is forgiven for an individual who dies from wounds or injury incurred while a U. S. employee in a terroristic or military action regardless of where the action occurred.

The forgiveness applies to the tax year in which death occurred and for any prior tax year in the period beginning with the year before the year in which the wounds or injury occurred.

Military or terroristic action defined. A military or terroristic action means the following.

- Any terroristic activity that most of the evidence indicates was directed against the United States or any of its allies.
- Any military action involving the U. S. Armed Forces and resulting from violence or aggression against the United States or any of its allies, or the threat of such violence or aggression.

Military action does not include training exercises. Any multinational force in which the United States is participating is treated as an ally of the United States.

Claims for Credit or Refund

If any of these tax-forgiveness situations applies to a prior year tax, any tax paid for which the period for filing a claim has not ended will be credited or refunded. If any tax is still due, it will be canceled. The normal period for filing a claim for credit or refund is 3 years after the return was filed or 2 years after the tax was paid, whichever is later.

If death occurred in a combat zone or from wounds, disease, or injury incurred in a combat zone, the period for filing the claim is extended by:

- The amount of time served in the combat zone (including any period in which the individual was in missing status), plus
- The period of continuous qualified hospitalization for injury from service in the combat zone, if any, plus
- The next 180 days.
- Qualified hospitalization means any hospitalization outside the United States and any hospitalization in the United States of not more than 5 years.

Filing a claim. Use the following procedures to file a claim.

- File Form 1040, 1040A, or 1040EZ if an income tax return has not been filed for the tax year. Form W-2, *Wage and Tax Statement*, must accompany all returns.
- File Form 1040X if an income tax return has been filed. A separate Form 1040X must be filed for each year in question.

These returns and claims must be filed with the Internal Revenue Service, P. O. Box 4053, Woburn, MA 01888.

All returns and claims must be identified by writing "Enduring Freedom—KIA," "Kosovo Operation—KIA," "Desert Storm—KIA," or "Former Yugoslavia—KIA" in bold letters on the top of page 1 of the return or claim. On Forms 1040 and 1040X, the phrase "Enduring Freedom—KIA," "Kosovo Operation — KIA," "Desert Storm—KIA," or "Former Yugoslavia—KIA" must be written on the line for total tax. If the individual was killed in a terroristic or military action outside the United States, put "KITA" on the front of the return and on the line for total tax.

An attachment should accompany any return or claim that includes a computation of the decedent 's tax liability before any amount is forgiven and the amount that is to be forgiven. For joint returns, see *Joint returns*, later.

Necessary documents. The following documents must accompany all returns and claims for refund. For returns and claims relating to individuals who died as a result of a terrorist attack, see Publication 3920.

- Form 1310, *Statement of Person Claiming Refund Due a Deceased Taxpayer*.
- A certification from the Department of Defense or the Department of State that the death was due to a military or terroristic action.

For military employees and civilian employees of the Department of Defense, certification must be made by that department on Form DOD 1300, *Report of Casualty*. For other civilian employees who die as a result of wounds or injury incurred outside the United States, certification must be a letter signed by the Director General of the Foreign Service, Department of State, or his/her delegate. The certification must include the individual 's name and social security number, the date of injury, the date of death, and a statement that the individual died as the result of a military or terroristic action outside the United States and was an employee of the United States at the date of injury and at the date of death.

If the certification has been received, but you do not have enough tax information to file a timely claim for refund, file Form 1040X. Attach Form 1310 and a statement that an amended claim will be filed as soon as the required tax information is available.

Joint returns. Only the decedent's part of the joint income tax liability is eligible for the refund or tax forgiveness. To determine the part for the decedent, the person filing the claim must complete the following steps:

1. Figure the income tax for which the decedent would have been liable if a separate return had been filed.
2. Figure the income tax for which the spouse would have been liable as if a separate return had been filed.
3. Multiply the joint tax liability by a fraction. The top number of the fraction is the amount in (1)above. The bottom number of the fraction is the total of (1)and (2).

The amount in (3)is the decedent 's tax liability that is eligible for the refund or tax forgiveness. If a taxpayer is unable to complete this process, he or she should attach a statement of all income and deductions indicating the part that belongs to each spouse. The IRS will make the proper allocation.

Residents of community property states. If the member of the Armed Forces was domiciled in a community property state and the spouse reported half the military pay on a separate return, the spouse can get a refund of taxes paid on his or her share of the pay for the years involved. The forgiveness of unpaid tax on the military pay would also apply to the half owed by the spouse for the years involved.

Exercise 1

Major Joe Wells entered Afghanistan on 6 January 2003. He remained there through 7 April 2003, when he departed for the United States. He was not injured and did not return to the combat zone.

What is the deadline for filing Major Wells' 2002 tax return?

Answer ____

Reserved for 2003 Calendar.

Exercise 2

Mr. Tim Morris, a civilian employee of the United States, died in 2004 as a result of injuries he suffered during a terrorist attack in 2002.

What years are Mr. Morris' income liabilities forgiven?

Answer ____

TAX BENEFITS FOR COMBAT ZONE PARTICIPANTS

ANSWERS TO EXERCISES

Exercise 1– **The 2003 tax return.** The deadline is 12 January 2005. The deadline is 280 days (180 plus 100) after Major West's last day in the combat zone (7 April 2003). The 100 additional days are the number of days in the 3 1/2 month filing period that were left when he entered the combat zone (6 January - 15 April 2003).

Exercise 2– 2001-2004

▶▶ SUMMING UP THIS LESSON ◀◀

In this lesson you have learned that:

- The deadline for filing tax returns, paying taxes, and taking other actions with the Internal Revenue Service is automatically extended if an individual serves in a combat zone.
- The income tax liability of a member of the Armed Forces is forgiven if a member dies as a result of service in a combat zone or from a terrorist or military action outside the United States.
- The terrorist or military action forgiveness also applies to an individual who is a U.S. employee at death and who dies from wounds or injury incurred while a U.S. employee in a terrorist or military action regardless of where the action occurred.

STUDENT NOTES

ALIENS

INTRODUCTION AND OBJECTIVES

This lesson will discuss the importance of "alien" status in determining federal income tax reporting requirements for Armed Forces personnel. Publication 519, U.S. Tax Guide for Aliens is a major source of information on this subject.

After completing this lesson, you should be able to:

1. Determine whether an alien should file a resident, non-resident, or dual-status tax return.
2. Determine what sources of income an alien must report on his or her return.
3. Explain the special choice that permits a nonresident alien spouse of a U. S. citizen or resident to be treated as a resident alien and file a joint return.
4. Determine the use for an ITIN for undocumented aliens.
5. Explain the process for securing a social security number for children born abroad.

NONRESIDENT ALIENS

A nonresident alien is an individual who is not a citizen or resident of the United States. A nonresident alien generally must pay tax only on income received from sources within the United States. If the income is connected with conducting a trade or business in the United States, the income (after allowable deductions) is taxed at regular U. S. tax rates. If other income from U. S. sources is not connected with conducting a trade or business in the United States, it is taxed at a flat 30%(or lower treaty) rate. For example, Survivor Benefit Plan payments made to a nonresident alien surviving spouse may be subject to a 30%withholding (or lower treaty) rate. In either case, the nonresident alien must file a Form 1040NR, *U. S. Nonresident Alien Income Tax Return*.

RESIDENT ALIENS

ALERT

The Social Security Administration does not issue social security numbers (SSNs) to nonresident aliens unless they have legal permission to work in the United States. SSNs will be issued to lawful permanent residents.

An alien may qualify as a U. S. resident for tax purposes by meeting either the *green card test* or the *substantial presence test* for the calendar year.

Green card test. An alien is a resident for tax purposes if he or she is a lawful permanent resident of the United States (holder of a green card) at any time during the calendar year. However, see the discussion on *Dual-Status Aliens*, later.

Substantial presence test. If the alien does not meet the green card test, the alien may still be a U. S. resident for tax purposes if the substantial presence test for the calendar year is met. To meet this test, the alien must have been physically present in the United States for at least 31 days during 2003 and for a total of at least 183 days in 2003, 2002, and 2001.

When you count the days for the substantial presence test, count:

1. All the days the alien was present in 2003,
2. One-third of the days present in 2002, and
3. One-sixth of the days present in 2001.

Example

Ana Garcia was present in the United States for several years. She believes that she can qualify for the substantial presence test. Ana was here from December 1 through December 31 of 2003. She was present in the U. S. all of 2002. In 2001, she stayed in the United States from June 1 through December 31. Here's how to figure if Ana meets the substantial presence test:

YEAR	MULTIPLY BY	DAYS PRESENT	TOTAL
2003	1	31	= 31
2002	1/3	365	= 122
2001	1/6	214	= 36
			189

Since Ana was present in the United States at least 31 days in 2003 and at least 183 days during the current and last two years, she meets the test in 2003 to qualify as a resident of the U. S.

Exceptions. For purposes of counting days for the substantial presence test, there are exceptions for regular commuters from Canada or Mexico, persons in transit through the United States, persons who are unable to leave because of becoming ill while in the United States, diplomats, employees of international organizations, teachers, trainees, and students. Also, the substantial presence test does not apply if the alien was present in the United

States for fewer than 183 days during 2003 and establishes that he or she has a closer connection to a foreign country. Publication 519 has more details on these exceptions.

First-year choice. If the alien does not meet the green card test or the substantial presence test for 2002 or 2003, and did not choose to be treated as a resident for part of 2001, but will meet the substantial presence test for 2004, he or she can choose to be treated as a U. S. resident for part of 2003. To make this choice, he or she must have been:

1. Present in the U. S. for at least 31 consecutive days in 2003, and
2. Present in the U. S. for at least 75%of the days beginning with the first day of the 31-day period in (1) and ending with the last day of 2003.

The taxpayer should be referred to Publication 519 for complete details concerning this special first-year choice. This choice, once made, cannot be revoked without the consent of the Internal Revenue Service.

Resident aliens generally are taxed on their worldwide income, the same as U. S. citizens. Resident aliens use the same tax forms as U.S. citizens.

DUAL-STATUS ALIENS

An alien may be both a nonresident and resident alien during the same tax year. The most common dual-status tax years are the years of arrival and departure. Dual-status aliens are taxed on income from all sources for the part of the year they are resident aliens. They are taxed only on income from U. S. sources for the time they are nonresident aliens. They must file Form 1040 and mark it “Dual Status Return” if they are resident aliens on the last day of the tax year. If they are nonresident aliens at the end of the year, they must file Form 1040NR and mark it “Dual Status Return.” In either case, , they must attach a separate statement to explain their income and compute the tax for the other part of their dual-status year. Dual-status aliens must either itemize their allowable deductions or claim zero deductions because they cannot use the standard deduction.

Exercise 1

Sgt. Zapata is stationed in Korea and is married to a Korean citizen. Sgt. and Mrs. Zapata came to the United States for a 3-week visit and returned to his post of duty in Korea. Mrs. Zapata entered the United States on a non-immigrant visa.

a. What is Mrs. Zapata's U. S. alien status?

Answer ____

b. If the Zapatas moved to the United States in June 2003 and Mrs. Zapata got a green card, what would Mrs. Zapata's U. S. alien status be for 2003?

Answer ____

Exercise 2

Karen is a British citizen and a U. S. resident alien (green card holder). She married Lt. Trimble, a U. S. citizen, who has a permanent residence in New York. The Trimbles moved to Germany in 2002 for a 2-year tour of duty. They plan to return to New York when his duty ends. Karen earned $12, 000 a year working for a German employer while they were stationed in Germany.

a. If Lt. Trimble files a separate return, does Karen have to file a U. S. federal tax return?

Answer ____

b. If the Trimbles were divorced in 2003 and Karen gave up her green card and moved to England, what would her U. S. alien status be for 2003?

Answer ____

UNDOCUMENTED (ILLEGAL) ALIENS

Undocumented aliens who meet the substantial presence test are considered resident aliens for tax purposes. They are not eligible for an SSN because they have no legal work authorization. These aliens should apply for an ITIN; however, the ITIN does not give them permission to work.

A common scenario is that the undocumented alien "acquires" (buys, trades etc.) an SSN to provide to their employer. The employer hires the alien and gives them a W-2 at the end of the year with the invalid SSN. The alien then files a tax return with their ITIN listed as their identification number. This causes a processing problem for the IRS. The refund will most likely be held until the issue can be resolved.

If the spouse of a U. S. citizen or resident is an illegal resident alien, he/she should have an ITIN.

CHILDREN BORN ABROAD

Military families living overseas who experience the birth of a child in a host nation hospital or “off base on the economy” should check with their base legal office or U. S. embassy officials for exact procedures for securing the Report of Birth Abroad. This document serves as proof of citizenship and can be used in the future. To formally register the birth of a child born abroad, the U. S. citizen parent or parents should bring the child to the Embassy/Consulate office along with:

- An original of the child’s birth certificate
- The parent’s marriage certificate
- Any divorce (original) decree or death certificate from any previous marriage
- Cash or bank check to pay the fee (usually $65)

Parents should also apply for a passport for their child at the same time as the Report of Birth. Along with your application for Report of Birth and passport, it is also advisable to request the form to apply for an SSN for the child. The Social Security International Office in Baltimore, MD assigns an SSN. The SSN will be mailed directly to the taxpayer. The process takes several months. But without an SSN the parents will NOT be able to claim the EITC even if all of the other prerequisites are met.

ALIEN MILITARY PERSONNEL

As a general rule, most alien enlistees in the Armed Forces are resident aliens. This would almost certainly be true of an alien who has lived in the United States before enlistment. In peacetime, the enlistment requirements of the Armed Services state that no person may enlist unless that person is a citizen or has been lawfully admitted to the United States for permanent residence under the immigration laws. These two factors, voluntary enlistment and admittance for permanent residence, are usually enough to classify an alien enlistee as a resident alien. The United States has treaty agreements with certain nations that allow a very limited number of their citizens to retain their nonresident alien status. Alien enlistees in this category should seek advice from their base legal officer. Other aliens who are present in the United States merely because of military assignment and who have a residence outside the United States are nonresident aliens.

CHOICE TO TREAT NONRESIDENT SPOUSE AS A RESIDENT

A nonresident alien spouse may choose to be treated as a resident alien if all the following conditions are met.

1. The nonresident alien spouse must be married to a U. S. citizen or resident alien at the end of the tax year.
2. Both spouses must choose to treat the alien spouse as a resident alien.
3. One of the spouses must be a U. S. citizen or resident alien on the last day of the tax year.

How to Make the Choice

A statement signed by both spouses must be attached to their joint return for the first tax year for which the choice applies. The statement should contain:

1. A declaration that one spouse was a nonresident alien and the other spouse was a U. S. citizen or resident alien on the last day of their tax year and that the nonresident alien spouse chooses to be treated as a U. S. resident for the entire tax year, and

2. The name, address, and social security number of each spouse. If the nonresident alien spouse is not eligible to get a social security number, he or she should file Form W-7, *Application for IRS Individual Taxpayer Identification Number*.

Caution. Once the choice is made, the worldwide income of the nonresident alien spouse is subject to U. S. tax. If the nonresident alien spouse has substantial foreign income, there may be no advantage to making the choice.

Ending the Choice

Once made, this choice applies to all later tax years unless one of the following situations occurs.

- Revocation—Either spouse may revoke the choice for any tax year if both the choice and the revocation are made by the due date for filing the tax return for that tax year.
- Death—The death of either spouse will end the choice. This ordinarily begins with the first year following the year in which the spouse died. If the spouse who survived is a U. S. citizen or resident and is entitled to the joint return rates as a surviving spouse, the choice will not end until the close of the last year for which these joint rates may be used.
- Legal separation—A legal separation under a decree of divorce or separate maintenance will end the choice beginning January 1 of the tax year in which the legal separation occurs.

- Inadequate records—The Internal Revenue Service can end the choice for any year that either spouse fails to keep adequate tax records, to provide adequate access to those records, or to supply other information reasonably necessary to determine the correct income tax liability.

If the choice is ended for any of these reasons, neither spouse can make a choice for any future tax year. For example, divorced individuals who previously made the choice and later remarry cannot make another choice.

Choice Not Made

If the choice is not made:

1. The nonresident alien spouse cannot file a joint return.
2. The nonresident alien spouse is generally not eligible for certain credits, such as the earned income credit or the education credits.
3. The spouse who is a U. S. citizen or resident may claim an exemption for the nonresident alien spouse if the nonresident alien has no gross income for U. S. tax purposes and is not another taxpayer's dependent. Check the box on line 6b of Form 1040 or Form 1040A and write "NRA" to the right of the word "spouse."
4. The nonresident alien spouse does not have to file a federal income tax return if he or she had no U. S. source income. He or she does not have to report any income from sources outside the United States so long as he or she remains a nonresident alien.

Questions concerning alien status and the special choice can be complex. Further information can be found in Publication 519.

Exercise 3

Stephen Rowan is a Navy officer who resides in New York and is on duty in Japan. He has $30, 000 in taxable income for the year. His wife, to whom he has been married for 3 years, is a Japanese citizen who has never visited the United States. She earned $5,000 from employment in Japan during the year.

a. Is he required to file a U. S. income tax return?

Answer ____

b. Is Mrs. Rowan required to file a U. S. income tax return?

Answer ____

c. Can the Rowans file a joint return?

Answer ____

▶ ▶ SUMMING UP THIS LESSON ◀ ◀

Questions of alien status can be difficult. To find answers to their questions and to learn whether they qualify for the option to treat the nonresident spouse as a U.S. resident, military personnel should see Publication 519, visit their base legal office, or call the IRS at 1-800-829-1040.

1. **a.** Nonresident alien
   b. Dual-status alien
2. **a.** Yes. She is a resident alien.
   b. Dual-status alien
3. **a.** Yes
   b. No
   c. Yes. They can make the choice, but they should figure their tax both ways to determine which option is best for them.

STUDENT NOTES

HOME LEAVE

INTRODUCTION AND OBJECTIVES

This lesson will discuss what "home leave expenses" can be deducted by U.S. taxpayers traveling to their home in the United States under orders from the head of Foreign Affairs agency.

After completing this lesson, you should be able to:

1. Determine who is eligible for home leave expenses.

2. Determine what expenses are deductible.

HOME LEAVE

Section 903 of the Foreign Service Act of 1980 provides that the head of a Foreign Affairs Agency may order a member of the Service who is a citizen of the United States to take home leave upon completion of 18 months of continuous service abroad; and shall so order as soon as possible after completion of 3 years of continuous service abroad.The intent of this legislation is to "re-Americanize " foreign service employees..

Because members of the foreign service are required by law to take a leave of absence,they are allowed to deduct amounts paid for travel,meals,and lodging while on home leave as employee business expenses.The taxpayers who are eligible for this leave will deduct these expenses on a Form 2106 just like an employee that is conducting business away from the home.

As with all deductible employee business expenses,records and receipts must be maintained to support the deductions that are taken.The deductible expenses are those we discussed in the previous lesson and these expenses are subject to the same limitations.

Any expenses paid for on behalf of a foreign service member's family are personal expenses and therefore are not deductible.

▶ ▶ SUMMING UP THIS LESSON ◀ ◀

- ▶ Taxpayers who are U.S. citizens and members of the foreign service can deduct travel, meals and lodging expenses, while on home leave, as employee business expenses by using Form 2106.
- ▶ Expenses incurred by members of the family are personal expenses and therefore they are not deductible.

SUMMARY EXERCISE

1. Larry Lee is a foreign service employee. He has been stationed in a foreign country for 3 years and comes back to the United States for 4 weeks on home leave. His family accompanies him.He incurred expenses for travel of $1,500; meals $850; and lodging $1,400. His family incurred expenses for travel of $2,500; meals $1,700; and lodging $2,200 Larry was reimbursed $450 for his travel to and from his post of duty and did not show it as income. (Larry rented a car. He did not use his own car.)

a. Is Larry eligible for a home leave deduction? Yes or No.

b. Can Larry deduct the expenses that this family members incur? Yes or No.

c. Complete Form 2106.

Form **2106**

Department of the Treasury
Internal Revenue Service (99)

Employee Business Expenses

▶ See separate instructions.

▶ Attach to Form 1040.

OMB No. 1545-0139

2003

Attachment
Sequence No. **54**

Your name

Occupation in which you incurred expenses

Social security number

Part I Employee Business Expenses and Reimbursements

Step 1 Enter Your Expenses

			Column A Other Than Meals and Entertainment	**Column B** Meals and Entertainment
1	Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1		▨
2	Parking fees, tolls, and transportation, including train, bus, etc., that **did not** involve overnight travel or commuting to and from work	2		▨
3	Travel expense while away from home overnight, including lodging, airplane, car rental, etc. **Do not** include meals and entertainment	3		▨
4	Business expenses not included on lines 1 through 3. **Do not** include meals and entertainment	4		▨
5	Meals and entertainment expenses (see instructions)	5	▨	
6	**Total expenses.** In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6		

Note: *If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.*

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7	Enter reimbursements received from your employer that were **not** reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	7		

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040)

8	Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7	8		
	Note: *If* ***both columns*** *of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.*			
9	In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 65% (.65) instead of 50%. For details, see instructions.)	9		

10 Add the amounts on line 9 of both columns and enter the total here. **Also, enter the total on Schedule A (Form 1040), line 20.** (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter the total.) ▶ **10**

For Paperwork Reduction Act Notice, see instructions. Cat. No. 11700N Form **2106** (2003)

ANSWERS TO EXERCISES

HOME LEAVE

1. **a.** Yes
   b. No
   c. See completed Form 2106

Form 2106, page 1

Form **2106**
Department of the Treasury
Internal Revenue Service (99)

Employee Business Expenses

► See separate instructions.
► Attach to Form 1040.

OMB No. 1545-0139
2003
Attachment
Sequence No. **54**

Your name	Occupation in which you incurred expenses	Social security number
Larry Lee	Foreign Service	

Part I **Employee Business Expenses and Reimbursements**

Step 1 Enter Your Expenses		**Column A** Other Than Meals and Entertainment	**Column B** Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1		
2 Parking fees, tolls, and transportation, including train, bus, etc., that **did not** involve overnight travel or commuting to and from work	2		
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. **Do not** include meals and entertainment	3	2,900.00	
4 Business expenses not included on lines 1 through 3. **Do not** include meals and entertainment	4		
5 Meals and entertainment expenses (see instructions)	5		850.00
6 **Total expenses.** In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6	2,900.00	850.00

Note: *If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.*

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1			
7 Enter reimbursements received from your employer that were **not** reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	7	450.00	

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040)			
8 Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7	8	2,450.00	850.00
Note: *If* ***both columns*** *of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.*			
9 In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 65% (.65) instead of 50%. For details, see instructions.)	9	2,450.00	425.00

10 Add the amounts on line 9 of both columns and enter the total here. **Also, enter the total on Schedule A (Form 1040), line 20.** (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter the total.) ►	10	2,875.00

For Paperwork Reduction Act Notice, see instructions. Cat. No. 11700N Form **2106** (2003)

STUDENT NOTES

MODULE 1

Objectives

After completing this module you should be able to:

- Open and create a new tax return.
- Complete the main information sheet for this module in TaxWise.
- Identify and enter pertinent taxpayer information into the return.
- Determine the qualifications for the single filing status.
- Define wages and input a Form W-2 using the software.
- Determine taxable and non-taxable interest income and input applicable information from Form 1099-INT.
- Identify Unemployment Compensation and input a Form 1099-G.
- Define the Educators Expense adjustment and input applicable information for the calculation of the adjustment.
- Define the qualifications for the “Student Loan Interest” adjustment and input applicable information for the calculation of the adjustment.
- Know the qualifications for an IRA contribution and input applicable information.
- Define early withdrawal penalty.
- Identify who qualifies for the “Credit for Qualified Retirement Savings Contribution” and input applicable information.
- Identify proper procedures for finishing the return.

Taxpayer Profile

Taxpayer Name	James Fairmont
TP SSN	XXX-XX-XXXX
Spouse Name	
SP SSN	
Street Address	76 Fisk Ave
City, State, Zip	Your City State and Zip Code
Phone Number	(412) 555-1212
Date of birth TP	03/10/1979
Date of birth Spouse	
Occupation TP	3rd Grade Teacher
SP	
Blind? TP	No
SP	
Donate to Presidential Fund?	
TP	No
SP	
Filing Status	Single
Can be claimed as dependent by someone else? TP	No
SP	
State Return Info (Yes or No)	No
Direct Deposit	Yes
Bank Routing Number	112200001
Account number	987123

Other considerations:

He tells you he spent $537.26 on classroom supplies.

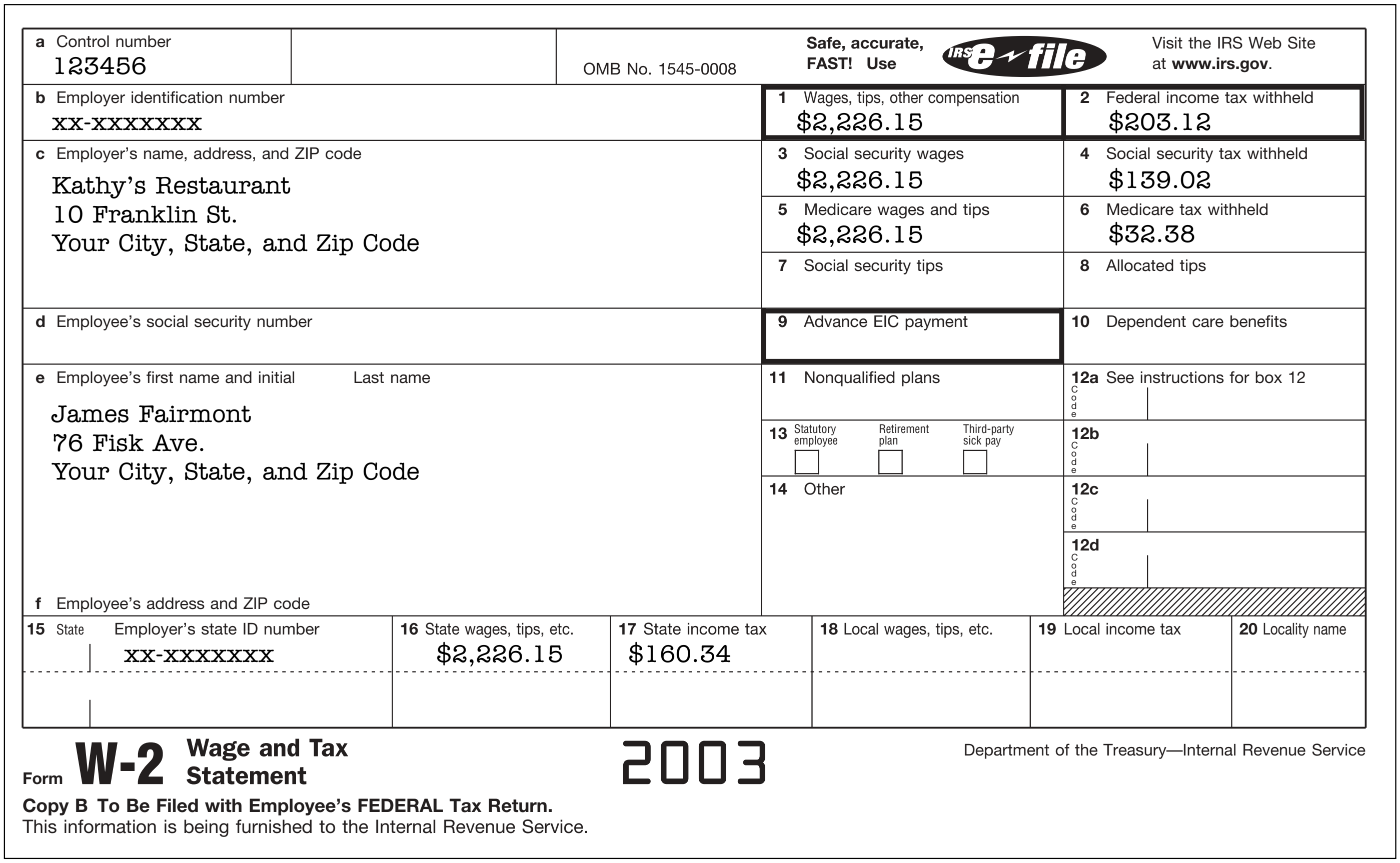
He meets the 900 hour teaching requirement.

He is repaying a student loan and received a statement from his loan institution showing he paid $235.87 in interest.

He made a traditional IRA contribution of $450.

Documents taxpayer gives you:

Form W-2 Kathy's Restaurant



a Control number 123456

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number XX-XXXXXXX

c Employer's name, address, and ZIP code
Kathy's Restaurant
10 Franklin St.
Your City, State, and Zip Code

d Employee's social security number

e Employee's first name and initial Last name
James Fairmont
76 Fisk Ave.
Your City, State, and Zip Code

f Employee's address and ZIP code

1 Wages, tips, other compensation $2,226.15
2 Federal income tax withheld $203.12
3 Social security wages $2,226.15
4 Social security tax withheld $139.02
5 Medicare wages and tips $2,226.15
6 Medicare tax withheld $32.38
7 Social security tips
8 Allocated tips
9 Advance EIC payment
10 Dependent care benefits
11 Nonqualified plans
12a See instructions for box 12
13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐
12b
14 Other
12c
12d

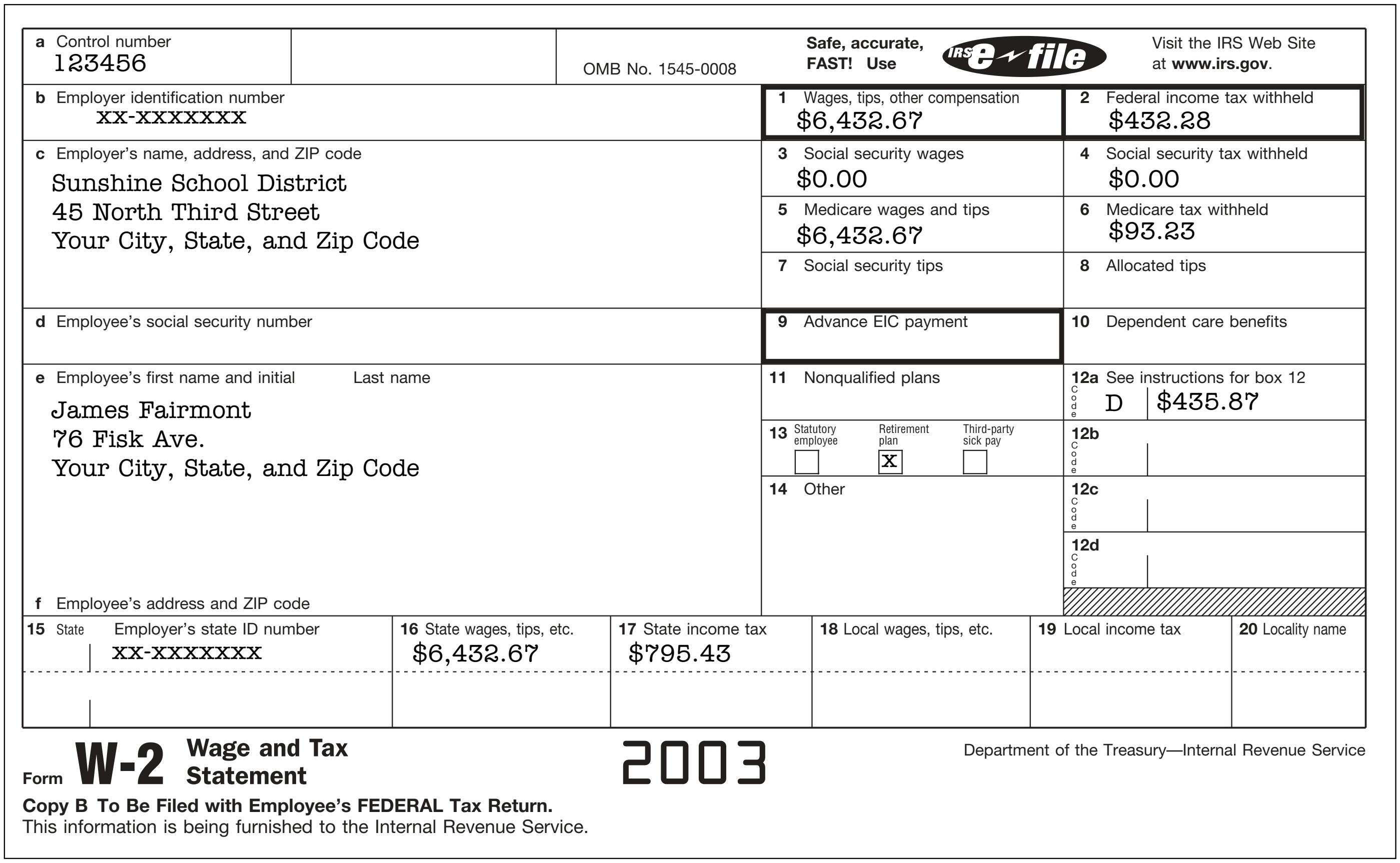
15 State	Employer's state ID number	**16** State wages, tips, etc.	**17** State income tax	**18** Local wages, tips, etc.	**19** Local income tax	**20** Locality name
	XX-XXXXXXX	$2,226.15	$160.34			

Form **W-2** **Wage and Tax Statement** 2003

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Form W-2 Sunshine School District



a Control number 123456

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number XX-XXXXXXX

c Employer's name, address, and ZIP code
Sunshine School District
45 North Third Street
Your City, State, and Zip Code

d Employee's social security number

e Employee's first name and initial Last name
James Fairmont
76 Fisk Ave.
Your City, State, and Zip Code

f Employee's address and ZIP code

1 Wages, tips, other compensation $6,432.67
2 Federal income tax withheld $432.28
3 Social security wages $0.00
4 Social security tax withheld $0.00
5 Medicare wages and tips $6,432.67
6 Medicare tax withheld $93.23
7 Social security tips
8 Allocated tips
9 Advance EIC payment
10 Dependent care benefits
11 Nonqualified plans
12a See instructions for box 12 Code D $435.87
13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐
12b
14 Other
12c
12d

15 State	Employer's state ID number	**16** State wages, tips, etc.	**17** State income tax	**18** Local wages, tips, etc.	**19** Local income tax	**20** Locality name
	XX-XXXXXXX	$6,432.67	$795.43			

Form **W-2** **Wage and Tax Statement** 2003

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Form 1099-G

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Division of Employment Security 290 West 4th St. Your City, State and Zip Code	**1** Unemployment compensation $ 1,340.00 **2** State or local income tax refunds, credits, or offsets $	OMB No. 1545-0120 2003 Form **1099-G**	**Certain Government Payments**
PAYER'S Federal identification number xx-xxxxxxx	RECIPIENT'S identification number xxx-xx-xxxx	**3** Box 2 amount is for tax year	**4 Federal income tax withheld** $ 80.98
RECIPIENT'S name James Fairmont	**5** ▨	**6** Taxable grants $	**Copy B** **For Recipient** This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.) 76 Fisk Ave City, state, and ZIP code Your City, State, and Zip Code	**7** Agriculture payments $	**8** Box 2 is trade or business income ► ☐	
Account number (optional)			

Form **1099-G** (keep for your records) Department of the Treasury - Internal Revenue Service

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Form 1099-INT

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. First Bank 99 W. 48th St. Your City, State, Zip Code	Payer's RTN (optional)	OMB No. 1545-0112 2003 Form **1099-INT**	**Interest Income**
PAYER'S Federal identification number xx-xxxxxxx	RECIPIENT'S identification number xxx-xx-xxxx	**1** Interest income not included in box 3 $ 147.48	**Copy B** **For Recipient** This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name James Fairmont	**2** Early withdrawal penalty $ 19.68	**3** Interest on U.S. Savings Bonds and Treas. obligations $	
Street address (including apt. no.) 76 Fisk Ave	**4 Federal income tax withheld** $	**5** Investment expenses $	
City, state, and ZIP code Your City, State, Zip Code Account number (optional)	**6** Foreign tax paid $	**7** Foreign country or U.S. possession	

Form **1099-INT** (keep for your records) Department of the Treasury - Internal Revenue Service

Module 2

Objectives

After completing this module you should be able to:

- Create a new tax return by completing the main information sheet for this module in TaxWise.
- Determine the qualifications for head of household and married filing separately filing status.
- Use the 5 tests for dependents, to determine dependency status.
- Determine who is eligible for the credit for child and dependent care expenses.
- Use the EIC eligibility requirements, to determine an EIC qualifying child.
- Determine who is eligible for the child tax credit.
- Input applicable information from Form 1099-DIV.
- Determine who can use Schedule C-EZ and complete Schedule C-EZ and Schedule SE.
- Complete Form 2441.
- Complete the Child Tax Credit Worksheet.
- Complete the EIC Worksheet
- Explain the benefits of AEIC and review where AEIC is reported on Form 1040 or Form 1040A.
- Identify proper procedures for finishing the return.
- Complete Form 8880.

