26 CFR 601.602. Tax forms and instructions.
(Also, Part I, §§ 1, 23, 24, 25A, 32, 42, 59, 62, 63, 68, 132, 135, 137, 146, 1.148–5, 151, 170, 179, 213, 220, 221, 223, 512, 513, 685, 877, 2032A, 2503, 2523, 4261, 6033, 6039F, 6323, 6334, 6601, 7430, 7702B.)

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SECTION 1. PURPOSE

This revenue procedure sets forth inflation adjusted items for 2005.

SECTION 2. CHANGES

.01 The amounts in § 1.148–5(e)(2)(iii)(B)(1) of the Income Tax Regulations used to determine whether a broker's commission or similar fee with respect to the acquisition of a guaranteed investment contract or investments purchased for a yield restricted defeasance escrow is reasonable under § 1.148–5(e)(2)(i) are adjusted for inflation. (Section 3.16).

.02 The amounts in § 223(b)(2) of the Internal Revenue Code used to determine the monthly limitation on deductions for health savings accounts under § 223(a) are adjusted for inflation. The amounts in § 223(c)(2)(A) used to determine whether a health plan meets the definition of a high deductible health plan are adjusted for inflation. (Section 3.22).

.03 The new "net worth" amount in § 877(a)(2)(B) used to determine whether an individual who ceased to be a U.S. citizen or long-term resident is subject to the special rules of § 877 is not adjusted for inflation. (Section 3.26).

SECTION 3. 2005 ADJUSTED ITEMS

.01 *Tax Rate Tables*. For taxable years beginning in 2005, the tax rate tables under § 1 are as follows:

TABLE 1 — Section 1(a). — Married Individuals Filing Joint Returns and Surviving Spouses

If Taxable Income Is:	*The Tax Is*:
Not Over $14,600	10% of the taxable income
Over $14,600 but not over $59,400	$1,460 plus 15% of the excess over $14,600
Over $59,400 but not over $119,950	$8,180 plus 25% of the excess over $59,400
Over $119,950 but not over $182,800	$23,317.50 plus 28% of the excess over $119,950
Over $182,800 but not over $326,450	$40,915.50 plus 33% of the excess over $182,800
Over $326,450	$88,320 plus 35% of the excess over $326,450

TABLE 2 — Section 1(b). — Heads of Households

If Taxable Income Is:	*The Tax Is*:
Not Over $10,450	10% of the taxable income
Over $10,450 but not over $39,800	$1,045 plus 15% of the excess over $10,450
Over $39,800 but not over $102,800	$5,447.50 plus 25% of the excess over $39,800
Over $102,800 but not over $166,450	$21,197.50 plus 28% of the excess over $102,800
Over $166,450 but not over $326,450	$39,019.50 plus 33% of the excess over $166,450
Over $326,450	$91,819.50 plus 35% of the excess over $326,450

TABLE 3 — Section 1(c). — Unmarried Individuals (other than Surviving Spouse and Heads of Households).

If Taxable Income Is:	*The Tax Is*:
Not Over $7,300	10% of the taxable income
Over $7,300 but not over $29,700	$730 plus 15% of the excess over $7,300
Over $29,700 but not over $71,950	$4,090 plus 25% of the excess over $29,700
Over $71,950 but not over $150,150	$14,652.50 plus 28% of the excess over $71,950
Over $150,150 but not over $326,450	$36,548.50 plus 33% of the excess over $150,150
Over $326,450	$94,727.50 plus 35% of the excess over $326,450

TABLE 4 — Section 1(d). — Married Individuals Filing Separate Returns

If Taxable Income Is:	*The Tax Is*:
Not Over $7,300	10% of the taxable income
Over $7,300 but not over $29,700	$730 plus 15% of the excess over $7,300
Over $29,700 but not over $59,975	$4,090 plus 25% of the excess over $29,700
Over $59,975 but not over $91,400	$11,658.75 plus 28% of the excess over $59,975
Over $91,400 but not over $163,225	$20,457.75 plus 33% of the excess over $91,400
Over $163,225	$44,160 plus 35% of the excess over $163,225

TABLE 5 — Section 1(e). — Estates and Trusts

If Taxable Income Is:	*The Tax Is*:
Not Over $2,000	15% of the taxable income
Over $2,000 but not over $4,700	$300 plus 25% of the excess over $2,000
Over $4,700 but not over $7,150	$975 plus 28% of the excess over $4,700
Over $7,150 but not over $9,750	$1,661 plus 33% of the excess over $7,150
Over $9,750	$2,519 plus 35% of the excess over $9,750

