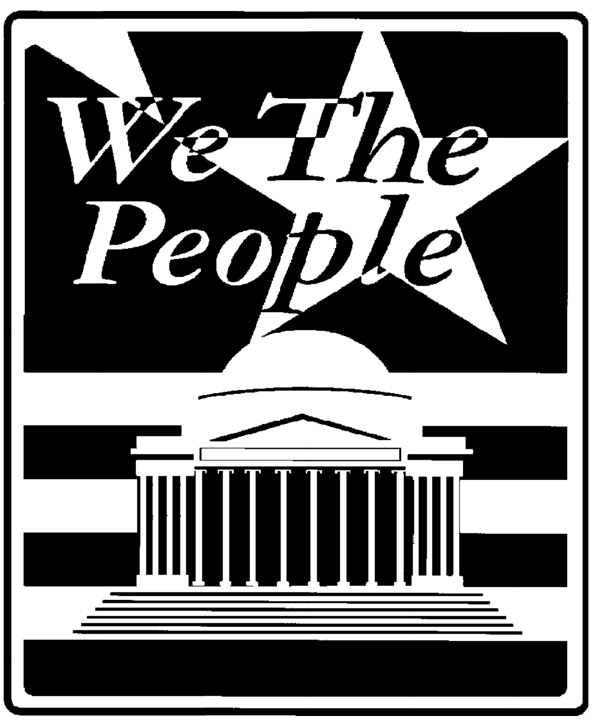
Department of the Treasury
Internal Revenue Service

Publication 554
Cat. No. 15102R

Tax Information for Older Americans

For use in preparing

1994 Returns



Contents

Large Print Tax Forms

For easier reading, the back of this publication contains some blank tax forms in larger print. Use the enlarged Form 1040A and its Schedules 1, 3, and EIC and Form 1040 and its Schedules A, B, and R, and Form 2119 to practice preparing your actual return. But when you file your actual return, use the standard forms.

Important Changes for 1994

Earned income credit. The earned income credit has been expanded and simplified. The health insurance credit and the extra credit for a child born during the year are no longer available, but you may now qualify for the credit even if you do not have a child or a qualifying child. For more information, see *Earned Income Credit,* later.

Filing requirements. Generally, the amount of income you can receive before you are required to file a return has been increased. See *1994 Filing Requirements,* later.

Exemption amount. For 1994, you are allowed a $2,450 deduction for each exemption to which you are entitled. However, your exemption amount is phased out if you have high income. For 1994, you may lose the benefit of part or all of your exemptions if you have adjusted gross income of more than $83,850. See *Personal Exemptions,* later.

Standard deduction. For most people, the standard deduction has increased. See *Standard Deduction,* later.

Self-employed health insurance. The special rule that allowed self-employed individuals to deduct 25% of health insurance premiums from gross income expired December 31, 1993. At the time this publication went to print, a bill to extend this deduction was pending in Congress. To find out if this deduction is allowed for 1994, see Publication 553, *Highlights of 1994 Tax Changes.*

Increase in taxable portion of social security benefits. If your 1994 income, including one-half of your social security benefits, is over $34,000 if single (over $44,000 if married filing jointly), more of your benefits may be taxable. For some people, up to 85 percent will be taxable. For more information, see *Social Security and Equivalent Railroad Retirement Benefits,* later.

Charitable contributions. If you make a contribution of $250 or more, you generally must have a written acknowledgment from the charitable organization to deduct the contribution. See *Contributions,* later.

Club membership fees. No deduction is allowed for amounts paid or incurred for membership in any club organized for business, pleasure, recreation, or other social purpose.

Moving expenses. The deduction for moving expenses has been substantially modified. For more details, see *Moving Expenses,* later.

Tax indexing. The Tax Table and Tax Rate Schedules have been adjusted so that inflation will not increase your tax.

Social security taxes for household employees. If you pay a domestic employee, such as a babysitter or a housekeeper, $1,000 or more to work in your home during 1994 or 1995, you will have to pay social security and Medicare taxes. Generally, after 1994, amounts paid to students under 18 are exempt. For more information, see Publication 926, *Employment Taxes for Household Employers.*

Additional information. For more information on these and other changes, see Publication 553, *Highlights of 1994 Tax Changes*.

Important Reminders

Expanded Form 1040EZ. If you are married filing a joint return, and have no dependents, you may be able to file Form 1040EZ. See *Which Form to Use* later. However, you (and your spouse if married filing a joint return) must have been under age 65 and not blind at the end of 1994.

Change of address. If you change your mailing address, be sure to notify the Internal Revenue Service. You can use **Form 8822,** *Change of Address.* Mail it to the Internal Revenue Service Center for your old address (addresses for the Service Centers are on the back of the form). If you move after you file your return and you are expecting a refund, also notify the post office serving your old address. This will help to forward your check to your new address.

Tax return preparers. Choose your preparer carefully. If you pay someone to prepare your return, the preparer is required, under the law, to sign the return and fill in the other blanks in the *Paid Preparer's* area of your return. Remember, however, that you are still responsible for the accuracy of every item entered on your return. If there is any underpayment, you are responsible for paying it, plus any interest and penalty that may be due.

Rounding off. It is easier to complete your tax return if you round off all money amounts. See the discussion *Rounding Off Dollars,* under *Which Form to Use,* later.

Claim your income tax withheld. Be sure to claim all your federal income tax withheld. Although most withholding is from wages, you may also have withholding from pensions, annuities, gambling winnings, interest, and dividends.

Employment tax withholding. Your wages are subject to withholding for income tax, social security, and Medicare even if you are receiving social security benefits.

Introduction

In general, the federal income tax laws apply equally to all taxpayers regardless of age. However, certain provisions give special treatment to older Americans.

This publication provides basic tax information of special interest to older Americans. At the end of this publication are two *Sample Returns.* These samples take you through a Form 1040A and a Form 1040, explaining such items as the sale of a home, credit for the elderly or the disabled, and pension and annuity income. It also includes filled-in forms and schedules showing how to report these and other items.

While some items are discussed in this publication because of their interest to older Americans, they apply to taxpayers generally and are explained in detail in other publications of the Internal Revenue Service (IRS). References to these free publications are included for the convenience of readers who need more information on specific subjects. A list of publications is given at the end of this publication.

Ordering publications and forms. To order free publications and forms, call our toll-free telephone number 1–800–TAX–FORM (**1–800–829–3676**). If you have access to TDD equipment, you can call 1–800–829–4059. See your tax package for the hours of operation. You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

Asking tax questions. You can call the IRS with your tax question Monday through Friday during regular business hours. Check your telephone book or your tax package for the local number or you can call toll-free **1–800–829–1040** (1–800–829–4059 for TDD users).

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE). These programs help older, disabled, low-income, and non-English-speaking people fill in their returns. Call the telephone number listed in the forms instructions for your city or state for the location of the volunteer assistance site near you.

Tax help on videotape. Videotaped instructions for completing your return are available in either English or Spanish at many libraries.

Unresolved tax problems. The Problem Resolution Program is for people who have been unable to resolve their problems with the IRS. If you have a tax problem you cannot clear up through normal channels, write to your local IRS District Director or call your local IRS office and ask for Problem Resolution assistance. This office cannot change the tax law or make technical decisions. But it can help you clear up problems that resulted from previous contacts.

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

Electronic filing. Electronic filing offers the following benefits:

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

Electronic filing is available whether you prepare your own return or use a preparer. In addition to many tax preparers, other firms are approved by the IRS to offer electronic filing services. If you file electronically, an approved transmitter must sign your **Form 8453**, *U.S. Individual Income Tax Declaration for Electronic Filing*. For more details on electronic filing, call the Tele-Tax phone number listed in the forms instructions for your city or state (topic 252).

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

Specific Tax Benefits for Older Americans

Four specific tax benefits are available to older Americans. One of these benefits applies to all taxpayers 65 or older. (You are considered 65 on the day before your 65th birthday.) The other three are available only to those who qualify.

All taxpayers 65 or older benefit from a higher gross income threshold for filing a federal income tax return. This benefit is available if you file Form 1040 or Form 1040A.

Taxpayers who qualify and who meet the age requirements may benefit from the:

- Credit for the elderly or the disabled,
- Exclusion of gain on the sale of their home, or
- Increased standard deduction.

1994 Filing Requirements

If income tax was withheld from your pay, or if you can take the earned income credit, you should file a return even if you are not required to do so.

General Requirements

You must file a 1994 return if your gross income was at least the amount shown in *Table 1.* You must also file a tax return if any of the special situations discussed under *Other Filing Requirements,* applies to you.

Gross income. Gross income is all income you receive in the form of money, goods, property, and services that is not exempt from tax. Some social security and railroad retirement benefits you receive may be taxable in 1994. See *Social Security and Equivalent Railroad Retirement Benefits,* later.

If you are employed, gross income also includes your total salary or wages. If you own rental property, it also includes the total rent you receive before you deduct any rental expenses. If you are self-employed, it also includes the total gross profit (gross receipts minus cost of goods sold) from your trade or business.

Gross income does not include nontaxable income, such as welfare benefits or nontaxable social security benefits.

For more information on what income is taxable, see *Taxable and Nontaxable Income,* later.

Dependents

If you could be claimed as a dependent by another taxpayer, special rules apply.

Table 2 can be used to determine whether a dependent needs to file a return. Use only the section of the chart that fits your circumstances.

- **Section 1** is for single dependents who are under 65 and not blind.
- **Section 2** is for single dependents who are 65 or older or blind.
- **Section 3** is for married dependents who are under 65 and not blind.
- **Section 4** is for married dependents who are 65 or older or blind.

Shown next is a *Filing Requirement Worksheet for Dependents Who Are 65 or Older or Blind,* which you may also use.

Even if not required to file, a dependent should file to get a refund if any income tax was withheld.

You may wish to get Publication 929, *Tax Rules for Children and Dependents,* for more information.

Filing Requirement Worksheet for Dependents Who Are 65 or Older or Blind

1. Enter dependent's ***earned*** income .... ______
2. Minimum amount .... $ 600
3. Compare the amounts on lines 1 and 2. Enter the **larger** of the two amounts .... ______
4. Enter the appropriate amount from the following table .... ______

Filing Status	Amount
Single	$3,800
Married	$3,175

5. Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts .... ______
6. Enter the amount from the following table that applies to the dependent's filing status and situation .... ______

Filing Status	Amount
Single	
Either 65 or older or blind	$ 950
65 or older AND blind	$1,900
Married	
Either 65 or older or blind	$ 750
65 or older AND blind	$1,500

7. Add the amounts on lines 5 and 6. Enter the total ______
8. Enter the dependent's total income .... ______

If the amount on line 8 is more than the amount on line 7, the dependent **must file** an income tax return.