Taxpayer Profile

Taxpayer Name	Betsy Curry
TP SSN	XXX-XX-XXXX
Spouse Name	
SP SSN	
Street Address	614 Howard Ave
City, State, Zip	Your City State and Zip Code
Phone Number	402-555-1212
Date of birth TP	08/23/1969
Date of birth Spouse	
Occupation TP	Executive Assistant
SP	
Blind? TP	No
SP	
Donate to Presidential Fund?	
TP	Yes
SP	
Filing status	Head of Household
Can be claimed as dependent by someone else? TP	No
SP	
State Return Info (Yes or No)	No
Direct Deposit	
Bank Routing Number	xxxxxxxxx
Account number	xxxxxxx

Other Members of Household

Name	Date of Birth	SSN or ITIN	Relationship	Citizenship	# of Months in Home
Mary Curry	07/21/1994	xxx-xx-xxxx	Daughter	U.S.	12
James Curry	08/24/1997	xxx-xx-xxxx	Son	U.S.	12

Other considerations:

Betsy is divorced and keeps up a main home for herself and her children.

She provides 100% of her children's support.

Both children lived with her for the entire year.

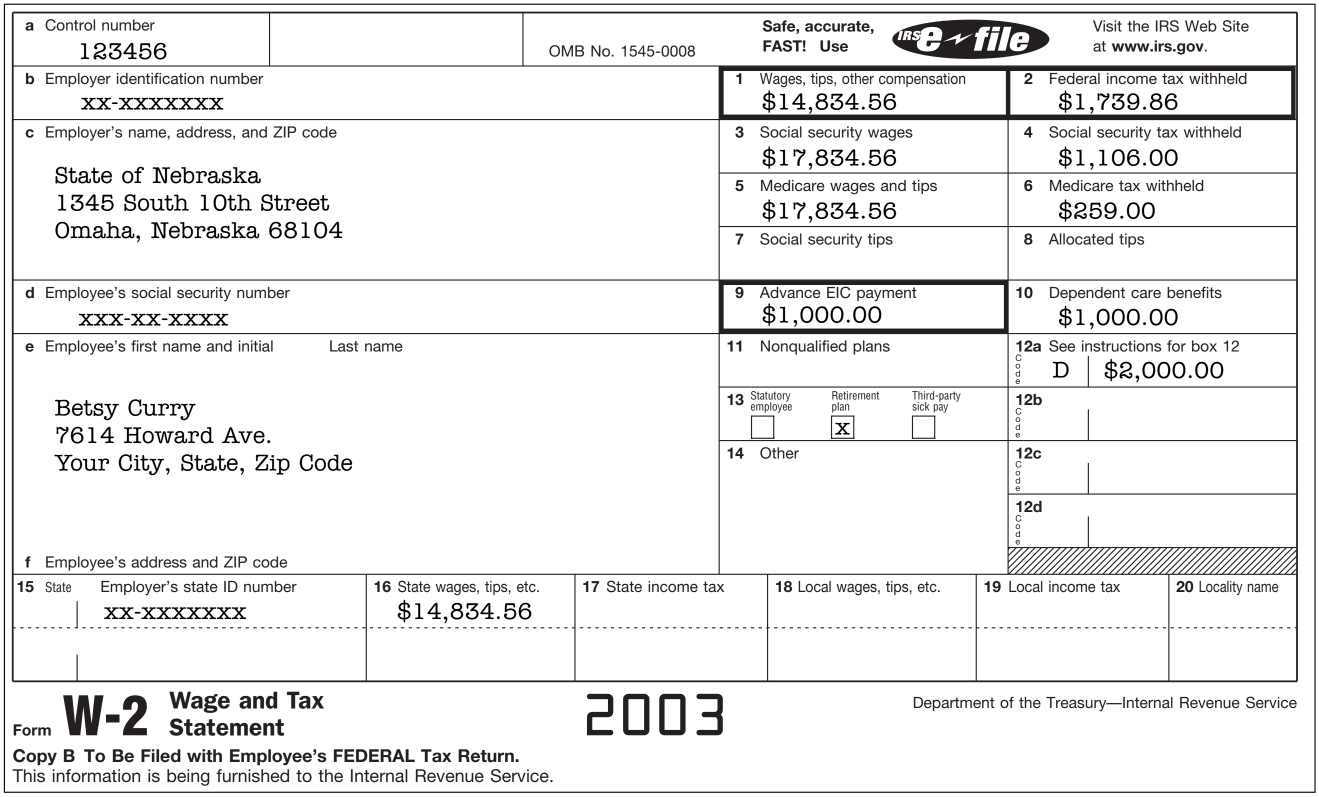
Betsy has a small word processing business (Code: 561900) which she runs out of her home. Her gross income was $4,850. Her total expenses for materials were $363 and she has written records for

1,200 business miles and 9,000 other miles on her only car. Her car was put into business use on January 1, 2002. Her business takes up only a very small area in her home and she uses her computer mainly for personal use. She elects to take the standard mileage rate.

Betsy's neighbor, Mary King, cares for her two children after school. Betsy paid $1,750 for each child during 2003. Mary's SSN is xxx-xx-xxxx and her address is 628 Howard Ave., Your City, State, and Zip Code.

Documents taxpayer gives you:

Form W-2, State of Nebraska



a Control number 123456

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number xx-xxxxxxx

c Employer's name, address, and ZIP code

State of Nebraska
1345 South 10th Street
Omaha, Nebraska 68104

d Employee's social security number xxx-xx-xxxx

e Employee's first name and initial   Last name

Betsy Curry
7614 Howard Ave.
Your City, State, Zip Code

f Employee's address and ZIP code

1 Wages, tips, other compensation $14,834.56

2 Federal income tax withheld $1,739.86

3 Social security wages $17,834.56

4 Social security tax withheld $1,106.00

5 Medicare wages and tips $17,834.56

6 Medicare tax withheld $259.00

7 Social security tips

8 Allocated tips

9 Advance EIC payment $1,000.00

10 Dependent care benefits $1,000.00

11 Nonqualified plans

12a See instructions for box 12 Code D $2,000.00

13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐

12b Code

14 Other

12c Code

12d Code

15 State Employer's state ID number xx-xxxxxxx

16 State wages, tips, etc. $14,834.56

17 State income tax

18 Local wages, tips, etc.

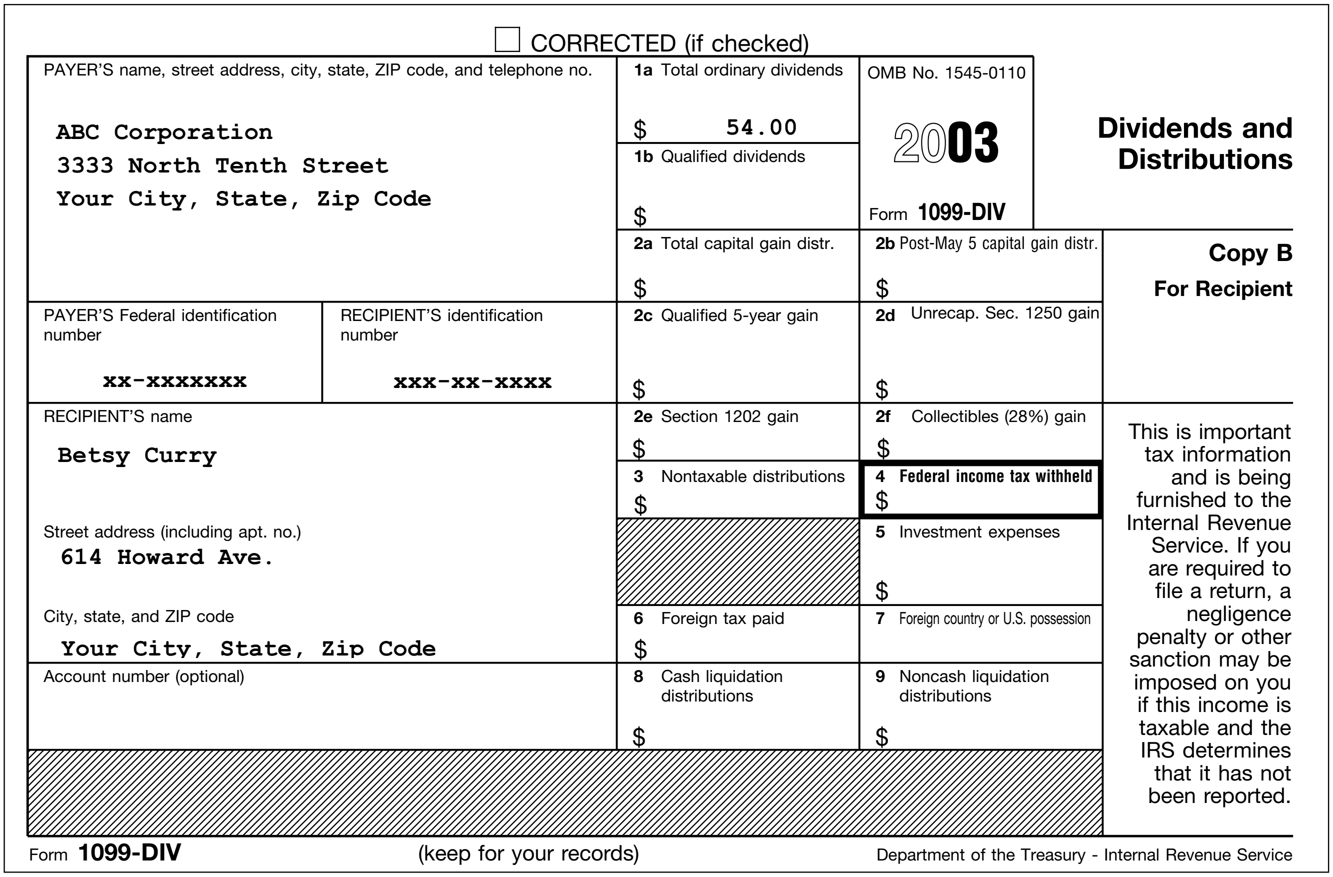
19 Local income tax

20 Locality name

Form **W-2** **Wage and Tax Statement** 2003

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

ABC Corporation
3333 North Tenth Street
Your City, State, Zip Code

1a Total ordinary dividends $ 54.00

1b Qualified dividends $

OMB No. 1545-0110

2003

Form **1099-DIV**

Dividends and Distributions

2a Total capital gain distr. $

2b Post-May 5 capital gain distr. $

Copy B

For Recipient

PAYER'S Federal identification number: xx-xxxxxxx

RECIPIENT'S identification number: xxx-xx-xxxx

2c Qualified 5-year gain $

2d Unrecap. Sec. 1250 gain $

RECIPIENT'S name

Betsy Curry

2e Section 1202 gain $

2f Collectibles (28%) gain $

3 Nontaxable distributions $

4 Federal income tax withheld $

Street address (including apt. no.)

614 Howard Ave.

5 Investment expenses $

City, state, and ZIP code

Your City, State, Zip Code

6 Foreign tax paid $

7 Foreign country or U.S. possession

Account number (optional)

8 Cash liquidation distributions $

9 Noncash liquidation distributions $

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-DIV** (keep for your records) Department of the Treasury - Internal Revenue Service

Module 3

Objectives

After completing this module you should be able to:

- Create a new tax return by completing the main information sheet for this module in TaxWise.
- Determine the qualifications for married filing jointly and qualifying widower filing status.
- Determine basis and capital gain/loss on sale of stock.
- Determine if IRA distributions are taxable, nontaxable, or partly taxable and calculate the taxable portion.
- Determine if retirement income is taxable and calculate the taxable portion.
- Distinguish between taxable and nontaxable social security benefits and calculate the taxable portion.
- Identify how other types of income are reported.
- Determine the qualifications for the tuition and fees deduction.
- Determine the qualifications for the education credits.
- Determine the most advantageous method for reporting tuition and fees.
- Determine which items are allowed when itemizing deductions.
- Know where to report estimated tax payments.
- Determine if the estimated tax penalty applies.

Taxpayer Profile

Taxpayer Name	Don Hillsdale
TP SSN	XXX-XX-XXXX
Spouse Name	Sarah Wilson
SP SSN	xxx-xx-xxxx
Street Address	129 Pembroke Ave.
City, State, Zip	Your City, State, Zip Code
Phone Number	402-555-1212
Date of birth TP	03/12/1932
Date of birth Spouse	12/21/1940
Occupation TP	Retired
SP	Housewife
Blind? TP	No
SP	No
Donate to Presidential Fund?	
TP	Yes
SP	No
Filing Status	MFJ
Can be claimed as dependent by someone else? TP	No
SP	No
State Return Info (Yes or No)	
Direct Deposit	
Bank Routing Number	xxxxxxxxx
Account number	xxxxxxxxxxxxx

Other Members of Household

Name	Date of Birth	SSN or ITIN	Relationship	Citizenship	# of Months in Home
Betty Wilson	05/23/1983	xxx-xx-xxxx	Granddaughter	U.S.	12

Other considerations:

- Don paid $1,350 for tuition and fees to the local college for his granddaughter's education. She is a junior and a full-time student.
- Don and Sarah's previous year tax liability was $2,011.

- Sarah provided the following information on the sale of stock.

Company	# of Shares	Purchase Date	Per Share Basis	Sale Date	Per Share Sales Price
ABC Co.	100	05/28/1985	48.00	05/30/2003	55.00
XYZ Co.	100	11/05/2002	32.00	04/10/2003	49.00

- Don and Sarah had the following expenses for the year:

Medical insurance	$2,250
Medical travel	500 miles
Dental bills	$275
New glasses	$165
Prescription drugs	$1,263
Over the counter medication	$120
Church donations	$1,000
Donation to neighbor whose house burnt	$100
Other charities (cash)	$82
Clothing to Salvation Army	$327
Home mortgage interest	$3,175
City real estate tax	$550
County real estate tax	$1,721
Car license fee	$35
Personal property tax	$817
Gambling losses	$1,500

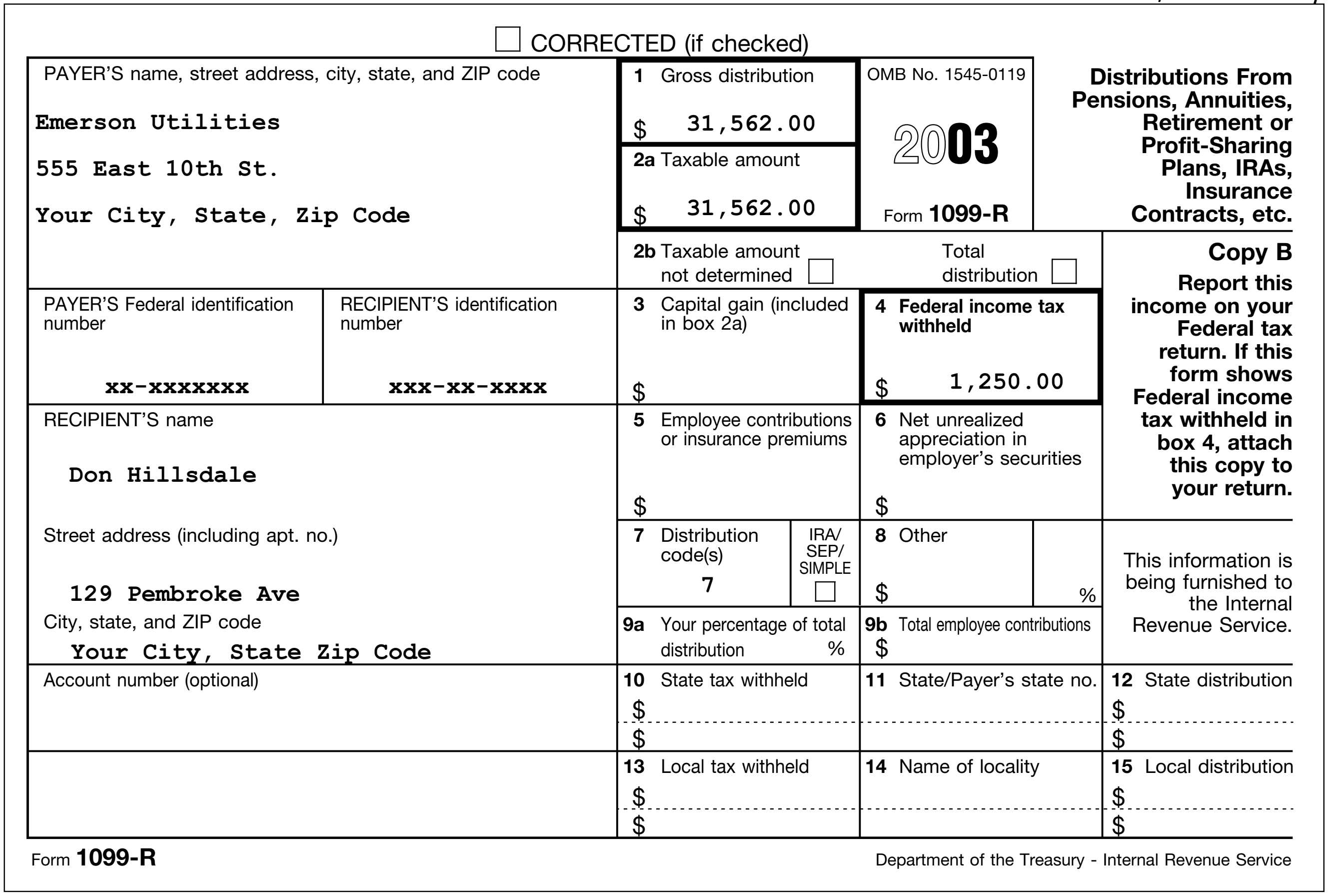
- Don made the following estimated tax payments:

04/12/2003	$200
06/15/2003	$200
09/10/2003	$200
01/15/2004	$200

- Don and Sarah had $200 of their previous year's tax refund applied to this year's taxes.

Documents taxpayer gives you:

Form 1099-R, Emerson Utility



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code
Emerson Utilities
555 East 10th St.
Your City, State, Zip Code

1 Gross distribution $ 31,562.00

2a Taxable amount $ 31,562.00

OMB No. 1545-0119

2003

Form 1099-R

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2b Taxable amount not determined ☐

Total distribution ☐

Copy B

Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.

PAYER'S Federal identification number xx-xxxxxxx

RECIPIENT'S identification number xxx-xx-xxxx

3 Capital gain (included in box 2a) $

4 Federal income tax withheld $ 1,250.00

RECIPIENT'S name
Don Hillsdale

5 Employee contributions or insurance premiums $

6 Net unrealized appreciation in employer's securities $

Street address (including apt. no.)
129 Pembroke Ave

7 Distribution code(s) 7

IRA/ SEP/ SIMPLE ☐

8 Other $ %

This information is being furnished to the Internal Revenue Service.

City, state, and ZIP code
Your City, State Zip Code

9a Your percentage of total distribution %

9b Total employee contributions $

Account number (optional)

10 State tax withheld $ $

11 State/Payer's state no.

12 State distribution $ $

13 Local tax withheld $ $

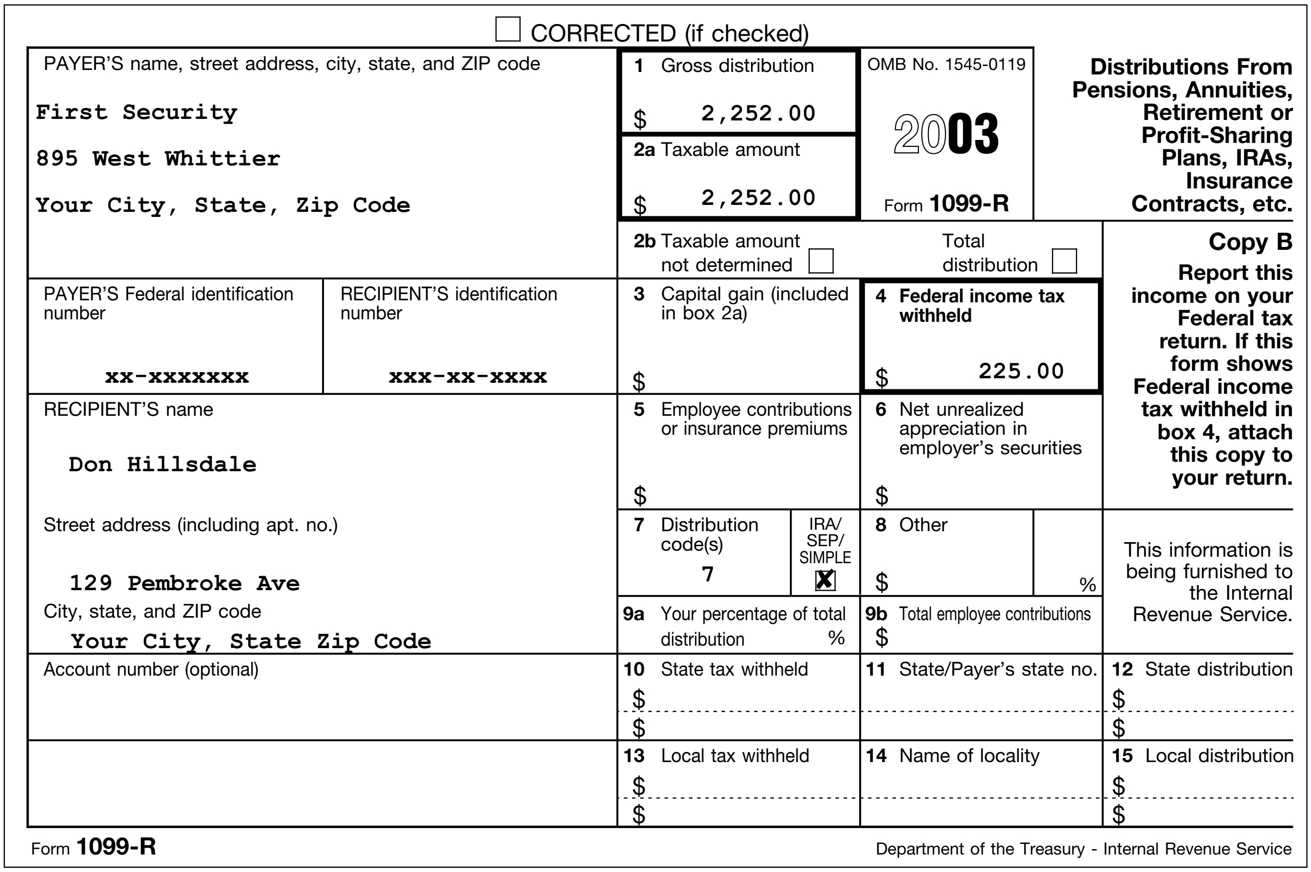
14 Name of locality

15 Local distribution $ $

Form **1099-R**

Department of the Treasury - Internal Revenue Service

Form 1099-R, First Security



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code
First Security
895 West Whittier
Your City, State, Zip Code

1 Gross distribution $ 2,252.00

2a Taxable amount $ 2,252.00

OMB No. 1545-0119

2003

Form 1099-R

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2b Taxable amount not determined ☐

Total distribution ☐

Copy B

Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.

PAYER'S Federal identification number xx-xxxxxxx

RECIPIENT'S identification number xxx-xx-xxxx

3 Capital gain (included in box 2a) $

4 Federal income tax withheld $ 225.00

RECIPIENT'S name
Don Hillsdale

5 Employee contributions or insurance premiums $

6 Net unrealized appreciation in employer's securities $

Street address (including apt. no.)
129 Pembroke Ave

7 Distribution code(s) 7

IRA/ SEP/ SIMPLE ☒

8 Other $ %

This information is being furnished to the Internal Revenue Service.

City, state, and ZIP code
Your City, State Zip Code

9a Your percentage of total distribution %

9b Total employee contributions $

Account number (optional)

10 State tax withheld $ $

11 State/Payer's state no.

12 State distribution $ $

13 Local tax withheld $ $

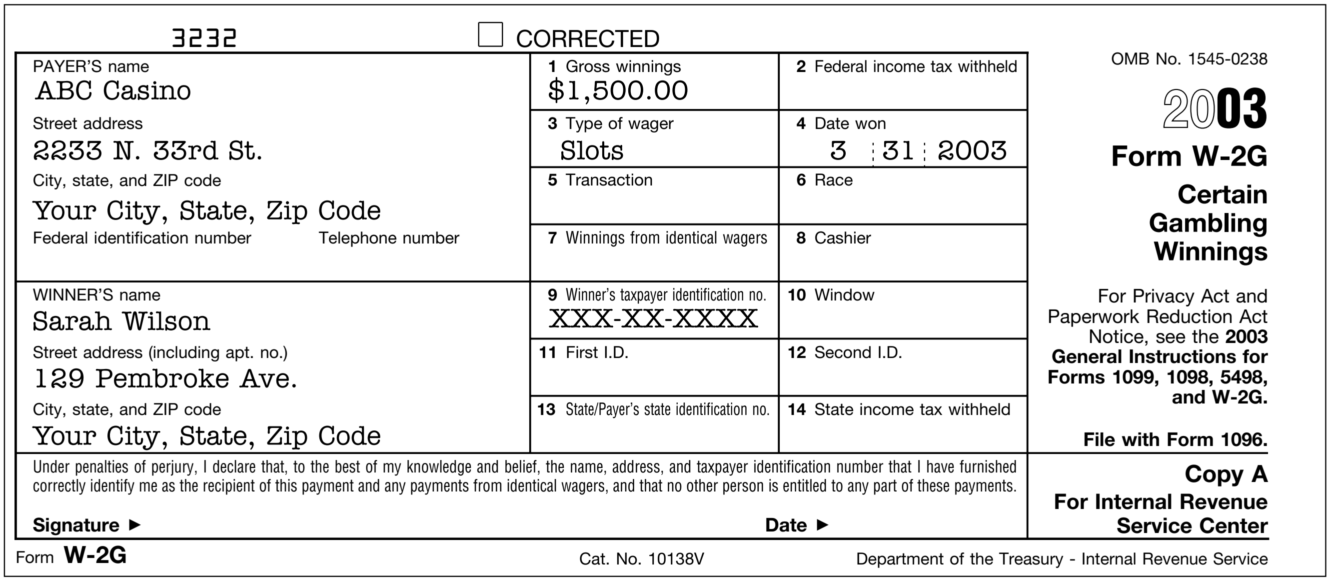
14 Name of locality

15 Local distribution $ $

Form **1099-R**

Department of the Treasury - Internal Revenue Service

Form W-2G



3232 ☐ CORRECTED

PAYER'S name
ABC Casino
Street address
2233 N. 33rd St.
City, state, and ZIP code
Your City, State, Zip Code
Federal identification number
Telephone number

1 Gross winnings
$1,500.00
2 Federal income tax withheld
3 Type of wager
Slots
4 Date won
3 31 2003
5 Transaction
6 Race
7 Winnings from identical wagers
8 Cashier

WINNER'S name
Sarah Wilson
Street address (including apt. no.)
129 Pembroke Ave.
City, state, and ZIP code
Your City, State, Zip Code

9 Winner's taxpayer identification no.
XXX-XX-XXXX
10 Window
11 First I.D.
12 Second I.D.
13 State/Payer's state identification no.
14 State income tax withheld

OMB No. 1545-0238

2003

Form W-2G

Certain Gambling Winnings

For Privacy Act and Paperwork Reduction Act Notice, see the **2003 General Instructions for Forms 1099, 1098, 5498, and W-2G.**

File with Form 1096.

Under penalties of perjury, I declare that, to the best of my knowledge and belief, the name, address, and taxpayer identification number that I have furnished correctly identify me as the recipient of this payment and any payments from identical wagers, and that no other person is entitled to any part of these payments.

Signature ► **Date ►**

Copy A
For Internal Revenue Service Center

Form **W-2G** Cat. No. 10138V Department of the Treasury - Internal Revenue Service

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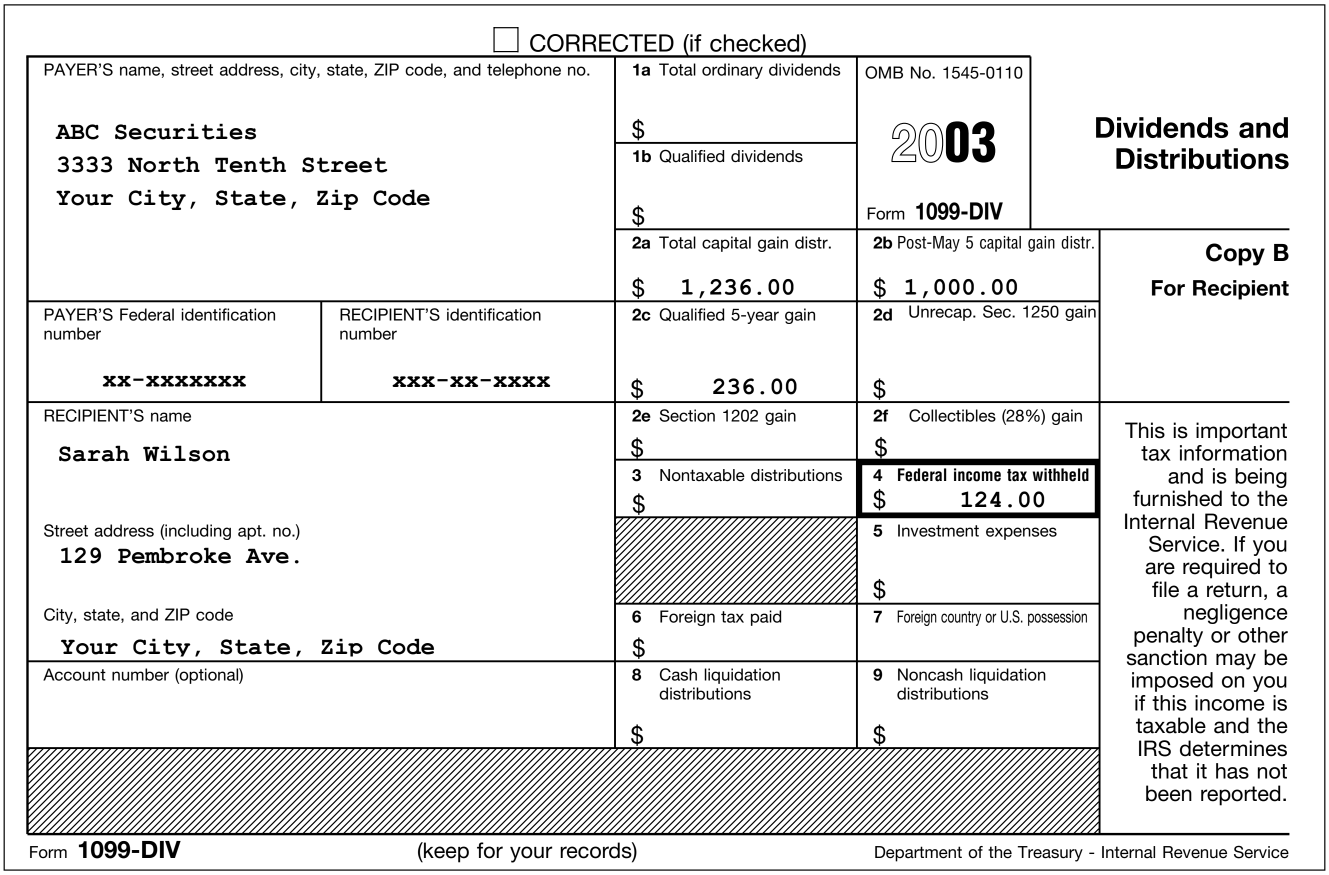
Form 1099-DIV



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.
ABC Securities
3333 North Tenth Street
Your City, State, Zip Code

1a Total ordinary dividends
$
1b Qualified dividends
$

OMB No. 1545-0110

2003

Form **1099-DIV**

Dividends and Distributions

2a Total capital gain distr.
$ 1,236.00
2b Post-May 5 capital gain distr.
$ 1,000.00

Copy B
For Recipient

PAYER'S Federal identification number
xx-xxxxxxx
RECIPIENT'S identification number
xxx-xx-xxxx

2c Qualified 5-year gain
$ 236.00
2d Unrecap. Sec. 1250 gain
$

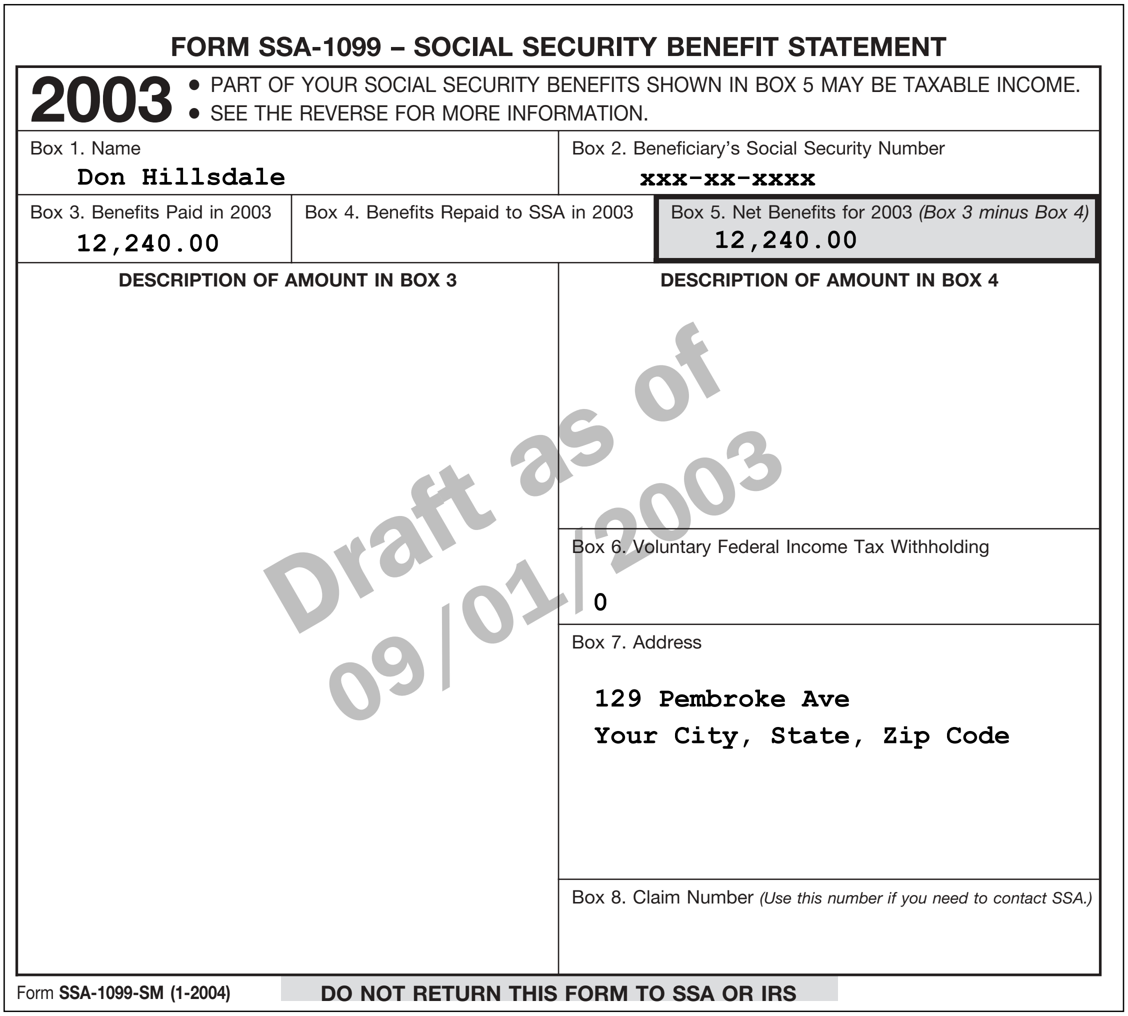
RECIPIENT'S name
Sarah Wilson
Street address (including apt. no.)
129 Pembroke Ave.
City, state, and ZIP code
Your City, State, Zip Code
Account number (optional)

2e Section 1202 gain
$
2f Collectibles (28%) gain
$
3 Nontaxable distributions
$
4 **Federal income tax withheld**
$ 124.00
5 Investment expenses
$
6 Foreign tax paid
$
7 Foreign country or U.S. possession
8 Cash liquidation distributions
$
9 Noncash liquidation distributions
$

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-DIV** (keep for your records) Department of the Treasury - Internal Revenue Service

Form 1099-SSA



FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT

2003
- PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME.
- SEE THE REVERSE FOR MORE INFORMATION.