.02 *Unearned Income of Minor Children Taxed as if Parent's Income (the "Kiddie Tax").* For taxable years beginning in 2005, the amount in § 1(g)(4)(A)(ii)(I), which is used to reduce the net unearned income reported on the child's return that is subject to the "kiddie tax," is $800. (This amount is the same as the $800 standard deduction amount provided in section 3.10(2) of this revenue procedure.) The same $800 amount is used for purposes of § 1(g)(7) (that is, in determining whether a parent may elect to include a child's gross income in the parent's gross income and for calculating the "kiddie tax"). For example, one of the requirements for the parental election is that a child's gross income is more than the amount referenced in § 1(g)(4)(A)(ii)(I) but less than 10 times such amount; thus, a child's gross income for 2005 must be more than $800 but less than $8,000 to satisfy that requirement.

.03 *Adoption Credit.* For taxable years beginning in 2005, under § 23(a)(3) the maximum credit allowed for an adoption of a child with special needs is $10,630. For taxable years beginning in 2005, under § 23(b)(1) the maximum credit allowed with regard to other adoptions is the amount of qualified adoption expenses up to $10,630. The available adoption credit begins to phase out under § 23(b)(2)(A) for taxpayers with modified adjusted gross income in excess of $159,450 and is completely phased out for taxpayers with modified adjusted gross income of $199,450. (See section 3.14 of this revenue procedure for the adjusted items relating to adoption assistance programs.)

.04 *Child Tax Credit.* For taxable years beginning in 2005, the value used in § 24(d)(1)(B)(i) in determining the amount of credit under § 24 that may be refundable is $11,000.

.05 *Hope and Lifetime Learning Credits.*

(1) For taxable years beginning in 2005, 100 percent of qualified tuition and related expenses not in excess of $1,000 and 50 percent of such expenses in excess of $1,000 are taken into account in determining the amount of the Hope Scholarship Credit under § 25A(b)(1).

(2) For taxable years beginning in 2005, a taxpayer's modified adjusted gross income in excess of $43,000

($87,000 for a joint return) is taken into account in determining the reduction under § 25A(d)(2)(A)(ii) in the amount of the Hope Scholarship and Lifetime Learning Credits otherwise allowable under § 25A(a).

.06 *Earned Income Credit.*

(1) *In general.* For taxable years beginning in 2005, the following amounts are used to determine the earned income credit under § 32(b). The "earned income amount" is the amount of earned income at or above which the maximum amount of the earned income credit is allowed. The "threshold phaseout amount" is the amount of adjusted gross income (or, if greater, earned income) above which the maximum amount of the credit begins to phase out. The "completed phaseout amount" is the amount of adjusted gross income (or if greater, earned income) at or above which no credit is allowed.

	Number of Qualifying Children		
Item	*One*	*Two or More*	*None*
Earned Income Amount	$ 7,830	$11,000	$ 5,220
Maximum Amount of Credit	$ 2,662	$ 4,400	$ 399
Threshold Phaseout Amount (Single, Surviving Spouse, or Head of Household)	$14,370	$14,370	$ 6,530
Completed Phaseout Amount (Single, Surviving Spouse, or Head of Household)	$31,030	$35,263	$11,750
Threshold Phaseout Amount (Married Filing Jointly)	$16,370	$16,370	$ 8,530
Completed Phaseout Amount (Married Filing Jointly)	$33,030	$37,263	$13,750

The instructions for the Form 1040 series provide tables showing the amount of the earned income credit for each type of taxpayer.

(2) *Excessive investment income.* For taxable years beginning in 2005, the earned income tax credit is denied under § 32(i) if the aggregate amount of certain investment income exceeds $2,700.

.07 *Low-Income Housing Credit.* For calendar years beginning in 2005, the amounts used under § 42(h)(3)(C)(ii) to calculate the State housing credit ceiling for the low-income housing credit is the greater of (i) $1.85 multiplied by the State population, or (ii) $2,125,000.

.08 *Alternative Minimum Tax Exemption for a Child Subject to the "Kiddie Tax."* For taxable years beginning in 2005, for a child to whom the § 1(g) "kiddie tax" applies, the exemption amount under §§ 55 and 59(j) for purposes of the alternative minimum tax under § 55 may not exceed the sum of (i) such child's earned income for the taxable year, plus (ii) $5,850.

.09 *Transportation Mainline Pipeline Construction Industry Optional Expense Substantiation Rules for Payments to Employees under Accountable Plans.* For calendar years beginning in 2005, an eligible employer may pay certain welders and heavy equipment mechanics an amount of up to $13 per hour for rig-related expenses that is deemed substantiated under an accountable plan when paid in accordance with Rev. Proc. 2002–41. If the employer provides fuel or otherwise reimburses fuel expenses, up to $8 per hour is deemed substantiated when paid under Rev. Proc. 2002–41.