Other Filing Requirements

You may have to file a return even if the previously discussed rules do not apply to you. These special situations are discussed in this section. Also see *Table 3*.

Table 1. **1994 Filing Requirements Chart for Most Taxpayers**

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

Also, see *Table 2* and *Table 3* for other situations when you must file.

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

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

Church employee. You must file a return if 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. See Publication 533, *Self-Employment Tax.*

Self-employment. If you had net earnings from self-employment of $400 or more, you must file Form 1040 and use Schedule SE to figure your self-employment tax.

You are self-employed if you:

- Carry on a trade or business as a sole proprietor,
- Are an independent contractor,
- Are a member of a partnership that carries on a trade or business, or
- Are otherwise in business for yourself.

You can be self-employed even if the work you do is part-time or in addition to your regular job.

This rule applies regardless of your age, and whether or not you are receiving social security benefits.

Example. You are 67 years old and receive social security benefits. Your benefits are not taxable. You also operate a small fix-it shop. You took in $1,000 during the year from repair work. After deducting such business expenses as light and heat, your net earnings were $800. You are required to file an income tax return and pay self-employment tax.

The self-employment tax is discussed in detail in Publication 533.

Decedents

If you are the survivor, executor, administrator, or personal representative of a person who died during the year, you may have to file a final return for the decedent.

If you are acting in any fiduciary capacity (such as an executor or administrator), you must file a written notice with the IRS. **Form 56**, *Notice Concerning Fiduciary Relationship,* is available for this purpose. For more information, see Publication 559, *Survivors, Executors, and Administrators.*

The person who files the return should write ''DECEASED,'' the deceased's name, and the date of death, across the top of the tax return. If no executor or administrator is appointed and a joint return is filed, the surviving spouse should sign the return and write in the signature

Table 2. **1994 Filing Requirements Chart for Dependents**

If someone can claim you as a dependent, and any of the four situations listed below applies to you, you must file a return.

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

Caution: If your gross income was $2,450 or more, you generally cannot be claimed as a dependent.

1. Single dependents under 65 and not blind. — You must file a return if—

Your unearned income was:	**and**	**the total of that income plus your earned income was:**
$1 or more		more than $600
$0		more than $3,800

2. Single dependents 65 or older or blind. — You must file a return if—

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

3. Married dependents under 65 and not blind. — You must file a return if—

- Your earned income was more than $3,175, or
- You had any unearned income and your gross income was more than $600, or
- Your gross income was at least $5 and your spouse files a separate return on Form 1040 and itemizes deductions.

4. Married dependents 65 or older or blind. — You must file a return if—

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

Table 3. **Other Situations When You Must File 1994 Return**

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

1. You owe any special taxes, such as:

- Social security and Medicare tax on tips you did not report to your employer;
- Uncollected social security and Medicare or RRTA tax on tips you reported to your employer;
- Uncollected social security and Medicare or RRTA tax on your group-term life insurance;
- Alternative minimum tax;
- Tax on a qualified retirement plan, including an individual retirement arrangement (IRA); or
- Tax from recapture of investment credit, low-income housing credit, federal mortgage subsidy, or qualified electric vehicle credit.

2. You received any advance earned income credit (EIC) payments from your employer(s).

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.

area ''Filing as surviving spouse.'' See Publication 559 for other important information.

Caution. The year your spouse died is the last year you may file a joint return with that spouse. After that, if you do not remarry, you must file as a qualifying widow(er) with dependent child, a head of household, or single. However, if you remarry before the end of the year of the decedent's death, the filing status of the deceased spouse is married filing a separate return.

The level of income that requires you to file changes when your filing status changes. Even if you have not filed a return for several years, you may have to file a return for 1994.

Example. You and your spouse both turned 65 in 1991. You have no dependents. Your gross income in 1991 and 1992 was $8,000. The income levels that required a return being filed by a married couple filing a joint return were $11,300 in 1991 and $12,000 in 1992. Therefore, you and your spouse did not file a return. Your gross income in 1993 and 1994 was also $8,000. Your spouse died in 1993, but since you would have been able to file a joint return for 1993, and your gross income was less than the filing level for married couples filing a joint return ($12,300), you did not file a return. But, in 1994, you must file a return because your gross income ($8,000) is more than the filing requirement for a single person who is 65 or older ($7,200). See *Your Filing Status,* later.

Aliens

Your status as an alien (resident, nonresident, or dual-status) determines how you file your return. The rules used to determine if you are a resident or nonresident alien are discussed in Publication 519, *U.S. Tax Guide for Aliens.*

Resident aliens. If you are a resident alien for the entire year, you must file a tax return following the same rules that apply to U.S. citizens. Use the forms discussed in this publication.

Nonresident aliens. If you are a nonresident alien, the rules and tax forms that apply to you may be different from those that apply to U.S. citizens. See Publication 519 to find out which forms you should file.

Dual-status taxpayers. If you were a resident alien and a nonresident alien during the same tax year, you are a dual-status taxpayer. Different rules apply for the part of the year you were a resident of the United States and the part of the year you were a nonresident. For information on dual-status taxpayers, get Publication 519.

U.S. citizen or resident alien spouse. If you were married to a person who was a U.S. citizen or resident on the last day of the tax year, you may be able to file a joint return with your spouse. For information, get Publication 519.

Which Form to Use

You must use one of three forms to file your return—Form 1040EZ, Form 1040A, or Form 1040.

If you have not received a tax return package in the mail, or if you need other forms, you can order them from the IRS Forms Distribution Center for your state. See *Ordering publications and forms,* earlier. Most IRS offices and many local banks, post offices, and libraries may also have some of the forms you need.

Form 1040EZ

If you are single or married filing jointly, you may be able to use the simpler Form 1040EZ.

You can use Form 1040EZ if all of the following apply:

- Your filing status is single or married filing jointly.
- You (and your spouse if married filing a joint return) were under 65 on January 1, 1995, and not blind at the end of 1994.
- You do not claim any dependents.
- Your taxable income is less than $50,000.
- Your income is only from wages, salaries, tips, taxable scholarship and fellowship grants, and taxable interest income of $400 or less.
- You did not receive any advance earned income credit (EIC) payments.
- If you were a nonresident alien at any time in 1994, your filing status is married filing jointly.
- If you are married filing jointly and either you or your spouse worked for more than one employer, the total wages of that person were not over $60,600.
- You do not itemize deductions, claim any adjustments to income or tax credits other than the earned income credit, or owe any taxes other than the amount from the Tax Table.
- If you claim the earned income credit, you meet the tests to file Form 1040EZ described later under *Earned Income Credit.*

If you do not meet all of these requirements, you cannot use Form 1040EZ. You must use Form 1040A or Form 1040.

Form 1040A

If you do not qualify to use Form 1040EZ, you may be able to use Form 1040A.

You can use Form 1040A if:

- Your income is only from wages, salaries, tips, IRA distributions, annuities and pensions, taxable social security and railroad retirement benefits, taxable scholarship and fellowship grants, interest, dividends (except for Alaska Permanent Fund dividends), and unemployment compensation.
- Your taxable income is less than $50,000.
- Your only adjustment to income is the deduction for contributions to an IRA.
- You do not itemize your deductions.
- Your only taxes are the amount from the Tax Table, alternative minimum tax, and (if you received any) advance earned income credit payments.
- Your only credits are:
  a) The credit for child and dependent care expenses.
  b) The credit for the elderly or the disabled.
  c) The earned income credit.

You cannot use Form 1040A if you do not meet all of the above requirements. For example, you may want to claim itemized deductions, which you cannot claim on Form 1040A.

Form 1040

If you cannot use Form 1040EZ or Form 1040A, you must use Form 1040.

You may have received Form 1040A or Form 1040EZ in the mail because of the return you filed last year. If your situation has changed this year, it may be to your advantage to file Form 1040 instead. You may pay less tax by filing Form 1040 because you can take itemized deductions, adjustments to income, and some credits that you cannot take on Form 1040A or Form 1040EZ.

Assembling Your Return

Attach schedules and forms behind Form 1040 in order of the ‘‘Attachment Sequence No.’’ shown in the upper right corner of the schedule or form. Attach all other statements or attachments at the end of your return, even if they relate to another form or schedule.

If you owe tax and are enclosing your payment, do not attach it to the return. Instead, place it loose inside the envelope.

Form W–2. If you were an employee for any part of the year, you should have a Form W–2 from each employer. Be sure to attach the first copy or copy B of Form W–2 in the place indicated in the left margin of the front page of your return.

Foreign Financial Accounts and Foreign Trusts

You must complete Part III of Schedule B (Form 1040) if you received more than $400 of interest or dividend income, or if you had a foreign account, or were the grantor of, or transferor to, a foreign trust.

If you checked *Yes* to the question on line 11a (Schedule B), file Form TD F 90–22.1, *Report of Foreign Bank and Financial Accounts,* by June 30, 1995, with the Department of the Treasury at the address shown on the form. Do not attach Form TD F 90–22.1 to your Form 1040. You can get Form TD F 90–22.1 from any IRS Forms Distribution Center.

Substitute Tax Forms

You cannot use your own version of a tax form unless it meets the requirements explained in Publication 1167, *Substitute Printed, Computer-Prepared and Computer-Generated Tax Forms and Schedules.*

Address Label

After you have completed your return, peel your address label off the cover of your tax return package and place it in the address area of the Form 1040, Form 1040A, or Form 1040EZ you send to the IRS. If you have someone prepare your return, give that person your label to use.

The coding on the label is used by the IRS in processing your return. The label helps to correctly identify your account. It also saves processing costs and speeds up processing so that refunds can be issued sooner.

Correcting the label. Make necessary name and address changes on the label. If you have an apartment number that is not shown on the label, please write it in. If you and your spouse file a joint return and maintain separate homes, choose one address to enter on your return. If the label is for a joint return and the social security numbers are not listed in the same order as the first names, change the numbers to show the correct order. If your social security number is not correct, or if you changed your name, see the discussion later under *Social Security Number.*

No label. If you did not receive a tax return package with a label, print or type your name, address, and social security number in the spaces provided at the top of Form 1040 or Form 1040A. If you are married filing a separate return, do not enter your spouse’s name in the space at the top. Instead, enter his or her name in the space provided on line 3.

If you file Form 1040EZ without a label, print (do not type) this information in the spaces provided.

Post Office box. If your post office does not deliver mail to your street address and you have a P.O. box, write your P.O. box number on the line for your present home address instead of your street address.