Box 1. Name: Don Hillsdale

Box 2. Beneficiary's Social Security Number: xxx-xx-xxxx

Box 3. Benefits Paid in 2003: 12,240.00

Box 4. Benefits Repaid to SSA in 2003:

Box 5. Net Benefits for 2003 *(Box 3 minus Box 4)*: 12,240.00

DESCRIPTION OF AMOUNT IN BOX 3

DESCRIPTION OF AMOUNT IN BOX 4

Box 6. Voluntary Federal Income Tax Withholding: 0

Box 7. Address

129 Pembroke Ave
Your City, State, Zip Code

Box 8. Claim Number *(Use this number if you need to contact SSA.)*

Form **SSA-1099-SM (1-2004)**

DO NOT RETURN THIS FORM TO SSA OR IRS

Module 4

Wage Earner Objectives

After completing this module you should be able to:

- Identify when Individual Taxpayer Identification Numbers are required.
- Define multiple support as it applies to dependent exemptions.
- Determine when and how tip income is reported.
- Determine when scholarship and fellowship grants are taxable.
- Determine when state and local tax refunds are taxable.
- Distinguish between alimony and child support and identify where to report the receipt of alimony.
- Identify where alimony payments are reported.
- Identify where jury duty payments returned to an employer are reported.
- Explain foreign tax credit and mortgage interest credit.

Pension Earner Objectives

After completing this module you should be able to:

- Determine when a gain from the sale of a home is reported.
- Determine when Coverdell ESAs are taxable.
- Determine the qualifications for the credit for the elderly and disabled.

MILITARY OBJECTIVES

After completing this module you should be able to:

- Know when an Armed Forces member can be claimed as a dependent on someone else's return.
- Know the special rule for claiming Head of Household when married to a non-resident alien.
- Know how to calculate the taxable wages for a member of the Armed Forces who receives medical separation pay.
- Know which states have community property laws.
- Know when a person is required to report a net profit or loss from self-employment using a Schedule C or Schedule C-EZ.
- Know when a person is required to complete a Schedule E to report rental income and expenses.
- Know the filing deadline extensions for people outside the U.S. and those in a combat zone.

- Know how the military thrift savings plan is treated for tax purposes.
- Know who qualifies for the foreign income exclusion and how to calculate it.

Module 5

Objectives

After completing this module you will be able to:

- Complete the Main Information Sheet and all other information covered in previous modules.
- Determine the effect on income for personnel assigned to a "Combat Zone".
- Determine other benefits for personnel in a designated "Combat Zone".
- Determine qualified moving expenses and input applicable information for the calculation of the adjustment.
- Determine qualifying miscellaneous expenses for military personnel that can be listed as itemized deductions.

Taxpayer Profile

Taxpayer Name	MSgt Mary Bennett
TP SSN	xxx-xx-xxxx
Spouse Name	Gary Bennett
SP SSN	xxx-xx-xxxx
Street Address	345 Lake Huron Place
City, State, Zip	Your City, State, Zip Code
Phone Number	852-555-1212
Date of birth TP	11/24/1967
Date of birth Spouse	01/30/1965
Occupation TP	Air Force Lab Tech
SP	Nurse
Blind? TP	No
SP	No
Donate to Presidential Fund? TP	Yes
SP	Yes
Filing Status	Married Filing Jointly
Can be claimed as dependent by someone else? TP	No
SP	No
State Return Info (Yes or No)	No
Direct Deposit	
Bank Routing Number	xxxxxxxxx
Account number	xxxxxxx

Other Members of Household

Name	Date of Birth	SSN or ITIN	Relationship	Citizenship	# Months in Home
Terri Bennett	09/06/1992	xxx-xx-xxxx	Daughter	U.S.	12
Jason Bennett	01/27/1998	xxx-xx-xxxx	Son	U.S.	12
Kyle Bennett	07/18/2000	xxx-xx-xxxx	Son	U.S.	12

Other considerations:

Mary was stationed in Afghanistan in a combat zone from March 5, 2003 to September 2, 2003.

While in the combat zone she earned wages of $23,394, BAH of $13,545, Separation Allowance of $1750, Hazardous Duty Pay of $1050, and Imminent Danger/Hostile Fire pay of $1575.

Mary reenlisted while in the combat zone and received a $20,000 reenlistment bonus.

Mary has an allotment of $1000 a month coming out of her check that is sent to her mother. This allotment pays for more than half of the cost of support for her mother and her 14 year old brother who lives with her mother in Mississippi. Her mother receives $650 a month social security benefits for minor children. This is the only other income their household receives.

Name	Date of Birth	SSN or ITIN	Relationship	Citizenship	# Months in Home
Nancy Taft	05/23/1949	xxx-xx-xxxx	Mother	U.S.	0
Jeffery Taft	09/15/1989	xxx-xx-xxxx	Brother	U.S.	0

Mary and Gary have the following expenses. They are not sure if they can itemize.

Home mortgage interest	$9,368
Real Estate Taxes	$2,245
New roof to replace leaking roof:	$4,200
Donated clothes FMV:	$422
Church donations	$1,000
Military uniform cleaning expenses:	$ 969 (local policy prohibits wearing of all military uniforms off-duty; Mary receives a clothing allowance of $342 a year)
Nurse uniform cleaning expenses:	$653
Periodicals:	$124 AMA Journal of Medicine, $18 Woodworking,

	$22 Nursing Reporter,
	$28 Air Force Times,
	$23 Quilter's Newsletter
Nurses union dues for Gary	$360

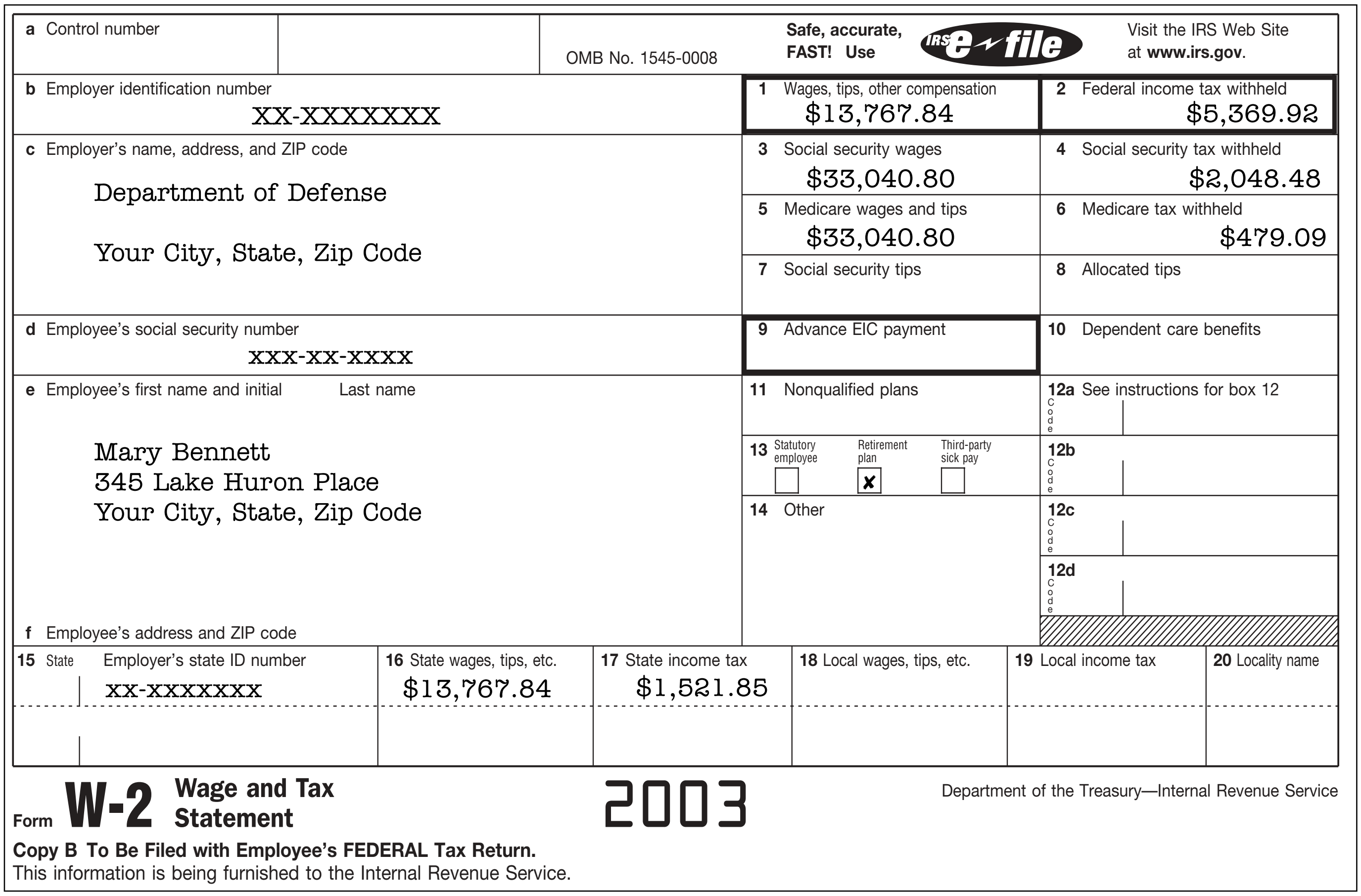
Gary and Mary moved from Louisiana to Virginia in January 2003 and had the following DITY move expenses:

$2,300 U-Haul Rental,

$280 Lodging 2 nights

$215 meals enroute

1175 miles



a Control number

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number: XX-XXXXXXX

c Employer's name, address, and ZIP code:

Department of Defense

Your City, State, Zip Code

d Employee's social security number: xxx-xx-xxxx

e Employee's first name and initial — Last name

Mary Bennett
345 Lake Huron Place
Your City, State, Zip Code

f Employee's address and ZIP code

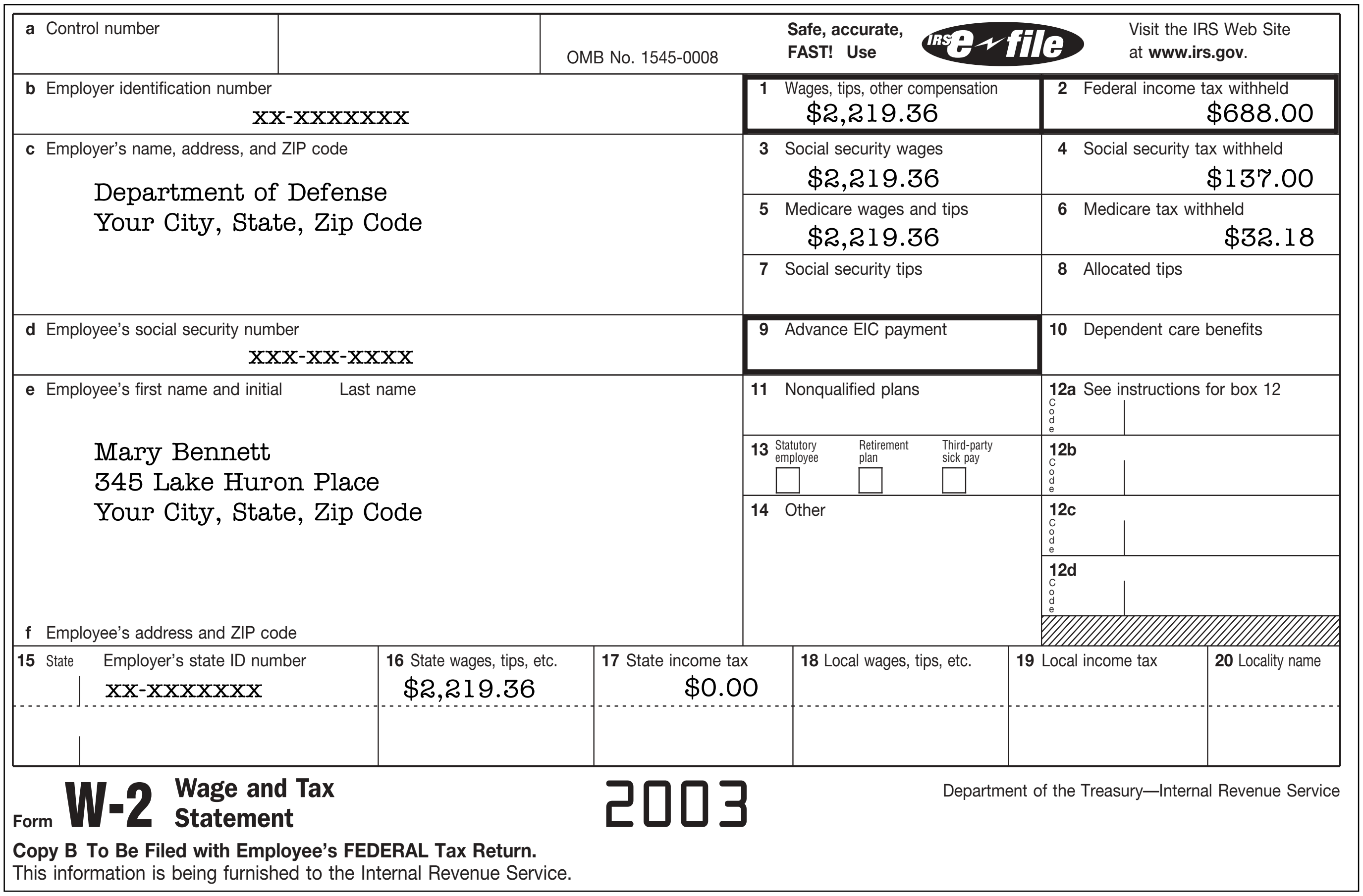
1 Wages, tips, other compensation $13,767.84	**2** Federal income tax withheld $5,369.92
3 Social security wages $33,040.80	**4** Social security tax withheld $2,048.48
5 Medicare wages and tips $33,040.80	**6** Medicare tax withheld $479.09
7 Social security tips	**8** Allocated tips
9 Advance EIC payment	**10** Dependent care benefits
11 Nonqualified plans	**12a** See instructions for box 12 Code
13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐	**12b** Code
14 Other	**12c** Code
	12d Code

15 State	Employer's state ID number	**16** State wages, tips, etc.	**17** State income tax	**18** Local wages, tips, etc.	**19** Local income tax	**20** Locality name
	xx-xxxxxxx	$13,767.84	$1,521.85			

Form **W-2** **Wage and Tax Statement** 2003

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.



a Control number

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number: xx-xxxxxxx

c Employer's name, address, and ZIP code:

Department of Defense
Your City, State, Zip Code

d Employee's social security number: xxx-xx-xxxx

e Employee's first name and initial / Last name:

Mary Bennett
345 Lake Huron Place
Your City, State, Zip Code

f Employee's address and ZIP code

1 Wages, tips, other compensation $2,219.36	2 Federal income tax withheld $688.00
3 Social security wages $2,219.36	4 Social security tax withheld $137.00
5 Medicare wages and tips $2,219.36	6 Medicare tax withheld $32.18
7 Social security tips	8 Allocated tips
9 Advance EIC payment	10 Dependent care benefits
11 Nonqualified plans	12a See instructions for box 12 Code
13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b Code
14 Other	12c Code
	12d Code

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
	xx-xxxxxxx	$2,219.36	$0.00			

Form **W-2** **Wage and Tax Statement** 2003

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
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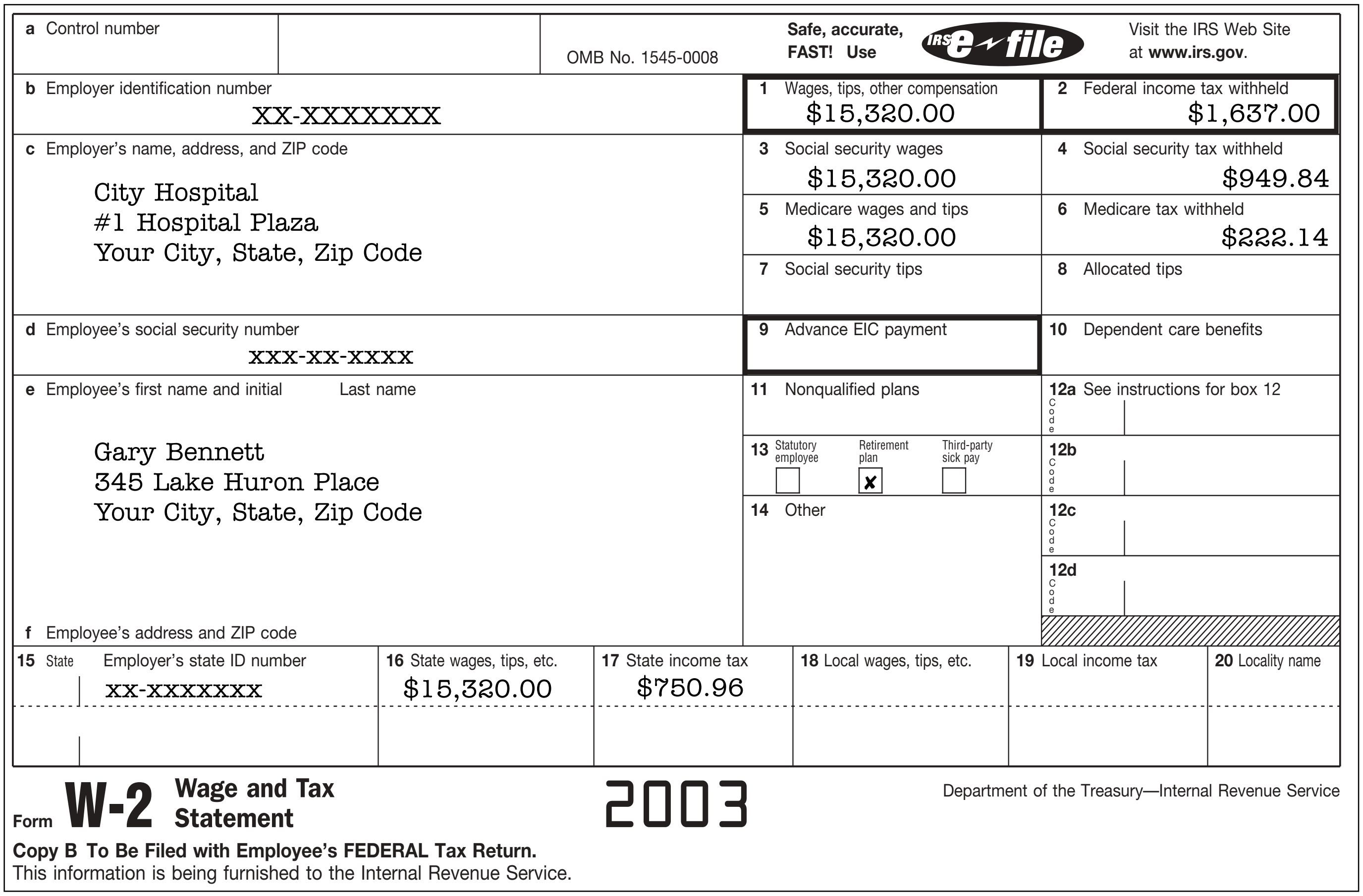


a Control number

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number: XX-XXXXXXX

c Employer's name, address, and ZIP code:

City Hospital
#1 Hospital Plaza
Your City, State, Zip Code

d Employee's social security number: xxx-xx-xxxx

e Employee's first name and initial / Last name:

Gary Bennett
345 Lake Huron Place
Your City, State, Zip Code

f Employee's address and ZIP code

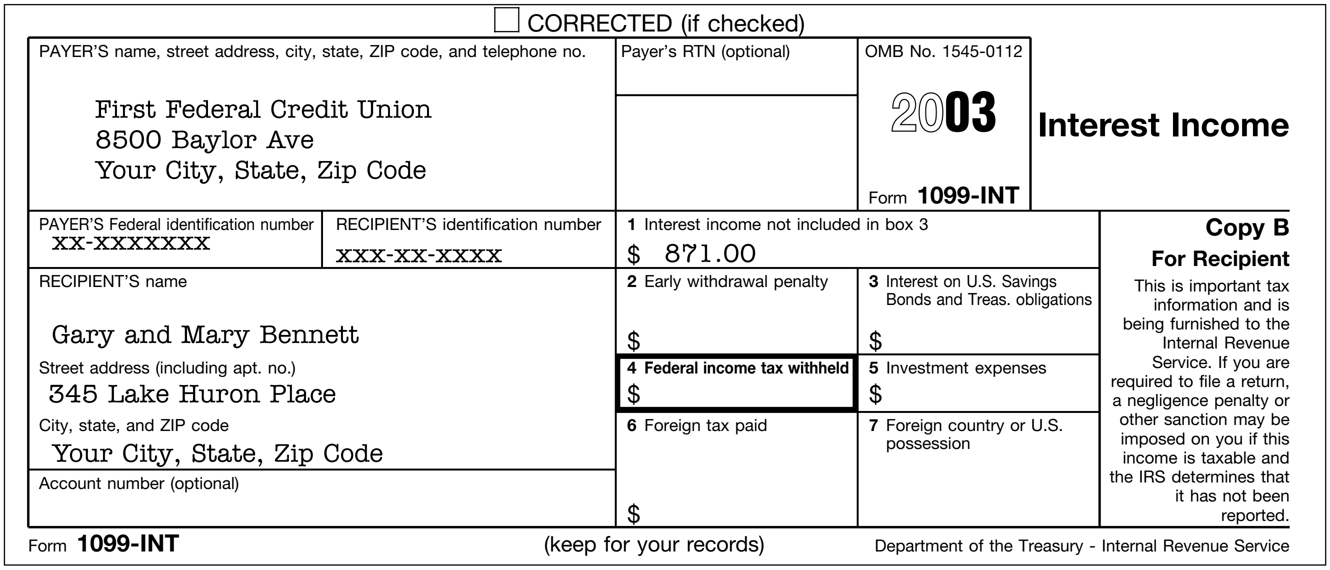
1 Wages, tips, other compensation $15,320.00	2 Federal income tax withheld $1,637.00
3 Social security wages $15,320.00	4 Social security tax withheld $949.84
5 Medicare wages and tips $15,320.00	6 Medicare tax withheld $222.14
7 Social security tips	8 Allocated tips
9 Advance EIC payment	10 Dependent care benefits
11 Nonqualified plans	12a See instructions for box 12 Code
13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐	12b Code
14 Other	12c Code
	12d Code

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
	xx-xxxxxxx	$15,320.00	$750.96			

Form **W-2** **Wage and Tax Statement** 2003

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

First Federal Credit Union
8500 Baylor Ave
Your City, State, Zip Code

Payer's RTN (optional)

OMB No. 1545-0112

2003

Form **1099-INT**

Interest Income

PAYER'S Federal identification number: XX-XXXXXXX

RECIPIENT'S identification number: XXX-XX-XXXX

1 Interest income not included in box 3: $ 871.00

Copy B

For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

RECIPIENT'S name: Gary and Mary Bennett

2 Early withdrawal penalty: $

3 Interest on U.S. Savings Bonds and Treas. obligations: $

Street address (including apt. no.): 345 Lake Huron Place

4 Federal income tax withheld: $

5 Investment expenses: $

City, state, and ZIP code: Your City, State, Zip Code

6 Foreign tax paid: $

7 Foreign country or U.S. possession

Account number (optional)

Form **1099-INT** (keep for your records) Department of the Treasury - Internal Revenue Service

Objectives

After completing this module you will be able to:

- Complete the Main Information Sheet and all other information covered in previous modules.
- Determine the correct filing status.
- Determine dependency status of all persons in the household.

Taxpayer Profile

Taxpayer Name	PFC Joe Wells
TP SSN	xxx-xx-xxxx
Spouse Name	Lee Wells
SP SSN	923-76-xxxx (ITIN)
Street Address	4433 Sterling Avenue
City, State, Zip	Your City, State, Zip Code
Phone Number	512-555-1212
Date of birth TP	02/04/1977
Date of birth Spouse	04/18/1979
Occupation TP	Soldier
SP	Housewife
Blind? TP	No
SP	No
Donate to Presidential Fund?	
TP	Yes
SP	Yes
Filing Status	Married Filing Jointly
Can be claimed as dependent by someone else? TP	No
SP	No
State Return Info (Yes or No)	No
Direct Deposit	
Bank Routing Number	xxxxxxxxx
Account number	xxxxxxxx

Other Members of Household

Name	Date of Birth	SSN or ITIN	Relationship	Citizenship	# Months in Home
Jung Ling	05/16/2000	923-76-xxxx	Step-son	Korea	12
Myung Joe	08/24/2003	xxx-xx-xxxx	Daughter	U.S.	12

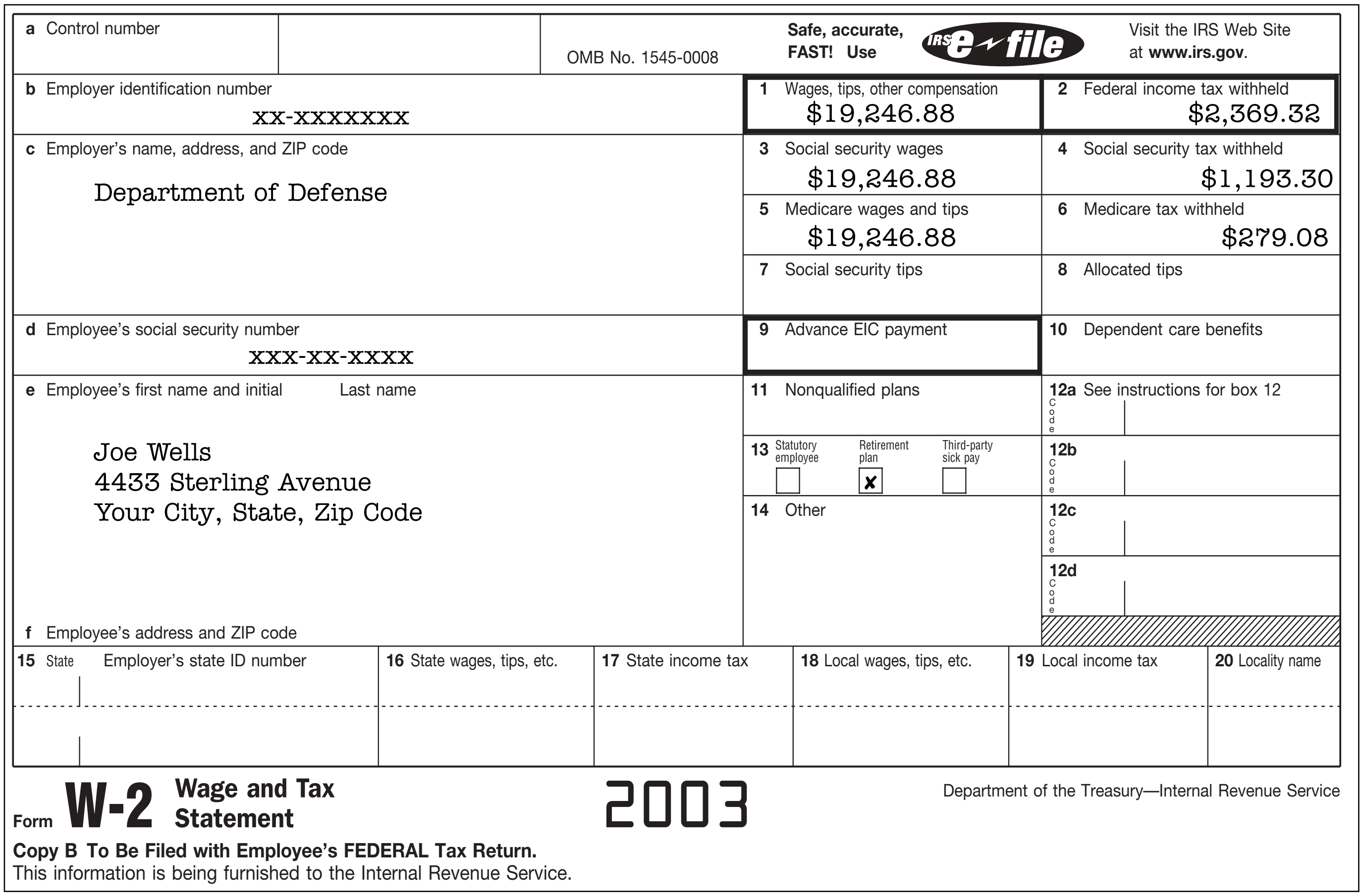
Other considerations:

Joe and Lee lived in Korea till November 20, 2003.

Lee is not a U.S. citizen but they agree to file a joint return.

Jung Ling is Lee's son from a previous marriage. Joe has not legally adopted Jung Ling.

Joe received military benefits that include Hostile Fire Pay, Imminent Danger pay, Basic Allowance for Housing, and Basic Allowance for Subsistence.



a Control number

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS Web Site at **www.irs.gov**.

b Employer identification number xx-xxxxxxx

c Employer's name, address, and ZIP code

Department of Defense

d Employee's social security number xxx-xx-xxxx

e Employee's first name and initial Last name

Joe Wells
4433 Sterling Avenue
Your City, State, Zip Code

f Employee's address and ZIP code

1 Wages, tips, other compensation $19,246.88

2 Federal income tax withheld $2,369.32

3 Social security wages $19,246.88

4 Social security tax withheld $1,193.30

5 Medicare wages and tips $19,246.88

6 Medicare tax withheld $279.08

7 Social security tips

8 Allocated tips

9 Advance EIC payment

10 Dependent care benefits

11 Nonqualified plans

12a See instructions for box 12

12b

12c

12d

13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐

14 Other

15 State Employer's state ID number

16 State wages, tips, etc.

17 State income tax

18 Local wages, tips, etc.

19 Local income tax

20 Locality name

Form **W-2** **Wage and Tax Statement** 2003

Department of the Treasury—Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

STUDENT NOTES

STUDENT NOTES

STUDENT NOTES

STUDENT NOTES

STUDENT NOTES

2003 Earned Income Credit (EIC) Table

Caution. This is **not** a tax table.

1. To find your credit, read down the “At least – But less than” columns and find the line that includes the amount you were told to look up from your EIC Worksheet.

2. Then, go to the column that includes your filing status and the number of qualifying children you have. Enter the credit from that column on your EIC Worksheet.

Example. If your filing status is single, you have one qualifying child, and the amount you are looking up from your EIC Worksheet is $2,455, you would enter $842.