.10 *Standard Deduction.*

(1) *In general.* For taxable years beginning in 2005, the standard deduction amounts under § 63(c)(2) are as follows:

Filing Status	*Standard Deduction*
Married Individuals Filing Joint Returns and Surviving Spouses (§ 1(a))	$10,000
Heads of Households (§ 1(b))	$ 7,300
Unmarried Individuals (other than Surviving Spouses and Heads of Households) (§ 1(c))	$ 5,000
Married Individuals Filing Separate Returns (§ 1(d))	$ 5,000

(2) *Dependent.* For taxable years beginning in 2005, the standard deduction amount under § 63(c)(5) for an individual who may be claimed as a dependent by another taxpayer may not exceed the greater of (i) $800, or (ii) the sum of $250 and the individual's earned income.

(3) *Aged and blind.* For taxable years beginning in 2005, the additional standard deduction amounts under § 63(f) for the aged and for the blind are $1,000 for each.

These amounts are increased to $1,250 if the individual is also unmarried and not a surviving spouse.

.11 *Overall Limitation on Itemized Deductions*. For taxable years beginning in 2005, the "applicable amount" of adjusted gross income under § 68(b), above which the amount of otherwise allowable itemized deductions is reduced under § 68, is $145,950 (or $72,975 for a separate return filed by a married individual).

.12 *Qualified Transportation Fringe*. For taxable years beginning in 2005, the monthly limitation under § 132(f)(2)(A) (regarding the aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass) is $105. The monthly limitation under § 132(f)(2)(B) (regarding the fringe benefit exclusion amount for qualified parking) is $200.

.13 *Income from United States Savings Bonds for Taxpayers Who Pay Qualified Higher Education Expenses*. For taxable years beginning in 2005, the exclusion under § 135 (regarding income from United States savings bonds for taxpayers who pay qualified higher education expenses) begins to phase out for modified adjusted gross income above $91,850 for joint returns and $61,200 for other returns. This exclusion completely phases out for modified adjusted gross income of $121,850 or more for joint returns and $76,200 or more for other returns.

.14 *Adoption Assistance Programs*. For taxable years beginning in 2005, under § 137(a)(2) the maximum amount that can be excluded from an employee's gross income in connection with the adoption by the employee of a child with special needs is $10,630. For taxable years beginning in 2005, under § 137(b)(1) the maximum amount that can be excluded from an employee's gross income for the amounts paid or expenses incurred by the employer for qualified adoption expenses furnished pursuant to an adoption assistance program in connection with other adoptions by the employee is $10,630. The amount excludable from an employee's gross income begins to phase out under § 137(b)(2)(A) for taxpayers with modified adjusted gross income in excess of $159,450 and is completely phased out for taxpayers with modified adjusted gross income of $199,450. (See section 3.03 of this revenue procedure for the adjusted items relating to the adoption credit.)

.15 *Private Activity Bonds Volume Cap*. For calendar years beginning in 2005, the amounts used under § 146(d)(1) to calculate the State ceiling for the volume cap for private activity bonds is the greater of (i) $80 multiplied by the State population, or (ii) $239,180,000.

.16 *Safe Harbor Rules for Broker Commissions on Guaranteed Investment Contracts or Investments Purchased for a Yield Restricted Defeasance Escrow*. For calendar year 2005, under § 1.148–5(e)(2)(iii)(B)(1), a broker's commission or similar fee with respect to the acquisition of a guaranteed investment contract or investments purchased for a yield restricted defeasance escrow is reasonable to the extent that (i) the amount of the fee that the issuer treats as a qualified administrative cost does not exceed the lesser of (A) $31,000, or (B) 0.2 percent of the computational base (as defined in § 1.148–5(e)(2)(iii)(B)(2)) or, if more, $3,000; and (ii) the issuer does not treat more than $87,000 in brokers' commissions or similar fees as qualified administrative costs with respect to all guaranteed investment contracts and investments for yield restricted defeasance escrows purchased with gross proceeds of the issue.

.17 *Personal Exemption*.

(1) *Exemption amount*. For taxable years beginning in 2005, the personal exemption amount under § 151(d) is $3,200.