Foreign address. If your address is outside the United States or its possessions or territories, enter the information on the line for ''City, town or post office, state, and ZIP code'' in the following order:

1) City,
2) Province or state,
3) Foreign postal code, and
4) Name of foreign country. (Do not abbreviate the country name.)

Social Security Number

You must show your social security number (SSN) on your return. If the number shown on the address label on the tax return package you received in the mail is wrong, mark through it. Correct it on the label. If you did not receive a return with a label, enter your number in the space provided on the return.

If you are married and you did not receive a tax return package with a label, enter the social security numbers for both you and your spouse, whether you file jointly or separately.

Name change. If you changed your name because of marriage, divorce, etc., you should immediately notify your Social Security Administration (SSA) office so the name on your tax return is the same as the one the SSA has on its records. This may prevent delays in issuing your refund and safeguard any future social security benefits.

Dependent's social security number. If you claim an exemption for a dependent who is at least 1 year old by December 31, 1994, you must list the dependent's SSN on your return.

No social security number. If you or your dependent who is at least 1 year old does not have an SSN, file a Form SS–5 with your local SSA office. It usually takes about 2 weeks to get an SSN.

Presidential Election Campaign Fund

This fund was set up to help pay for presidential election campaigns. You may have $3 of your tax liability go to this fund by checking the ***Yes*** box on your Form 1040, Form 1040A, or Form 1040EZ. If you file a joint return, your spouse may also have $3 go to the fund. If you check the *Yes* box, it will not change the tax you pay or the refund you will receive.

Rounding Off Dollars

You may round off cents to the nearest whole dollar on your forms and schedules. If you do round to whole dollars, you must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, $1.39 becomes $1 and $2.50 becomes $3.

If you have to add two or more amounts to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

Example. You received two W–2 forms, one showing wages of $5,000.55 and one showing wages of $18,500.73. On Form 1040, line 7, you would enter $23,501 ($5,000.55 + $18,500.73 =$23,501.28) instead of $23,502 ($5,001 + $18,501).

Signatures

You must sign and date your return. If you file a joint return, both you and your spouse must sign the joint return, even if only one of you had income.

Enter your occupation in the space provided in the signature section. If you file a joint return, enter both your occupation and your spouse's occupation.

If you prepare your own return, leave the space under your signature blank. If another person prepares your return and does not charge you, that person should not sign your return.

Paid preparer. Generally, anyone you pay to prepare, assist in preparing, or review your tax return must sign it and fill in the other blanks in the paid preparer's area of your return. Signature stamps and labels are not acceptable. The preparer must give you a copy of your return in addition to the copy filed with the IRS.

Paid preparers of Form 1040EZ must sign the return and supply all other required information in the area below the space for your signature.

Someone else can sign for you. You can appoint an agent to sign your return if you are:

1) Unable to sign the return because of disease or injury,
2) Absent from the United States for a continuous period of at least 60 days before the due date for filing your return, or
3) Given permission to do so by the IRS district director in your district.

Power of attorney. A return signed by an agent in any of these cases must have a power of attorney (POA) attached to it that authorizes the agent to sign for you. You can use a POA that states that the agent is granted authority to sign the return, or you can use **Form 2848**, *Power of Attorney and Declaration of Representative.* Form 2848 must state that the agent is granted authority to sign the return. If you are filing a joint return and your spouse has a disability, see Publication 501, *Exemptions, Standard Deduction, and Filing Information.*

Unable to sign. If the taxpayer is mentally incompetent and cannot sign the return, it must be signed by a court-appointed representative who can act for the taxpayer.

If the taxpayer is mentally competent but physically unable to sign the return or POA, a valid ''signature'' is defined under state law. It can be anything that clearly indicates the taxpayer's intent to sign. For example, the taxpayer's ''X'' with the signatures of two witnesses might be considered a valid signature under a state's law.

Your Filing Status

Your filing status is used in determining your filing requirements, standard deduction, and correct tax. Your correct tax is determined by using the Tax Rate Schedule or the column in the Tax Table that applies to your filing status. This section discusses each filing status. If more than one filing status applies to you, choose the one that will give you the lowest tax.

Marital Status

In general, your filing status depends on whether you are considered single or married.

Single taxpayers. You are considered single for the whole year if, on the last day of your tax year, you are unmarried or separated from your spouse by a divorce or a separate maintenance decree.

Divorced or legally separated. State law governs whether you are married, divorced, or legally separated under a decree of separate maintenance.

Married taxpayers. You and your spouse may be able to file a joint return or you may file separate returns.

Spouse died during the year. If your spouse died during the year, you are considered married for the whole year for filing status purposes.

If you did not remarry before the end of the tax year, you may file a joint return for yourself and your deceased spouse. For the next 2 years, you may be entitled to the special benefits described later under *Qualifying Widow(er) With Dependent Child.*

If you remarried before the end of the tax year, you may file a joint return with your new spouse. Your deceased spouse's filing status is married filing separately for that year.

Single

Your filing status is single if, on the last day of your tax year, you are unmarried or separated from your spouse by a divorce or a separate maintenance decree and you do not qualify for another filing status.

Your filing status may be single if you were widowed before January 1, 1994, and did not remarry in 1994. However, you might be able to use another filing status that will give you a lower tax. See *Qualifying Widow(er) with Dependent Child* and *Head of Household* to see if you qualify.

Married Filing Jointly

You may choose married filing jointly as your filing status if you are married and both you and your spouse agree to file a joint return. On a joint return, you report your combined income and deduct your combined allowable expenses.

You may file a joint return even if one of you had no income or deductions.

Generally, married couples will pay less tax if they file a joint return because the tax rate for married persons filing jointly is lower than the tax rate for married persons filing separately. However, you may want to figure your tax both ways to see which filing status results in lower combined tax. If you file a joint return, you cannot, after the due date of the return, file separate returns for that year.

Married Filing Separately

You may choose married filing separately as your filing status if you are married. This method may benefit you if you want to be responsible only for your own tax or if this method results in less tax than a joint return.

Unless you are required to file separately, you may want to figure your tax both ways (on a joint return and on separate returns). Do this to make sure you are using the method that results in the lower combined tax. However, you will generally pay more combined tax on separate returns than you would on a joint return because the tax rate is higher for married persons filing separately.

If you file a separate return, you generally report only your own income, exemptions (you may not split an exemption), credits, and deductions on your individual returns. You may file a separate return and claim an exemption for your spouse ***only*** if your spouse had no gross income and was not the dependent of another person.

If you file as married filing separately, you must also write your spouse's full name and social security number in the spaces provided.

If you file a separate return:

- Your spouse should itemize deductions if you itemize deductions, because he or she cannot claim the standard deduction.
- You cannot take the credit for child and dependent care expenses in most instances.
- You cannot take the earned income credit.
- You cannot exclude any interest income from Series EE savings bonds that you used for higher education expenses.
- Unless you lived apart from your spouse for all of 1994:
    - a) You cannot take the credit for the elderly or the disabled.
    - b) You may have to include in income more of your social security benefits (including any equivalent railroad retirement benefits) you received in 1994 than you would on a joint return.

c) Your IRA deduction may be subject to a phaseout rule.

d) You may not be allowed to claim a loss from a passive real estate activity against your nonpassive income.

Qualifying Widow(er) with Dependent Child

If your spouse died in 1994, you may use married filing jointly as your filing status for 1994 if you would otherwise qualify. See *Married Filing Jointly*, earlier.

You may be eligible to use qualifying widow(er) with dependent child as your filing status for 2 years following the year of death of your spouse. For example, if your spouse died in 1993 and you have not remarried, you may be able to use this filing status for 1994 or 1995.

This filing status entitles you to use joint return tax rates and the highest standard deduction amount (if you do not itemize deductions).

Eligibility rules for filing as a qualifying widow(er) with dependent child. You are eligible to file as a qualifying widow(er) with dependent child if you meet all of the following tests.

1) You were entitled to file a joint return with your spouse for the year your spouse died. It does not matter whether you actually filed a joint return.
2) You did not remarry before the end of the tax year.
3) You have a child, stepchild, adopted child, or foster child who qualifies as your dependent for the year.
4) You paid more than half the cost of keeping up a home, which was the main home of you and that child for the entire year except for temporary absences.

If you qualify for this filing status, you can use Form 1040 or Form 1040A. You cannot use Form 1040EZ. Check the box on line 5 of your tax return. Show, in the space given, the year your spouse died. Use Tax Rate Schedule Y–1 or the married filing jointly column of the Tax Table.

Head of Household

You may be able to file as head of household if you were unmarried or were considered unmarried on the last day of the year. You must also have paid more than half the cost of keeping up a home that was the main home for more than half the year for you and a qualifying person.

If you qualify to file as head of household, your tax rate will be lower than the rates for single or married filing separately. You will also receive a higher standard deduction than if you file as single or married filing separately.

You are ***considered unmarried*** on the last day of the tax year if you meet all of the following tests:

1) You file a separate return.
2) You paid more than half the cost of keeping up your home for the tax year.
3) Your spouse did not live in your home during the last 6 months of the tax year.
4) Your home was, for more than half of the year, the main home of your child, stepchild, or adopted child whom you can claim as a dependent. However, you can still meet this test if you cannot claim your child as a dependent only because:
   a) You state in writing to the noncustodial parent that he or she may claim an exemption for the child, or
   b) The noncustodial parent provides at least $600 support for the dependent and claims an exemption for the dependent under a pre-1985 divorce or separation agreement.

Under certain conditions, you may claim an exemption for a foster child or a child placed with you for adoption. For those conditions see Publication 501.

Each of the following individuals is considered a qualifying person.

1) Your child, grandchild, stepchild, or adopted child who is:
   a) **Single.** This child does not have to be your dependent.
   b) **Married.** This child must qualify as your dependent. However, this child does not have to be your dependent if you state in writing to the noncustodial parent that he or she may claim an exemption for the dependent, a decree or agreement went into effect after 1984 and it unconditionally states that the noncustodial parent can claim the child as a dependent, or the noncustodial parent provides at least $600 support for the dependent and claims an exemption for the dependent under a pre-1985 divorce or separation agreement.
2) Your mother or father whom you claim as your dependent. If your dependent parent did not live with you, you must have paid more than half the cost of keeping up a home that was your parent's main home for the ***entire year.***
3) Certain other relatives you claim as dependents.

You do not qualify as head of household if you can only claim an exemption for a dependent by virtue of a multiple support declaration.

Personal Exemptions

The amount allowed for each personal exemption is $2,450 for 1994.