If the amount you are looking up from the worksheet is—		**And your filing status is—**		
		Single, head of household, or qualifying widow(er) and you have—		
		No children	One child	Two children
At least	But less than	**Your credit is—**		
2,400	**2,450**	186	825	970
2,450	**2,500**	189	842	990

If the amount you are looking up from the worksheet is—		**And your filing status is—**					
		Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—		
		No children	One child	Two children	No children	One child	Two children
At least	But less than	**Your credit is—**			**Your credit is—**		
$1	**$50**	$2	$9	$10	$2	$9	$10
50	**100**	6	26	30	6	26	30
100	**150**	10	43	50	10	43	50
150	**200**	13	60	70	13	60	70
200	**250**	17	77	90	17	77	90
250	**300**	21	94	110	21	94	110
300	**350**	25	111	130	25	111	130
350	**400**	29	128	150	29	128	150
400	**450**	33	145	170	33	145	170
450	**500**	36	162	190	36	162	190
500	**550**	40	179	210	40	179	210
550	**600**	44	196	230	44	196	230
600	**650**	48	213	250	48	213	250
650	**700**	52	230	270	52	230	270
700	**750**	55	247	290	55	247	290
750	**800**	59	264	310	59	264	310
800	**850**	63	281	330	63	281	330
850	**900**	67	298	350	67	298	350
900	**950**	71	315	370	71	315	370
950	**1,000**	75	332	390	75	332	390
1,000	**1,050**	78	349	410	78	349	410
1,050	**1,100**	82	366	430	82	366	430
1,100	**1,150**	86	383	450	86	383	450
1,150	**1,200**	90	400	470	90	400	470
1,200	**1,250**	94	417	490	94	417	490
1,250	**1,300**	98	434	510	98	434	510
1,300	**1,350**	101	451	530	101	451	530
1,350	**1,400**	105	468	550	105	468	550
1,400	**1,450**	109	485	570	109	485	570
1,450	**1,500**	113	502	590	113	502	590
1,500	**1,550**	117	519	610	117	519	610
1,550	**1,600**	120	536	630	120	536	630
1,600	**1,650**	124	553	650	124	553	650
1,650	**1,700**	128	570	670	128	570	670
1,700	**1,750**	132	587	690	132	587	690
1,750	**1,800**	136	604	710	136	604	710
1,800	**1,850**	140	621	730	140	621	730
1,850	**1,900**	143	638	750	143	638	750
1,900	**1,950**	147	655	770	147	655	770
1,950	**2,000**	151	672	790	151	672	790
2,000	**2,050**	155	689	810	155	689	810
2,050	**2,100**	159	706	830	159	706	830
2,100	**2,150**	163	723	850	163	723	850
2,150	**2,200**	166	740	870	166	740	870
2,200	**2,250**	170	757	890	170	757	890
2,250	**2,300**	174	774	910	174	774	910
2,300	**2,350**	178	791	930	178	791	930
2,350	**2,400**	182	808	950	182	808	950
2,400	**2,450**	186	825	970	186	825	970
2,450	**2,500**	189	842	990	189	842	990
2,500	**2,550**	193	859	1,010	193	859	1,010
2,550	**2,600**	197	876	1,030	197	876	1,030
2,600	**2,650**	201	893	1,050	201	893	1,050
2,650	**2,700**	205	910	1,070	205	910	1,070
2,700	**2,750**	208	927	1,090	208	927	1,090
2,750	**2,800**	212	944	1,110	212	944	1,110
2,800	**2,850**	216	961	1,130	216	961	1,130
2,850	**2,900**	220	978	1,150	220	978	1,150
2,900	**2,950**	224	995	1,170	224	995	1,170
2,950	**3,000**	228	1,012	1,190	228	1,012	1,190
3,000	**3,050**	231	1,029	1,210	231	1,029	1,210
3,050	**3,100**	235	1,046	1,230	235	1,046	1,230
3,100	**3,150**	239	1,063	1,250	239	1,063	1,250
3,150	**3,200**	243	1,080	1,270	243	1,080	1,270
3,200	**3,250**	247	1,097	1,290	247	1,097	1,290
3,250	**3,300**	251	1,114	1,310	251	1,114	1,310
3,300	**3,350**	254	1,131	1,330	254	1,131	1,330
3,350	**3,400**	258	1,148	1,350	258	1,148	1,350
3,400	**3,450**	262	1,165	1,370	262	1,165	1,370
3,450	**3,500**	266	1,182	1,390	266	1,182	1,390
3,500	**3,550**	270	1,199	1,410	270	1,199	1,410
3,550	**3,600**	273	1,216	1,430	273	1,216	1,430
3,600	**3,650**	277	1,233	1,450	277	1,233	1,450
3,650	**3,700**	281	1,250	1,470	281	1,250	1,470
3,700	**3,750**	285	1,267	1,490	285	1,267	1,490
3,750	**3,800**	289	1,284	1,510	289	1,284	1,510
3,800	**3,850**	293	1,301	1,530	293	1,301	1,530
3,850	**3,900**	296	1,318	1,550	296	1,318	1,550
3,900	**3,950**	300	1,335	1,570	300	1,335	1,570
3,950	**4,000**	304	1,352	1,590	304	1,352	1,590
4,000	**4,050**	308	1,369	1,610	308	1,369	1,610
4,050	**4,100**	312	1,386	1,630	312	1,386	1,630
4,100	**4,150**	316	1,403	1,650	316	1,403	1,650
4,150	**4,200**	319	1,420	1,670	319	1,420	1,670
4,200	**4,250**	323	1,437	1,690	323	1,437	1,690
4,250	**4,300**	327	1,454	1,710	327	1,454	1,710
4,300	**4,350**	331	1,471	1,730	331	1,471	1,730
4,350	**4,400**	335	1,488	1,750	335	1,488	1,750
4,400	**4,450**	339	1,505	1,770	339	1,505	1,770
4,450	**4,500**	342	1,522	1,790	342	1,522	1,790
4,500	**4,550**	346	1,539	1,810	346	1,539	1,810
4,550	**4,600**	350	1,556	1,830	350	1,556	1,830
4,600	**4,650**	354	1,573	1,850	354	1,573	1,850
4,650	**4,700**	358	1,590	1,870	358	1,590	1,870
4,700	**4,750**	361	1,607	1,890	361	1,607	1,890
4,750	**4,800**	365	1,624	1,910	365	1,624	1,910
4,800	**4,850**	369	1,641	1,930	369	1,641	1,930
4,850	**4,900**	373	1,658	1,950	373	1,658	1,950
4,900	**4,950**	377	1,675	1,970	377	1,675	1,970
4,950	**5,000**	382	1,692	1,990	382	1,692	1,990
5,000	**5,050**	382	1,709	2,010	382	1,709	2,010
5,050	**5,100**	382	1,726	2,030	382	1,726	2,030
5,100	**5,150**	382	1,743	2,050	382	1,743	2,050
5,150	**5,200**	382	1,760	2,070	382	1,760	2,070
5,200	**5,250**	382	1,777	2,090	382	1,777	2,090
5,250	**5,300**	382	1,794	2,110	382	1,794	2,110
5,300	**5,350**	382	1,811	2,130	382	1,811	2,130
5,350	**5,400**	382	1,828	2,150	382	1,828	2,150
5,400	**5,450**	382	1,845	2,170	382	1,845	2,170
5,450	**5,500**	382	1,862	2,190	382	1,862	2,190
5,500	**5,550**	382	1,879	2,210	382	1,879	2,210
5,550	**5,600**	382	1,896	2,230	382	1,896	2,230
5,600	**5,650**	382	1,913	2,250	382	1,913	2,250
5,650	**5,700**	382	1,930	2,270	382	1,930	2,270
5,700	**5,750**	382	1,947	2,290	382	1,947	2,290
5,750	**5,800**	382	1,964	2,310	382	1,964	2,310
5,800	**5,850**	382	1,981	2,330	382	1,981	2,330
5,850	**5,900**	382	1,998	2,350	382	1,998	2,350
5,900	**5,950**	382	2,015	2,370	382	2,015	2,370
5,950	**6,000**	382	2,032	2,390	382	2,032	2,390

(Continued on page 51)

2003 Earned Income Credit (EIC) Table—*Continued* (**Caution.** This is **not** a tax table.)

If the amount you are looking up from the worksheet is—		**And your filing status is—**					
		Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—		
		No children	One child	Two children	No children	One child	Two children
At least	But less than	**Your credit is—**			**Your credit is—**		
6,000	**6,050**	382	2,049	2,410	382	2,049	2,410
6,050	**6,100**	382	2,066	2,430	382	2,066	2,430
6,100	**6,150**	382	2,083	2,450	382	2,083	2,450
6,150	**6,200**	382	2,100	2,470	382	2,100	2,470
6,200	**6,250**	382	2,117	2,490	382	2,117	2,490
6,250	**6,300**	379	2,134	2,510	382	2,134	2,510
6,300	**6,350**	375	2,151	2,530	382	2,151	2,530
6,350	**6,400**	371	2,168	2,550	382	2,168	2,550
6,400	**6,450**	368	2,185	2,570	382	2,185	2,570
6,450	**6,500**	364	2,202	2,590	382	2,202	2,590
6,500	**6,550**	360	2,219	2,610	382	2,219	2,610
6,550	**6,600**	356	2,236	2,630	382	2,236	2,630
6,600	**6,650**	352	2,253	2,650	382	2,253	2,650
6,650	**6,700**	348	2,270	2,670	382	2,270	2,670
6,700	**6,750**	345	2,287	2,690	382	2,287	2,690
6,750	**6,800**	341	2,304	2,710	382	2,304	2,710
6,800	**6,850**	337	2,321	2,730	382	2,321	2,730
6,850	**6,900**	333	2,338	2,750	382	2,338	2,750
6,900	**6,950**	329	2,355	2,770	382	2,355	2,770
6,950	**7,000**	326	2,372	2,790	382	2,372	2,790
7,000	**7,050**	322	2,389	2,810	382	2,389	2,810
7,050	**7,100**	318	2,406	2,830	382	2,406	2,830
7,100	**7,150**	314	2,423	2,850	382	2,423	2,850
7,150	**7,200**	310	2,440	2,870	382	2,440	2,870
7,200	**7,250**	306	2,457	2,890	382	2,457	2,890
7,250	**7,300**	303	2,474	2,910	379	2,474	2,910
7,300	**7,350**	299	2,491	2,930	375	2,491	2,930
7,350	**7,400**	295	2,508	2,950	371	2,508	2,950
7,400	**7,450**	291	2,525	2,970	368	2,525	2,970
7,450	**7,500**	287	2,547	2,990	364	2,547	2,990
7,500	**7,550**	283	2,547	3,010	360	2,547	3,010
7,550	**7,600**	280	2,547	3,030	356	2,547	3,030
7,600	**7,650**	276	2,547	3,050	352	2,547	3,050
7,650	**7,700**	272	2,547	3,070	348	2,547	3,070
7,700	**7,750**	268	2,547	3,090	345	2,547	3,090
7,750	**7,800**	264	2,547	3,110	341	2,547	3,110
7,800	**7,850**	260	2,547	3,130	337	2,547	3,130
7,850	**7,900**	257	2,547	3,150	333	2,547	3,150
7,900	**7,950**	253	2,547	3,170	329	2,547	3,170
7,950	**8,000**	249	2,547	3,190	326	2,547	3,190
8,000	**8,050**	245	2,547	3,210	322	2,547	3,210
8,050	**8,100**	241	2,547	3,230	318	2,547	3,230
8,100	**8,150**	238	2,547	3,250	314	2,547	3,250
8,150	**8,200**	234	2,547	3,270	310	2,547	3,270
8,200	**8,250**	230	2,547	3,290	306	2,547	3,290
8,250	**8,300**	226	2,547	3,310	303	2,547	3,310
8,300	**8,350**	222	2,547	3,330	299	2,547	3,330
8,350	**8,400**	218	2,547	3,350	295	2,547	3,350
8,400	**8,450**	215	2,547	3,370	291	2,547	3,370
8,450	**8,500**	211	2,547	3,390	287	2,547	3,390
8,500	**8,550**	207	2,547	3,410	283	2,547	3,410
8,550	**8,600**	203	2,547	3,430	280	2,547	3,430
8,600	**8,650**	199	2,547	3,450	276	2,547	3,450
8,650	**8,700**	195	2,547	3,470	272	2,547	3,470
8,700	**8,750**	192	2,547	3,490	268	2,547	3,490
8,750	**8,800**	188	2,547	3,510	264	2,547	3,510
8,800	**8,850**	184	2,547	3,530	260	2,547	3,530
8,850	**8,900**	180	2,547	3,550	257	2,547	3,550
8,900	**8,950**	176	2,547	3,570	253	2,547	3,570
8,950	**9,000**	173	2,547	3,590	249	2,547	3,590
9,000	**9,050**	169	2,547	3,610	245	2,547	3,610
9,050	**9,100**	165	2,547	3,630	241	2,547	3,630
9,100	**9,150**	161	2,547	3,650	238	2,547	3,650
9,150	**9,200**	157	2,547	3,670	234	2,547	3,670
9,200	**9,250**	153	2,547	3,690	230	2,547	3,690
9,250	**9,300**	150	2,547	3,710	226	2,547	3,710
9,300	**9,350**	146	2,547	3,730	222	2,547	3,730
9,350	**9,400**	142	2,547	3,750	218	2,547	3,750
9,400	**9,450**	138	2,547	3,770	215	2,547	3,770
9,450	**9,500**	134	2,547	3,790	211	2,547	3,790
9,500	**9,550**	130	2,547	3,810	207	2,547	3,810
9,550	**9,600**	127	2,547	3,830	203	2,547	3,830
9,600	**9,650**	123	2,547	3,850	199	2,547	3,850
9,650	**9,700**	119	2,547	3,870	195	2,547	3,870
9,700	**9,750**	115	2,547	3,890	192	2,547	3,890
9,750	**9,800**	111	2,547	3,910	188	2,547	3,910
9,800	**9,850**	107	2,547	3,930	184	2,547	3,930
9,850	**9,900**	104	2,547	3,950	180	2,547	3,950
9,900	**9,950**	100	2,547	3,970	176	2,547	3,970
9,950	**10,000**	96	2,547	3,990	173	2,547	3,990
10,000	**10,050**	92	2,547	4,010	169	2,547	4,010
10,050	**10,100**	88	2,547	4,030	165	2,547	4,030
10,100	**10,150**	85	2,547	4,050	161	2,547	4,050
10,150	**10,200**	81	2,547	4,070	157	2,547	4,070
10,200	**10,250**	77	2,547	4,090	153	2,547	4,090
10,250	**10,300**	73	2,547	4,110	150	2,547	4,110
10,300	**10,350**	69	2,547	4,130	146	2,547	4,130
10,350	**10,400**	65	2,547	4,150	142	2,547	4,150
10,400	**10,450**	62	2,547	4,170	138	2,547	4,170
10,450	**10,500**	58	2,547	4,190	134	2,547	4,190
10,500	**10,550**	54	2,547	4,204	130	2,547	4,204
10,550	**10,600**	50	2,547	4,204	127	2,547	4,204
10,600	**10,650**	46	2,547	4,204	123	2,547	4,204
10,650	**10,700**	42	2,547	4,204	119	2,547	4,204
10,700	**10,750**	39	2,547	4,204	115	2,547	4,204
10,750	**10,800**	35	2,547	4,204	111	2,547	4,204
10,800	**10,850**	31	2,547	4,204	107	2,547	4,204
10,850	**10,900**	27	2,547	4,204	104	2,547	4,204
10,900	**10,950**	23	2,547	4,204	100	2,547	4,204
10,950	**11,000**	20	2,547	4,204	96	2,547	4,204
11,000	**11,050**	16	2,547	4,204	92	2,547	4,204
11,050	**11,100**	12	2,547	4,204	88	2,547	4,204
11,100	**11,150**	8	2,547	4,204	85	2,547	4,204
11,150	**11,200**	4	2,547	4,204	81	2,547	4,204
11,200	**11,250**	*	2,547	4,204	77	2,547	4,204
11,250	**11,300**	0	2,547	4,204	73	2,547	4,204
11,300	**11,350**	0	2,547	4,204	69	2,547	4,204
11,350	**11,400**	0	2,547	4,204	65	2,547	4,204
11,400	**11,450**	0	2,547	4,204	62	2,547	4,204
11,450	**11,500**	0	2,547	4,204	58	2,547	4,204
11,500	**11,550**	0	2,547	4,204	54	2,547	4,204
11,550	**11,600**	0	2,547	4,204	50	2,547	4,204
11,600	**11,650**	0	2,547	4,204	46	2,547	4,204
11,650	**11,700**	0	2,547	4,204	42	2,547	4,204
11,700	**11,750**	0	2,547	4,204	39	2,547	4,204
11,750	**11,800**	0	2,547	4,204	35	2,547	4,204
11,800	**11,850**	0	2,547	4,204	31	2,547	4,204
11,850	**11,900**	0	2,547	4,204	27	2,547	4,204
11,900	**11,950**	0	2,547	4,204	23	2,547	4,204
11,950	**12,000**	0	2,547	4,204	20	2,547	4,204
12,000	**12,050**	0	2,547	4,204	16	2,547	4,204
12,050	**12,100**	0	2,547	4,204	12	2,547	4,204
12,100	**12,150**	0	2,547	4,204	8	2,547	4,204
12,150	**12,200**	0	2,547	4,204	4	2,547	4,204
12,200	**12,250**	0	2,547	4,204	*	2,547	4,204
12,250	**13,750**	0	2,547	4,204	0	2,547	4,204
13,750	**13,800**	0	2,539	4,195	0	2,547	4,204
13,800	**13,850**	0	2,531	4,184	0	2,547	4,204
13,850	**13,900**	0	2,523	4,173	0	2,547	4,204
13,900	**13,950**	0	2,515	4,163	0	2,547	4,204
13,950	**14,000**	0	2,507	4,152	0	2,547	4,204
14,000	**14,050**	0	2,499	4,142	0	2,547	4,204
14,050	**14,100**	0	2,491	4,131	0	2,547	4,204
14,100	**14,150**	0	2,483	4,121	0	2,547	4,204
14,150	**14,200**	0	2,475	4,110	0	2,547	4,204
14,200	**14,250**	0	2,467	4,100	0	2,547	4,204
14,250	**14,300**	0	2,460	4,089	0	2,547	4,204
14,300	**14,350**	0	2,452	4,079	0	2,547	4,204
14,350	**14,400**	0	2,444	4,068	0	2,547	4,204
14,400	**14,450**	0	2,436	4,058	0	2,547	4,204

*If the amount you are looking up from the worksheet is at least $11,200 ($12,200 if married filing jointly) but less than $11,230 ($12,230 if married filing jointly), your credit is $1. Otherwise, you cannot take the credit.

(Continued on page 52)

2003 Earned Income Credit (EIC) Table—*Continued* (**Caution.** This is **not** a tax table.)

If the amount you are looking up from the worksheet is—		**And your filing status is—**					
		Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—		
		No children	One child	Two children	No children	One child	Two children
At least	But less than	**Your credit is—**			**Your credit is—**		
14,450	**14,500**	0	2,428	4,047	0	2,547	4,204
14,500	**14,550**	0	2,420	4,037	0	2,547	4,204
14,550	**14,600**	0	2,412	4,026	0	2,547	4,204
14,600	**14,650**	0	2,404	4,016	0	2,547	4,204
14,650	**14,700**	0	2,396	4,005	0	2,547	4,204
14,700	**14,750**	0	2,388	3,994	0	2,547	4,204
14,750	**14,800**	0	2,380	3,984	0	2,539	4,195
14,800	**14,850**	0	2,372	3,973	0	2,531	4,184
14,850	**14,900**	0	2,364	3,963	0	2,523	4,173
14,900	**14,950**	0	2,356	3,952	0	2,515	4,163
14,950	**15,000**	0	2,348	3,942	0	2,507	4,152
15,000	**15,050**	0	2,340	3,931	0	2,499	4,142
15,050	**15,100**	0	2,332	3,921	0	2,491	4,131
15,100	**15,150**	0	2,324	3,910	0	2,483	4,121
15,150	**15,200**	0	2,316	3,900	0	2,475	4,110
15,200	**15,250**	0	2,308	3,889	0	2,467	4,100
15,250	**15,300**	0	2,300	3,879	0	2,460	4,089
15,300	**15,350**	0	2,292	3,868	0	2,452	4,079
15,350	**15,400**	0	2,284	3,858	0	2,444	4,068
15,400	**15,450**	0	2,276	3,847	0	2,436	4,058
15,450	**15,500**	0	2,268	3,837	0	2,428	4,047
15,500	**15,550**	0	2,260	3,826	0	2,420	4,037
15,550	**15,600**	0	2,252	3,815	0	2,412	4,026
15,600	**15,650**	0	2,244	3,805	0	2,404	4,016
15,650	**15,700**	0	2,236	3,794	0	2,396	4,005
15,700	**15,750**	0	2,228	3,784	0	2,388	3,994
15,750	**15,800**	0	2,220	3,773	0	2,380	3,984
15,800	**15,850**	0	2,212	3,763	0	2,372	3,973
15,850	**15,900**	0	2,204	3,752	0	2,364	3,963
15,900	**15,950**	0	2,196	3,742	0	2,356	3,952
15,950	**16,000**	0	2,188	3,731	0	2,348	3,942
16,000	**16,050**	0	2,180	3,721	0	2,340	3,931
16,050	**16,100**	0	2,172	3,710	0	2,332	3,921
16,100	**16,150**	0	2,164	3,700	0	2,324	3,910
16,150	**16,200**	0	2,156	3,689	0	2,316	3,900
16,200	**16,250**	0	2,148	3,679	0	2,308	3,889
16,250	**16,300**	0	2,140	3,668	0	2,300	3,879
16,300	**16,350**	0	2,132	3,657	0	2,292	3,868
16,350	**16,400**	0	2,124	3,647	0	2,284	3,858
16,400	**16,450**	0	2,116	3,636	0	2,276	3,847
16,450	**16,500**	0	2,108	3,626	0	2,268	3,837
16,500	**16,550**	0	2,100	3,615	0	2,260	3,826
16,550	**16,600**	0	2,092	3,605	0	2,252	3,815
16,600	**16,650**	0	2,084	3,594	0	2,244	3,805
16,650	**16,700**	0	2,076	3,584	0	2,236	3,794
16,700	**16,750**	0	2,068	3,573	0	2,228	3,784
16,750	**16,800**	0	2,060	3,563	0	2,220	3,773
16,800	**16,850**	0	2,052	3,552	0	2,212	3,763
16,850	**16,900**	0	2,044	3,542	0	2,204	3,752
16,900	**16,950**	0	2,036	3,531	0	2,196	3,742
16,950	**17,000**	0	2,028	3,521	0	2,188	3,731
17,000	**17,050**	0	2,020	3,510	0	2,180	3,721
17,050	**17,100**	0	2,012	3,500	0	2,172	3,710
17,100	**17,150**	0	2,004	3,489	0	2,164	3,700
17,150	**17,200**	0	1,996	3,478	0	2,156	3,689
17,200	**17,250**	0	1,988	3,468	0	2,148	3,679
17,250	**17,300**	0	1,980	3,457	0	2,140	3,668
17,300	**17,350**	0	1,972	3,447	0	2,132	3,657
17,350	**17,400**	0	1,964	3,436	0	2,124	3,647
17,400	**17,450**	0	1,956	3,426	0	2,116	3,636
17,450	**17,500**	0	1,948	3,415	0	2,108	3,626
17,500	**17,550**	0	1,940	3,405	0	2,100	3,615
17,550	**17,600**	0	1,932	3,394	0	2,092	3,605
17,600	**17,650**	0	1,924	3,384	0	2,084	3,594
17,650	**17,700**	0	1,916	3,373	0	2,076	3,584
17,700	**17,750**	0	1,908	3,363	0	2,068	3,573
17,750	**17,800**	0	1,900	3,352	0	2,060	3,563
17,800	**17,850**	0	1,892	3,342	0	2,052	3,552
17,850	**17,900**	0	1,884	3,331	0	2,044	3,542
17,900	**17,950**	0	1,876	3,321	0	2,036	3,531
17,950	**18,000**	0	1,868	3,310	0	2,028	3,521
18,000	**18,050**	0	1,860	3,299	0	2,020	3,510
18,050	**18,100**	0	1,852	3,289	0	2,012	3,500
18,100	**18,150**	0	1,844	3,278	0	2,004	3,489
18,150	**18,200**	0	1,836	3,268	0	1,996	3,478
18,200	**18,250**	0	1,828	3,257	0	1,988	3,468
18,250	**18,300**	0	1,820	3,247	0	1,980	3,457
18,300	**18,350**	0	1,812	3,236	0	1,972	3,447
18,350	**18,400**	0	1,804	3,226	0	1,964	3,436
18,400	**18,450**	0	1,796	3,215	0	1,956	3,426
18,450	**18,500**	0	1,788	3,205	0	1,948	3,415
18,500	**18,550**	0	1,780	3,194	0	1,940	3,405
18,550	**18,600**	0	1,772	3,184	0	1,932	3,394
18,600	**18,650**	0	1,764	3,173	0	1,924	3,384
18,650	**18,700**	0	1,756	3,163	0	1,916	3,373
18,700	**18,750**	0	1,748	3,152	0	1,908	3,363
18,750	**18,800**	0	1,740	3,142	0	1,900	3,352
18,800	**18,850**	0	1,732	3,131	0	1,892	3,342
18,850	**18,900**	0	1,724	3,120	0	1,884	3,331
18,900	**18,950**	0	1,716	3,110	0	1,876	3,321
18,950	**19,000**	0	1,708	3,099	0	1,868	3,310
19,000	**19,050**	0	1,700	3,089	0	1,860	3,299
19,050	**19,100**	0	1,692	3,078	0	1,852	3,289
19,100	**19,150**	0	1,684	3,068	0	1,844	3,278
19,150	**19,200**	0	1,676	3,057	0	1,836	3,268
19,200	**19,250**	0	1,668	3,047	0	1,828	3,257
19,250	**19,300**	0	1,661	3,036	0	1,820	3,247
19,300	**19,350**	0	1,653	3,026	0	1,812	3,236
19,350	**19,400**	0	1,645	3,015	0	1,804	3,226
19,400	**19,450**	0	1,637	3,005	0	1,796	3,215
19,450	**19,500**	0	1,629	2,994	0	1,788	3,205
19,500	**19,550**	0	1,621	2,984	0	1,780	3,194
19,550	**19,600**	0	1,613	2,973	0	1,772	3,184
19,600	**19,650**	0	1,605	2,963	0	1,764	3,173
19,650	**19,700**	0	1,597	2,952	0	1,756	3,163
19,700	**19,750**	0	1,589	2,941	0	1,748	3,152
19,750	**19,800**	0	1,581	2,931	0	1,740	3,142
19,800	**19,850**	0	1,573	2,920	0	1,732	3,131
19,850	**19,900**	0	1,565	2,910	0	1,724	3,120
19,900	**19,950**	0	1,557	2,899	0	1,716	3,110
19,950	**20,000**	0	1,549	2,889	0	1,708	3,099
20,000	**20,050**	0	1,541	2,878	0	1,700	3,089
20,050	**20,100**	0	1,533	2,868	0	1,692	3,078
20,100	**20,150**	0	1,525	2,857	0	1,684	3,068
20,150	**20,200**	0	1,517	2,847	0	1,676	3,057
20,200	**20,250**	0	1,509	2,836	0	1,668	3,047
20,250	**20,300**	0	1,501	2,826	0	1,661	3,036
20,300	**20,350**	0	1,493	2,815	0	1,653	3,026
20,350	**20,400**	0	1,485	2,805	0	1,645	3,015
20,400	**20,450**	0	1,477	2,794	0	1,637	3,005
20,450	**20,500**	0	1,469	2,784	0	1,629	2,994
20,500	**20,550**	0	1,461	2,773	0	1,621	2,984
20,550	**20,600**	0	1,453	2,762	0	1,613	2,973
20,600	**20,650**	0	1,445	2,752	0	1,605	2,963
20,650	**20,700**	0	1,437	2,741	0	1,597	2,952
20,700	**20,750**	0	1,429	2,731	0	1,589	2,941
20,750	**20,800**	0	1,421	2,720	0	1,581	2,931
20,800	**20,850**	0	1,413	2,710	0	1,573	2,920
20,850	**20,900**	0	1,405	2,699	0	1,565	2,910
20,900	**20,950**	0	1,397	2,689	0	1,557	2,899
20,950	**21,000**	0	1,389	2,678	0	1,549	2,889
21,000	**21,050**	0	1,381	2,668	0	1,541	2,878
21,050	**21,100**	0	1,373	2,657	0	1,533	2,868
21,100	**21,150**	0	1,365	2,647	0	1,525	2,857
21,150	**21,200**	0	1,357	2,636	0	1,517	2,847
21,200	**21,250**	0	1,349	2,626	0	1,509	2,836
21,250	**21,300**	0	1,341	2,615	0	1,501	2,826
21,300	**21,350**	0	1,333	2,604	0	1,493	2,815
21,350	**21,400**	0	1,325	2,594	0	1,485	2,805
21,400	**21,450**	0	1,317	2,583	0	1,477	2,794

(Continued on page 53)

2003 Earned Income Credit (EIC) Table—*Continued* (**Caution.** This is **not** a tax table.)

If the amount you are looking up from the worksheet is—		And your filing status is—					
		Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—		
		No children	One child	Two children	No children	One child	Two children
At least	But less than	Your credit is—			Your credit is—		
21,450	**21,500**	0	1,309	2,573	0	1,469	2,784
21,500	**21,550**	0	1,301	2,562	0	1,461	2,773
21,550	**21,600**	0	1,293	2,552	0	1,453	2,762
21,600	**21,650**	0	1,285	2,541	0	1,445	2,752
21,650	**21,700**	0	1,277	2,531	0	1,437	2,741
21,700	**21,750**	0	1,269	2,520	0	1,429	2,731
21,750	**21,800**	0	1,261	2,510	0	1,421	2,720
21,800	**21,850**	0	1,253	2,499	0	1,413	2,710
21,850	**21,900**	0	1,245	2,489	0	1,405	2,699
21,900	**21,950**	0	1,237	2,478	0	1,397	2,689
21,950	**22,000**	0	1,229	2,468	0	1,389	2,678
22,000	**22,050**	0	1,221	2,457	0	1,381	2,668
22,050	**22,100**	0	1,213	2,447	0	1,373	2,657
22,100	**22,150**	0	1,205	2,436	0	1,365	2,647
22,150	**22,200**	0	1,197	2,425	0	1,357	2,636
22,200	**22,250**	0	1,189	2,415	0	1,349	2,626
22,250	**22,300**	0	1,181	2,404	0	1,341	2,615
22,300	**22,350**	0	1,173	2,394	0	1,333	2,604
22,350	**22,400**	0	1,165	2,383	0	1,325	2,594
22,400	**22,450**	0	1,157	2,373	0	1,317	2,583
22,450	**22,500**	0	1,149	2,362	0	1,309	2,573
22,500	**22,550**	0	1,141	2,352	0	1,301	2,562
22,550	**22,600**	0	1,133	2,341	0	1,293	2,552
22,600	**22,650**	0	1,125	2,331	0	1,285	2,541
22,650	**22,700**	0	1,117	2,320	0	1,277	2,531
22,700	**22,750**	0	1,109	2,310	0	1,269	2,520
22,750	**22,800**	0	1,101	2,299	0	1,261	2,510
22,800	**22,850**	0	1,093	2,289	0	1,253	2,499
22,850	**22,900**	0	1,085	2,278	0	1,245	2,489
22,900	**22,950**	0	1,077	2,268	0	1,237	2,478
22,950	**23,000**	0	1,069	2,257	0	1,229	2,468
23,000	**23,050**	0	1,061	2,246	0	1,221	2,457
23,050	**23,100**	0	1,053	2,236	0	1,213	2,447
23,100	**23,150**	0	1,045	2,225	0	1,205	2,436
23,150	**23,200**	0	1,037	2,215	0	1,197	2,425
23,200	**23,250**	0	1,029	2,204	0	1,189	2,415
23,250	**23,300**	0	1,021	2,194	0	1,181	2,404
23,300	**23,350**	0	1,013	2,183	0	1,173	2,394
23,350	**23,400**	0	1,005	2,173	0	1,165	2,383
23,400	**23,450**	0	997	2,162	0	1,157	2,373
23,450	**23,500**	0	989	2,152	0	1,149	2,362
23,500	**23,550**	0	981	2,141	0	1,141	2,352
23,550	**23,600**	0	973	2,131	0	1,133	2,341
23,600	**23,650**	0	965	2,120	0	1,125	2,331
23,650	**23,700**	0	957	2,110	0	1,117	2,320
23,700	**23,750**	0	949	2,099	0	1,109	2,310
23,750	**23,800**	0	941	2,089	0	1,101	2,299
23,800	**23,850**	0	933	2,078	0	1,093	2,289
23,850	**23,900**	0	925	2,067	0	1,085	2,278
23,900	**23,950**	0	917	2,057	0	1,077	2,268
23,950	**24,000**	0	909	2,046	0	1,069	2,257
24,000	**24,050**	0	901	2,036	0	1,061	2,246
24,050	**24,100**	0	893	2,025	0	1,053	2,236
24,100	**24,150**	0	885	2,015	0	1,045	2,225
24,150	**24,200**	0	877	2,004	0	1,037	2,215
24,200	**24,250**	0	869	1,994	0	1,029	2,204
24,250	**24,300**	0	862	1,983	0	1,021	2,194
24,300	**24,350**	0	854	1,973	0	1,013	2,183
24,350	**24,400**	0	846	1,962	0	1,005	2,173
24,400	**24,450**	0	838	1,952	0	997	2,162
24,450	**24,500**	0	830	1,941	0	989	2,152
24,500	**24,550**	0	822	1,931	0	981	2,141
24,550	**24,600**	0	814	1,920	0	973	2,131
24,600	**24,650**	0	806	1,910	0	965	2,120
24,650	**24,700**	0	798	1,899	0	957	2,110
24,700	**24,750**	0	790	1,888	0	949	2,099
24,750	**24,800**	0	782	1,878	0	941	2,089
24,800	**24,850**	0	774	1,867	0	933	2,078
24,850	**24,900**	0	766	1,857	0	925	2,067
24,900	**24,950**	0	758	1,846	0	917	2,057
24,950	**25,000**	0	750	1,836	0	909	2,046
25,000	**25,050**	0	742	1,825	0	901	2,036
25,050	**25,100**	0	734	1,815	0	893	2,025
25,100	**25,150**	0	726	1,804	0	885	2,015
25,150	**25,200**	0	718	1,794	0	877	2,004
25,200	**25,250**	0	710	1,783	0	869	1,994
25,250	**25,300**	0	702	1,773	0	862	1,983
25,300	**25,350**	0	694	1,762	0	854	1,973
25,350	**25,400**	0	686	1,752	0	846	1,962
25,400	**25,450**	0	678	1,741	0	838	1,952
25,450	**25,500**	0	670	1,731	0	830	1,941
25,500	**25,550**	0	662	1,720	0	822	1,931
25,550	**25,600**	0	654	1,709	0	814	1,920
25,600	**25,650**	0	646	1,699	0	806	1,910
25,650	**25,700**	0	638	1,688	0	798	1,899
25,700	**25,750**	0	630	1,678	0	790	1,888
25,750	**25,800**	0	622	1,667	0	782	1,878
25,800	**25,850**	0	614	1,657	0	774	1,867
25,850	**25,900**	0	606	1,646	0	766	1,857
25,900	**25,950**	0	598	1,636	0	758	1,846
25,950	**26,000**	0	590	1,625	0	750	1,836
26,000	**26,050**	0	582	1,615	0	742	1,825
26,050	**26,100**	0	574	1,604	0	734	1,815
26,100	**26,150**	0	566	1,594	0	726	1,804
26,150	**26,200**	0	558	1,583	0	718	1,794
26,200	**26,250**	0	550	1,573	0	710	1,783
26,250	**26,300**	0	542	1,562	0	702	1,773
26,300	**26,350**	0	534	1,551	0	694	1,762
26,350	**26,400**	0	526	1,541	0	686	1,752
26,400	**26,450**	0	518	1,530	0	678	1,741
26,450	**26,500**	0	510	1,520	0	670	1,731
26,500	**26,550**	0	502	1,509	0	662	1,720
26,550	**26,600**	0	494	1,499	0	654	1,709
26,600	**26,650**	0	486	1,488	0	646	1,699
26,650	**26,700**	0	478	1,478	0	638	1,688
26,700	**26,750**	0	470	1,467	0	630	1,678
26,750	**26,800**	0	462	1,457	0	622	1,667
26,800	**26,850**	0	454	1,446	0	614	1,657
26,850	**26,900**	0	446	1,436	0	606	1,646
26,900	**26,950**	0	438	1,425	0	598	1,636
26,950	**27,000**	0	430	1,415	0	590	1,625
27,000	**27,050**	0	422	1,404	0	582	1,615
27,050	**27,100**	0	414	1,394	0	574	1,604
27,100	**27,150**	0	406	1,383	0	566	1,594
27,150	**27,200**	0	398	1,372	0	558	1,583
27,200	**27,250**	0	390	1,362	0	550	1,573
27,250	**27,300**	0	382	1,351	0	542	1,562
27,300	**27,350**	0	374	1,341	0	534	1,551
27,350	**27,400**	0	366	1,330	0	526	1,541
27,400	**27,450**	0	358	1,320	0	518	1,530
27,450	**27,500**	0	350	1,309	0	510	1,520
27,500	**27,550**	0	342	1,299	0	502	1,509
27,550	**27,600**	0	334	1,288	0	494	1,499
27,600	**27,650**	0	326	1,278	0	486	1,488
27,650	**27,700**	0	318	1,267	0	478	1,478
27,700	**27,750**	0	310	1,257	0	470	1,467
27,750	**27,800**	0	302	1,246	0	462	1,457
27,800	**27,850**	0	294	1,236	0	454	1,446
27,850	**27,900**	0	286	1,225	0	446	1,436
27,900	**27,950**	0	278	1,215	0	438	1,425
27,950	**28,000**	0	270	1,204	0	430	1,415
28,000	**28,050**	0	262	1,193	0	422	1,404
28,050	**28,100**	0	254	1,183	0	414	1,394
28,100	**28,150**	0	246	1,172	0	406	1,383
28,150	**28,200**	0	238	1,162	0	398	1,372
28,200	**28,250**	0	230	1,151	0	390	1,362
28,250	**28,300**	0	222	1,141	0	382	1,351
28,300	**28,350**	0	214	1,130	0	374	1,341
28,350	**28,400**	0	206	1,120	0	366	1,330
28,400	**28,450**	0	198	1,109	0	358	1,320