(2) *Phase out*. For taxable years beginning in 2005, the personal exemption amount begins to phase out at, and is completely phased out after, the following adjusted gross income amounts:

Filing Status	*AGI – Beginning of Phaseout*	*AGI – Exemption Fully Phased Out*
Married Individuals Filing Joint Returns and Surviving Spouses (§ 1(a))	$218,950	$341,450
Heads of Households (§ 1(b))	$182,450	$304,950
Unmarried Individuals (other than Surviving Spouses and Heads of Households) (§ 1(c))	$145,950	$268,450
Married Individuals Filing Separate Returns (§ 1(d))	$109,475	$170,725

.18 *Election to Expense Certain Depreciable Assets*. For taxable years beginning in 2005, under § 179(b)(1) the aggregate cost of any § 179 property a taxpayer may elect to treat as an expense shall not exceed $105,000. Under § 179(b)(2) the $105,000 limitation shall be reduced (but not below zero) by the amount by which the cost of § 179 property placed in service during the 2005 taxable year exceeds $420,000.

.19 *Eligible Long-Term Care Premiums*. For taxable years beginning in 2005, the limitations under § 213(d)(10) (regarding eligible long-term care premiums includible in the term "medical care") are as follows:

Attained Age Before the Close of the Taxable Year	*Limitation on Premiums*
40 or less	$ 270
More than 40 but not more than 50	$ 510
More than 50 but not more than 60	$1,020
More than 60 but not more than 70	$2,720
More than 70	$3,400

.20 *Medical Savings Accounts*.

(1) *Self-only coverage*. For taxable years beginning in 2005, the term "high deductible health plan" as defined in § 220(c)(2)(A) means, for self-only coverage, a health plan that has an annual deductible that is not less than $1,750 and not more than $2,650, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits does not exceed $3,500.

(2) *Family coverage*. For taxable years beginning in 2005, the term "high deductible health plan" means, for family coverage, a health plan that has an annual deductible that is not less than $3,500 and not more than $5,250, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits does not exceed $6,450.

.21 *Interest on Education Loans*. For taxable years beginning in 2005, the $2,500 maximum deduction for interest paid on qualified education loans under § 221 is reduced under § 221(b)(2)(B) when modified adjusted gross income exceeds $50,000 ($105,000 for joint returns), and is completely eliminated when modified adjusted gross income is $65,000 ($135,000 for joint returns).

.22 *Health Savings Accounts*.

(1) *Monthly contribution limitation*. For calendar year 2005, the monthly limitation on deductions under § 223(b)(2)(A) for an individual with self-only coverage under a high deductible plan as of the first day of such month is 1/12 of the lesser of (i) the annual deductible, or (ii) $2,650. For calendar year 2005, the monthly limitation on deductions under § 223(b)(2)(B) for an individual with family coverage under a high deductible plan as of the first day of such month is 1/12 of the lesser of (i) the annual deductible, or (ii) $5,250.

(2) *High deductible health plan*. For calendar year 2005, a high deductible health plan is defined under § 223(c)(2)(A) as a health plan with an annual deductible that is not less than $1,000 for self-only coverage or $2,000 for family coverage, and the annual out-of pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed $5,100 for self-only coverage or $10,200 for family coverage.

.23 *Treatment of Dues Paid to Agricultural or Horticultural Organizations*. For taxable years beginning in 2005, the limitation under § 512(d)(1) (regarding the exemption of annual dues required to be paid by a member to an agricultural or horticultural organization) is $127.

.24 *Insubstantial Benefit Limitations for Contributions Associated with Charitable Fund-Raising Campaigns*.

(1) *Low cost article*. For taxable years beginning in 2005, the unrelated business income of certain exempt organizations under § 513(h)(2) does not include a "low cost article" of $8.30 or less.

(2) *Other insubstantial benefits*. For taxable years beginning in 2005, the $5, $25, and $50 guidelines in section 3 of Rev. Proc. 90–12, 1990–1 C.B. 471 (as amplified and modified), for disregarding the value of insubstantial benefits received by a donor in return for a fully deductible charitable contribution under § 170, are $8.30, $41.50, and $83, respectively.

.25 *Funeral Trusts*. For a contract entered into during calendar year 2005 for a "qualified funeral trust," as defined in § 685, the trust may not accept aggregate contributions by or for the benefit of an individual in excess of $8,200.

.26 *Expatriation to Avoid Tax*. For calendar year 2005, an individual with "average annual net income tax" of more than $127,000 for the 5 taxable years ending before the date of the loss of United States citizenship under § 877(a)(2)(A) is subject to tax under § 877(b).

.27 *Valuation of Qualified Real Property in Decedent's Gross Estate*. For an estate of a decedent dying in calendar year 2005, if the executor elects to use the special use valuation method under § 2032A for qualified real property, the aggregate decrease in the value of qualified real property resulting from electing to use § 2032A that is taken into account for purposes of the estate tax may not exceed $870,000.