This section discusses the exemption you can claim for yourself and the exemption you may claim for your spouse. In addition, you may take an exemption for each person who qualifies as your dependent. For more information on exemptions and the tests that must be met for a person to qualify as your dependent, see Publication 501.

Your Own Exemption

If you file a joint return, you can take your own exemption. If you file a separate return, you can take one exemption for yourself only if you cannot be claimed as a dependent by another taxpayer. This is true even if the other taxpayer does not actually claim your exemption.

Your Spouse's Exemption

Your spouse is never considered your dependent. You may be able to take one exemption for your spouse only because you are married.

Joint return. If your spouse had any gross income, you can claim his or her exemption only if you file a joint return.

Separate return. If you file a separate return, you may claim the exemption for your spouse only if your spouse had no gross income and was not a dependent of another taxpayer. This is true even if the other taxpayer does not actually claim your spouse's exemption.

Death of spouse. If your spouse died during the year, you may generally claim your spouse's exemption. If your spouse had any gross income, you can claim his or her exemption only if you file a joint return.

The full amount of the exemption is allowed for the year in which death occurred.

If you remarried during the year, you may not take an exemption for your deceased spouse.

If you are a surviving spouse without gross income and you remarry, you may be claimed as an exemption on both the final separate return of your deceased spouse and the separate return of your new spouse whom you married in the same year. If you file a joint return with your new spouse, you may be claimed as an exemption only on that return.

Former spouse. You cannot take an exemption for your former spouse for the year in which you were divorced or legally separated under a final decree. This rule applies even if you paid all of your former spouse's support that year.

Exemption Phaseout

The amount you can claim as a deduction for exemptions is phased out once your adjusted gross income (AGI) goes above a certain level for your filing status as shown in column (a) of the following table. AGI is the amount shown on line 31 of Form 1040 for 1994.

You must reduce the dollar amount of your exemptions by 2% for each $2,500, or part of $2,500 ($1,250 if you are married filing separately), that your AGI exceeds the column (a) amount for your filing status shown in the table. If your AGI is more than the column (b) amount, your deduction for exemptions is zero.

Phaseout of Exemptions for 1994

Filing Status	(a) AGI more than:	(b) AGI
Single	111,800	234,300
Married filing jointly	167,700	290,200
Married filing separately	83,850	145,100
Head of household	139,750	262,250
Qualifying widow(er)	167,700	290,200

Taxable and Nontaxable Income

Generally, all income is taxable unless it is specifically exempted by law. Your taxable income may include compensation for services, interest, dividends, rents, royalties, income from partnerships, estate and trust income, gain from sales or exchanges of property, and business income of all kinds.

Under special provisions of the law, certain items are partially, or fully, exempt from tax. Some of these provisions are of special interest to older taxpayers. The types of income that are received most frequently by older taxpayers are discussed in this section.

Nontaxable Income

The following items are exempt from tax (nontaxable). Generally you should not report them on your return.

Sickness or injury benefits. Most payments you receive for illness or injury are nontaxable. These include the following:

Workers' compensation. Amounts you receive as workers' compensation for an occupational sickness or injury are fully exempt from tax if they are paid under a workers' compensation act or a statute in the nature of a workers' compensation act. The exemption also applies to your survivor(s) if the payments otherwise qualify as workers' compensation. If you return to work after qualifying for workers' compensation, payments you continue to receive while assigned to light duties are taxable.
Note. If part of your workers' compensation reduces your social security or equivalent railroad retirement benefits received, that part is considered social security (or equivalent railroad retirement) benefits and may be taxable.

Federal Employees' Compensation Act (FECA). Payments made under this Act for personal injuries or sickness, including payments to beneficiaries in case of death are not taxable. However, you are taxed on amounts you receive under this Act as ''continuation of pay'' for up to 45 days while a claim is being decided. Also, pay for sick leave while a claim is being processed is taxable.

Compensatory damages you receive for injury or illness (however, punitive damages in cases not involving physical injury or sickness are taxable).

Benefits you receive under an accident or health insurance policy attributable to premiums you paid.

Disability benefits you receive for loss of income or earning capacity as a result of injuries under a ''no-fault'' car insurance policy.

Compensation you receive for permanent loss or loss of use of a part or function of your body, or for your permanent disfigurement. These benefits are not taxed even though your employer pays for the accident and health plan that provides these benefits.

Veterans' benefits. Veterans' benefits under any law, regulation, or administrative practice that was in effect on September 9, 1986, and administered by the Department of Veterans Affairs (VA) are not included in gross income. For example, disability compensation and pension payments for disabilities are exempt from tax.

Veterans' insurance proceeds and dividends paid either to the veterans or to their beneficiaries, including the proceeds of veterans' endowment policies paid before death are not taxable.

Interest on insurance dividends you leave on deposit with the VA is nontaxable.

Volunteer work. Do not include in your income amounts you receive for supportive services or reimbursements for out-of-pocket expenses under any of the following volunteer programs:

- Retired Senior Volunteer Program (RSVP)
- Foster Grandparent Program
- Senior Companion Program
- Service Corps of Retired Executives (SCORE)
- Active Corps of Executives (ACE)

Gifts, bequests, and inheritances. Generally, property you receive as a gift, bequest, or inheritance is not included in your income. However, if property you receive this way later produces income such as interest, dividends, or rents, that income is taxable to you. If property is given to a trust and the income from it is paid, credited, or distributed to you, that also is income to you. If the gift, bequest, or inheritance is the income from the property, that income is taxable to you.

Interest on frozen deposits. In general, you exclude from your income the amount of interest earned on a frozen deposit. A deposit is frozen if, at the end of the calendar year, you cannot withdraw any part of the deposit because:

1) The financial institution is bankrupt or insolvent, or
2) The state where the institution is located has placed limits on withdrawals because other financial institutions in the state are bankrupt or insolvent.

For information on how to figure the amount of interest you exclude from gross income, see Publication 525, *Taxable and Nontaxable Income.* Report the excluded part of the interest in the gross income of the tax year it becomes withdrawable.

Public assistance. Do not include in your income benefit payments from a public welfare fund, such as payments you receive due to blindness.

Payments from a state fund for victims of crime, should not be included in the victims' incomes if they are in the nature of welfare payments. Do not deduct medical expenses that are reimbursed by such a fund.

Mortgage assistance payments under section 235 of the National Housing Act are not included in the homeowner's gross income. Interest paid for the homeowner under the mortgage assistance program cannot be deducted.

Payments to reduce cost of winter energy use. Payments made by a state to qualified people to reduce their cost of winter energy use are not taxable.

Nutrition Program for the Elderly. Food benefits you receive under the Nutrition Program for the Elderly are not taxable. If you prepare and serve free meals for the program, include in your income as wages the cash pay you receive, even if you are also eligible for food benefits.

Taxable Income

The following items are taxable. Generally you should report them on your return. For more information on what income is taxable, see Publication 525.

Compensation for Services

Generally, you must include in gross income everything you receive in payment for personal services. In addition to wages, salaries, commissions, fees, and tips, this includes other forms of compensation such as fringe benefits and stock options.

You need not receive the compensation in cash for it to be taxable. Payments you receive in the form of goods or services generally must be included in gross income at their fair market value.

You must include in your income all unemployment compensation you receive.

Payments for Age and Residency

Payments the state of Alaska makes to its citizens who meet certain age and residency tests, that are not based on need, are not welfare benefits. Include them in gross income on line 21, Form 1040.

Interest

In general, any interest that you receive or that is credited to your account and can be withdrawn is taxable income. You report it on line 8a, Form 1040; line 8a, Form 1040A; or on line 2, Form 1040EZ.

You cannot use Form 1040EZ and must file **Schedule 1** (Form 1040A) or **Schedule B** (Form 1040), if:

1) Your taxable interest income is more than $400,
2) You are claiming the interest exclusion under the Education Savings Bond Program,
3) You received, as a nominee, interest that actually belongs to someone else,
4) You received interest from a seller-financed mortgage and the buyer used the property as a personal residence, or
5) You received a Form 1099–INT for tax-exempt interest.

You cannot use Form 1040EZ or Form 1040A and must file Schedule B (Form 1040), if:

You received a Form 1099–INT for interest on a bond bought between interest payment dates,

You report original issue discount (OID) in an amount more or less than shown on Form 1099–OID,

You reduce your bond interest income by amortizable bond premium, or

You had a foreign account or were grantor of, or transferor to, a foreign trust, and you must fill in Part III.

Attach the schedule to your return.

If you need more information, see Publication 550, *Investment Income and Expenses.*

As an important part of your records, you should keep a list showing sources and amounts of interest income that you receive during the year.

Money market funds. Generally, amounts you receive from money market funds should be reported as dividends, not as interest.

Taxable interest. This includes:

- Interest you receive from bank accounts (including certificates of deposit and money market certificates), loans you make to others, mortgages, notes, and bonds,
- Interest from U.S. Savings Bonds and obligations issued by any agency or instrumentality of the United States,
- Interest on tax refunds, and
- Interest on building and loan, savings and loan, and credit union accounts (even if the payments are called dividends).

Tax-exempt interest. Generally, interest on obligations of a state (including certain Indian tribal governments) or one of its political subdivisions, the District of Columbia, or a possession of the United States or one of its political subdivisions used to finance governmental operations is not taxable.

You must show on your tax return the amount of any tax-exempt interest you received or accrued during the year. This is an information reporting requirement and does not convert tax-exempt interest to taxable interest.

If you received tax-exempt interest during 1994 and you file Form 1040EZ, write **''TEI''** in the space to the right of the words ''Form 1040EZ'' on line 2 and show the amount of your tax-exempt interest. Do not include tax-exempt interest in the total entered in the boxes on line 2. Report tax-exempt interest on line 8b if you file Form 1040 or Form 1040A.

Interest on frozen deposits. In general, you must exclude from your income the amount of interest earned on a frozen deposit. A deposit is frozen if, at the end of the calendar year, you cannot withdraw any part of the deposit because:

1) The financial institution is bankrupt or insolvent, or
2) The state where the institution is located has placed limits on withdrawals because other financial institutions in the state are bankrupt or insolvent.

For information on how to figure the amount of interest you must exclude from gross income, see *Interest income on frozen deposits* in Chapter 1 of Publication 550. Report the excluded part of the interest in the tax year it becomes withdrawable.

Reporting interest on seller-financed mortgage. If an individual buys his or her home from you in a sale that you finance, you must report the buyer's name, address, and social security number on line 1 of either Schedule B (Form 1040) or Schedule 1 (Form 1040A). If you do not, you may have to pay a $50 penalty. The buyer may have to pay a $50 penalty if he or she does not give you this information.