(Continued on page 54)

2003 Earned Income Credit (EIC) Table—*Continued* (**Caution.** This is **not** a tax table.)

If the amount you are looking up from the worksheet is—		**And your filing status is—**					
		Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—		
		No children	One child	Two children	No children	One child	Two children
At least	But less than	**Your credit is—**			**Your credit is—**		
28,450	**28,500**	0	190	1,099	0	350	1,309
28,500	**28,550**	0	182	1,088	0	342	1,299
28,550	**28,600**	0	174	1,078	0	334	1,288
28,600	**28,650**	0	166	1,067	0	326	1,278
28,650	**28,700**	0	158	1,057	0	318	1,267
28,700	**28,750**	0	150	1,046	0	310	1,257
28,750	**28,800**	0	142	1,036	0	302	1,246
28,800	**28,850**	0	134	1,025	0	294	1,236
28,850	**28,900**	0	126	1,014	0	286	1,225
28,900	**28,950**	0	118	1,004	0	278	1,215
28,950	**29,000**	0	110	993	0	270	1,204
29,000	**29,050**	0	102	983	0	262	1,193
29,050	**29,100**	0	94	972	0	254	1,183
29,100	**29,150**	0	86	962	0	246	1,172
29,150	**29,200**	0	78	951	0	238	1,162
29,200	**29,250**	0	70	941	0	230	1,151
29,250	**29,300**	0	63	930	0	222	1,141
29,300	**29,350**	0	55	920	0	214	1,130
29,350	**29,400**	0	47	909	0	206	1,120
29,400	**29,450**	0	39	899	0	198	1,109
29,450	**29,500**	0	31	888	0	190	1,099
29,500	**29,550**	0	23	878	0	182	1,088
29,550	**29,600**	0	15	867	0	174	1,078
29,600	**29,650**	0	7	857	0	166	1,067
29,650	**29,700**	0	**	846	0	158	1,057
29,700	**29,750**	0	0	835	0	150	1,046
29,750	**29,800**	0	0	825	0	142	1,036
29,800	**29,850**	0	0	814	0	134	1,025
29,850	**29,900**	0	0	804	0	126	1,014
29,900	**29,950**	0	0	793	0	118	1,004
29,950	**30,000**	0	0	783	0	110	993
30,000	**30,050**	0	0	772	0	102	983
30,050	**30,100**	0	0	762	0	94	972
30,100	**30,150**	0	0	751	0	86	962
30,150	**30,200**	0	0	741	0	78	951
30,200	**30,250**	0	0	730	0	70	941
30,250	**30,300**	0	0	720	0	63	930
30,300	**30,350**	0	0	709	0	55	920
30,350	**30,400**	0	0	699	0	47	909
30,400	**30,450**	0	0	688	0	39	899
30,450	**30,500**	0	0	678	0	31	888
30,500	**30,550**	0	0	667	0	23	878
30,550	**30,600**	0	0	656	0	15	867
30,600	**30,650**	0	0	646	0	7	857
30,650	**30,700**	0	0	635	0	**	846
30,700	**30,750**	0	0	625	0	0	835
30,750	**30,800**	0	0	614	0	0	825
30,800	**30,850**	0	0	604	0	0	814
30,850	**30,900**	0	0	593	0	0	804
30,900	**30,950**	0	0	583	0	0	793
30,950	**31,000**	0	0	572	0	0	783
31,000	**31,050**	0	0	562	0	0	772
31,050	**31,100**	0	0	551	0	0	762
31,100	**31,150**	0	0	541	0	0	751
31,150	**31,200**	0	0	530	0	0	741
31,200	**31,250**	0	0	520	0	0	730
31,250	**31,300**	0	0	509	0	0	720
31,300	**31,350**	0	0	498	0	0	709
31,350	**31,400**	0	0	488	0	0	699
31,400	**31,450**	0	0	477	0	0	688
31,450	**31,500**	0	0	467	0	0	678
31,500	**31,550**	0	0	456	0	0	667
31,550	**31,600**	0	0	446	0	0	656
31,600	**31,650**	0	0	435	0	0	646
31,650	**31,700**	0	0	425	0	0	635
31,700	**31,750**	0	0	414	0	0	625
31,750	**31,800**	0	0	404	0	0	614
31,800	**31,850**	0	0	393	0	0	604
31,850	**31,900**	0	0	383	0	0	593
31,900	**31,950**	0	0	372	0	0	583
31,950	**32,000**	0	0	362	0	0	572
32,000	**32,050**	0	0	351	0	0	562
32,050	**32,100**	0	0	341	0	0	551
32,100	**32,150**	0	0	330	0	0	541
32,150	**32,200**	0	0	319	0	0	530
32,200	**32,250**	0	0	309	0	0	520
32,250	**32,300**	0	0	298	0	0	509
32,300	**32,350**	0	0	288	0	0	498
32,350	**32,400**	0	0	277	0	0	488
32,400	**32,450**	0	0	267	0	0	477
32,450	**32,500**	0	0	256	0	0	467
32,500	**32,550**	0	0	246	0	0	456
32,550	**32,600**	0	0	235	0	0	446
32,600	**32,650**	0	0	225	0	0	435
32,650	**32,700**	0	0	214	0	0	425
32,700	**32,750**	0	0	204	0	0	414
32,750	**32,800**	0	0	193	0	0	404
32,800	**32,850**	0	0	183	0	0	393
32,850	**32,900**	0	0	172	0	0	383
32,900	**32,950**	0	0	162	0	0	372
32,950	**33,000**	0	0	151	0	0	362
33,000	**33,050**	0	0	140	0	0	351
33,050	**33,100**	0	0	130	0	0	341
33,100	**33,150**	0	0	119	0	0	330
33,150	**33,200**	0	0	109	0	0	319
33,200	**33,250**	0	0	98	0	0	309
33,250	**33,300**	0	0	88	0	0	298
33,300	**33,350**	0	0	77	0	0	288
33,350	**33,400**	0	0	67	0	0	277
33,400	**33,450**	0	0	56	0	0	267
33,450	**33,500**	0	0	46	0	0	256
33,500	**33,550**	0	0	35	0	0	246
33,550	**33,600**	0	0	25	0	0	235
33,600	**33,650**	0	0	14	0	0	225
33,650	**33,700**	0	0	***	0	0	214
33,700	**33,750**	0	0	0	0	0	204
33,750	**33,800**	0	0	0	0	0	193
33,800	**33,850**	0	0	0	0	0	183
33,850	**33,900**	0	0	0	0	0	172
33,900	**33,950**	0	0	0	0	0	162
33,950	**34,000**	0	0	0	0	0	151
34,000	**34,050**	0	0	0	0	0	140
34,050	**34,100**	0	0	0	0	0	130
34,100	**34,150**	0	0	0	0	0	119
34,150	**34,200**	0	0	0	0	0	109
34,200	**34,250**	0	0	0	0	0	98
34,250	**34,300**	0	0	0	0	0	88
34,300	**34,350**	0	0	0	0	0	77
34,350	**34,400**	0	0	0	0	0	67
34,400	**34,450**	0	0	0	0	0	56
34,450	**34,500**	0	0	0	0	0	46
34,500	**34,550**	0	0	0	0	0	35
34,550	**34,600**	0	0	0	0	0	25
34,600	**34,650**	0	0	0	0	0	14
34,650	**34,692**	0	0	0	0	0	4
34,692 or more		0	0	0	0	0	0

**If the amount you are looking up from the worksheet is at least $29,650 ($30,650 if married filing jointly) but less than $29,666 ($30,666 if married filing jointly), your credit is $1. Otherwise, you cannot take the credit.

***If the amount you are looking up from the worksheet is at least $33,650 but less than $33,692, your credit is $4. Otherwise, you cannot take the credit.

STUDENT NOTES

2003
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 40 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 $3,099. This is the tax amount they should enter on line 41 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**	3,434	3,084	3,434	3,284
25,250	**25,300**	3,441	3,091	3,441	3,291
25,300	**25,350**	3,449	3,099	3,449	3,299
25,350	**25,400**	3,456	3,106	3,456	3,306

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
0	**5**	0	0	0	0
5	**15**	1	1	1	1
15	**25**	2	2	2	2
25	**50**	4	4	4	4
50	**75**	6	6	6	6
75	**100**	9	9	9	9
100	**125**	11	11	11	11
125	**150**	14	14	14	14
150	**175**	16	16	16	16
175	**200**	19	19	19	19
200	**225**	21	21	21	21
225	**250**	24	24	24	24
250	**275**	26	26	26	26
275	**300**	29	29	29	29
300	**325**	31	31	31	31
325	**350**	34	34	34	34
350	**375**	36	36	36	36
375	**400**	39	39	39	39
400	**425**	41	41	41	41
425	**450**	44	44	44	44
450	**475**	46	46	46	46
475	**500**	49	49	49	49
500	**525**	51	51	51	51
525	**550**	54	54	54	54
550	**575**	56	56	56	56
575	**600**	59	59	59	59
600	**625**	61	61	61	61
625	**650**	64	64	64	64
650	**675**	66	66	66	66
675	**700**	69	69	69	69
700	**725**	71	71	71	71
725	**750**	74	74	74	74
750	**775**	76	76	76	76
775	**800**	79	79	79	79
800	**825**	81	81	81	81
825	**850**	84	84	84	84
850	**875**	86	86	86	86
875	**900**	89	89	89	89
900	**925**	91	91	91	91
925	**950**	94	94	94	94
950	**975**	96	96	96	96
975	**1,000**	99	99	99	99
1,000					
1,000	**1,025**	101	101	101	101
1,025	**1,050**	104	104	104	104
1,050	**1,075**	106	106	106	106
1,075	**1,100**	109	109	109	109
1,100	**1,125**	111	111	111	111
1,125	**1,150**	114	114	114	114
1,150	**1,175**	116	116	116	116
1,175	**1,200**	119	119	119	119
1,200	**1,225**	121	121	121	121
1,225	**1,250**	124	124	124	124
1,250	**1,275**	126	126	126	126
1,275	**1,300**	129	129	129	129
1,300	**1,325**	131	131	131	131
1,325	**1,350**	134	134	134	134
1,350	**1,375**	136	136	136	136
1,375	**1,400**	139	139	139	139
1,400	**1,425**	141	141	141	141
1,425	**1,450**	144	144	144	144
1,450	**1,475**	146	146	146	146
1,475	**1,500**	149	149	149	149
1,500	**1,525**	151	151	151	151
1,525	**1,550**	154	154	154	154
1,550	**1,575**	156	156	156	156
1,575	**1,600**	159	159	159	159
1,600	**1,625**	161	161	161	161
1,625	**1,650**	164	164	164	164
1,650	**1,675**	166	166	166	166
1,675	**1,700**	169	169	169	169
1,700	**1,725**	171	171	171	171
1,725	**1,750**	174	174	174	174
1,750	**1,775**	176	176	176	176
1,775	**1,800**	179	179	179	179
1,800	**1,825**	181	181	181	181
1,825	**1,850**	184	184	184	184
1,850	**1,875**	186	186	186	186
1,875	**1,900**	189	189	189	189
1,900	**1,925**	191	191	191	191
1,925	**1,950**	194	194	194	194
1,950	**1,975**	196	196	196	196
1,975	**2,000**	199	199	199	199
2,000					
2,000	**2,025**	201	201	201	201
2,025	**2,050**	204	204	204	204
2,050	**2,075**	206	206	206	206
2,075	**2,100**	209	209	209	209
2,100	**2,125**	211	211	211	211
2,125	**2,150**	214	214	214	214
2,150	**2,175**	216	216	216	216
2,175	**2,200**	219	219	219	219
2,200	**2,225**	221	221	221	221
2,225	**2,250**	224	224	224	224
2,250	**2,275**	226	226	226	226
2,275	**2,300**	229	229	229	229
2,300	**2,325**	231	231	231	231
2,325	**2,350**	234	234	234	234
2,350	**2,375**	236	236	236	236
2,375	**2,400**	239	239	239	239
2,400	**2,425**	241	241	241	241
2,425	**2,450**	244	244	244	244
2,450	**2,475**	246	246	246	246
2,475	**2,500**	249	249	249	249
2,500	**2,525**	251	251	251	251
2,525	**2,550**	254	254	254	254
2,550	**2,575**	256	256	256	256
2,575	**2,600**	259	259	259	259
2,600	**2,625**	261	261	261	261
2,625	**2,650**	264	264	264	264
2,650	**2,675**	266	266	266	266
2,675	**2,700**	269	269	269	269
2,700	**2,725**	271	271	271	271
2,725	**2,750**	274	274	274	274
2,750	**2,775**	276	276	276	276
2,775	**2,800**	279	279	279	279
2,800	**2,825**	281	281	281	281
2,825	**2,850**	284	284	284	284
2,850	**2,875**	286	286	286	286
2,875	**2,900**	289	289	289	289
2,900	**2,925**	291	291	291	291
2,925	**2,950**	294	294	294	294
2,950	**2,975**	296	296	296	296
2,975	**3,000**	299	299	299	299
3,000					
3,000	**3,050**	303	303	303	303
3,050	**3,100**	308	308	308	308
3,100	**3,150**	313	313	313	313
3,150	**3,200**	318	318	318	318
3,200	**3,250**	323	323	323	323
3,250	**3,300**	328	328	328	328
3,300	**3,350**	333	333	333	333
3,350	**3,400**	338	338	338	338
3,400	**3,450**	343	343	343	343
3,450	**3,500**	348	348	348	348
3,500	**3,550**	353	353	353	353
3,550	**3,600**	358	358	358	358
3,600	**3,650**	363	363	363	363
3,650	**3,700**	368	368	368	368
3,700	**3,750**	373	373	373	373
3,750	**3,800**	378	378	378	378
3,800	**3,850**	383	383	383	383
3,850	**3,900**	388	388	388	388
3,900	**3,950**	393	393	393	393
3,950	**4,000**	398	398	398	398
4,000					
4,000	**4,050**	403	403	403	403
4,050	**4,100**	408	408	408	408
4,100	**4,150**	413	413	413	413
4,150	**4,200**	418	418	418	418
4,200	**4,250**	423	423	423	423
4,250	**4,300**	428	428	428	428
4,300	**4,350**	433	433	433	433
4,350	**4,400**	438	438	438	438
4,400	**4,450**	443	443	443	443
4,450	**4,500**	448	448	448	448
4,500	**4,550**	453	453	453	453
4,550	**4,600**	458	458	458	458
4,600	**4,650**	463	463	463	463
4,650	**4,700**	468	468	468	468
4,700	**4,750**	473	473	473	473
4,750	**4,800**	478	478	478	478
4,800	**4,850**	483	483	483	483
4,850	**4,900**	488	488	488	488
4,900	**4,950**	493	493	493	493
4,950	**5,000**	498	498	498	498

(Continued on page 64)

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

2003 Tax Table—*Continued*

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
5,000					
5,000	**5,050**	503	503	503	503
5,050	**5,100**	508	508	508	508
5,100	**5,150**	513	513	513	513
5,150	**5,200**	518	518	518	518
5,200	**5,250**	523	523	523	523
5,250	**5,300**	528	528	528	528
5,300	**5,350**	533	533	533	533
5,350	**5,400**	538	538	538	538
5,400	**5,450**	543	543	543	543
5,450	**5,500**	548	548	548	548
5,500	**5,550**	553	553	553	553
5,550	**5,600**	558	558	558	558
5,600	**5,650**	563	563	563	563
5,650	**5,700**	568	568	568	568
5,700	**5,750**	573	573	573	573
5,750	**5,800**	578	578	578	578
5,800	**5,850**	583	583	583	583
5,850	**5,900**	588	588	588	588
5,900	**5,950**	593	593	593	593
5,950	**6,000**	598	598	598	598
6,000					
6,000	**6,050**	603	603	603	603
6,050	**6,100**	608	608	608	608
6,100	**6,150**	613	613	613	613
6,150	**6,200**	618	618	618	618
6,200	**6,250**	623	623	623	623
6,250	**6,300**	628	628	628	628
6,300	**6,350**	633	633	633	633
6,350	**6,400**	638	638	638	638
6,400	**6,450**	643	643	643	643
6,450	**6,500**	648	648	648	648
6,500	**6,550**	653	653	653	653
6,550	**6,600**	658	658	658	658
6,600	**6,650**	663	663	663	663
6,650	**6,700**	668	668	668	668
6,700	**6,750**	673	673	673	673
6,750	**6,800**	678	678	678	678
6,800	**6,850**	683	683	683	683
6,850	**6,900**	688	688	688	688
6,900	**6,950**	693	693	693	693
6,950	**7,000**	698	698	698	698
7,000					
7,000	**7,050**	704	703	704	703
7,050	**7,100**	711	708	711	708
7,100	**7,150**	719	713	719	713
7,150	**7,200**	726	718	726	718
7,200	**7,250**	734	723	734	723
7,250	**7,300**	741	728	741	728
7,300	**7,350**	749	733	749	733
7,350	**7,400**	756	738	756	738
7,400	**7,450**	764	743	764	743
7,450	**7,500**	771	748	771	748
7,500	**7,550**	779	753	779	753
7,550	**7,600**	786	758	786	758
7,600	**7,650**	794	763	794	763
7,650	**7,700**	801	768	801	768
7,700	**7,750**	809	773	809	773
7,750	**7,800**	816	778	816	778
7,800	**7,850**	824	783	824	783
7,850	**7,900**	831	788	831	788
7,900	**7,950**	839	793	839	793
7,950	**8,000**	846	798	846	798
8,000					
8,000	**8,050**	854	803	854	803
8,050	**8,100**	861	808	861	808
8,100	**8,150**	869	813	869	813
8,150	**8,200**	876	818	876	818
8,200	**8,250**	884	823	884	823
8,250	**8,300**	891	828	891	828
8,300	**8,350**	899	833	899	833
8,350	**8,400**	906	838	906	838
8,400	**8,450**	914	843	914	843
8,450	**8,500**	921	848	921	848
8,500	**8,550**	929	853	929	853
8,550	**8,600**	936	858	936	858
8,600	**8,650**	944	863	944	863
8,650	**8,700**	951	868	951	868
8,700	**8,750**	959	873	959	873
8,750	**8,800**	966	878	966	878
8,800	**8,850**	974	883	974	883
8,850	**8,900**	981	888	981	888
8,900	**8,950**	989	893	989	893
8,950	**9,000**	996	898	996	898
9,000					
9,000	**9,050**	1,004	903	1,004	903
9,050	**9,100**	1,011	908	1,011	908
9,100	**9,150**	1,019	913	1,019	913
9,150	**9,200**	1,026	918	1,026	918
9,200	**9,250**	1,034	923	1,034	923
9,250	**9,300**	1,041	928	1,041	928
9,300	**9,350**	1,049	933	1,049	933
9,350	**9,400**	1,056	938	1,056	938
9,400	**9,450**	1,064	943	1,064	943
9,450	**9,500**	1,071	948	1,071	948
9,500	**9,550**	1,079	953	1,079	953
9,550	**9,600**	1,086	958	1,086	958
9,600	**9,650**	1,094	963	1,094	963
9,650	**9,700**	1,101	968	1,101	968
9,700	**9,750**	1,109	973	1,109	973
9,750	**9,800**	1,116	978	1,116	978
9,800	**9,850**	1,124	983	1,124	983
9,850	**9,900**	1,131	988	1,131	988
9,900	**9,950**	1,139	993	1,139	993
9,950	**10,000**	1,146	998	1,146	998
10,000					
10,000	**10,050**	1,154	1,003	1,154	1,004
10,050	**10,100**	1,161	1,008	1,161	1,011
10,100	**10,150**	1,169	1,013	1,169	1,019
10,150	**10,200**	1,176	1,018	1,176	1,026
10,200	**10,250**	1,184	1,023	1,184	1,034
10,250	**10,300**	1,191	1,028	1,191	1,041
10,300	**10,350**	1,199	1,033	1,199	1,049
10,350	**10,400**	1,206	1,038	1,206	1,056
10,400	**10,450**	1,214	1,043	1,214	1,064
10,450	**10,500**	1,221	1,048	1,221	1,071
10,500	**10,550**	1,229	1,053	1,229	1,079
10,550	**10,600**	1,236	1,058	1,236	1,086
10,600	**10,650**	1,244	1,063	1,244	1,094
10,650	**10,700**	1,251	1,068	1,251	1,101
10,700	**10,750**	1,259	1,073	1,259	1,109
10,750	**10,800**	1,266	1,078	1,266	1,116
10,800	**10,850**	1,274	1,083	1,274	1,124
10,850	**10,900**	1,281	1,088	1,281	1,131
10,900	**10,950**	1,289	1,093	1,289	1,139
10,950	**11,000**	1,296	1,098	1,296	1,146
11,000					
11,000	**11,050**	1,304	1,103	1,304	1,154
11,050	**11,100**	1,311	1,108	1,311	1,161
11,100	**11,150**	1,319	1,113	1,319	1,169
11,150	**11,200**	1,326	1,118	1,326	1,176
11,200	**11,250**	1,334	1,123	1,334	1,184
11,250	**11,300**	1,341	1,128	1,341	1,191
11,300	**11,350**	1,349	1,133	1,349	1,199
11,350	**11,400**	1,356	1,138	1,356	1,206
11,400	**11,450**	1,364	1,143	1,364	1,214
11,450	**11,500**	1,371	1,148	1,371	1,221
11,500	**11,550**	1,379	1,153	1,379	1,229
11,550	**11,600**	1,386	1,158	1,386	1,236
11,600	**11,650**	1,394	1,163	1,394	1,244
11,650	**11,700**	1,401	1,168	1,401	1,251
11,700	**11,750**	1,409	1,173	1,409	1,259
11,750	**11,800**	1,416	1,178	1,416	1,266
11,800	**11,850**	1,424	1,183	1,424	1,274
11,850	**11,900**	1,431	1,188	1,431	1,281
11,900	**11,950**	1,439	1,193	1,439	1,289
11,950	**12,000**	1,446	1,198	1,446	1,296
12,000					
12,000	**12,050**	1,454	1,203	1,454	1,304
12,050	**12,100**	1,461	1,208	1,461	1,311
12,100	**12,150**	1,469	1,213	1,469	1,319
12,150	**12,200**	1,476	1,218	1,476	1,326
12,200	**12,250**	1,484	1,223	1,484	1,334
12,250	**12,300**	1,491	1,228	1,491	1,341
12,300	**12,350**	1,499	1,233	1,499	1,349
12,350	**12,400**	1,506	1,238	1,506	1,356
12,400	**12,450**	1,514	1,243	1,514	1,364
12,450	**12,500**	1,521	1,248	1,521	1,371
12,500	**12,550**	1,529	1,253	1,529	1,379
12,550	**12,600**	1,536	1,258	1,536	1,386
12,600	**12,650**	1,544	1,263	1,544	1,394
12,650	**12,700**	1,551	1,268	1,551	1,401
12,700	**12,750**	1,559	1,273	1,559	1,409
12,750	**12,800**	1,566	1,278	1,566	1,416
12,800	**12,850**	1,574	1,283	1,574	1,424
12,850	**12,900**	1,581	1,288	1,581	1,431
12,900	**12,950**	1,589	1,293	1,589	1,439
12,950	**13,000**	1,596	1,298	1,596	1,446
13,000					
13,000	**13,050**	1,604	1,303	1,604	1,454
13,050	**13,100**	1,611	1,308	1,611	1,461
13,100	**13,150**	1,619	1,313	1,619	1,469
13,150	**13,200**	1,626	1,318	1,626	1,476
13,200	**13,250**	1,634	1,323	1,634	1,484
13,250	**13,300**	1,641	1,328	1,641	1,491
13,300	**13,350**	1,649	1,333	1,649	1,499
13,350	**13,400**	1,656	1,338	1,656	1,506
13,400	**13,450**	1,664	1,343	1,664	1,514
13,450	**13,500**	1,671	1,348	1,671	1,521
13,500	**13,550**	1,679	1,353	1,679	1,529
13,550	**13,600**	1,686	1,358	1,686	1,536
13,600	**13,650**	1,694	1,363	1,694	1,544
13,650	**13,700**	1,701	1,368	1,701	1,551
13,700	**13,750**	1,709	1,373	1,709	1,559
13,750	**13,800**	1,716	1,378	1,716	1,566
13,800	**13,850**	1,724	1,383	1,724	1,574
13,850	**13,900**	1,731	1,388	1,731	1,581
13,900	**13,950**	1,739	1,393	1,739	1,589
13,950	**14,000**	1,746	1,398	1,746	1,596

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

(Continued on page 65)

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
14,000					
14,000	**14,050**	1,754	1,404	1,754	1,604
14,050	**14,100**	1,761	1,411	1,761	1,611
14,100	**14,150**	1,769	1,419	1,769	1,619
14,150	**14,200**	1,776	1,426	1,776	1,626
14,200	**14,250**	1,784	1,434	1,784	1,634
14,250	**14,300**	1,791	1,441	1,791	1,641
14,300	**14,350**	1,799	1,449	1,799	1,649
14,350	**14,400**	1,806	1,456	1,806	1,656
14,400	**14,450**	1,814	1,464	1,814	1,664
14,450	**14,500**	1,821	1,471	1,821	1,671
14,500	**14,550**	1,829	1,479	1,829	1,679
14,550	**14,600**	1,836	1,486	1,836	1,686
14,600	**14,650**	1,844	1,494	1,844	1,694
14,650	**14,700**	1,851	1,501	1,851	1,701
14,700	**14,750**	1,859	1,509	1,859	1,709
14,750	**14,800**	1,866	1,516	1,866	1,716
14,800	**14,850**	1,874	1,524	1,874	1,724
14,850	**14,900**	1,881	1,531	1,881	1,731
14,900	**14,950**	1,889	1,539	1,889	1,739
14,950	**15,000**	1,896	1,546	1,896	1,746
15,000					
15,000	**15,050**	1,904	1,554	1,904	1,754
15,050	**15,100**	1,911	1,561	1,911	1,761
15,100	**15,150**	1,919	1,569	1,919	1,769
15,150	**15,200**	1,926	1,576	1,926	1,776
15,200	**15,250**	1,934	1,584	1,934	1,784
15,250	**15,300**	1,941	1,591	1,941	1,791
15,300	**15,350**	1,949	1,599	1,949	1,799
15,350	**15,400**	1,956	1,606	1,956	1,806
15,400	**15,450**	1,964	1,614	1,964	1,814
15,450	**15,500**	1,971	1,621	1,971	1,821
15,500	**15,550**	1,979	1,629	1,979	1,829
15,550	**15,600**	1,986	1,636	1,986	1,836
15,600	**15,650**	1,994	1,644	1,994	1,844
15,650	**15,700**	2,001	1,651	2,001	1,851
15,700	**15,750**	2,009	1,659	2,009	1,859
15,750	**15,800**	2,016	1,666	2,016	1,866
15,800	**15,850**	2,024	1,674	2,024	1,874
15,850	**15,900**	2,031	1,681	2,031	1,881
15,900	**15,950**	2,039	1,689	2,039	1,889
15,950	**16,000**	2,046	1,696	2,046	1,896
16,000					
16,000	**16,050**	2,054	1,704	2,054	1,904
16,050	**16,100**	2,061	1,711	2,061	1,911
16,100	**16,150**	2,069	1,719	2,069	1,919
16,150	**16,200**	2,076	1,726	2,076	1,926
16,200	**16,250**	2,084	1,734	2,084	1,934
16,250	**16,300**	2,091	1,741	2,091	1,941
16,300	**16,350**	2,099	1,749	2,099	1,949
16,350	**16,400**	2,106	1,756	2,106	1,956
16,400	**16,450**	2,114	1,764	2,114	1,964
16,450	**16,500**	2,121	1,771	2,121	1,971
16,500	**16,550**	2,129	1,779	2,129	1,979
16,550	**16,600**	2,136	1,786	2,136	1,986
16,600	**16,650**	2,144	1,794	2,144	1,994
16,650	**16,700**	2,151	1,801	2,151	2,001
16,700	**16,750**	2,159	1,809	2,159	2,009
16,750	**16,800**	2,166	1,816	2,166	2,016
16,800	**16,850**	2,174	1,824	2,174	2,024
16,850	**16,900**	2,181	1,831	2,181	2,031
16,900	**16,950**	2,189	1,839	2,189	2,039
16,950	**17,000**	2,196	1,846	2,196	2,046
17,000					
17,000	**17,050**	2,204	1,854	2,204	2,054
17,050	**17,100**	2,211	1,861	2,211	2,061
17,100	**17,150**	2,219	1,869	2,219	2,069
17,150	**17,200**	2,226	1,876	2,226	2,076
17,200	**17,250**	2,234	1,884	2,234	2,084
17,250	**17,300**	2,241	1,891	2,241	2,091
17,300	**17,350**	2,249	1,899	2,249	2,099
17,350	**17,400**	2,256	1,906	2,256	2,106
17,400	**17,450**	2,264	1,914	2,264	2,114
17,450	**17,500**	2,271	1,921	2,271	2,121
17,500	**17,550**	2,279	1,929	2,279	2,129
17,550	**17,600**	2,286	1,936	2,286	2,136
17,600	**17,650**	2,294	1,944	2,294	2,144
17,650	**17,700**	2,301	1,951	2,301	2,151
17,700	**17,750**	2,309	1,959	2,309	2,159
17,750	**17,800**	2,316	1,966	2,316	2,166
17,800	**17,850**	2,324	1,974	2,324	2,174
17,850	**17,900**	2,331	1,981	2,331	2,181
17,900	**17,950**	2,339	1,989	2,339	2,189
17,950	**18,000**	2,346	1,996	2,346	2,196
18,000					
18,000	**18,050**	2,354	2,004	2,354	2,204
18,050	**18,100**	2,361	2,011	2,361	2,211
18,100	**18,150**	2,369	2,019	2,369	2,219
18,150	**18,200**	2,376	2,026	2,376	2,226
18,200	**18,250**	2,384	2,034	2,384	2,234
18,250	**18,300**	2,391	2,041	2,391	2,241
18,300	**18,350**	2,399	2,049	2,399	2,249
18,350	**18,400**	2,406	2,056	2,406	2,256
18,400	**18,450**	2,414	2,064	2,414	2,264
18,450	**18,500**	2,421	2,071	2,421	2,271
18,500	**18,550**	2,429	2,079	2,429	2,279
18,550	**18,600**	2,436	2,086	2,436	2,286
18,600	**18,650**	2,444	2,094	2,444	2,294
18,650	**18,700**	2,451	2,101	2,451	2,301
18,700	**18,750**	2,459	2,109	2,459	2,309
18,750	**18,800**	2,466	2,116	2,466	2,316
18,800	**18,850**	2,474	2,124	2,474	2,324
18,850	**18,900**	2,481	2,131	2,481	2,331
18,900	**18,950**	2,489	2,139	2,489	2,339
18,950	**19,000**	2,496	2,146	2,496	2,346
19,000					
19,000	**19,050**	2,504	2,154	2,504	2,354
19,050	**19,100**	2,511	2,161	2,511	2,361
19,100	**19,150**	2,519	2,169	2,519	2,369
19,150	**19,200**	2,526	2,176	2,526	2,376
19,200	**19,250**	2,534	2,184	2,534	2,384
19,250	**19,300**	2,541	2,191	2,541	2,391
19,300	**19,350**	2,549	2,199	2,549	2,399
19,350	**19,400**	2,556	2,206	2,556	2,406
19,400	**19,450**	2,564	2,214	2,564	2,414
19,450	**19,500**	2,571	2,221	2,571	2,421
19,500	**19,550**	2,579	2,229	2,579	2,429
19,550	**19,600**	2,586	2,236	2,586	2,436
19,600	**19,650**	2,594	2,244	2,594	2,444
19,650	**19,700**	2,601	2,251	2,601	2,451
19,700	**19,750**	2,609	2,259	2,609	2,459
19,750	**19,800**	2,616	2,266	2,616	2,466
19,800	**19,850**	2,624	2,274	2,624	2,474
19,850	**19,900**	2,631	2,281	2,631	2,481
19,900	**19,950**	2,639	2,289	2,639	2,489
19,950	**20,000**	2,646	2,296	2,646	2,496
20,000					
20,000	**20,050**	2,654	2,304	2,654	2,504
20,050	**20,100**	2,661	2,311	2,661	2,511
20,100	**20,150**	2,669	2,319	2,669	2,519
20,150	**20,200**	2,676	2,326	2,676	2,526
20,200	**20,250**	2,684	2,334	2,684	2,534
20,250	**20,300**	2,691	2,341	2,691	2,541
20,300	**20,350**	2,699	2,349	2,699	2,549
20,350	**20,400**	2,706	2,356	2,706	2,556
20,400	**20,450**	2,714	2,364	2,714	2,564
20,450	**20,500**	2,721	2,371	2,721	2,571
20,500	**20,550**	2,729	2,379	2,729	2,579
20,550	**20,600**	2,736	2,386	2,736	2,586
20,600	**20,650**	2,744	2,394	2,744	2,594
20,650	**20,700**	2,751	2,401	2,751	2,601
20,700	**20,750**	2,759	2,409	2,759	2,609
20,750	**20,800**	2,766	2,416	2,766	2,616
20,800	**20,850**	2,774	2,424	2,774	2,624
20,850	**20,900**	2,781	2,431	2,781	2,631
20,900	**20,950**	2,789	2,439	2,789	2,639
20,950	**21,000**	2,796	2,446	2,796	2,646
21,000					
21,000	**21,050**	2,804	2,454	2,804	2,654
21,050	**21,100**	2,811	2,461	2,811	2,661
21,100	**21,150**	2,819	2,469	2,819	2,669
21,150	**21,200**	2,826	2,476	2,826	2,676
21,200	**21,250**	2,834	2,484	2,834	2,684
21,250	**21,300**	2,841	2,491	2,841	2,691
21,300	**21,350**	2,849	2,499	2,849	2,699
21,350	**21,400**	2,856	2,506	2,856	2,706
21,400	**21,450**	2,864	2,514	2,864	2,714
21,450	**21,500**	2,871	2,521	2,871	2,721
21,500	**21,550**	2,879	2,529	2,879	2,729
21,550	**21,600**	2,886	2,536	2,886	2,736
21,600	**21,650**	2,894	2,544	2,894	2,744
21,650	**21,700**	2,901	2,551	2,901	2,751
21,700	**21,750**	2,909	2,559	2,909	2,759
21,750	**21,800**	2,916	2,566	2,916	2,766
21,800	**21,850**	2,924	2,574	2,924	2,774
21,850	**21,900**	2,931	2,581	2,931	2,781
21,900	**21,950**	2,939	2,589	2,939	2,789
21,950	**22,000**	2,946	2,596	2,946	2,796
22,000					
22,000	**22,050**	2,954	2,604	2,954	2,804
22,050	**22,100**	2,961	2,611	2,961	2,811
22,100	**22,150**	2,969	2,619	2,969	2,819
22,150	**22,200**	2,976	2,626	2,976	2,826
22,200	**22,250**	2,984	2,634	2,984	2,834
22,250	**22,300**	2,991	2,641	2,991	2,841
22,300	**22,350**	2,999	2,649	2,999	2,849
22,350	**22,400**	3,006	2,656	3,006	2,856
22,400	**22,450**	3,014	2,664	3,014	2,864
22,450	**22,500**	3,021	2,671	3,021	2,871
22,500	**22,550**	3,029	2,679	3,029	2,879
22,550	**22,600**	3,036	2,686	3,036	2,886
22,600	**22,650**	3,044	2,694	3,044	2,894
22,650	**22,700**	3,051	2,701	3,051	2,901
22,700	**22,750**	3,059	2,709	3,059	2,909
22,750	**22,800**	3,066	2,716	3,066	2,916
22,800	**22,850**	3,074	2,724	3,074	2,924
22,850	**22,900**	3,081	2,731	3,081	2,931
22,900	**22,950**	3,089	2,739	3,089	2,939
22,950	**23,000**	3,096	2,746	3,096	2,946