.28 *Annual Exclusion for Gifts*.

(1) For calendar year 2005, the first $11,000 of gifts to any person (other than gifts of future interests in property) are not included in the total amount of taxable gifts under § 2503 made during that year.

(2) For calendar year 2005, the first $117,000 of gifts to a spouse who is not a citizen of the United States (other than gifts of future interests in property) are not included in the total amount of taxable gifts under §§ 2503 and 2523(i)(2) made during that year.

.29 *Passenger Air Transportation Excise Tax*. For calendar year 2005, the tax under § 4261(b) on the amount paid for each domestic segment of taxable transportation by air is $3.20. For calendar year 2005, the tax under § 4261(c) on any amount paid (whether within or without the United States) for any transportation of any person by air, if such transportation begins or ends in the United States, generally is $14.10. However, for a domestic segment beginning or ending in Alaska or Hawaii as described in § 4261(c)(3), the tax only applies to departures and is at the rate of $7.

.30 *Reporting Exception for Certain Exempt Organizations with Nondeductible Lobbying Expenditures*. For taxable years beginning in 2005, the annual per person, family, or entity dues limitation to qualify for the reporting exception under § 6033(e)(3) (and section 5.05 of Rev. Proc. 98–19, 1998–1 C.B. 547), regarding certain exempt organizations with nondeductible lobbying expenditures, is $88 or less.

.31 *Notice of Large Gifts Received from Foreign Persons*. For taxable years beginning in 2005, recipients of gifts from certain foreign persons may be required to report these gifts under § 6039F if the aggregate value of gifts received in a taxable year exceeds $12,375.

.32 *Persons Against Which a Federal Tax Lien Is Not Valid*. For calendar year 2005, a federal tax lien is not valid against (i) certain purchasers under § 6323(b)(4) who purchased personal property in a casual sale for less than $1,200, or (ii) a mechanic's lien or under § 6323(b)(7) that repaired or improved certain residential property if the contract price with the owner is not more than $6,020.

.33 *Property Exempt from Levy*. For calendar year 2005, the value of property exempt from levy under § 6334(a)(2) (fuel, provisions, furniture, and other household personal effects, as well as arms for personal use, livestock, and poultry) may not exceed $7,200. The value of property exempt from levy under § 6334(a)(3) (books and tools necessary for the trade, business, or profession of the taxpayer) may not exceed $3,600.

.34 *Interest on a Certain Portion of the Estate Tax Payable in Installments*. For an estate of a decedent dying in calendar year 2005, the dollar amount used to determine the "2-percent portion" (for purposes of calculating interest under § 6601(j)) of the estate tax extended as provided in § 6166 is $1,170,000.

.35 *Attorney Fee Awards*. For fees incurred in calendar year 2005, the attorney fee award limitation under § 7430(c)(1)(B)(iii) is $150 per hour.

.36 *Periodic Payments Received under Qualified Long-Term Care Insurance Contracts or under Certain Life Insurance Contracts*. For calendar year 2005, the stated dollar amount of the *per diem* limitation under § 7702B(d)(4) (regarding periodic payments received under a qualified long-term care insurance contract or periodic payments received under a life insurance contract that are treated as paid by reason of the death of a chronically ill individual) is $240.

SECTION 4. EFFECTIVE DATE

.01 *General Rule*. Except as provided in section 4.02, this revenue procedure applies to taxable years beginning in 2005.

.02 *Calendar Year Rule*. This revenue procedure applies to transactions or events occurring in calendar year 2005 for purposes of sections 3.07 (low-income housing credit), 3.09 (pipeline construction industry optional expense substantiation rules), 3.15 (private activity bond volume cap), 3.16 (safe harbor rules for broker commissions on guaranteed investment contracts or investments purchased for a yield restricted defeasance escrow), 3.22 (health savings accounts), 3.23 (funeral trusts), 3.24 (expatriation to avoid tax), 3.25 (valuation of qualified real property in decedent's gross estate), 3.26 (annual exclusion for gifts), 3.27 (passenger air transportation excise tax), 3.30 (persons against which a federal tax lien is not valid), 3.31 (property exempt from levy), 3.32 (interest on a certain portion of the estate tax payable in installments), 3.33 (attorney fee awards), and 3.34 (periodic payments received under qualified long-term care insurance contracts or under certain life insurance contracts).

SECTION 5. DRAFTING INFORMATION

The principal author of this revenue procedure is Marnette M. Myers of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this revenue procedure, contact Ms. Myers at (202) 622–4920 (not a toll-free call).