The buyer must report your name, address, and social security number (or employer identification number) on Schedule A (Form 1040). You must give this information to the buyer. If you do not, you may have to pay a $50 penalty.

For a complete discussion of reporting interest income, see Chapter 1 of Publication 550. More information about deducting home mortgage interest can be found in Publication 936, *Home Mortgage Interest Deduction.*

Dividends

Generally, dividends on stock you own are taxable income. Ordinary (taxable) dividends are the most common type of distribution from a corporation. They are paid out of the earnings and profits of a corporation and are ordinary income to you. This means they are not capital gains. Any dividend you receive on common or preferred stock is an ordinary dividend, unless the paying corporation tells you otherwise.

As an important part of your records, you should keep a list showing sources and amounts of dividend income that you receive during the year.

Money market funds. Report amounts you receive from money market funds as dividend income. These amounts generally are not interest income and should not be reported as interest.

Where to report. You report dividend income on line 9 of Form 1040 or Form 1040A. If you have more than $400 in total dividends, you must list the payer and the amount of income for each distribution you receive on:

- **Schedule B** if you file Form 1040, or
- **Schedule 1** if you file Form 1040A.

Attach the schedule to your return.

You must also use Schedule B or Schedule 1 if you received, as a nominee, dividends that actually belong to someone else.

For more information on dividends, see Publication 550.

Rental Income and Expenses

Rental income is any payment you receive for the use or occupation of property.

You generally must include in your gross income all amounts you receive as rent. If you receive property or services, instead of money, as rent, include the fair market value of the property or services in your rental income.

Expenses. You can ordinarily deduct the following expenses from your gross rental income: depreciation, repairs, maintenance, and certain other expenses.

Repairs. A repair keeps your property in good operating condition. It does not materially add to the value of your property or substantially prolong its life. Repainting your property inside or out, fixing gutters or floors, fixing leaks, plastering, and replacing broken windows are examples of repairs.

Improvements. If you make repairs as part of an extensive remodeling or restoration of your property, the whole job is an improvement. Permanent improvements to rental property must be depreciated. See Publication 534, *Depreciation,* for more information.

Other expenses. You can deduct from your gross rental income expenses for advertising, janitor and maid service, utilities, fire and liability insurance, taxes, interest, commissions for the collection of rent, and ordinary and necessary travel and transportation.

Rental of a home. If you use a dwelling unit as a home, how you figure your rental income and deductions depends on how many days the unit was rented. You use a dwelling unit as a home during the tax year if you use it for personal purposes more than the greater of:

1) 14 days or,
2) 10% of the total days it is rented to others at a fair rental price.

See Publication 527, *Residential Rental Property,* for more information.

Rented fewer than 15 days. If you use the dwelling unit as a home and you rent it for ***fewer than 15 days*** during the year, do not include any of the rent in your income and do not deduct any of the rental expenses. However, you can deduct allowable interest, taxes, and casualty and theft losses as itemized deductions on Schedule A of Form 1040.

Rented 15 days or more. If you use a dwelling unit as a home and rent it for ***15 days or more*** during the year, you include all your rental income in your gross income. You must divide your expenses between the personal use and the rental use based on the number of days used for each purpose. If you had a net profit from the rental property for the year (that is, if your rental income is more than the total of your rental expenses, including depreciation), deduct all of your rental expenses. However, if you had a net loss, you may not be able to deduct all of your rental expenses.

Publication 527 contains a worksheet to figure your limit on rental deductions.

Limits on rental losses. Rental real estate activities are generally considered passive activities, and the amount of loss you can deduct is limited. Generally, you cannot deduct losses from rental real estate activities unless you have income from other passive activities.

Losses from passive activities are first subject to the ***at-risk rules***. At-risk rules limit the amount of deductible losses from holding most real property placed in service after December 31, 1986.

See Publication 925 for more information on limits on rental losses.

For a more complete discussion of rental income and expenses, including casualty losses on rental property, see Publication 527.

Where to report. If you rent out buildings, rooms, or apartments and provide only heat and light, trash collection, etc., you normally report your rental income and expenses in Part I of Schedule E (Form 1040), *Supplemental Income and Loss.* Be sure to answer the question on line 2.

If you report your rental income and expenses on Schedule E, show any depreciation you are claiming on the rental property on line 20. You must also complete and attach **Form 4562**, *Depreciation and Amortization,* for rental activities only if you are claiming:

- Depreciation on rental property placed in service during 1994,
- Depreciation on any rental property that is listed property (such as a car), regardless of when it was placed in service, or
- Any automobile expenses (actual or the standard mileage rate).

Otherwise, figure your depreciation on your own worksheet. You do not have to attach these computations to your return.

Your net rental income or loss from Schedule E is included on line 17, Form 1040.

If you provide additional services that are primarily for your tenant's convenience, such as regular cleaning, changing linen, or maid service, you report your rental income and expenses on Schedule C (Form 1040), *Profit or Loss From Business* or Schedule C–EZ, *Net Profit From Business*. You also may have to pay self-employment tax on your rental income. See Publication 533, *Self-Employment Tax.*

Not rented for profit. If your rental of a property is an activity that you do not carry on to make a profit, you can deduct your rental expenses only up to the amount of your rental income. Report your rental income on line 21, Form 1040.

Royalties

Royalties from copyrights, patents, oil, gas, and mineral properties, are taxable as ordinary income. You generally report them on Part I of Schedule E (Form 1040). You should receive a Form 1099–MISC or other statement from the payer if your total royalty payments from the payer for the year were $10 or more.

Royalties from mineral property or standing timber are subject to an allowance for depletion. For information on depletion, get Publication 535, *Business Expenses.*

Royalties from copyrights on literary, musical, or artistic works, and similar property, or from patents on inventions are not subject to a depletion deduction. For information on the amortization of intangibles, see Publication 535.

Sale of Capital Assets

When you sell or exchange capital assets or an asset used in your business, report your taxable gain or deductible loss on Schedule D (Form 1040) or on **Form 4797**, *Sales of Business Property.* Passive activity gains and losses may also have to be reported on **Form 8582**, *Passive Activity Loss Limitations*. In some cases, the loss may be limited under the passive activity rules. Refer to Form 8582 and its instructions for more information about reporting capital gains and losses from a passive activity. Exchanges may also have to be reported on Form 8824, *Like-Kind Exchanges.*

Capital gains and losses. You must classify your gains and losses as either capital or ordinary. Capital gains and losses must be broken down as either short term or long term. The correct classification of your gains and losses is necessary so that you can figure the yearly limit on your capital loss, or your proper tax if you qualify for the maximum tax rate on capital gains for individuals, discussed later.

Short-term gains or losses. A capital gain or loss on the sale or trade of investment property held ***one year or less*** is a short-term capital gain or loss. Report it in Part I of Schedule D (Form 1040).

Also report in Part I your share of short-term capital gains or losses from partnerships, S corporations, estates and trusts, and any short-term capital loss carryover. The result from combining these items with your other short-term capital gains and losses is your net short-term capital gain or loss.

Long-term gains or losses. A capital gain or loss on the sale or trade of investment property held ***more than one year*** is a long-term capital gain or loss. Report it in Part II of Schedule D (Form 1040).

Also report the following in Part II of Schedule D:

1) All capital gain distributions from regulated investment companies (mutual funds), and real estate investment trusts (REITs).
2) Your share of long-term capital gains or losses from partnerships, S corporations, estates and trusts.
3) Long-term capital loss carryover.

The result from combining these items with your other long-term capital gains and losses is your net long-term capital gain or loss.

Capital gain distributions. You generally report capital gain distributions on line 14, Part II of Schedule D (Form 1040). However, if you do not need Schedule D to report any other capital gains or losses, do not complete Schedule D. Instead, enter your capital gain distributions for 1994 on line 13, Form 1040. Write ''CGD'' on the dotted line next to line 13.

But report your capital gain distributions on Schedule D and use the *Capital Gain Tax Worksheet* to figure your tax if your taxable income is more than the amount shown for your filing status in the table under *Maximum tax rate on capital gains for individuals,* later.

The total net gain or loss is then figured by combining your net short-term capital gain or loss with your net long-term capital gain or loss. The result is entered on line 18, Part III of Schedule D. If the result is a gain, it is also entered on Form 1040, line 13. If your losses are more than your gains, see the discussion of *Capital losses,* next.

Note. If both lines 17 and 18 of Schedule D are gains, see *Maximum tax rate on capital gains for individuals,* later.

Capital losses. If you have a total net capital loss, you can claim a capital loss deduction. You must first figure how much of the loss is allowable. You do this on line 19 of Schedule D. You must figure how much of the loss you can deduct in the year of the loss and how much of it you carry over and use in future tax years.

Yearly limit. The amount of the allowable capital loss that you may deduct in any tax year is the lesser of:

1) $3,000 ($1,500 if you are married and file a separate return), or
2) Your capital loss shown on line 18 of Schedule D.

Capital loss carryover. If you have a capital loss on line 18 of Schedule D that is more than the yearly limit, you can carry over the unused part to the next tax year and treat it as if it occurred in that year. You continue this until your loss is completely used up. However, the capital loss of a deceased person can only be deducted on the decedent's final return, subject to the capital loss limit. Any remaining loss is lost; it cannot be deducted by the decedent's estate or heirs.

You use the *Capital Loss Carryover Worksheet* in the Schedule D instructions to figure how much loss you can carry over to 1995.

Maximum tax rate on capital gains for individuals. The maximum income tax rate on net capital gain is 28%, even though the highest tax rate is 39.6%. Net capital gain is the excess of net long-term capital gain for the year over any net short-term capital loss for the year. Therefore, the maximum 28% rate applies if you have a net long-term capital gain on line 17 of Schedule D and a net gain on line 18.

You should complete the *Capital Gain Tax Worksheet* in the Form 1040 instructions to figure your tax only if your taxable income (line 37, Form 1040) is more than the amount shown for your filing status in the following table.

Filing Status	Amount
Single	$55,100
Married filing joint or qualifying widow(er)	91,850
Married filing separate	45,925
Head of household	78,700

Sample Schedule D. For an example showing how to report a capital gain on Schedule D, see *Form 1040* under *Sample Returns* near the end of this publication.

For more information on capital gains and losses, see Publication 544, *Sales and Other Dispositions of Assets,* and Chapter 4 in Publication 550.

Retirement Plans, Pensions, and Annuities

This section explains the tax treatment of amounts you receive from individual retirement arrangements, employee pensions or annuities, and disability pensions or annuities.

Individual retirement arrangement (IRA) distributions. In general, include IRA distributions in your gross income in the year you receive them. Exceptions to this general rule are rollovers and timely withdrawals of contributions, and the return of nondeductible contributions. (If you made nondeductible contributions, file Form 8606.)