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

(Continued on page 66)

2003 Tax Table—*Continued*

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
23,000					
23,000	**23,050**	3,104	2,754	3,104	2,954
23,050	**23,100**	3,111	2,761	3,111	2,961
23,100	**23,150**	3,119	2,769	3,119	2,969
23,150	**23,200**	3,126	2,776	3,126	2,976
23,200	**23,250**	3,134	2,784	3,134	2,984
23,250	**23,300**	3,141	2,791	3,141	2,991
23,300	**23,350**	3,149	2,799	3,149	2,999
23,350	**23,400**	3,156	2,806	3,156	3,006
23,400	**23,450**	3,164	2,814	3,164	3,014
23,450	**23,500**	3,171	2,821	3,171	3,021
23,500	**23,550**	3,179	2,829	3,179	3,029
23,550	**23,600**	3,186	2,836	3,186	3,036
23,600	**23,650**	3,194	2,844	3,194	3,044
23,650	**23,700**	3,201	2,851	3,201	3,051
23,700	**23,750**	3,209	2,859	3,209	3,059
23,750	**23,800**	3,216	2,866	3,216	3,066
23,800	**23,850**	3,224	2,874	3,224	3,074
23,850	**23,900**	3,231	2,881	3,231	3,081
23,900	**23,950**	3,239	2,889	3,239	3,089
23,950	**24,000**	3,246	2,896	3,246	3,096
24,000					
24,000	**24,050**	3,254	2,904	3,254	3,104
24,050	**24,100**	3,261	2,911	3,261	3,111
24,100	**24,150**	3,269	2,919	3,269	3,119
24,150	**24,200**	3,276	2,926	3,276	3,126
24,200	**24,250**	3,284	2,934	3,284	3,134
24,250	**24,300**	3,291	2,941	3,291	3,141
24,300	**24,350**	3,299	2,949	3,299	3,149
24,350	**24,400**	3,306	2,956	3,306	3,156
24,400	**24,450**	3,314	2,964	3,314	3,164
24,450	**24,500**	3,321	2,971	3,321	3,171
24,500	**24,550**	3,329	2,979	3,329	3,179
24,550	**24,600**	3,336	2,986	3,336	3,186
24,600	**24,650**	3,344	2,994	3,344	3,194
24,650	**24,700**	3,351	3,001	3,351	3,201
24,700	**24,750**	3,359	3,009	3,359	3,209
24,750	**24,800**	3,366	3,016	3,366	3,216
24,800	**24,850**	3,374	3,024	3,374	3,224
24,850	**24,900**	3,381	3,031	3,381	3,231
24,900	**24,950**	3,389	3,039	3,389	3,239
24,950	**25,000**	3,396	3,046	3,396	3,246
25,000					
25,000	**25,050**	3,404	3,054	3,404	3,254
25,050	**25,100**	3,411	3,061	3,411	3,261
25,100	**25,150**	3,419	3,069	3,419	3,269
25,150	**25,200**	3,426	3,076	3,426	3,276
25,200	**25,250**	3,434	3,084	3,434	3,284
25,250	**25,300**	3,441	3,091	3,441	3,291
25,300	**25,350**	3,449	3,099	3,449	3,299
25,350	**25,400**	3,456	3,106	3,456	3,306
25,400	**25,450**	3,464	3,114	3,464	3,314
25,450	**25,500**	3,471	3,121	3,471	3,321
25,500	**25,550**	3,479	3,129	3,479	3,329
25,550	**25,600**	3,486	3,136	3,486	3,336
25,600	**25,650**	3,494	3,144	3,494	3,344
25,650	**25,700**	3,501	3,151	3,501	3,351
25,700	**25,750**	3,509	3,159	3,509	3,359
25,750	**25,800**	3,516	3,166	3,516	3,366
25,800	**25,850**	3,524	3,174	3,524	3,374
25,850	**25,900**	3,531	3,181	3,531	3,381
25,900	**25,950**	3,539	3,189	3,539	3,389
25,950	**26,000**	3,546	3,196	3,546	3,396
26,000					
26,000	**26,050**	3,554	3,204	3,554	3,404
26,050	**26,100**	3,561	3,211	3,561	3,411
26,100	**26,150**	3,569	3,219	3,569	3,419
26,150	**26,200**	3,576	3,226	3,576	3,426
26,200	**26,250**	3,584	3,234	3,584	3,434
26,250	**26,300**	3,591	3,241	3,591	3,441
26,300	**26,350**	3,599	3,249	3,599	3,449
26,350	**26,400**	3,606	3,256	3,606	3,456
26,400	**26,450**	3,614	3,264	3,614	3,464
26,450	**26,500**	3,621	3,271	3,621	3,471
26,500	**26,550**	3,629	3,279	3,629	3,479
26,550	**26,600**	3,636	3,286	3,636	3,486
26,600	**26,650**	3,644	3,294	3,644	3,494
26,650	**26,700**	3,651	3,301	3,651	3,501
26,700	**26,750**	3,659	3,309	3,659	3,509
26,750	**26,800**	3,666	3,316	3,666	3,516
26,800	**26,850**	3,674	3,324	3,674	3,524
26,850	**26,900**	3,681	3,331	3,681	3,531
26,900	**26,950**	3,689	3,339	3,689	3,539
26,950	**27,000**	3,696	3,346	3,696	3,546
27,000					
27,000	**27,050**	3,704	3,354	3,704	3,554
27,050	**27,100**	3,711	3,361	3,711	3,561
27,100	**27,150**	3,719	3,369	3,719	3,569
27,150	**27,200**	3,726	3,376	3,726	3,576
27,200	**27,250**	3,734	3,384	3,734	3,584
27,250	**27,300**	3,741	3,391	3,741	3,591
27,300	**27,350**	3,749	3,399	3,749	3,599
27,350	**27,400**	3,756	3,406	3,756	3,606
27,400	**27,450**	3,764	3,414	3,764	3,614
27,450	**27,500**	3,771	3,421	3,771	3,621
27,500	**27,550**	3,779	3,429	3,779	3,629
27,550	**27,600**	3,786	3,436	3,786	3,636
27,600	**27,650**	3,794	3,444	3,794	3,644
27,650	**27,700**	3,801	3,451	3,801	3,651
27,700	**27,750**	3,809	3,459	3,809	3,659
27,750	**27,800**	3,816	3,466	3,816	3,666
27,800	**27,850**	3,824	3,474	3,824	3,674
27,850	**27,900**	3,831	3,481	3,831	3,681
27,900	**27,950**	3,839	3,489	3,839	3,689
27,950	**28,000**	3,846	3,496	3,846	3,696
28,000					
28,000	**28,050**	3,854	3,504	3,854	3,704
28,050	**28,100**	3,861	3,511	3,861	3,711
28,100	**28,150**	3,869	3,519	3,869	3,719
28,150	**28,200**	3,876	3,526	3,876	3,726
28,200	**28,250**	3,884	3,534	3,884	3,734
28,250	**28,300**	3,891	3,541	3,891	3,741
28,300	**28,350**	3,899	3,549	3,899	3,749
28,350	**28,400**	3,906	3,556	3,906	3,756
28,400	**28,450**	3,916	3,564	3,916	3,764
28,450	**28,500**	3,929	3,571	3,929	3,771
28,500	**28,550**	3,941	3,579	3,941	3,779
28,550	**28,600**	3,954	3,586	3,954	3,786
28,600	**28,650**	3,966	3,594	3,966	3,794
28,650	**28,700**	3,979	3,601	3,979	3,801
28,700	**28,750**	3,991	3,609	3,991	3,809
28,750	**28,800**	4,004	3,616	4,004	3,816
28,800	**28,850**	4,016	3,624	4,016	3,824
28,850	**28,900**	4,029	3,631	4,029	3,831
28,900	**28,950**	4,041	3,639	4,041	3,839
28,950	**29,000**	4,054	3,646	4,054	3,846
29,000					
29,000	**29,050**	4,066	3,654	4,066	3,854
29,050	**29,100**	4,079	3,661	4,079	3,861
29,100	**29,150**	4,091	3,669	4,091	3,869
29,150	**29,200**	4,104	3,676	4,104	3,876
29,200	**29,250**	4,116	3,684	4,116	3,884
29,250	**29,300**	4,129	3,691	4,129	3,891
29,300	**29,350**	4,141	3,699	4,141	3,899
29,350	**29,400**	4,154	3,706	4,154	3,906
29,400	**29,450**	4,166	3,714	4,166	3,914
29,450	**29,500**	4,179	3,721	4,179	3,921
29,500	**29,550**	4,191	3,729	4,191	3,929
29,550	**29,600**	4,204	3,736	4,204	3,936
29,600	**29,650**	4,216	3,744	4,216	3,944
29,650	**29,700**	4,229	3,751	4,229	3,951
29,700	**29,750**	4,241	3,759	4,241	3,959
29,750	**29,800**	4,254	3,766	4,254	3,966
29,800	**29,850**	4,266	3,774	4,266	3,974
29,850	**29,900**	4,279	3,781	4,279	3,981
29,900	**29,950**	4,291	3,789	4,291	3,989
29,950	**30,000**	4,304	3,796	4,304	3,996
30,000					
30,000	**30,050**	4,316	3,804	4,316	4,004
30,050	**30,100**	4,329	3,811	4,329	4,011
30,100	**30,150**	4,341	3,819	4,341	4,019
30,150	**30,200**	4,354	3,826	4,354	4,026
30,200	**30,250**	4,366	3,834	4,366	4,034
30,250	**30,300**	4,379	3,841	4,379	4,041
30,300	**30,350**	4,391	3,849	4,391	4,049
30,350	**30,400**	4,404	3,856	4,404	4,056
30,400	**30,450**	4,416	3,864	4,416	4,064
30,450	**30,500**	4,429	3,871	4,429	4,071
30,500	**30,550**	4,441	3,879	4,441	4,079
30,550	**30,600**	4,454	3,886	4,454	4,086
30,600	**30,650**	4,466	3,894	4,466	4,094
30,650	**30,700**	4,479	3,901	4,479	4,101
30,700	**30,750**	4,491	3,909	4,491	4,109
30,750	**30,800**	4,504	3,916	4,504	4,116
30,800	**30,850**	4,516	3,924	4,516	4,124
30,850	**30,900**	4,529	3,931	4,529	4,131
30,900	**30,950**	4,541	3,939	4,541	4,139
30,950	**31,000**	4,554	3,946	4,554	4,146
31,000					
31,000	**31,050**	4,566	3,954	4,566	4,154
31,050	**31,100**	4,579	3,961	4,579	4,161
31,100	**31,150**	4,591	3,969	4,591	4,169
31,150	**31,200**	4,604	3,976	4,604	4,176
31,200	**31,250**	4,616	3,984	4,616	4,184
31,250	**31,300**	4,629	3,991	4,629	4,191
31,300	**31,350**	4,641	3,999	4,641	4,199
31,350	**31,400**	4,654	4,006	4,654	4,206
31,400	**31,450**	4,666	4,014	4,666	4,214
31,450	**31,500**	4,679	4,021	4,679	4,221
31,500	**31,550**	4,691	4,029	4,691	4,229
31,550	**31,600**	4,704	4,036	4,704	4,236
31,600	**31,650**	4,716	4,044	4,716	4,244
31,650	**31,700**	4,729	4,051	4,729	4,251
31,700	**31,750**	4,741	4,059	4,741	4,259
31,750	**31,800**	4,754	4,066	4,754	4,266
31,800	**31,850**	4,766	4,074	4,766	4,274
31,850	**31,900**	4,779	4,081	4,779	4,281
31,900	**31,950**	4,791	4,089	4,791	4,289
31,950	**32,000**	4,804	4,096	4,804	4,296

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

(Continued on page 67)

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
32,000					
32,000	**32,050**	4,816	4,104	4,816	4,304
32,050	**32,100**	4,829	4,111	4,829	4,311
32,100	**32,150**	4,841	4,119	4,841	4,319
32,150	**32,200**	4,854	4,126	4,854	4,326
32,200	**32,250**	4,866	4,134	4,866	4,334
32,250	**32,300**	4,879	4,141	4,879	4,341
32,300	**32,350**	4,891	4,149	4,891	4,349
32,350	**32,400**	4,904	4,156	4,904	4,356
32,400	**32,450**	4,916	4,164	4,916	4,364
32,450	**32,500**	4,929	4,171	4,929	4,371
32,500	**32,550**	4,941	4,179	4,941	4,379
32,550	**32,600**	4,954	4,186	4,954	4,386
32,600	**32,650**	4,966	4,194	4,966	4,394
32,650	**32,700**	4,979	4,201	4,979	4,401
32,700	**32,750**	4,991	4,209	4,991	4,409
32,750	**32,800**	5,004	4,216	5,004	4,416
32,800	**32,850**	5,016	4,224	5,016	4,424
32,850	**32,900**	5,029	4,231	5,029	4,431
32,900	**32,950**	5,041	4,239	5,041	4,439
32,950	**33,000**	5,054	4,246	5,054	4,446
33,000					
33,000	**33,050**	5,066	4,254	5,066	4,454
33,050	**33,100**	5,079	4,261	5,079	4,461
33,100	**33,150**	5,091	4,269	5,091	4,469
33,150	**33,200**	5,104	4,276	5,104	4,476
33,200	**33,250**	5,116	4,284	5,116	4,484
33,250	**33,300**	5,129	4,291	5,129	4,491
33,300	**33,350**	5,141	4,299	5,141	4,499
33,350	**33,400**	5,154	4,306	5,154	4,506
33,400	**33,450**	5,166	4,314	5,166	4,514
33,450	**33,500**	5,179	4,321	5,179	4,521
33,500	**33,550**	5,191	4,329	5,191	4,529
33,550	**33,600**	5,204	4,336	5,204	4,536
33,600	**33,650**	5,216	4,344	5,216	4,544
33,650	**33,700**	5,229	4,351	5,229	4,551
33,700	**33,750**	5,241	4,359	5,241	4,559
33,750	**33,800**	5,254	4,366	5,254	4,566
33,800	**33,850**	5,266	4,374	5,266	4,574
33,850	**33,900**	5,279	4,381	5,279	4,581
33,900	**33,950**	5,291	4,389	5,291	4,589
33,950	**34,000**	5,304	4,396	5,304	4,596
34,000					
34,000	**34,050**	5,316	4,404	5,316	4,604
34,050	**34,100**	5,329	4,411	5,329	4,611
34,100	**34,150**	5,341	4,419	5,341	4,619
34,150	**34,200**	5,354	4,426	5,354	4,626
34,200	**34,250**	5,366	4,434	5,366	4,634
34,250	**34,300**	5,379	4,441	5,379	4,641
34,300	**34,350**	5,391	4,449	5,391	4,649
34,350	**34,400**	5,404	4,456	5,404	4,656
34,400	**34,450**	5,416	4,464	5,416	4,664
34,450	**34,500**	5,429	4,471	5,429	4,671
34,500	**34,550**	5,441	4,479	5,441	4,679
34,550	**34,600**	5,454	4,486	5,454	4,686
34,600	**34,650**	5,466	4,494	5,466	4,694
34,650	**34,700**	5,479	4,501	5,479	4,701
34,700	**34,750**	5,491	4,509	5,491	4,709
34,750	**34,800**	5,504	4,516	5,504	4,716
34,800	**34,850**	5,516	4,524	5,516	4,724
34,850	**34,900**	5,529	4,531	5,529	4,731
34,900	**34,950**	5,541	4,539	5,541	4,739
34,950	**35,000**	5,554	4,546	5,554	4,746

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
35,000					
35,000	**35,050**	5,566	4,554	5,566	4,754
35,050	**35,100**	5,579	4,561	5,579	4,761
35,100	**35,150**	5,591	4,569	5,591	4,769
35,150	**35,200**	5,604	4,576	5,604	4,776
35,200	**35,250**	5,616	4,584	5,616	4,784
35,250	**35,300**	5,629	4,591	5,629	4,791
35,300	**35,350**	5,641	4,599	5,641	4,799
35,350	**35,400**	5,654	4,606	5,654	4,806
35,400	**35,450**	5,666	4,614	5,666	4,814
35,450	**35,500**	5,679	4,621	5,679	4,821
35,500	**35,550**	5,691	4,629	5,691	4,829
35,550	**35,600**	5,704	4,636	5,704	4,836
35,600	**35,650**	5,716	4,644	5,716	4,844
35,650	**35,700**	5,729	4,651	5,729	4,851
35,700	**35,750**	5,741	4,659	5,741	4,859
35,750	**35,800**	5,754	4,666	5,754	4,866
35,800	**35,850**	5,766	4,674	5,766	4,874
35,850	**35,900**	5,779	4,681	5,779	4,881
35,900	**35,950**	5,791	4,689	5,791	4,889
35,950	**36,000**	5,804	4,696	5,804	4,896
36,000					
36,000	**36,050**	5,816	4,704	5,816	4,904
36,050	**36,100**	5,829	4,711	5,829	4,911
36,100	**36,150**	5,841	4,719	5,841	4,919
36,150	**36,200**	5,854	4,726	5,854	4,926
36,200	**36,250**	5,866	4,734	5,866	4,934
36,250	**36,300**	5,879	4,741	5,879	4,941
36,300	**36,350**	5,891	4,749	5,891	4,949
36,350	**36,400**	5,904	4,756	5,904	4,956
36,400	**36,450**	5,916	4,764	5,916	4,964
36,450	**36,500**	5,929	4,771	5,929	4,971
36,500	**36,550**	5,941	4,779	5,941	4,979
36,550	**36,600**	5,954	4,786	5,954	4,986
36,600	**36,650**	5,966	4,794	5,966	4,994
36,650	**36,700**	5,979	4,801	5,979	5,001
36,700	**36,750**	5,991	4,809	5,991	5,009
36,750	**36,800**	6,004	4,816	6,004	5,016
36,800	**36,850**	6,016	4,824	6,016	5,024
36,850	**36,900**	6,029	4,831	6,029	5,031
36,900	**36,950**	6,041	4,839	6,041	5,039
36,950	**37,000**	6,054	4,846	6,054	5,046
37,000					
37,000	**37,050**	6,066	4,854	6,066	5,054
37,050	**37,100**	6,079	4,861	6,079	5,061
37,100	**37,150**	6,091	4,869	6,091	5,069
37,150	**37,200**	6,104	4,876	6,104	5,076
37,200	**37,250**	6,116	4,884	6,116	5,084
37,250	**37,300**	6,129	4,891	6,129	5,091
37,300	**37,350**	6,141	4,899	6,141	5,099
37,350	**37,400**	6,154	4,906	6,154	5,106
37,400	**37,450**	6,166	4,914	6,166	5,114
37,450	**37,500**	6,179	4,921	6,179	5,121
37,500	**37,550**	6,191	4,929	6,191	5,129
37,550	**37,600**	6,204	4,936	6,204	5,136
37,600	**37,650**	6,216	4,944	6,216	5,144
37,650	**37,700**	6,229	4,951	6,229	5,151
37,700	**37,750**	6,241	4,959	6,241	5,159
37,750	**37,800**	6,254	4,966	6,254	5,166
37,800	**37,850**	6,266	4,974	6,266	5,174
37,850	**37,900**	6,279	4,981	6,279	5,181
37,900	**37,950**	6,291	4,989	6,291	5,189
37,950	**38,000**	6,304	4,996	6,304	5,196

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
38,000					
38,000	**38,050**	6,316	5,004	6,316	5,204
38,050	**38,100**	6,329	5,011	6,329	5,214
38,100	**38,150**	6,341	5,019	6,341	5,226
38,150	**38,200**	6,354	5,026	6,354	5,239
38,200	**38,250**	6,366	5,034	6,366	5,251
38,250	**38,300**	6,379	5,041	6,379	5,264
38,300	**38,350**	6,391	5,049	6,391	5,276
38,350	**38,400**	6,404	5,056	6,404	5,289
38,400	**38,450**	6,416	5,064	6,416	5,301
38,450	**38,500**	6,429	5,071	6,429	5,314
38,500	**38,550**	6,441	5,079	6,441	5,326
38,550	**38,600**	6,454	5,086	6,454	5,339
38,600	**38,650**	6,466	5,094	6,466	5,351
38,650	**38,700**	6,479	5,101	6,479	5,364
38,700	**38,750**	6,491	5,109	6,491	5,376
38,750	**38,800**	6,504	5,116	6,504	5,389
38,800	**38,850**	6,516	5,124	6,516	5,401
38,850	**38,900**	6,529	5,131	6,529	5,414
38,900	**38,950**	6,541	5,139	6,541	5,426
38,950	**39,000**	6,554	5,146	6,554	5,439
39,000					
39,000	**39,050**	6,566	5,154	6,566	5,451
39,050	**39,100**	6,579	5,161	6,579	5,464
39,100	**39,150**	6,591	5,169	6,591	5,476
39,150	**39,200**	6,604	5,176	6,604	5,489
39,200	**39,250**	6,616	5,184	6,616	5,501
39,250	**39,300**	6,629	5,191	6,629	5,514
39,300	**39,350**	6,641	5,199	6,641	5,526
39,350	**39,400**	6,654	5,206	6,654	5,539
39,400	**39,450**	6,666	5,214	6,666	5,551
39,450	**39,500**	6,679	5,221	6,679	5,564
39,500	**39,550**	6,691	5,229	6,691	5,576
39,550	**39,600**	6,704	5,236	6,704	5,589
39,600	**39,650**	6,716	5,244	6,716	5,601
39,650	**39,700**	6,729	5,251	6,729	5,614
39,700	**39,750**	6,741	5,259	6,741	5,626
39,750	**39,800**	6,754	5,266	6,754	5,639
39,800	**39,850**	6,766	5,274	6,766	5,651
39,850	**39,900**	6,779	5,281	6,779	5,664
39,900	**39,950**	6,791	5,289	6,791	5,676
39,950	**40,000**	6,804	5,296	6,804	5,689
40,000					
40,000	**40,050**	6,816	5,304	6,816	5,701
40,050	**40,100**	6,829	5,311	6,829	5,714
40,100	**40,150**	6,841	5,319	6,841	5,726
40,150	**40,200**	6,854	5,326	6,854	5,739
40,200	**40,250**	6,866	5,334	6,866	5,751
40,250	**40,300**	6,879	5,341	6,879	5,764
40,300	**40,350**	6,891	5,349	6,891	5,776
40,350	**40,400**	6,904	5,356	6,904	5,789
40,400	**40,450**	6,916	5,364	6,916	5,801
40,450	**40,500**	6,929	5,371	6,929	5,814
40,500	**40,550**	6,941	5,379	6,941	5,826
40,550	**40,600**	6,954	5,386	6,954	5,839
40,600	**40,650**	6,966	5,394	6,966	5,851
40,650	**40,700**	6,979	5,401	6,979	5,864
40,700	**40,750**	6,991	5,409	6,991	5,876
40,750	**40,800**	7,004	5,416	7,004	5,889
40,800	**40,850**	7,016	5,424	7,016	5,901
40,850	**40,900**	7,029	5,431	7,029	5,914
40,900	**40,950**	7,041	5,439	7,041	5,926
40,950	**41,000**	7,054	5,446	7,054	5,939

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

(Continued on page 68)

2003 Tax Table—*Continued*

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
41,000					
41,000	**41,050**	7,066	5,454	7,066	5,951
41,050	**41,100**	7,079	5,461	7,079	5,964
41,100	**41,150**	7,091	5,469	7,091	5,976
41,150	**41,200**	7,104	5,476	7,104	5,989
41,200	**41,250**	7,116	5,484	7,116	6,001
41,250	**41,300**	7,129	5,491	7,129	6,014
41,300	**41,350**	7,141	5,499	7,141	6,026
41,350	**41,400**	7,154	5,506	7,154	6,039
41,400	**41,450**	7,166	5,514	7,166	6,051
41,450	**41,500**	7,179	5,521	7,179	6,064
41,500	**41,550**	7,191	5,529	7,191	6,076
41,550	**41,600**	7,204	5,536	7,204	6,089
41,600	**41,650**	7,216	5,544	7,216	6,101
41,650	**41,700**	7,229	5,551	7,229	6,114
41,700	**41,750**	7,241	5,559	7,241	6,126
41,750	**41,800**	7,254	5,566	7,254	6,139
41,800	**41,850**	7,266	5,574	7,266	6,151
41,850	**41,900**	7,279	5,581	7,279	6,164
41,900	**41,950**	7,291	5,589	7,291	6,176
41,950	**42,000**	7,304	5,596	7,304	6,189
42,000					
42,000	**42,050**	7,316	5,604	7,316	6,201
42,050	**42,100**	7,329	5,611	7,329	6,214
42,100	**42,150**	7,341	5,619	7,341	6,226
42,150	**42,200**	7,354	5,626	7,354	6,239
42,200	**42,250**	7,366	5,634	7,366	6,251
42,250	**42,300**	7,379	5,641	7,379	6,264
42,300	**42,350**	7,391	5,649	7,391	6,276
42,350	**42,400**	7,404	5,656	7,404	6,289
42,400	**42,450**	7,416	5,664	7,416	6,301
42,450	**42,500**	7,429	5,671	7,429	6,314
42,500	**42,550**	7,441	5,679	7,441	6,326
42,550	**42,600**	7,454	5,686	7,454	6,339
42,600	**42,650**	7,466	5,694	7,466	6,351
42,650	**42,700**	7,479	5,701	7,479	6,364
42,700	**42,750**	7,491	5,709	7,491	6,376
42,750	**42,800**	7,504	5,716	7,504	6,389
42,800	**42,850**	7,516	5,724	7,516	6,401
42,850	**42,900**	7,529	5,731	7,529	6,414
42,900	**42,950**	7,541	5,739	7,541	6,426
42,950	**43,000**	7,554	5,746	7,554	6,439
43,000					
43,000	**43,050**	7,566	5,754	7,566	6,451
43,050	**43,100**	7,579	5,761	7,579	6,464
43,100	**43,150**	7,591	5,769	7,591	6,476
43,150	**43,200**	7,604	5,776	7,604	6,489
43,200	**43,250**	7,616	5,784	7,616	6,501
43,250	**43,300**	7,629	5,791	7,629	6,514
43,300	**43,350**	7,641	5,799	7,641	6,526
43,350	**43,400**	7,654	5,806	7,654	6,539
43,400	**43,450**	7,666	5,814	7,666	6,551
43,450	**43,500**	7,679	5,821	7,679	6,564
43,500	**43,550**	7,691	5,829	7,691	6,576
43,550	**43,600**	7,704	5,836	7,704	6,589
43,600	**43,650**	7,716	5,844	7,716	6,601
43,650	**43,700**	7,729	5,851	7,729	6,614
43,700	**43,750**	7,741	5,859	7,741	6,626
43,750	**43,800**	7,754	5,866	7,754	6,639
43,800	**43,850**	7,766	5,874	7,766	6,651
43,850	**43,900**	7,779	5,881	7,779	6,664
43,900	**43,950**	7,791	5,889	7,791	6,676
43,950	**44,000**	7,804	5,896	7,804	6,689
44,000					
44,000	**44,050**	7,816	5,904	7,816	6,701
44,050	**44,100**	7,829	5,911	7,829	6,714
44,100	**44,150**	7,841	5,919	7,841	6,726
44,150	**44,200**	7,854	5,926	7,854	6,739
44,200	**44,250**	7,866	5,934	7,866	6,751
44,250	**44,300**	7,879	5,941	7,879	6,764
44,300	**44,350**	7,891	5,949	7,891	6,776
44,350	**44,400**	7,904	5,956	7,904	6,789
44,400	**44,450**	7,916	5,964	7,916	6,801
44,450	**44,500**	7,929	5,971	7,929	6,814
44,500	**44,550**	7,941	5,979	7,941	6,826
44,550	**44,600**	7,954	5,986	7,954	6,839
44,600	**44,650**	7,966	5,994	7,966	6,851
44,650	**44,700**	7,979	6,001	7,979	6,864
44,700	**44,750**	7,991	6,009	7,991	6,876
44,750	**44,800**	8,004	6,016	8,004	6,889
44,800	**44,850**	8,016	6,024	8,016	6,901
44,850	**44,900**	8,029	6,031	8,029	6,914
44,900	**44,950**	8,041	6,039	8,041	6,926
44,950	**45,000**	8,054	6,046	8,054	6,939
45,000					
45,000	**45,050**	8,066	6,054	8,066	6,951
45,050	**45,100**	8,079	6,061	8,079	6,964
45,100	**45,150**	8,091	6,069	8,091	6,976
45,150	**45,200**	8,104	6,076	8,104	6,989
45,200	**45,250**	8,116	6,084	8,116	7,001
45,250	**45,300**	8,129	6,091	8,129	7,014
45,300	**45,350**	8,141	6,099	8,141	7,026
45,350	**45,400**	8,154	6,106	8,154	7,039
45,400	**45,450**	8,166	6,114	8,166	7,051
45,450	**45,500**	8,179	6,121	8,179	7,064
45,500	**45,550**	8,191	6,129	8,191	7,076
45,550	**45,600**	8,204	6,136	8,204	7,089
45,600	**45,650**	8,216	6,144	8,216	7,101
45,650	**45,700**	8,229	6,151	8,229	7,114
45,700	**45,750**	8,241	6,159	8,241	7,126
45,750	**45,800**	8,254	6,166	8,254	7,139
45,800	**45,850**	8,266	6,174	8,266	7,151
45,850	**45,900**	8,279	6,181	8,279	7,164
45,900	**45,950**	8,291	6,189	8,291	7,176
45,950	**46,000**	8,304	6,196	8,304	7,189
46,000					
46,000	**46,050**	8,316	6,204	8,316	7,201
46,050	**46,100**	8,329	6,211	8,329	7,214
46,100	**46,150**	8,341	6,219	8,341	7,226
46,150	**46,200**	8,354	6,226	8,354	7,239
46,200	**46,250**	8,366	6,234	8,366	7,251
46,250	**46,300**	8,379	6,241	8,379	7,264
46,300	**46,350**	8,391	6,249	8,391	7,276
46,350	**46,400**	8,404	6,256	8,404	7,289
46,400	**46,450**	8,416	6,264	8,416	7,301
46,450	**46,500**	8,429	6,271	8,429	7,314
46,500	**46,550**	8,441	6,279	8,441	7,326
46,550	**46,600**	8,454	6,286	8,454	7,339
46,600	**46,650**	8,466	6,294	8,466	7,351
46,650	**46,700**	8,479	6,301	8,479	7,364
46,700	**46,750**	8,491	6,309	8,491	7,376
46,750	**46,800**	8,504	6,316	8,504	7,389
46,800	**46,850**	8,516	6,324	8,516	7,401
46,850	**46,900**	8,529	6,331	8,529	7,414
46,900	**46,950**	8,541	6,339	8,541	7,426
46,950	**47,000**	8,554	6,346	8,554	7,439
47,000					
47,000	**47,050**	8,566	6,354	8,566	7,451
47,050	**47,100**	8,579	6,361	8,579	7,464
47,100	**47,150**	8,591	6,369	8,591	7,476
47,150	**47,200**	8,604	6,376	8,604	7,489
47,200	**47,250**	8,616	6,384	8,616	7,501
47,250	**47,300**	8,629	6,391	8,629	7,514
47,300	**47,350**	8,641	6,399	8,641	7,526
47,350	**47,400**	8,654	6,406	8,654	7,539
47,400	**47,450**	8,666	6,414	8,666	7,551
47,450	**47,500**	8,679	6,421	8,679	7,564
47,500	**47,550**	8,691	6,429	8,691	7,576
47,550	**47,600**	8,704	6,436	8,704	7,589
47,600	**47,650**	8,716	6,444	8,716	7,601
47,650	**47,700**	8,729	6,451	8,729	7,614
47,700	**47,750**	8,741	6,459	8,741	7,626
47,750	**47,800**	8,754	6,466	8,754	7,639
47,800	**47,850**	8,766	6,474	8,766	7,651
47,850	**47,900**	8,779	6,481	8,779	7,664
47,900	**47,950**	8,791	6,489	8,791	7,676
47,950	**48,000**	8,804	6,496	8,804	7,689
48,000					
48,000	**48,050**	8,816	6,504	8,816	7,701
48,050	**48,100**	8,829	6,511	8,829	7,714
48,100	**48,150**	8,841	6,519	8,841	7,726
48,150	**48,200**	8,854	6,526	8,854	7,739
48,200	**48,250**	8,866	6,534	8,866	7,751
48,250	**48,300**	8,879	6,541	8,879	7,764
48,300	**48,350**	8,891	6,549	8,891	7,776
48,350	**48,400**	8,904	6,556	8,904	7,789
48,400	**48,450**	8,916	6,564	8,916	7,801
48,450	**48,500**	8,929	6,571	8,929	7,814
48,500	**48,550**	8,941	6,579	8,941	7,826
48,550	**48,600**	8,954	6,586	8,954	7,839
48,600	**48,650**	8,966	6,594	8,966	7,851
48,650	**48,700**	8,979	6,601	8,979	7,864
48,700	**48,750**	8,991	6,609	8,991	7,876
48,750	**48,800**	9,004	6,616	9,004	7,889
48,800	**48,850**	9,016	6,624	9,016	7,901
48,850	**48,900**	9,029	6,631	9,029	7,914
48,900	**48,950**	9,041	6,639	9,041	7,926
48,950	**49,000**	9,054	6,646	9,054	7,939
49,000					
49,000	**49,050**	9,066	6,654	9,066	7,951
49,050	**49,100**	9,079	6,661	9,079	7,964
49,100	**49,150**	9,091	6,669	9,091	7,976
49,150	**49,200**	9,104	6,676	9,104	7,989
49,200	**49,250**	9,116	6,684	9,116	8,001
49,250	**49,300**	9,129	6,691	9,129	8,014
49,300	**49,350**	9,141	6,699	9,141	8,026
49,350	**49,400**	9,154	6,706	9,154	8,039
49,400	**49,450**	9,166	6,714	9,166	8,051
49,450	**49,500**	9,179	6,721	9,179	8,064
49,500	**49,550**	9,191	6,729	9,191	8,076
49,550	**49,600**	9,204	6,736	9,204	8,089
49,600	**49,650**	9,216	6,744	9,216	8,101
49,650	**49,700**	9,229	6,751	9,229	8,114
49,700	**49,750**	9,241	6,759	9,241	8,126
49,750	**49,800**	9,254	6,766	9,254	8,139
49,800	**49,850**	9,266	6,774	9,266	8,151
49,850	**49,900**	9,279	6,781	9,279	8,164
49,900	**49,950**	9,291	6,789	9,291	8,176
49,950	**50,000**	9,304	6,796	9,304	8,189

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

(Continued on page 69)

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
50,000					
50,000	**50,050**	9,316	6,804	9,316	8,201
50,050	**50,100**	9,329	6,811	9,329	8,214
50,100	**50,150**	9,341	6,819	9,341	8,226
50,150	**50,200**	9,354	6,826	9,354	8,239
50,200	**50,250**	9,366	6,834	9,366	8,251
50,250	**50,300**	9,379	6,841	9,379	8,264
50,300	**50,350**	9,391	6,849	9,391	8,276
50,350	**50,400**	9,404	6,856	9,404	8,289
50,400	**50,450**	9,416	6,864	9,416	8,301
50,450	**50,500**	9,429	6,871	9,429	8,314
50,500	**50,550**	9,441	6,879	9,441	8,326
50,550	**50,600**	9,454	6,886	9,454	8,339
50,600	**50,650**	9,466	6,894	9,466	8,351
50,650	**50,700**	9,479	6,901	9,479	8,364
50,700	**50,750**	9,491	6,909	9,491	8,376
50,750	**50,800**	9,504	6,916	9,504	8,389
50,800	**50,850**	9,516	6,924	9,516	8,401
50,850	**50,900**	9,529	6,931	9,529	8,414
50,900	**50,950**	9,541	6,939	9,541	8,426
50,950	**51,000**	9,554	6,946	9,554	8,439
51,000					
51,000	**51,050**	9,566	6,954	9,566	8,451
51,050	**51,100**	9,579	6,961	9,579	8,464
51,100	**51,150**	9,591	6,969	9,591	8,476
51,150	**51,200**	9,604	6,976	9,604	8,489
51,200	**51,250**	9,616	6,984	9,616	8,501
51,250	**51,300**	9,629	6,991	9,629	8,514
51,300	**51,350**	9,641	6,999	9,641	8,526
51,350	**51,400**	9,654	7,006	9,654	8,539
51,400	**51,450**	9,666	7,014	9,666	8,551
51,450	**51,500**	9,679	7,021	9,679	8,564
51,500	**51,550**	9,691	7,029	9,691	8,576
51,550	**51,600**	9,704	7,036	9,704	8,589
51,600	**51,650**	9,716	7,044	9,716	8,601
51,650	**51,700**	9,729	7,051	9,729	8,614
51,700	**51,750**	9,741	7,059	9,741	8,626
51,750	**51,800**	9,754	7,066	9,754	8,639
51,800	**51,850**	9,766	7,074	9,766	8,651
51,850	**51,900**	9,779	7,081	9,779	8,664
51,900	**51,950**	9,791	7,089	9,791	8,676
51,950	**52,000**	9,804	7,096	9,804	8,689
52,000					
52,000	**52,050**	9,816	7,104	9,816	8,701
52,050	**52,100**	9,829	7,111	9,829	8,714
52,100	**52,150**	9,841	7,119	9,841	8,726
52,150	**52,200**	9,854	7,126	9,854	8,739
52,200	**52,250**	9,866	7,134	9,866	8,751
52,250	**52,300**	9,879	7,141	9,879	8,764
52,300	**52,350**	9,891	7,149	9,891	8,776
52,350	**52,400**	9,904	7,156	9,904	8,789
52,400	**52,450**	9,916	7,164	9,916	8,801
52,450	**52,500**	9,929	7,171	9,929	8,814
52,500	**52,550**	9,941	7,179	9,941	8,826
52,550	**52,600**	9,954	7,186	9,954	8,839
52,600	**52,650**	9,966	7,194	9,966	8,851
52,650	**52,700**	9,979	7,201	9,979	8,864
52,700	**52,750**	9,991	7,209	9,991	8,876
52,750	**52,800**	10,004	7,216	10,004	8,889
52,800	**52,850**	10,016	7,224	10,016	8,901
52,850	**52,900**	10,029	7,231	10,029	8,914
52,900	**52,950**	10,041	7,239	10,041	8,926
52,950	**53,000**	10,054	7,246	10,054	8,939
53,000					
53,000	**53,050**	10,066	7,254	10,066	8,951
53,050	**53,100**	10,079	7,261	10,079	8,964
53,100	**53,150**	10,091	7,269	10,091	8,976
53,150	**53,200**	10,104	7,276	10,104	8,989
53,200	**53,250**	10,116	7,284	10,116	9,001
53,250	**53,300**	10,129	7,291	10,129	9,014
53,300	**53,350**	10,141	7,299	10,141	9,026
53,350	**53,400**	10,154	7,306	10,154	9,039
53,400	**53,450**	10,166	7,314	10,166	9,051
53,450	**53,500**	10,179	7,321	10,179	9,064
53,500	**53,550**	10,191	7,329	10,191	9,076
53,550	**53,600**	10,204	7,336	10,204	9,089
53,600	**53,650**	10,216	7,344	10,216	9,101
53,650	**53,700**	10,229	7,351	10,229	9,114
53,700	**53,750**	10,241	7,359	10,241	9,126
53,750	**53,800**	10,254	7,366	10,254	9,139
53,800	**53,850**	10,266	7,374	10,266	9,151
53,850	**53,900**	10,279	7,381	10,279	9,164
53,900	**53,950**	10,291	7,389	10,291	9,176
53,950	**54,000**	10,304	7,396	10,304	9,189
54,000					
54,000	**54,050**	10,316	7,404	10,316	9,201
54,050	**54,100**	10,329	7,411	10,329	9,214
54,100	**54,150**	10,341	7,419	10,341	9,226
54,150	**54,200**	10,354	7,426	10,354	9,239
54,200	**54,250**	10,366	7,434	10,366	9,251
54,250	**54,300**	10,379	7,441	10,379	9,264
54,300	**54,350**	10,391	7,449	10,391	9,276
54,350	**54,400**	10,404	7,456	10,404	9,289
54,400	**54,450**	10,416	7,464	10,416	9,301
54,450	**54,500**	10,429	7,471	10,429	9,314
54,500	**54,550**	10,441	7,479	10,441	9,326
54,550	**54,600**	10,454	7,486	10,454	9,339
54,600	**54,650**	10,466	7,494	10,466	9,351
54,650	**54,700**	10,479	7,501	10,479	9,364
54,700	**54,750**	10,491	7,509	10,491	9,376
54,750	**54,800**	10,504	7,516	10,504	9,389
54,800	**54,850**	10,516	7,524	10,516	9,401
54,850	**54,900**	10,529	7,531	10,529	9,414
54,900	**54,950**	10,541	7,539	10,541	9,426
54,950	**55,000**	10,554	7,546	10,554	9,439
55,000					
55,000	**55,050**	10,566	7,554	10,566	9,451
55,050	**55,100**	10,579	7,561	10,579	9,464
55,100	**55,150**	10,591	7,569	10,591	9,476
55,150	**55,200**	10,604	7,576	10,604	9,489
55,200	**55,250**	10,616	7,584	10,616	9,501
55,250	**55,300**	10,629	7,591	10,629	9,514
55,300	**55,350**	10,641	7,599	10,641	9,526
55,350	**55,400**	10,654	7,606	10,654	9,539
55,400	**55,450**	10,666	7,614	10,666	9,551
55,450	**55,500**	10,679	7,621	10,679	9,564
55,500	**55,550**	10,691	7,629	10,691	9,576
55,550	**55,600**	10,704	7,636	10,704	9,589
55,600	**55,650**	10,716	7,644	10,716	9,601
55,650	**55,700**	10,729	7,651	10,729	9,614
55,700	**55,750**	10,741	7,659	10,741	9,626
55,750	**55,800**	10,754	7,666	10,754	9,639
55,800	**55,850**	10,766	7,674	10,766	9,651
55,850	**55,900**	10,779	7,681	10,779	9,664
55,900	**55,950**	10,791	7,689	10,791	9,676
55,950	**56,000**	10,804	7,696	10,804	9,689
56,000					
56,000	**56,050**	10,816	7,704	10,816	9,701
56,050	**56,100**	10,829	7,711	10,829	9,714
56,100	**56,150**	10,841	7,719	10,841	9,726
56,150	**56,200**	10,854	7,726	10,854	9,739
56,200	**56,250**	10,866	7,734	10,866	9,751
56,250	**56,300**	10,879	7,741	10,879	9,764
56,300	**56,350**	10,891	7,749	10,891	9,776
56,350	**56,400**	10,904	7,756	10,904	9,789
56,400	**56,450**	10,916	7,764	10,916	9,801
56,450	**56,500**	10,929	7,771	10,929	9,814
56,500	**56,550**	10,941	7,779	10,941	9,826
56,550	**56,600**	10,954	7,786	10,954	9,839
56,600	**56,650**	10,966	7,794	10,966	9,851
56,650	**56,700**	10,979	7,801	10,979	9,864
56,700	**56,750**	10,991	7,809	10,991	9,876
56,750	**56,800**	11,004	7,816	11,004	9,889
56,800	**56,850**	11,016	7,826	11,016	9,901
56,850	**56,900**	11,029	7,839	11,029	9,914
56,900	**56,950**	11,041	7,851	11,041	9,926
56,950	**57,000**	11,054	7,864	11,054	9,939
57,000					
57,000	**57,050**	11,066	7,876	11,066	9,951
57,050	**57,100**	11,079	7,889	11,079	9,964
57,100	**57,150**	11,091	7,901	11,091	9,976
57,150	**57,200**	11,104	7,914	11,104	9,989
57,200	**57,250**	11,116	7,926	11,116	10,001
57,250	**57,300**	11,129	7,939	11,129	10,014
57,300	**57,350**	11,141	7,951	11,141	10,026
57,350	**57,400**	11,154	7,964	11,155	10,039
57,400	**57,450**	11,166	7,976	11,169	10,051
57,450	**57,500**	11,179	7,989	11,183	10,064
57,500	**57,550**	11,191	8,001	11,197	10,076
57,550	**57,600**	11,204	8,014	11,211	10,089
57,600	**57,650**	11,216	8,026	11,225	10,101
57,650	**57,700**	11,229	8,039	11,239	10,114
57,700	**57,750**	11,241	8,051	11,253	10,126
57,750	**57,800**	11,254	8,064	11,267	10,139
57,800	**57,850**	11,266	8,076	11,281	10,151
57,850	**57,900**	11,279	8,089	11,295	10,164
57,900	**57,950**	11,291	8,101	11,309	10,176
57,950	**58,000**	11,304	8,114	11,323	10,189
58,000					
58,000	**58,050**	11,316	8,126	11,337	10,201
58,050	**58,100**	11,329	8,139	11,351	10,214
58,100	**58,150**	11,341	8,151	11,365	10,226
58,150	**58,200**	11,354	8,164	11,379	10,239
58,200	**58,250**	11,366	8,176	11,393	10,251
58,250	**58,300**	11,379	8,189	11,407	10,264
58,300	**58,350**	11,391	8,201	11,421	10,276
58,350	**58,400**	11,404	8,214	11,435	10,289
58,400	**58,450**	11,416	8,226	11,449	10,301
58,450	**58,500**	11,429	8,239	11,463	10,314
58,500	**58,550**	11,441	8,251	11,477	10,326
58,550	**58,600**	11,454	8,264	11,491	10,339
58,600	**58,650**	11,466	8,276	11,505	10,351
58,650	**58,700**	11,479	8,289	11,519	10,364
58,700	**58,750**	11,491	8,301	11,533	10,376
58,750	**58,800**	11,504	8,314	11,547	10,389
58,800	**58,850**	11,516	8,326	11,561	10,401
58,850	**58,900**	11,529	8,339	11,575	10,414
58,900	**58,950**	11,541	8,351	11,589	10,426
58,950	**59,000**	11,554	8,364	11,603	10,439

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

(Continued on page 70)

2003 Tax Table—*Continued*

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
59,000					
59,000	**59,050**	11,566	8,376	11,617	10,451
59,050	**59,100**	11,579	8,389	11,631	10,464
59,100	**59,150**	11,591	8,401	11,645	10,476
59,150	**59,200**	11,604	8,414	11,659	10,489
59,200	**59,250**	11,616	8,426	11,673	10,501
59,250	**59,300**	11,629	8,439	11,687	10,514
59,300	**59,350**	11,641	8,451	11,701	10,526
59,350	**59,400**	11,654	8,464	11,715	10,539
59,400	**59,450**	11,666	8,476	11,729	10,551
59,450	**59,500**	11,679	8,489	11,743	10,564
59,500	**59,550**	11,691	8,501	11,757	10,576
59,550	**59,600**	11,704	8,514	11,771	10,589
59,600	**59,650**	11,716	8,526	11,785	10,601
59,650	**59,700**	11,729	8,539	11,799	10,614
59,700	**59,750**	11,741	8,551	11,813	10,626
59,750	**59,800**	11,754	8,564	11,827	10,639
59,800	**59,850**	11,766	8,576	11,841	10,651
59,850	**59,900**	11,779	8,589	11,855	10,664
59,900	**59,950**	11,791	8,601	11,869	10,676
59,950	**60,000**	11,804	8,614	11,883	10,689
60,000					
60,000	**60,050**	11,816	8,626	11,897	10,701
60,050	**60,100**	11,829	8,639	11,911	10,714
60,100	**60,150**	11,841	8,651	11,925	10,726
60,150	**60,200**	11,854	8,664	11,939	10,739
60,200	**60,250**	11,866	8,676	11,953	10,751
60,250	**60,300**	11,879	8,689	11,967	10,764
60,300	**60,350**	11,891	8,701	11,981	10,776
60,350	**60,400**	11,904	8,714	11,995	10,789
60,400	**60,450**	11,916	8,726	12,009	10,801
60,450	**60,500**	11,929	8,739	12,023	10,814
60,500	**60,550**	11,941	8,751	12,037	10,826
60,550	**60,600**	11,954	8,764	12,051	10,839
60,600	**60,650**	11,966	8,776	12,065	10,851
60,650	**60,700**	11,979	8,789	12,079	10,864
60,700	**60,750**	11,991	8,801	12,093	10,876
60,750	**60,800**	12,004	8,814	12,107	10,889
60,800	**60,850**	12,016	8,826	12,121	10,901
60,850	**60,900**	12,029	8,839	12,135	10,914
60,900	**60,950**	12,041	8,851	12,149	10,926
60,950	**61,000**	12,054	8,864	12,163	10,939
61,000					
61,000	**61,050**	12,066	8,876	12,177	10,951
61,050	**61,100**	12,079	8,889	12,191	10,964
61,100	**61,150**	12,091	8,901	12,205	10,976
61,150	**61,200**	12,104	8,914	12,219	10,989
61,200	**61,250**	12,116	8,926	12,233	11,001
61,250	**61,300**	12,129	8,939	12,247	11,014
61,300	**61,350**	12,141	8,951	12,261	11,026
61,350	**61,400**	12,154	8,964	12,275	11,039
61,400	**61,450**	12,166	8,976	12,289	11,051
61,450	**61,500**	12,179	8,989	12,303	11,064
61,500	**61,550**	12,191	9,001	12,317	11,076
61,550	**61,600**	12,204	9,014	12,331	11,089
61,600	**61,650**	12,216	9,026	12,345	11,101
61,650	**61,700**	12,229	9,039	12,359	11,114
61,700	**61,750**	12,241	9,051	12,373	11,126
61,750	**61,800**	12,254	9,064	12,387	11,139
61,800	**61,850**	12,266	9,076	12,401	11,151
61,850	**61,900**	12,279	9,089	12,415	11,164
61,900	**61,950**	12,291	9,101	12,429	11,176
61,950	**62,000**	12,304	9,114	12,443	11,189
62,000					
62,000	**62,050**	12,316	9,126	12,457	11,201
62,050	**62,100**	12,329	9,139	12,471	11,214
62,100	**62,150**	12,341	9,151	12,485	11,226
62,150	**62,200**	12,354	9,164	12,499	11,239
62,200	**62,250**	12,366	9,176	12,513	11,251
62,250	**62,300**	12,379	9,189	12,527	11,264
62,300	**62,350**	12,391	9,201	12,541	11,276
62,350	**62,400**	12,404	9,214	12,555	11,289
62,400	**62,450**	12,416	9,226	12,569	11,301
62,450	**62,500**	12,429	9,239	12,583	11,314
62,500	**62,550**	12,441	9,251	12,597	11,326
62,550	**62,600**	12,454	9,264	12,611	11,339
62,600	**62,650**	12,466	9,276	12,625	11,351
62,650	**62,700**	12,479	9,289	12,639	11,364
62,700	**62,750**	12,491	9,301	12,653	11,376
62,750	**62,800**	12,504	9,314	12,667	11,389
62,800	**62,850**	12,516	9,326	12,681	11,401
62,850	**62,900**	12,529	9,339	12,695	11,414
62,900	**62,950**	12,541	9,351	12,709	11,426
62,950	**63,000**	12,554	9,364	12,723	11,439
63,000					
63,000	**63,050**	12,566	9,376	12,737	11,451
63,050	**63,100**	12,579	9,389	12,751	11,464
63,100	**63,150**	12,591	9,401	12,765	11,476
63,150	**63,200**	12,604	9,414	12,779	11,489
63,200	**63,250**	12,616	9,426	12,793	11,501
63,250	**63,300**	12,629	9,439	12,807	11,514
63,300	**63,350**	12,641	9,451	12,821	11,526
63,350	**63,400**	12,654	9,464	12,835	11,539
63,400	**63,450**	12,666	9,476	12,849	11,551
63,450	**63,500**	12,679	9,489	12,863	11,564
63,500	**63,550**	12,691	9,501	12,877	11,576
63,550	**63,600**	12,704	9,514	12,891	11,589
63,600	**63,650**	12,716	9,526	12,905	11,601
63,650	**63,700**	12,729	9,539	12,919	11,614
63,700	**63,750**	12,741	9,551	12,933	11,626
63,750	**63,800**	12,754	9,564	12,947	11,639
63,800	**63,850**	12,766	9,576	12,961	11,651
63,850	**63,900**	12,779	9,589	12,975	11,664
63,900	**63,950**	12,791	9,601	12,989	11,676
63,950	**64,000**	12,804	9,614	13,003	11,689
64,000					
64,000	**64,050**	12,816	9,626	13,017	11,701
64,050	**64,100**	12,829	9,639	13,031	11,714
64,100	**64,150**	12,841	9,651	13,045	11,726
64,150	**64,200**	12,854	9,664	13,059	11,739
64,200	**64,250**	12,866	9,676	13,073	11,751
64,250	**64,300**	12,879	9,689	13,087	11,764
64,300	**64,350**	12,891	9,701	13,101	11,776
64,350	**64,400**	12,904	9,714	13,115	11,789
64,400	**64,450**	12,916	9,726	13,129	11,801
64,450	**64,500**	12,929	9,739	13,143	11,814
64,500	**64,550**	12,941	9,751	13,157	11,826
64,550	**64,600**	12,954	9,764	13,171	11,839
64,600	**64,650**	12,966	9,776	13,185	11,851
64,650	**64,700**	12,979	9,789	13,199	11,864
64,700	**64,750**	12,991	9,801	13,213	11,876
64,750	**64,800**	13,004	9,814	13,227	11,889
64,800	**64,850**	13,016	9,826	13,241	11,901
64,850	**64,900**	13,029	9,839	13,255	11,914
64,900	**64,950**	13,041	9,851	13,269	11,926
64,950	**65,000**	13,054	9,864	13,283	11,939
65,000					
65,000	**65,050**	13,066	9,876	13,297	11,951
65,050	**65,100**	13,079	9,889	13,311	11,964
65,100	**65,150**	13,091	9,901	13,325	11,976
65,150	**65,200**	13,104	9,914	13,339	11,989
65,200	**65,250**	13,116	9,926	13,353	12,001
65,250	**65,300**	13,129	9,939	13,367	12,014
65,300	**65,350**	13,141	9,951	13,381	12,026
65,350	**65,400**	13,154	9,964	13,395	12,039
65,400	**65,450**	13,166	9,976	13,409	12,051
65,450	**65,500**	13,179	9,989	13,423	12,064
65,500	**65,550**	13,191	10,001	13,437	12,076
65,550	**65,600**	13,204	10,014	13,451	12,089
65,600	**65,650**	13,216	10,026	13,465	12,101
65,650	**65,700**	13,229	10,039	13,479	12,114
65,700	**65,750**	13,241	10,051	13,493	12,126
65,750	**65,800**	13,254	10,064	13,507	12,139
65,800	**65,850**	13,266	10,076	13,521	12,151
65,850	**65,900**	13,279	10,089	13,535	12,164
65,900	**65,950**	13,291	10,101	13,549	12,176
65,950	**66,000**	13,304	10,114	13,563	12,189
66,000					
66,000	**66,050**	13,316	10,126	13,577	12,201
66,050	**66,100**	13,329	10,139	13,591	12,214
66,100	**66,150**	13,341	10,151	13,605	12,226
66,150	**66,200**	13,354	10,164	13,619	12,239
66,200	**66,250**	13,366	10,176	13,633	12,251
66,250	**66,300**	13,379	10,189	13,647	12,264
66,300	**66,350**	13,391	10,201	13,661	12,276
66,350	**66,400**	13,404	10,214	13,675	12,289
66,400	**66,450**	13,416	10,226	13,689	12,301
66,450	**66,500**	13,429	10,239	13,703	12,314
66,500	**66,550**	13,441	10,251	13,717	12,326
66,550	**66,600**	13,454	10,264	13,731	12,339
66,600	**66,650**	13,466	10,276	13,745	12,351
66,650	**66,700**	13,479	10,289	13,759	12,364
66,700	**66,750**	13,491	10,301	13,773	12,376
66,750	**66,800**	13,504	10,314	13,787	12,389
66,800	**66,850**	13,516	10,326	13,801	12,401
66,850	**66,900**	13,529	10,339	13,815	12,414
66,900	**66,950**	13,541	10,351	13,829	12,426
66,950	**67,000**	13,554	10,364	13,843	12,439
67,000					
67,000	**67,050**	13,566	10,376	13,857	12,451
67,050	**67,100**	13,579	10,389	13,871	12,464
67,100	**67,150**	13,591	10,401	13,885	12,476
67,150	**67,200**	13,604	10,414	13,899	12,489
67,200	**67,250**	13,616	10,426	13,913	12,501
67,250	**67,300**	13,629	10,439	13,927	12,514
67,300	**67,350**	13,641	10,451	13,941	12,526
67,350	**67,400**	13,654	10,464	13,955	12,539
67,400	**67,450**	13,666	10,476	13,969	12,551
67,450	**67,500**	13,679	10,489	13,983	12,564
67,500	**67,550**	13,691	10,501	13,997	12,576
67,550	**67,600**	13,704	10,514	14,011	12,589
67,600	**67,650**	13,716	10,526	14,025	12,601
67,650	**67,700**	13,729	10,539	14,039	12,614
67,700	**67,750**	13,741	10,551	14,053	12,626
67,750	**67,800**	13,754	10,564	14,067	12,639
67,800	**67,850**	13,766	10,576	14,081	12,651
67,850	**67,900**	13,779	10,589	14,095	12,664
67,900	**67,950**	13,791	10,601	14,109	12,676
67,950	**68,000**	13,804	10,614	14,123	12,689

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

(Continued on page 71)

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
68,000					
68,000	**68,050**	13,816	10,626	14,137	12,701
68,050	**68,100**	13,829	10,639	14,151	12,714
68,100	**68,150**	13,841	10,651	14,165	12,726
68,150	**68,200**	13,854	10,664	14,179	12,739
68,200	**68,250**	13,866	10,676	14,193	12,751
68,250	**68,300**	13,879	10,689	14,207	12,764
68,300	**68,350**	13,891	10,701	14,221	12,776
68,350	**68,400**	13,904	10,714	14,235	12,789
68,400	**68,450**	13,916	10,726	14,249	12,801
68,450	**68,500**	13,929	10,739	14,263	12,814
68,500	**68,550**	13,941	10,751	14,277	12,826
68,550	**68,600**	13,954	10,764	14,291	12,839
68,600	**68,650**	13,966	10,776	14,305	12,851
68,650	**68,700**	13,979	10,789	14,319	12,864
68,700	**68,750**	13,991	10,801	14,333	12,876
68,750	**68,800**	14,004	10,814	14,347	12,889
68,800	**68,850**	14,017	10,826	14,361	12,901
68,850	**68,900**	14,031	10,839	14,375	12,914
68,900	**68,950**	14,045	10,851	14,389	12,926
68,950	**69,000**	14,059	10,864	14,403	12,939
69,000					
69,000	**69,050**	14,073	10,876	14,417	12,951
69,050	**69,100**	14,087	10,889	14,431	12,964
69,100	**69,150**	14,101	10,901	14,445	12,976
69,150	**69,200**	14,115	10,914	14,459	12,989
69,200	**69,250**	14,129	10,926	14,473	13,001
69,250	**69,300**	14,143	10,939	14,487	13,014
69,300	**69,350**	14,157	10,951	14,501	13,026
69,350	**69,400**	14,171	10,964	14,515	13,039
69,400	**69,450**	14,185	10,976	14,529	13,051
69,450	**69,500**	14,199	10,989	14,543	13,064
69,500	**69,550**	14,213	11,001	14,557	13,076
69,550	**69,600**	14,227	11,014	14,571	13,089
69,600	**69,650**	14,241	11,026	14,585	13,101
69,650	**69,700**	14,255	11,039	14,599	13,114
69,700	**69,750**	14,269	11,051	14,613	13,126
69,750	**69,800**	14,283	11,064	14,627	13,139
69,800	**69,850**	14,297	11,076	14,641	13,151
69,850	**69,900**	14,311	11,089	14,655	13,164
69,900	**69,950**	14,325	11,101	14,669	13,176
69,950	**70,000**	14,339	11,114	14,683	13,189
70,000					
70,000	**70,050**	14,353	11,126	14,697	13,201
70,050	**70,100**	14,367	11,139	14,711	13,214
70,100	**70,150**	14,381	11,151	14,725	13,226
70,150	**70,200**	14,395	11,164	14,739	13,239
70,200	**70,250**	14,409	11,176	14,753	13,251
70,250	**70,300**	14,423	11,189	14,767	13,264
70,300	**70,350**	14,437	11,201	14,781	13,276
70,350	**70,400**	14,451	11,214	14,795	13,289
70,400	**70,450**	14,465	11,226	14,809	13,301
70,450	**70,500**	14,479	11,239	14,823	13,314
70,500	**70,550**	14,493	11,251	14,837	13,326
70,550	**70,600**	14,507	11,264	14,851	13,339
70,600	**70,650**	14,521	11,276	14,865	13,351
70,650	**70,700**	14,535	11,289	14,879	13,364
70,700	**70,750**	14,549	11,301	14,893	13,376
70,750	**70,800**	14,563	11,314	14,907	13,389
70,800	**70,850**	14,577	11,326	14,921	13,401
70,850	**70,900**	14,591	11,339	14,935	13,414
70,900	**70,950**	14,605	11,351	14,949	13,426
70,950	**71,000**	14,619	11,364	14,963	13,439
71,000					
71,000	**71,050**	14,633	11,376	14,977	13,451
71,050	**71,100**	14,647	11,389	14,991	13,464
71,100	**71,150**	14,661	11,401	15,005	13,476
71,150	**71,200**	14,675	11,414	15,019	13,489
71,200	**71,250**	14,689	11,426	15,033	13,501
71,250	**71,300**	14,703	11,439	15,047	13,514
71,300	**71,350**	14,717	11,451	15,061	13,526
71,350	**71,400**	14,731	11,464	15,075	13,539
71,400	**71,450**	14,745	11,476	15,089	13,551
71,450	**71,500**	14,759	11,489	15,103	13,564
71,500	**71,550**	14,773	11,501	15,117	13,576
71,550	**71,600**	14,787	11,514	15,131	13,589
71,600	**71,650**	14,801	11,526	15,145	13,601
71,650	**71,700**	14,815	11,539	15,159	13,614
71,700	**71,750**	14,829	11,551	15,173	13,626
71,750	**71,800**	14,843	11,564	15,187	13,639
71,800	**71,850**	14,857	11,576	15,201	13,651
71,850	**71,900**	14,871	11,589	15,215	13,664
71,900	**71,950**	14,885	11,601	15,229	13,676
71,950	**72,000**	14,899	11,614	15,243	13,689
72,000					
72,000	**72,050**	14,913	11,626	15,257	13,701
72,050	**72,100**	14,927	11,639	15,271	13,714
72,100	**72,150**	14,941	11,651	15,285	13,726
72,150	**72,200**	14,955	11,664	15,299	13,739
72,200	**72,250**	14,969	11,676	15,313	13,751
72,250	**72,300**	14,983	11,689	15,327	13,764
72,300	**72,350**	14,997	11,701	15,341	13,776
72,350	**72,400**	15,011	11,714	15,355	13,789
72,400	**72,450**	15,025	11,726	15,369	13,801
72,450	**72,500**	15,039	11,739	15,383	13,814
72,500	**72,550**	15,053	11,751	15,397	13,826
72,550	**72,600**	15,067	11,764	15,411	13,839
72,600	**72,650**	15,081	11,776	15,425	13,851
72,650	**72,700**	15,095	11,789	15,439	13,864
72,700	**72,750**	15,109	11,801	15,453	13,876
72,750	**72,800**	15,123	11,814	15,467	13,889
72,800	**72,850**	15,137	11,826	15,481	13,901
72,850	**72,900**	15,151	11,839	15,495	13,914
72,900	**72,950**	15,165	11,851	15,509	13,926
72,950	**73,000**	15,179	11,864	15,523	13,939
73,000					
73,000	**73,050**	15,193	11,876	15,537	13,951
73,050	**73,100**	15,207	11,889	15,551	13,964
73,100	**73,150**	15,221	11,901	15,565	13,976
73,150	**73,200**	15,235	11,914	15,579	13,989
73,200	**73,250**	15,249	11,926	15,593	14,001
73,250	**73,300**	15,263	11,939	15,607	14,014
73,300	**73,350**	15,277	11,951	15,621	14,026
73,350	**73,400**	15,291	11,964	15,635	14,039
73,400	**73,450**	15,305	11,976	15,649	14,051
73,450	**73,500**	15,319	11,989	15,663	14,064
73,500	**73,550**	15,333	12,001	15,677	14,076
73,550	**73,600**	15,347	12,014	15,691	14,089
73,600	**73,650**	15,361	12,026	15,705	14,101
73,650	**73,700**	15,375	12,039	15,719	14,114
73,700	**73,750**	15,389	12,051	15,733	14,126
73,750	**73,800**	15,403	12,064	15,747	14,139
73,800	**73,850**	15,417	12,076	15,761	14,151
73,850	**73,900**	15,431	12,089	15,775	14,164
73,900	**73,950**	15,445	12,101	15,789	14,176
73,950	**74,000**	15,459	12,114	15,803	14,189
74,000					
74,000	**74,050**	15,473	12,126	15,817	14,201
74,050	**74,100**	15,487	12,139	15,831	14,214
74,100	**74,150**	15,501	12,151	15,845	14,226
74,150	**74,200**	15,515	12,164	15,859	14,239
74,200	**74,250**	15,529	12,176	15,873	14,251
74,250	**74,300**	15,543	12,189	15,887	14,264
74,300	**74,350**	15,557	12,201	15,901	14,276
74,350	**74,400**	15,571	12,214	15,915	14,289
74,400	**74,450**	15,585	12,226	15,929	14,301
74,450	**74,500**	15,599	12,239	15,943	14,314
74,500	**74,550**	15,613	12,251	15,957	14,326
74,550	**74,600**	15,627	12,264	15,971	14,339
74,600	**74,650**	15,641	12,276	15,985	14,351
74,650	**74,700**	15,655	12,289	15,999	14,364
74,700	**74,750**	15,669	12,301	16,013	14,376
74,750	**74,800**	15,683	12,314	16,027	14,389
74,800	**74,850**	15,697	12,326	16,041	14,401
74,850	**74,900**	15,711	12,339	16,055	14,414
74,900	**74,950**	15,725	12,351	16,069	14,426
74,950	**75,000**	15,739	12,364	16,083	14,439
75,000					
75,000	**75,050**	15,753	12,376	16,097	14,451
75,050	**75,100**	15,767	12,389	16,111	14,464
75,100	**75,150**	15,781	12,401	16,125	14,476
75,150	**75,200**	15,795	12,414	16,139	14,489
75,200	**75,250**	15,809	12,426	16,153	14,501
75,250	**75,300**	15,823	12,439	16,167	14,514
75,300	**75,350**	15,837	12,451	16,181	14,526
75,350	**75,400**	15,851	12,464	16,195	14,539
75,400	**75,450**	15,865	12,476	16,209	14,551
75,450	**75,500**	15,879	12,489	16,223	14,564
75,500	**75,550**	15,893	12,501	16,237	14,576
75,550	**75,600**	15,907	12,514	16,251	14,589
75,600	**75,650**	15,921	12,526	16,265	14,601
75,650	**75,700**	15,935	12,539	16,279	14,614
75,700	**75,750**	15,949	12,551	16,293	14,626
75,750	**75,800**	15,963	12,564	16,307	14,639
75,800	**75,850**	15,977	12,576	16,321	14,651
75,850	**75,900**	15,991	12,589	16,335	14,664
75,900	**75,950**	16,005	12,601	16,349	14,676
75,950	**76,000**	16,019	12,614	16,363	14,689
76,000					
76,000	**76,050**	16,033	12,626	16,377	14,701
76,050	**76,100**	16,047	12,639	16,391	14,714
76,100	**76,150**	16,061	12,651	16,405	14,726
76,150	**76,200**	16,075	12,664	16,419	14,739
76,200	**76,250**	16,089	12,676	16,433	14,751
76,250	**76,300**	16,103	12,689	16,447	14,764
76,300	**76,350**	16,117	12,701	16,461	14,776
76,350	**76,400**	16,131	12,714	16,475	14,789
76,400	**76,450**	16,145	12,726	16,489	14,801
76,450	**76,500**	16,159	12,739	16,503	14,814
76,500	**76,550**	16,173	12,751	16,517	14,826
76,550	**76,600**	16,187	12,764	16,531	14,839
76,600	**76,650**	16,201	12,776	16,545	14,851
76,650	**76,700**	16,215	12,789	16,559	14,864
76,700	**76,750**	16,229	12,801	16,573	14,876
76,750	**76,800**	16,243	12,814	16,587	14,889
76,800	**76,850**	16,257	12,826	16,601	14,901
76,850	**76,900**	16,271	12,839	16,615	14,914
76,900	**76,950**	16,285	12,851	16,629	14,926
76,950	**77,000**	16,299	12,864	16,643	14,939