Premature distributions. Premature (early) distributions are amounts you withdraw from your IRA before you are age 59½.

Generally, until you reach the age of 59½, you cannot withdraw assets (money or other property) from your IRA without having to pay an additional tax. However, there are a number of exceptions to that rule.

Exceptions. The 10% tax will not apply to the following distributions:

- Portions of any distributions treated as a return of nondeductible contributions.
- Distributions made after the owner's death.
- Distributions made because you became disabled.
- Distributions that are a part of a series of substantially equal payments over your life (or life expectancy), or over the lives (or life expectancies) of you and your beneficiary. For this exception to apply, you must use an IRS-approved distribution method and take at least one distribution annually. Also, the payments must continue for at least 5 years, or until you reach age 59½, whichever is the longer period. This 5-year rule does not apply if the payment change is because of the death or disability of the IRA owner.
- Distributions that are rolled over.

For more information on premature distributions, get Publication 590.

Required distributions. You cannot keep funds in your IRA indefinitely. You must eventually withdraw them or pay an excise tax on excess accumulations in your IRA. See *Excess Accumulations (Insufficient Distributions)*, next. The requirements for withdrawing IRA funds differ depending on whether you are the IRA owner or the beneficiary of a decedent's IRA.

Excess accumulations (insufficient distributions). You cannot keep amounts in your IRA indefinitely. Generally, you must begin receiving distributions by April 1 of the year following the year in which you reach age 70½.

Tax on excess. If distributions from your IRA(s) during the year are less than the required minimum distribution for the year, you may have to pay a 50% excise tax for that year on the excess amount remaining in your IRA.

Request to excuse the tax. If the excess accumulation is due to reasonable error and you have taken, or are taking, steps to remedy the insufficient distribution, you can request that the tax be excused.

For more information on IRAs, see Publication 590, *Individual Retirement Arrangements (IRAs).*

Pensions and annuities. Generally, if you did not pay any part of the cost of your employee pension or annuity, and your employer did not withhold part of the cost of the contract from your pay while you worked, the amounts you receive each year are fully taxable.

If you paid part of the cost of your annuity, you are not taxed on the part of the annuity you receive that represents a return of your cost. The rest of the amount you receive is taxable. You use either the ***General Rule*** or the ***Simplified General Rule*** to figure the taxable and nontaxable parts of your pension or annuity. These rules are explained later.

Loans. If you borrow money from an employer's qualified pension or annuity plan, a tax-sheltered annuity program, or a government plan, you may have to treat the loan as a nonperiodic distribution. This means that you may have to include all or part of the amount borrowed in your income. (The amount includible in income may be subject to a 10% tax on early distributions, discussed later.) For more information, see *Loans Treated as Distributions* in Publication 575, *Pension and Annuity Income (Including Simplified General Rule).*

Cost. Before you can figure how much, if any, of your pension or annuity is taxable, you must determine your cost in the plan (your investment). In general, your cost is your net investment in the contract as of the annuity starting date. This includes amounts your employer contributed that were taxable when paid.

From this total cost you must subtract:

1) Any refunded premiums, rebates, dividends, or unrepaid loans that were not included in your income and that you received on or before the later of the annuity starting date or the date on which you received your first payment.

2) Any other tax-free amounts you received under the contract or plan on or before the later of the dates in (1).

If you use the General Rule, you must subtract from your cost the value of any refund to be received in your contract.

The ***annuity starting date*** is the later of the first day of the first period for which you receive a payment from the plan or the date on which the plan's obligation became fixed.

Generally, the amount of your contributions recovered tax free during the year is shown in box 5 of Form 1099–R.

Foreign employment. If you worked in a foreign country before 1963, the amount your employer paid into your retirement plan may be considered part of your cost. For details, see *Foreign employment* in Publication 575.

Amount of exclusion. If you contributed to your pension or annuity and your annuity starting date was before 1987, you continue to take your monthly exclusion for as long as you receive your annuity.

If your annuity starting date is after 1986, the total amount of annuity you can exclude over the years as a return of the cost cannot exceed your total cost.

In either case, any unrecovered cost at your (or the last annuitant's death) is allowed as a miscellaneous itemized deduction on the final return of the decedent. This deduction is not subject to the 2%-of-adjusted-gross-income limit on miscellaneous deductions.

General Rule. You must use the General Rule to figure the taxability of your pension or annuity if your annuity starting date is after July 1, 1986, and you do not qualify for, and choose, the Simplified General Rule (explained next). You must also use the General Rule if your annuity starting date was before July 2, 1986, and you did not qualify to use the Three-Year Rule.

For more information on the General Rule, see Publication 939, *Pension General Rule (Nonsimplified Method).* That publication tells you how to figure your expected return and exclusion percentage, and contains certain actuarial tables you will need.

Simplified General Rule. If you can use the Simplified General Rule to figure the taxability of your annuity, it will probably be simpler and more beneficial than the General Rule, mentioned earlier.

Who can use it. You may be able to use the Simplified General Rule if you are a retired employee or if you are receiving a survivor annuity as the survivor of a deceased employee or retiree. If you are a survivor of a deceased retiree, you can use the Simplified General Rule if the retiree used it. You can use it to figure the taxability of your annuity only if:

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

How to use it. If you meet these conditions and you choose the Simplified General Rule, use the following worksheet to figure your taxable pension for 1994. In completing this worksheet, use your age at the birthday preceding your annuity starting date. (Be sure to keep a copy of the completed worksheet; it will help you figure your 1995 taxable pension.)

Worksheet for Simplified General Rule

1.	Total pension received this year. Also, add this amount to the total for Form 1040, line 16a, or Form 1040A, line 11a	$
2.	Your cost in the plan (contract) at annuity starting date, plus any death benefit exclusion*	
3.	Age at annuity starting date: — Enter: 55 and under — 300 56–60 — 260 61–65 — 240 66–70 — 170 71 and over — 120	
4.	Divide line 2 by line 3	
5.	Multiply line 4 by the number of months for which this year's payments were made	
	NOTE: If your annuity starting date is **before 1987,** enter the amount from line 5 on line 8 below. Skip lines 6, 7, 10, and 11.	
6.	Any amounts previously recovered tax free in years after 1986	
7.	Subtract line 6 from line 2	
8.	Enter the lesser of line 5 or line 7	
9.	**Taxable pension for year.** Subtract line 8 from line 1. Enter the result, but not less than zero. Also add this amount to the total for Form 1040, line 16b, or Form 1040A, line 11b.	$
	NOTE: If your Form 1099–R shows a larger taxable amount, use the amount on line 9 instead.	
10.	Add lines 6 and 8	
11.	Balance of cost to be recovered. Subtract line 10 from line 2	$

***Statement for death benefit exclusion**

Cost in plan (contract)	$
Death benefit exclusion	
Total (enter on line 2 above)	$

Signed:____________________________________

Date:______________________________________

KEEP FOR YOUR RECORDS

Example. Bill Kirkland, age 65, began receiving retirement benefits under a joint and survivor annuity to be paid for the joint lives of Bill and his wife, Kathy. His annuity starting date was January 1, 1994. He had contributed $24,000 to the plan and had received no distributions before the annuity starting date. Bill is to receive a retirement benefit of $1,000 a month, and Kathy is to receive a monthly survivor benefit of $500 upon Bill's death.

Bill chooses to use the Simplified General Rule computation. He fills in the worksheet as follows:

Worksheet for Simplified General Rule

1.	Total pension received this year. Also, add this amount to the total for Form 1040, line 16a, or Form 1040A, line 11a	$12,000
2.	Your cost in the plan (contract) at annuity starting date, plus any death benefit exclusion*	24,000
3.	Age at annuity starting date: — Enter: 55 and under — 300 56–60 — 260 61–65 — 240 66–70 — 170 71 and over — 120	240
4.	Divide line 2 by line 3	100
5.	Multiply line 4 by the number of months for which this year's payments were made	1,200
	NOTE: If your annuity starting date is **before 1987,** enter the amount from line 5 on line 8 below. Skip lines 6, 7, 10, and 11.	
6.	Any amounts previously recovered tax free in years after 1986	–0–
7.	Subtract line 6 from line 2	24,000
8.	Enter the lesser of line 5 or line 7	1,200
9.	**Taxable pension for year**. Subtract line 8 from line 1. Enter the result, but not less than zero. Also add this amount to the total for Form 1040, line 16b, or Form 1040A, line 11b.	$10,800
	NOTE: If your Form 1099–R shows a larger taxable amount, use the amount on line 9 instead.	
10.	Add lines 6 and 8	1,200
11.	Balance of cost to be recovered. Subtract line 10 from line 2	$22,800

***Statement for death benefit exclusion**

Cost in plan (contract)	$
Death benefit exclusion	
Total (enter on line 2 above)	$

Signed:____________________________________

Date:______________________________________

KEEP FOR YOUR RECORDS

Bill's tax-free monthly amount is $100 (see line 4 of the worksheet). If he lives to collect more than 240 monthly payments, he will have to include the full amount of the additional payments in his gross income.

If Bill dies before collecting 240 monthly payments and Kathy begins receiving payments, she will also exclude $100 from each payment until her payments, when added to Bill's, total 240 payments. If she dies before

240 payments are made, a miscellaneous itemized deduction will be allowed for the unrecovered cost on her final income tax return. This deduction is not subject to the 2%-of-adjusted-gross-income limit.

Death benefit exclusion. If you are a beneficiary of a deceased employee or former employee, you may qualify for a death benefit exclusion of up to $5,000. This exclusion is discussed later under *Payments to Beneficiaries of Deceased Employees (Death Benefit Exclusion).* If you choose the Simplified General Rule and you qualify for the death benefit exclusion, you increase your cost in the pension or annuity plan by the allowable death benefit exclusion. Your cost is on line 2 of the worksheet.

The payer of the annuity cannot add the death benefit exclusion to the cost for figuring the nontaxable and taxable part of payments reported on Form 1099–R. Therefore, the Form 1099–R taxable amount will be larger than the amount you will figure for yourself. Report on your return the smaller amount that you figure. You must attach a signed statement to your income tax return stating that you are entitled to the death benefit exclusion in making the Simplified General Rule computation. Or you may use the statement at the bottom of the worksheet. You must attach this statement to your return every year until you fully recover the cost in the pension or annuity plan.

Example. Diane Greene, age 48, began receiving a $1,500 monthly annuity in 1994 upon the death of her husband. She received 10 payments in 1994. Her husband had contributed $25,000 to his qualified retirement plan. Diane is entitled to a $5,000 death benefit exclusion for the annuity payments. She adds that amount to her husband's contributions to the plan, making her total cost in the plan $30,000.