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

(Continued on page 72)

2003 Tax Table—*Continued*

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
77,000					
77,000	**77,050**	16,313	12,876	16,657	14,951
77,050	**77,100**	16,327	12,889	16,671	14,964
77,100	**77,150**	16,341	12,901	16,685	14,976
77,150	**77,200**	16,355	12,914	16,699	14,989
77,200	**77,250**	16,369	12,926	16,713	15,001
77,250	**77,300**	16,383	12,939	16,727	15,014
77,300	**77,350**	16,397	12,951	16,741	15,026
77,350	**77,400**	16,411	12,964	16,755	15,039
77,400	**77,450**	16,425	12,976	16,769	15,051
77,450	**77,500**	16,439	12,989	16,783	15,064
77,500	**77,550**	16,453	13,001	16,797	15,076
77,550	**77,600**	16,467	13,014	16,811	15,089
77,600	**77,650**	16,481	13,026	16,825	15,101
77,650	**77,700**	16,495	13,039	16,839	15,114
77,700	**77,750**	16,509	13,051	16,853	15,126
77,750	**77,800**	16,523	13,064	16,867	15,139
77,800	**77,850**	16,537	13,076	16,881	15,151
77,850	**77,900**	16,551	13,089	16,895	15,164
77,900	**77,950**	16,565	13,101	16,909	15,176
77,950	**78,000**	16,579	13,114	16,923	15,189
78,000					
78,000	**78,050**	16,593	13,126	16,937	15,201
78,050	**78,100**	16,607	13,139	16,951	15,214
78,100	**78,150**	16,621	13,151	16,965	15,226
78,150	**78,200**	16,635	13,164	16,979	15,239
78,200	**78,250**	16,649	13,176	16,993	15,251
78,250	**78,300**	16,663	13,189	17,007	15,264
78,300	**78,350**	16,677	13,201	17,021	15,276
78,350	**78,400**	16,691	13,214	17,035	15,289
78,400	**78,450**	16,705	13,226	17,049	15,301
78,450	**78,500**	16,719	13,239	17,063	15,314
78,500	**78,550**	16,733	13,251	17,077	15,326
78,550	**78,600**	16,747	13,264	17,091	15,339
78,600	**78,650**	16,761	13,276	17,105	15,351
78,650	**78,700**	16,775	13,289	17,119	15,364
78,700	**78,750**	16,789	13,301	17,133	15,376
78,750	**78,800**	16,803	13,314	17,147	15,389
78,800	**78,850**	16,817	13,326	17,161	15,401
78,850	**78,900**	16,831	13,339	17,175	15,414
78,900	**78,950**	16,845	13,351	17,189	15,426
78,950	**79,000**	16,859	13,364	17,203	15,439
79,000					
79,000	**79,050**	16,873	13,376	17,217	15,451
79,050	**79,100**	16,887	13,389	17,231	15,464
79,100	**79,150**	16,901	13,401	17,245	15,476
79,150	**79,200**	16,915	13,414	17,259	15,489
79,200	**79,250**	16,929	13,426	17,273	15,501
79,250	**79,300**	16,943	13,439	17,287	15,514
79,300	**79,350**	16,957	13,451	17,301	15,526
79,350	**79,400**	16,971	13,464	17,315	15,539
79,400	**79,450**	16,985	13,476	17,329	15,551
79,450	**79,500**	16,999	13,489	17,343	15,564
79,500	**79,550**	17,013	13,501	17,357	15,576
79,550	**79,600**	17,027	13,514	17,371	15,589
79,600	**79,650**	17,041	13,526	17,385	15,601
79,650	**79,700**	17,055	13,539	17,399	15,614
79,700	**79,750**	17,069	13,551	17,413	15,626
79,750	**79,800**	17,083	13,564	17,427	15,639
79,800	**79,850**	17,097	13,576	17,441	15,651
79,850	**79,900**	17,111	13,589	17,455	15,664
79,900	**79,950**	17,125	13,601	17,469	15,676
79,950	**80,000**	17,139	13,614	17,483	15,689
80,000					
80,000	**80,050**	17,153	13,626	17,497	15,701
80,050	**80,100**	17,167	13,639	17,511	15,714
80,100	**80,150**	17,181	13,651	17,525	15,726
80,150	**80,200**	17,195	13,664	17,539	15,739
80,200	**80,250**	17,209	13,676	17,553	15,751
80,250	**80,300**	17,223	13,689	17,567	15,764
80,300	**80,350**	17,237	13,701	17,581	15,776
80,350	**80,400**	17,251	13,714	17,595	15,789
80,400	**80,450**	17,265	13,726	17,609	15,801
80,450	**80,500**	17,279	13,739	17,623	15,814
80,500	**80,550**	17,293	13,751	17,637	15,826
80,550	**80,600**	17,307	13,764	17,651	15,839
80,600	**80,650**	17,321	13,776	17,665	15,851
80,650	**80,700**	17,335	13,789	17,679	15,864
80,700	**80,750**	17,349	13,801	17,693	15,876
80,750	**80,800**	17,363	13,814	17,707	15,889
80,800	**80,850**	17,377	13,826	17,721	15,901
80,850	**80,900**	17,391	13,839	17,735	15,914
80,900	**80,950**	17,405	13,851	17,749	15,926
80,950	**81,000**	17,419	13,864	17,763	15,939
81,000					
81,000	**81,050**	17,433	13,876	17,777	15,951
81,050	**81,100**	17,447	13,889	17,791	15,964
81,100	**81,150**	17,461	13,901	17,805	15,976
81,150	**81,200**	17,475	13,914	17,819	15,989
81,200	**81,250**	17,489	13,926	17,833	16,001
81,250	**81,300**	17,503	13,939	17,847	16,014
81,300	**81,350**	17,517	13,951	17,861	16,026
81,350	**81,400**	17,531	13,964	17,875	16,039
81,400	**81,450**	17,545	13,976	17,889	16,051
81,450	**81,500**	17,559	13,989	17,903	16,064
81,500	**81,550**	17,573	14,001	17,917	16,076
81,550	**81,600**	17,587	14,014	17,931	16,089
81,600	**81,650**	17,601	14,026	17,945	16,101
81,650	**81,700**	17,615	14,039	17,959	16,114
81,700	**81,750**	17,629	14,051	17,973	16,126
81,750	**81,800**	17,643	14,064	17,987	16,139
81,800	**81,850**	17,657	14,076	18,001	16,151
81,850	**81,900**	17,671	14,089	18,015	16,164
81,900	**81,950**	17,685	14,101	18,029	16,176
81,950	**82,000**	17,699	14,114	18,043	16,189
82,000					
82,000	**82,050**	17,713	14,126	18,057	16,201
82,050	**82,100**	17,727	14,139	18,071	16,214
82,100	**82,150**	17,741	14,151	18,085	16,226
82,150	**82,200**	17,755	14,164	18,099	16,239
82,200	**82,250**	17,769	14,176	18,113	16,251
82,250	**82,300**	17,783	14,189	18,127	16,264
82,300	**82,350**	17,797	14,201	18,141	16,276
82,350	**82,400**	17,811	14,214	18,155	16,289
82,400	**82,450**	17,825	14,226	18,169	16,301
82,450	**82,500**	17,839	14,239	18,183	16,314
82,500	**82,550**	17,853	14,251	18,197	16,326
82,550	**82,600**	17,867	14,264	18,211	16,339
82,600	**82,650**	17,881	14,276	18,225	16,351
82,650	**82,700**	17,895	14,289	18,239	16,364
82,700	**82,750**	17,909	14,301	18,253	16,376
82,750	**82,800**	17,923	14,314	18,267	16,389
82,800	**82,850**	17,937	14,326	18,281	16,401
82,850	**82,900**	17,951	14,339	18,295	16,414
82,900	**82,950**	17,965	14,351	18,309	16,426
82,950	**83,000**	17,979	14,364	18,323	16,439
83,000					
83,000	**83,050**	17,993	14,376	18,337	16,451
83,050	**83,100**	18,007	14,389	18,351	16,464
83,100	**83,150**	18,021	14,401	18,365	16,476
83,150	**83,200**	18,035	14,414	18,379	16,489
83,200	**83,250**	18,049	14,426	18,393	16,501
83,250	**83,300**	18,063	14,439	18,407	16,514
83,300	**83,350**	18,077	14,451	18,421	16,526
83,350	**83,400**	18,091	14,464	18,435	16,539
83,400	**83,450**	18,105	14,476	18,449	16,551
83,450	**83,500**	18,119	14,489	18,463	16,564
83,500	**83,550**	18,133	14,501	18,477	16,576
83,550	**83,600**	18,147	14,514	18,491	16,589
83,600	**83,650**	18,161	14,526	18,505	16,601
83,650	**83,700**	18,175	14,539	18,519	16,614
83,700	**83,750**	18,189	14,551	18,533	16,626
83,750	**83,800**	18,203	14,564	18,547	16,639
83,800	**83,850**	18,217	14,576	18,561	16,651
83,850	**83,900**	18,231	14,589	18,575	16,664
83,900	**83,950**	18,245	14,601	18,589	16,676
83,950	**84,000**	18,259	14,614	18,603	16,689
84,000					
84,000	**84,050**	18,273	14,626	18,617	16,701
84,050	**84,100**	18,287	14,639	18,631	16,714
84,100	**84,150**	18,301	14,651	18,645	16,726
84,150	**84,200**	18,315	14,664	18,659	16,739
84,200	**84,250**	18,329	14,676	18,673	16,751
84,250	**84,300**	18,343	14,689	18,687	16,764
84,300	**84,350**	18,357	14,701	18,701	16,776
84,350	**84,400**	18,371	14,714	18,715	16,789
84,400	**84,450**	18,385	14,726	18,729	16,801
84,450	**84,500**	18,399	14,739	18,743	16,814
84,500	**84,550**	18,413	14,751	18,757	16,826
84,550	**84,600**	18,427	14,764	18,771	16,839
84,600	**84,650**	18,441	14,776	18,785	16,851
84,650	**84,700**	18,455	14,789	18,799	16,864
84,700	**84,750**	18,469	14,801	18,813	16,876
84,750	**84,800**	18,483	14,814	18,827	16,889
84,800	**84,850**	18,497	14,826	18,841	16,901
84,850	**84,900**	18,511	14,839	18,855	16,914
84,900	**84,950**	18,525	14,851	18,869	16,926
84,950	**85,000**	18,539	14,864	18,883	16,939
85,000					
85,000	**85,050**	18,553	14,876	18,897	16,951
85,050	**85,100**	18,567	14,889	18,911	16,964
85,100	**85,150**	18,581	14,901	18,925	16,976
85,150	**85,200**	18,595	14,914	18,939	16,989
85,200	**85,250**	18,609	14,926	18,953	17,001
85,250	**85,300**	18,623	14,939	18,967	17,014
85,300	**85,350**	18,637	14,951	18,981	17,026
85,350	**85,400**	18,651	14,964	18,995	17,039
85,400	**85,450**	18,665	14,976	19,009	17,051
85,450	**85,500**	18,679	14,989	19,023	17,064
85,500	**85,550**	18,693	15,001	19,037	17,076
85,550	**85,600**	18,707	15,014	19,051	17,089
85,600	**85,650**	18,721	15,026	19,065	17,101
85,650	**85,700**	18,735	15,039	19,079	17,114
85,700	**85,750**	18,749	15,051	19,093	17,126
85,750	**85,800**	18,763	15,064	19,107	17,139
85,800	**85,850**	18,777	15,076	19,121	17,151
85,850	**85,900**	18,791	15,089	19,135	17,164
85,900	**85,950**	18,805	15,101	19,149	17,176
85,950	**86,000**	18,819	15,114	19,163	17,189

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

(Continued on page 73)

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
86,000					
86,000	86,050	18,833	15,126	19,177	17,201
86,050	86,100	18,847	15,139	19,191	17,214
86,100	86,150	18,861	15,151	19,205	17,226
86,150	86,200	18,875	15,164	19,219	17,239
86,200	86,250	18,889	15,176	19,233	17,251
86,250	86,300	18,903	15,189	19,247	17,264
86,300	86,350	18,917	15,201	19,261	17,276
86,350	86,400	18,931	15,214	19,275	17,289
86,400	86,450	18,945	15,226	19,289	17,301
86,450	86,500	18,959	15,239	19,303	17,314
86,500	86,550	18,973	15,251	19,317	17,326
86,550	86,600	18,987	15,264	19,331	17,339
86,600	86,650	19,001	15,276	19,345	17,351
86,650	86,700	19,015	15,289	19,359	17,364
86,700	86,750	19,029	15,301	19,373	17,376
86,750	86,800	19,043	15,314	19,387	17,389
86,800	86,850	19,057	15,326	19,401	17,401
86,850	86,900	19,071	15,339	19,415	17,414
86,900	86,950	19,085	15,351	19,429	17,426
86,950	87,000	19,099	15,364	19,443	17,439
87,000					
87,000	87,050	19,113	15,376	19,457	17,451
87,050	87,100	19,127	15,389	19,471	17,464
87,100	87,150	19,141	15,401	19,485	17,476
87,150	87,200	19,155	15,414	19,499	17,489
87,200	87,250	19,169	15,426	19,513	17,501
87,250	87,300	19,183	15,439	19,527	17,514
87,300	87,350	19,197	15,451	19,541	17,526
87,350	87,400	19,211	15,464	19,557	17,539
87,400	87,450	19,225	15,476	19,573	17,551
87,450	87,500	19,239	15,489	19,590	17,564
87,500	87,550	19,253	15,501	19,606	17,576
87,550	87,600	19,267	15,514	19,623	17,589
87,600	87,650	19,281	15,526	19,639	17,601
87,650	87,700	19,295	15,539	19,656	17,614
87,700	87,750	19,309	15,551	19,672	17,626
87,750	87,800	19,323	15,564	19,689	17,639
87,800	87,850	19,337	15,576	19,705	17,651
87,850	87,900	19,351	15,589	19,722	17,664
87,900	87,950	19,365	15,601	19,738	17,676
87,950	88,000	19,379	15,614	19,755	17,689
88,000					
88,000	88,050	19,393	15,626	19,771	17,701
88,050	88,100	19,407	15,639	19,788	17,714
88,100	88,150	19,421	15,651	19,804	17,726
88,150	88,200	19,435	15,664	19,821	17,739
88,200	88,250	19,449	15,676	19,837	17,751
88,250	88,300	19,463	15,689	19,854	17,764
88,300	88,350	19,477	15,701	19,870	17,776
88,350	88,400	19,491	15,714	19,887	17,789
88,400	88,450	19,505	15,726	19,903	17,801
88,450	88,500	19,519	15,739	19,920	17,814
88,500	88,550	19,533	15,751	19,936	17,826
88,550	88,600	19,547	15,764	19,953	17,839
88,600	88,650	19,561	15,776	19,969	17,851
88,650	88,700	19,575	15,789	19,986	17,864
88,700	88,750	19,589	15,801	20,002	17,876
88,750	88,800	19,603	15,814	20,019	17,889
88,800	88,850	19,617	15,826	20,035	17,901
88,850	88,900	19,631	15,839	20,052	17,914
88,900	88,950	19,645	15,851	20,068	17,926
88,950	89,000	19,659	15,864	20,085	17,939

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
89,000					
89,000	89,050	19,673	15,876	20,101	17,951
89,050	89,100	19,687	15,889	20,118	17,964
89,100	89,150	19,701	15,901	20,134	17,976
89,150	89,200	19,715	15,914	20,151	17,989
89,200	89,250	19,729	15,926	20,167	18,001
89,250	89,300	19,743	15,939	20,184	18,014
89,300	89,350	19,757	15,951	20,200	18,026
89,350	89,400	19,771	15,964	20,217	18,039
89,400	89,450	19,785	15,976	20,233	18,051
89,450	89,500	19,799	15,989	20,250	18,064
89,500	89,550	19,813	16,001	20,266	18,076
89,550	89,600	19,827	16,014	20,283	18,089
89,600	89,650	19,841	16,026	20,299	18,101
89,650	89,700	19,855	16,039	20,316	18,114
89,700	89,750	19,869	16,051	20,332	18,126
89,750	89,800	19,883	16,064	20,349	18,139
89,800	89,850	19,897	16,076	20,365	18,151
89,850	89,900	19,911	16,089	20,382	18,164
89,900	89,950	19,925	16,101	20,398	18,176
89,950	90,000	19,939	16,114	20,415	18,189
90,000					
90,000	90,050	19,953	16,126	20,431	18,201
90,050	90,100	19,967	16,139	20,448	18,214
90,100	90,150	19,981	16,151	20,464	18,226
90,150	90,200	19,995	16,164	20,481	18,239
90,200	90,250	20,009	16,176	20,497	18,251
90,250	90,300	20,023	16,189	20,514	18,264
90,300	90,350	20,037	16,201	20,530	18,276
90,350	90,400	20,051	16,214	20,547	18,289
90,400	90,450	20,065	16,226	20,563	18,301
90,450	90,500	20,079	16,239	20,580	18,314
90,500	90,550	20,093	16,251	20,596	18,326
90,550	90,600	20,107	16,264	20,613	18,339
90,600	90,650	20,121	16,276	20,629	18,351
90,650	90,700	20,135	16,289	20,646	18,364
90,700	90,750	20,149	16,301	20,662	18,376
90,750	90,800	20,163	16,314	20,679	18,389
90,800	90,850	20,177	16,326	20,695	18,401
90,850	90,900	20,191	16,339	20,712	18,414
90,900	90,950	20,205	16,351	20,728	18,426
90,950	91,000	20,219	16,364	20,745	18,439
91,000					
91,000	91,050	20,233	16,376	20,761	18,451
91,050	91,100	20,247	16,389	20,778	18,464
91,100	91,150	20,261	16,401	20,794	18,476
91,150	91,200	20,275	16,414	20,811	18,489
91,200	91,250	20,289	16,426	20,827	18,501
91,250	91,300	20,303	16,439	20,844	18,514
91,300	91,350	20,317	16,451	20,860	18,526
91,350	91,400	20,331	16,464	20,877	18,539
91,400	91,450	20,345	16,476	20,893	18,551
91,450	91,500	20,359	16,489	20,910	18,564
91,500	91,550	20,373	16,501	20,926	18,576
91,550	91,600	20,387	16,514	20,943	18,589
91,600	91,650	20,401	16,526	20,959	18,601
91,650	91,700	20,415	16,539	20,976	18,614
91,700	91,750	20,429	16,551	20,992	18,626
91,750	91,800	20,443	16,564	21,009	18,639
91,800	91,850	20,457	16,576	21,025	18,651
91,850	91,900	20,471	16,589	21,042	18,664
91,900	91,950	20,485	16,601	21,058	18,676
91,950	92,000	20,499	16,614	21,075	18,689

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
92,000					
92,000	92,050	20,513	16,626	21,091	18,701
92,050	92,100	20,527	16,639	21,108	18,714
92,100	92,150	20,541	16,651	21,124	18,726
92,150	92,200	20,555	16,664	21,141	18,739
92,200	92,250	20,569	16,676	21,157	18,751
92,250	92,300	20,583	16,689	21,174	18,764
92,300	92,350	20,597	16,701	21,190	18,776
92,350	92,400	20,611	16,714	21,207	18,789
92,400	92,450	20,625	16,726	21,223	18,801
92,450	92,500	20,639	16,739	21,240	18,814
92,500	92,550	20,653	16,751	21,256	18,826
92,550	92,600	20,667	16,764	21,273	18,839
92,600	92,650	20,681	16,776	21,289	18,851
92,650	92,700	20,695	16,789	21,306	18,864
92,700	92,750	20,709	16,801	21,322	18,876
92,750	92,800	20,723	16,814	21,339	18,889
92,800	92,850	20,737	16,826	21,355	18,901
92,850	92,900	20,751	16,839	21,372	18,914
92,900	92,950	20,765	16,851	21,388	18,926
92,950	93,000	20,779	16,864	21,405	18,939
93,000					
93,000	93,050	20,793	16,876	21,421	18,951
93,050	93,100	20,807	16,889	21,438	18,964
93,100	93,150	20,821	16,901	21,454	18,976
93,150	93,200	20,835	16,914	21,471	18,989
93,200	93,250	20,849	16,926	21,487	19,001
93,250	93,300	20,863	16,939	21,504	19,014
93,300	93,350	20,877	16,951	21,520	19,026
93,350	93,400	20,891	16,964	21,537	19,039
93,400	93,450	20,905	16,976	21,553	19,051
93,450	93,500	20,919	16,989	21,570	19,064
93,500	93,550	20,933	17,001	21,586	19,076
93,550	93,600	20,947	17,014	21,603	19,089
93,600	93,650	20,961	17,026	21,619	19,101
93,650	93,700	20,975	17,039	21,636	19,114
93,700	93,750	20,989	17,051	21,652	19,126
93,750	93,800	21,003	17,064	21,669	19,139
93,800	93,850	21,017	17,076	21,685	19,151
93,850	93,900	21,031	17,089	21,702	19,164
93,900	93,950	21,045	17,101	21,718	19,176
93,950	94,000	21,059	17,114	21,735	19,189
94,000					
94,000	94,050	21,073	17,126	21,751	19,201
94,050	94,100	21,087	17,139	21,768	19,214
94,100	94,150	21,101	17,151	21,784	19,226
94,150	94,200	21,115	17,164	21,801	19,239
94,200	94,250	21,129	17,176	21,817	19,251
94,250	94,300	21,143	17,189	21,834	19,264
94,300	94,350	21,157	17,201	21,850	19,276
94,350	94,400	21,171	17,214	21,867	19,289
94,400	94,450	21,185	17,226	21,883	19,301
94,450	94,500	21,199	17,239	21,900	19,314
94,500	94,550	21,213	17,251	21,916	19,326
94,550	94,600	21,227	17,264	21,933	19,339
94,600	94,650	21,241	17,276	21,949	19,351
94,650	94,700	21,255	17,289	21,966	19,364
94,700	94,750	21,269	17,301	21,982	19,376
94,750	94,800	21,283	17,314	21,999	19,389
94,800	94,850	21,297	17,326	22,015	19,401
94,850	94,900	21,311	17,339	22,032	19,414
94,900	94,950	21,325	17,351	22,048	19,426
94,950	95,000	21,339	17,364	22,065	19,439

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

(Continued on page 74)

2003 Tax Table—*Continued*

If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
95,000					
95,000	**95,050**	21,353	17,376	22,081	19,451
95,050	**95,100**	21,367	17,389	22,098	19,464
95,100	**95,150**	21,381	17,401	22,114	19,476
95,150	**95,200**	21,395	17,414	22,131	19,489
95,200	**95,250**	21,409	17,426	22,147	19,501
95,250	**95,300**	21,423	17,439	22,164	19,514
95,300	**95,350**	21,437	17,451	22,180	19,526
95,350	**95,400**	21,451	17,464	22,197	19,539
95,400	**95,450**	21,465	17,476	22,213	19,551
95,450	**95,500**	21,479	17,489	22,230	19,564
95,500	**95,550**	21,493	17,501	22,246	19,576
95,550	**95,600**	21,507	17,514	22,263	19,589
95,600	**95,650**	21,521	17,526	22,279	19,601
95,650	**95,700**	21,535	17,539	22,296	19,614
95,700	**95,750**	21,549	17,551	22,312	19,626
95,750	**95,800**	21,563	17,564	22,329	19,639
95,800	**95,850**	21,577	17,576	22,345	19,651
95,850	**95,900**	21,591	17,589	22,362	19,664
95,900	**95,950**	21,605	17,601	22,378	19,676
95,950	**96,000**	21,619	17,614	22,395	19,689
96,000					
96,000	**96,050**	21,633	17,626	22,411	19,701
96,050	**96,100**	21,647	17,639	22,428	19,714
96,100	**96,150**	21,661	17,651	22,444	19,726
96,150	**96,200**	21,675	17,664	22,461	19,739
96,200	**96,250**	21,689	17,676	22,477	19,751
96,250	**96,300**	21,703	17,689	22,494	19,764
96,300	**96,350**	21,717	17,701	22,510	19,776
96,350	**96,400**	21,731	17,714	22,527	19,789
96,400	**96,450**	21,745	17,726	22,543	19,801
96,450	**96,500**	21,759	17,739	22,560	19,814
96,500	**96,550**	21,773	17,751	22,576	19,826
96,550	**96,600**	21,787	17,764	22,593	19,839
96,600	**96,650**	21,801	17,776	22,609	19,851
96,650	**96,700**	21,815	17,789	22,626	19,864
96,700	**96,750**	21,829	17,801	22,642	19,876
96,750	**96,800**	21,843	17,814	22,659	19,889
96,800	**96,850**	21,857	17,826	22,675	19,901
96,850	**96,900**	21,871	17,839	22,692	19,914
96,900	**96,950**	21,885	17,851	22,708	19,926
96,950	**97,000**	21,899	17,864	22,725	19,939
97,000					
97,000	**97,050**	21,913	17,876	22,741	19,951
97,050	**97,100**	21,927	17,889	22,758	19,964
97,100	**97,150**	21,941	17,901	22,774	19,976
97,150	**97,200**	21,955	17,914	22,791	19,989
97,200	**97,250**	21,969	17,926	22,807	20,001
97,250	**97,300**	21,983	17,939	22,824	20,014
97,300	**97,350**	21,997	17,951	22,840	20,026
97,350	**97,400**	22,011	17,964	22,857	20,039
97,400	**97,450**	22,025	17,976	22,873	20,051
97,450	**97,500**	22,039	17,989	22,890	20,064
97,500	**97,550**	22,053	18,001	22,906	20,076
97,550	**97,600**	22,067	18,014	22,923	20,089
97,600	**97,650**	22,081	18,026	22,939	20,101
97,650	**97,700**	22,095	18,039	22,956	20,114
97,700	**97,750**	22,109	18,051	22,972	20,126
97,750	**97,800**	22,123	18,064	22,989	20,139
97,800	**97,850**	22,137	18,076	23,005	20,151
97,850	**97,900**	22,151	18,089	23,022	20,164
97,900	**97,950**	22,165	18,101	23,038	20,176
97,950	**98,000**	22,179	18,114	23,055	20,189
98,000					
98,000	**98,050**	22,193	18,126	23,071	20,201
98,050	**98,100**	22,207	18,139	23,088	20,214
98,100	**98,150**	22,221	18,151	23,104	20,226
98,150	**98,200**	22,235	18,164	23,121	20,239
98,200	**98,250**	22,249	18,176	23,137	20,251
98,250	**98,300**	22,263	18,189	23,154	20,265
98,300	**98,350**	22,277	18,201	23,170	20,279
98,350	**98,400**	22,291	18,214	23,187	20,293
98,400	**98,450**	22,305	18,226	23,203	20,307
98,450	**98,500**	22,319	18,239	23,220	20,321
98,500	**98,550**	22,333	18,251	23,236	20,335
98,550	**98,600**	22,347	18,264	23,253	20,349
98,600	**98,650**	22,361	18,276	23,269	20,363
98,650	**98,700**	22,375	18,289	23,286	20,377
98,700	**98,750**	22,389	18,301	23,302	20,391
98,750	**98,800**	22,403	18,314	23,319	20,405
98,800	**98,850**	22,417	18,326	23,335	20,419
98,850	**98,900**	22,431	18,339	23,352	20,433
98,900	**98,950**	22,445	18,351	23,368	20,447
98,950	**99,000**	22,459	18,364	23,385	20,461
99,000					
99,000	**99,050**	22,473	18,376	23,401	20,475
99,050	**99,100**	22,487	18,389	23,418	20,489
99,100	**99,150**	22,501	18,401	23,434	20,503
99,150	**99,200**	22,515	18,414	23,451	20,517
99,200	**99,250**	22,529	18,426	23,467	20,531
99,250	**99,300**	22,543	18,439	23,484	20,545
99,300	**99,350**	22,557	18,451	23,500	20,559
99,350	**99,400**	22,571	18,464	23,517	20,573
99,400	**99,450**	22,585	18,476	23,533	20,587
99,450	**99,500**	22,599	18,489	23,550	20,601
99,500	**99,550**	22,613	18,501	23,566	20,615
99,550	**99,600**	22,627	18,514	23,583	20,629
99,600	**99,650**	22,641	18,526	23,599	20,643
99,650	**99,700**	22,655	18,539	23,616	20,657
99,700	**99,750**	22,669	18,551	23,632	20,671
99,750	**99,800**	22,683	18,564	23,649	20,685
99,800	**99,850**	22,697	18,576	23,665	20,699
99,850	**99,900**	22,711	18,589	23,682	20,713
99,900	**99,950**	22,725	18,601	23,698	20,727
99,950	**100,000**	22,739	18,614	23,715	20,741

$100,000
or over —
use the
Tax Rate
Schedules
on page 75

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

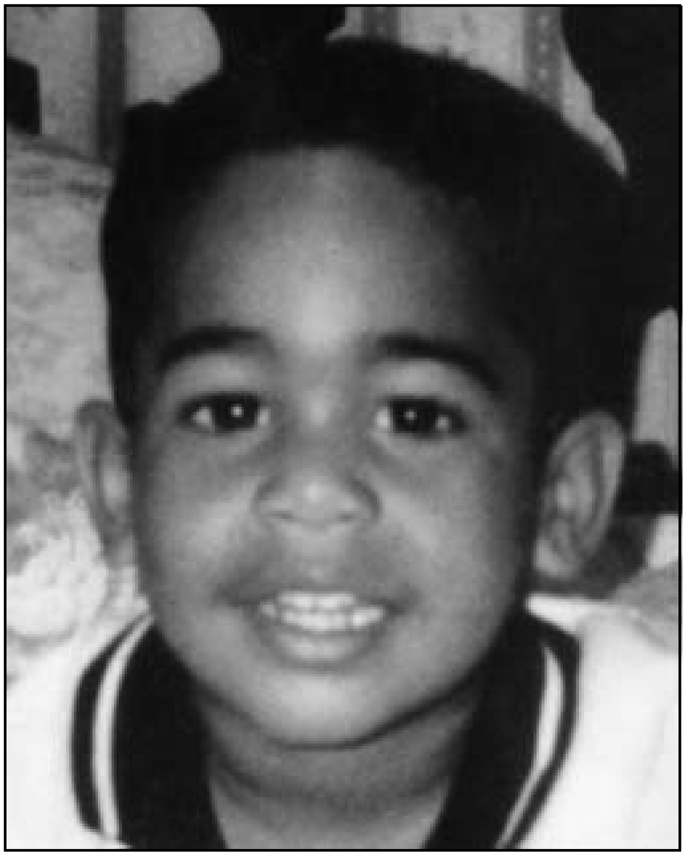
INDEX

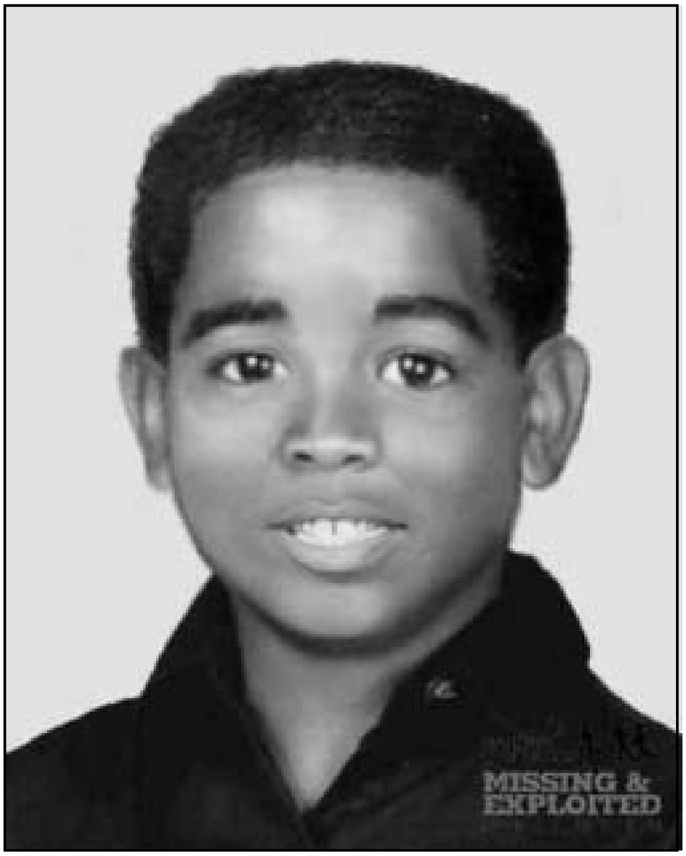
Appendix E

Help Us To

Picture Them Home

Lamoine Allen





Male, Age Now: 14
Brown eyes, Black hair

Age Progression By NCMEC

Missing From: Woodville, MS on 05/10/1992

National Center for Missing and Exploited Children

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