Diane chooses to use the Simplified General Rule. She fills out the worksheet as follows:

Worksheet for Simplified General Rule

1.	Total pension received this year. Also, add this amount to the total for Form 1040, line 16a, or Form 1040A, line 11a		$15,000
2.	Your cost in the plan (contract) at annuity starting date, plus death benefit exclusion*		30,000
3.	Age at annuity starting date:	Enter:	
	55 and under	300	
	56–60	260	
	61–65	240	
	66–70	170	
	71 and over	120	300
4.	Divide line 2 by line 3		100
5.	Multiply line 4 by the number of months for which this year's payments were made		1,000
	NOTE: If your annuity starting date is **before 1987,** enter the amount from line 5 on line 8 below. Skip lines 6, 7, 10, and 11.		
6.	Any amounts previously recovered tax free in years after 1986		–0–
7.	Subtract line 6 from line 2		30,000
8.	Enter the lesser of line 5 or line 7		1,000
9.	**Taxable pension for year**. Subtract line 8 from line 1. Enter the result, but not less than zero. Also add this amount to the total for Form 1040, line 16b, or Form 1040A, line 11b.		$14,000
	NOTE: If your Form 1099–R shows a larger taxable amount, use the amount on line 9 instead.		
10.	Add lines 6 and 8		1,000
11.	Balance of cost to be recovered. Subtract line 10 from line 2		$29,000

***Statement for death benefit exclusion**

Cost in plan (contract)	$25,000
Death benefit exclusion	5,000
Total (enter on line 2 above)	$30,000

Signed: Diane Greene

Date: January 18, 1995

KEEP FOR YOUR RECORDS

In completing Form 1099–R, the payer of the annuity chooses to report the taxable part of the annuity payments using the Simplified General Rule. However, since the payer does not adjust the investment in the contract by the death benefit exclusion, the payer figures the tax-free part of each monthly payment to be $83.33, as follows:

$$\frac{\text{Total investment: \$25,000}}{\text{Expected payments: 300}} = \$83.33 \text{ (Monthly return of investment)}$$

However, Diane figures a $100 monthly tax-free amount (see line 4 of the worksheet). Because of this difference in the computations, the Form 1099–R Diane receives from the payer shows a greater taxable amount than what she figures for herself. She reports on line 16b of Form 1040 only the smaller taxable amount based on her own computation. She attaches to her Form 1040 a signed copy of the worksheet, which shows that she is entitled to the death benefit exclusion.

Changing the method. If your annuity starting date is after July 1, 1986, you can change the way you figure your pension cost recovery exclusion. You can change from the General Rule to the Simplified General Rule, or the other way around. Make the change by filing amended returns for all your tax years beginning with the year in which your annuity starting date occurred. You must use the same method for all years. Generally, you can make the change only within 3 years from the due date of your return for the year in which you received your first annuity payment. You can make the change later if the date of the change is within 2 years after you paid the tax for that year.

If your annuity starting date was before July 2, 1986, you cannot choose the Simplified General Rule at any time.

Survivors. If you receive a survivor annuity because of the death of a retiree who had reported the annuity under the Three-Year Rule, include the total received in income. (The retiree's cost has already been recovered tax free.)

If the retiree was reporting the annuity payments under the General Rule, you should apply the same exclusion percentage the retiree used to your initial payment called for in the contract. The resulting tax-free amount will then remain fixed. Any increases in the survivor annuity are fully taxable.

If the retiree had chosen to report the annuity under the Simplified General Rule, the monthly tax-free amount remains fixed. Continue to use the same monthly tax-free amount for your survivor payments.

Under some circumstances, if you are a beneficiary of a deceased employee or former employee, you may qualify for a death benefit exclusion of up to $5,000. Add it to the cost or unrecovered cost of the annuity at the annuity starting date. See *Payments to Beneficiaries of Deceased Employees (Death Benefit Exclusion),* later.

Reporting your annuity. If you file Form 1040, report your total annuity on line 16a, and the taxable part on line 16b. If your pension or annuity is fully taxable, enter it on line 16b. Do not make an entry on line 16a. For example, if you received monthly payments totaling $1,200 during 1994 from a pension plan that was completely financed by your employer, and you had paid no tax on the payments that your employer made to the plan, the entire $1,200 is taxable. You include $1,200 on line 16b, Form 1040.

If you file Form 1040A, report your total annuity on line 11a, and the taxable part on line 11b. If your pension or annuity is fully taxable, enter it on line 11b. Do not make an entry on line 11a.

Withholding. The payer of your pension, profit-sharing, stock bonus, annuity, or deferred compensation plan will withhold income tax on the taxable part of amounts paid to you. You can choose not to have tax withheld except for amounts paid to you that are eligible rollover distributions. See *Withholding Tax and Estimated Tax* and *Rollovers* in Publication 575 for more information.

For payments other than eligible rollover distributions, you can tell the payer how to withhold by filing a Form W–4P, *Withholding Certificate for Pension or Annuity Payments.*

Outside United States. To choose not to have tax withheld a U.S. citizen or resident alien, must give the payer a home address in the United States or its possessions. Without that address, the payer must withhold tax. For example, the payer has to withhold tax if you provide a U.S. address for a nominee, trustee, or agent to whom the benefits are to be delivered, but do not provide your own home address in the United States or in a U.S. possession.

Form W–4P may also be used to have tax withheld from periodic payments at the rate that applies to your filing status and number of withholding allowances. If you do not fill out Form W–4P, tax should be withheld from periodic payments as if you were married and claiming three withholding allowances.

Form 1099–R. For 1994, you will receive a Form 1099–R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.,* for your pension or annuity, whether or not any tax was withheld.

Form 1099–R shows your pension or annuity for the year and any income tax withheld. Report the tax withheld on line 54, Form 1040, or on line 28a, Form 1040A. You cannot use Form 1040EZ if you receive pension or annuity payments.

Tax on early distributions. Most distributions you receive from your qualified retirement plan or deferred annuity contract before you reach age 59½ are subject to an additional tax of 10%. The tax applies to the part of the distribution that you must include in gross income.

For this purpose, a qualified retirement plan means:

1) A qualified employee retirement plan,
2) A qualified annuity plan,
3) A tax-sheltered annuity plan for employees of public schools or tax-exempt organizations, or
4) An individual retirement arrangement (IRA).

Exceptions to tax. The 10% early distribution tax does not apply to distributions that are:

1) Made to a beneficiary or to the estate of the plan participant or annuity holder on or after his or her death,
2) Made because you are totally and permanently disabled,
3) Made as part of a series of substantially equal periodic (at least annual) payments over your life (or life expectancy) or the joint lives (or joint life expectancies) of you and your beneficiary (if from an employee plan, payments must begin after separation from service),
4) Made to you after you separated from service with your employer if the separation occurred during or after the calendar year in which you reach age 55,
5) Paid to you to the extent you have deductible medical expenses (whether or not you itemize deductions for the tax year),
6) Paid to alternate payees under qualified domestic relations orders (QDROs),
7) Made to you if, as of March 1, 1986, you separated from service and began receiving benefits from the qualified plan under a written election designating a specific schedule of benefit payments,

8) Made to correct excess deferrals, excess contributions, or excess aggregate contributions,

9) Allocable to investment in a deferred annuity contract before August 14, 1982,

10) From an annuity contract under a qualified personal injury settlement,

11) Made under an immediate annuity contract, or

12) Made under a deferred annuity contract purchased by your employer upon the termination of a qualified employee retirement plan or qualified annuity that is held by your employer until you separate from the service of the employer.

Only exceptions (1) through (3) apply to distributions from individual retirement plans (IRAs). Exceptions (4) through (8) apply only to distributions from qualified employee plans. Exceptions (9) through (12) apply only to deferred annuity contracts not purchased by qualified employer plans.

Form 5329. Use Form 5329, *Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts,* to report the additional tax you owe on the taxable part of the early distribution. You may also have to file Form 5329 if you meet one of the exceptions listed earlier. However, you do not have to file Form 5329 if you owe only the tax on early distributions and your Form 1099–R shows a ''1'' in box 7. Instead, enter 10% of the taxable part of the distribution on line 51 of Form 1040 and write ''No'' on the dotted line next to line 51.

Tax on excess distributions. If you received retirement distributions in excess of $150,000 during the calendar year, you are subject to an additional 15% excise tax on the amount over $150,000. For details, see Publication 575.

Tax for failure to make minimum distribution. To make sure that most of your retirement benefits are paid to you during your lifetime, rather than to your beneficiaries after your death, your retirement payments from qualified plans and IRAs must generally begin, at the latest, soon after you reach age 70½. The payments cannot be less than the minimum distribution required each year. If the actual distributions to you in any year are less than the minimum required for that year, you are subject to an additional tax. The tax equals 50% of the required minimum amount not distributed.

The additional tax applies to qualified employee retirement plans, qualified annuity plans, deferred compensation plans under section 457, tax-sheltered annuity programs (for benefits accruing after 1986), and IRAs.

The tax may be waived if you establish that the shortfall in distributions was due to reasonable error and that reasonable steps are being taken to remedy the shortfall.

For more information, see Publication 575.

Disability Income

If you retired on disability, you must report your disability income as ordinary income.

If you were 65 or older by the end of 1994, or you were retired on permanent and total disability and received taxable disability income in 1994, you may be able to claim the credit for the elderly or the disabled. See *Credit for the Elderly or the Disabled,* later.

Taxable disability pensions or annuities. Generally, you must report as income any amount you receive for your disability through an accident or health insurance plan that is paid for by your employer. However, certain payments may not be taxable to you. See *Sickness or injury benefits,* earlier, under *Nontaxable Income.*

Employee contributions. If the plan says that you must pay a specific part of the cost of your disability pension, any amounts you receive that are due to your payments to the disability pension are not taxed. You do not report them on your return. They are treated as benefits received under an accident or health insurance policy that you bought. You generally must include in income the rest of the amounts you receive that are due to your employer's payments. Your employer should be able to give you specific details about your pension plan and the amount, if any, you paid for your disability pension.

Accrued leave payment. If you retired on disability, any lump-sum payment you received for accrued annual leave is a salary payment. The payment is not a disability payment. Include it in your gross income in the year you receive it.

Workers' compensation. If part of your disability pension is workers' compensation, that part is exempt from tax. If you die, the part of your survivor's benefit that is a continuation of the workers' compensation is exempt from tax.

How to report. You must report all your taxable disability income on line 7, Form 1040, or line 7, Form 1040A, until you reach minimum retirement age. Generally, this is the age at which you could first receive a pension or annuity were you not disabled.

Beginning on the day after you reach minimum retirement age, the payments are treated as a pension or annuity. Report them on lines 16a and 16b, Form 1040, or on lines 11a and 11b, Form 1040A.

Railroad Retirement Benefits

Benefits paid under the Railroad Retirement Act fall into two categories. These categories are treated differently for income tax purposes.

Tier 1. 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'' (SSEB) and is treated (for tax purposes) like social security benefits. (See *Social Security and Equivalent Railroad Retirement Benefits,* later.)

Non-social security equivalent benefits. The second category consists of the rest of the tier 1 benefits, called the ''non-social security equivalent benefit'' (NSSEB), and any tier 2 benefits, vested dual benefits, and supplemental annuity benefits. This category of benefits is treated as an amount received from a qualified employer plan. This allows for the tax-free recovery of employee contributions from the tier 2 benefits and the NSSEB part of the tier 1 benefits. Vested dual benefits and supplemental annuity benefits are fully taxable. See *Pensions and annuities,* earlier. The employee contributions are the taxes that were withheld from the railroad employee's pay that exceeded the amount of taxes that would have been withheld had the earnings been covered under the social security system.

Military Retirement Pay

Military retirement pay based on age or length of service is taxable and must be included in gross income as a pension on lines 16a and 16b of Form 1040, or on lines 11a and 11b of Form 1040A. Do not include in your income the amount of reduction in retirement or retainer pay to provide a survivor annuity for your spouse or children under the Retired Serviceman's Family Protection Plan or the Survivor Benefit Plan.

Veterans' benefits and insurance are discussed under *Nontaxable Income,* earlier.

Lump-Sum Distributions

If you receive a lump-sum distribution from a qualified retirement plan, you may be able to elect optional methods of figuring the tax on the distribution. The part from active participation in the plan before 1974 may qualify for capital gain treatment. The part from participation after 1973 (and any part from participation before 1974 that you do not report as capital gain) is ordinary income. You may be able to use the 5– or 10–year tax option to figure tax on the ordinary income part.

You can use these tax options to figure your tax on a lump-sum distribution only if the plan participant was born before 1936.

Note. Beginning in 1995, you may be able to figure the tax on a lump-sum distribution under the 5–year tax option even if the plan participant was born after 1935. You can do this only if the distribution is made after the participant has reached age 59½ and the distribution otherwise qualifies.

Distributions that qualify. A lump-sum distribution is paid within a single tax year. It is the distribution or payment of a plan participant's entire balance from all of the employer's qualified pension plans, all of the employer's qualified stock bonus plans, or all of the employer's qualified profit-sharing plans. (The participant's entire balance does not include deductible voluntary employee contributions or certain forfeited amounts.)

The distribution is paid:

1) Because of the plan participant's death,
2) After the participant reaches age 59½,
3) Because the participant, if an employee, separates from service, or
4) After the participant, if a self-employed individual, becomes totally and permanently disabled.

Tax treatment. You can recover your ***cost*** in the lump sum tax free. Also, you may be entitled to special tax treatment for the remaining part of the distribution.

In general, your cost consists of:

1) The plan participant's total nondeductible contributions to the plan,
2) The total of the plan participant's taxable costs of any life insurance contract distributed,
3) Any employer contributions that were taxable to the plan participant,
4) Repayments of loans that were taxable to the plan participant,
5) The net unrealized appreciation in employer's securities distributed, and
6) The death benefit exclusion, if applicable.

You must reduce this cost by any amounts previously distributed tax free.

Capital gain treatment. If the plan participant was born before 1936, you can elect to treat a portion of the taxable part of a lump-sum distribution as a capital gain taxable at a 20% rate. This treatment applies to the portion you receive for the participation in the plan before 1974. You can elect this treatment only once for any plan participant. Use **Form 4972**, *Tax on Lump-Sum Distributions,* to make this choice.

5– or 10–year tax options. If the plan participant reached age 50 before 1986 (was born before 1936), you can elect to use the 5– or 10–year option to compute the tax on the ordinary income portion of the distribution. (This also includes the capital gain portion of the distribution if you do not elect the capital gain treatment for it.) To qualify, you must elect to use the 5– or 10–year tax option for all lump-sum distributions received in the tax year.

To qualify for the 5– or 10–year option for a distribution you receive for your own participation in the retirement plan, you must have been a participant in the plan for at least 5 full tax years. You can only make one lifetime election to use this option for any plan participant.

If you choose the tax option, you generally figure your tax, using Form 4972, as though the distribution were received over 5 years.

However, you can instead treat the distribution as though it were received over 10 years if you apply the special 1986 tax rates to it. Form 4972 shows how to make this computation. The Form 4972 Instructions contain a special 1986 tax rate schedule that you must use in making the 10–year tax option computation.

For more information, see Publication 575.

Form 1099–R. If you receive a total distribution from a plan, you should receive a Form 1099–R. If the distribution qualifies as a lump-sum distribution, box 3 shows the capital gain and box 2a minus box 3 is the ordinary income. If you do not get a Form 1099–R, or if you have questions about it, contact your plan administrator.

Life Insurance Proceeds

Life insurance proceeds paid to you because of the death of the insured person are not taxable unless the policy was turned over to you for a price. This is true even if the proceeds were paid under an accident or health insurance policy or an endowment contract.

Proceeds not received in installments. If death benefits are paid to you in a lump sum or other than at regular intervals, include them in your gross income only to the extent they are more than the amount payable to you at the time of the insured person's death. If the benefit payable at death is not specified, you include the benefit payments in your income to the extent they are more than the present value of the payments at the time of death.

Proceeds received in installments. If you receive life insurance proceeds in installments, you can exclude a part of each installment from your income.

To determine the excluded part, divide the amount held by the insurance company (generally, the total lump sum payable at the death of the insured person) by the number of installments to be paid. Include anything over this excluded part in your income as interest.

Example. The face amount of the policy is $75,000 and, as beneficiary, you choose to receive 120 monthly installments of $1,000 each. The excluded part of each installment is $625 a month ($75,000 ÷ 120), or $7,500 for an entire year. The rest of each payment, $375 a month (or $4,500 for an entire year), is interest income to you.

Specified amount payable. If each installment you receive under the insurance contract is a specific amount, you figure the excluded part of each installment by dividing the amount held by the insurance company by the number of installments necessary to use up the principal and guaranteed interest in the contract.

Example. As beneficiary, you choose to receive $40,000 of proceeds in 10 annual installments of $4,000 plus $400 of guaranteed interest each year. During the year you receive $4,400. You can exclude from your gross income $4,000 ($40,000 ÷ 10) as a return of principal. The rest of the installment, $400, is taxable as interest income. (However, see *Surviving spouse,* later.)

Installments for life. If, as the beneficiary under an insurance contract, you are entitled to receive the proceeds in installments for the rest of your life without a refund or period-certain guarantee, you figure the excluded part of each installment by dividing the amount held by the insurance company by your life expectancy. If there is a refund or period-certain guarantee, the amount held by the insurance company for this purpose is reduced by the actuarial value of the guarantee.

Surviving spouse. If your spouse died before October 23, 1986, and insurance proceeds are paid to you because of the death of your spouse, and you receive them in installments, you can exclude up to $1,000 a year of the interest included in the installments. This is in addition to the part of each installment that is excluded as a recovery of the lump sum payable at death. If you later remarry, you can continue to take the exclusion.

If your spouse died after October 22, 1986, you cannot exclude any interest payments included in the installment payments.

Interest option on insurance. If an insurance company pays you interest only on proceeds from life insurance left on deposit with them, the interest you are paid is taxable.

If your spouse died before October 23, 1986, and you chose to receive only the interest from your insurance proceeds, the $1,000 interest exclusion for a surviving spouse does not apply. If you later decide to receive the proceeds from the policy in installments, you can take the interest exclusion from the time you begin to receive the installments.

Surrender of policy for cash. If you surrender a life insurance policy for cash, you must include in income any proceeds that exceed the amount of premiums that you paid. If you received a Form 1099–R, report these amounts on lines 16a and 16b of Form 1040, or lines 11a and 11b of Form 1040A.

Endowment Proceeds

Endowment proceeds paid in a lump sum to you at maturity are taxable only if the proceeds are more than the cost of the policy. Add any amounts that you previously received under the contract and excluded from income to the lump-sum payment to find out how much of the total is a return of your cost and how much is an excess over your cost. Include any excess over your cost in income.

Endowment proceeds that you choose to receive in installments instead of a lump-sum payment at the maturity of the policy are taxed as an annuity as explained earlier. For this treatment to apply, you must choose to receive the proceeds in installments before receiving any part of the lump sum. This election must be made within 60 days after the lump-sum payment first becomes payable to you.

Payments to Beneficiaries of Deceased Employees (Death Benefit Exclusion)

The first $5,000 of payments made by or for an employer because of an employee's death can be excluded from the income of the beneficiaries. The payments need not be made as the result of a contract. The amount excluded for any deceased employee cannot be more than $5,000 regardless of the number of employers or the number of beneficiaries.

This exclusion also covers payments of the balance to the credit of a deceased employee under a stock bonus, pension, or profit-sharing plan, as long as they are received during one tax year of the beneficiary. See Publication 575 for details.

Example. William Smith was an officer of a corporation at the time of his death last year. The board of directors voted to pay Mr. Smith's salary to his widow for the remainder of the year for his past services. During the year the corporation made payments of $18,000 to the widow. She can exclude from her income the first $5,000 she received, but must include the remaining $13,000 on line 21 of her Form 1040.

Self-employed individuals. The death benefit exclusion also applies to lump-sum distributions paid on behalf of self-employed individuals, if paid under a qualified pension, profit-sharing, or stock bonus plan.

Payments not qualifying. Any amount that the deceased employee (or self-employed individual) had a guaranteed right to receive, had death not occurred, cannot be excluded as a tax-free death benefit. If the deceased employee was receiving a retirement annuity, and the beneficiary continues to receive payments under a joint and survivor annuity option, these payments do not qualify for the death benefit exclusion. However, if the deceased employee had retired on disability and at the time of death had not reached minimum retirement age, payments to the beneficiary may qualify for the death benefit exclusion. Minimum retirement age generally is the age at which an individual can first receive a pension or annuity were that individual not disabled.

See Publication 575 for more information.

Paid in installments. Death benefits paid in installments over a period of years are annuity payments. If you are the beneficiary of an employee who died while still employed, the pension or annuity you receive may qualify for the death benefit exclusion. If you are eligible for the exclusion, add it to the cost or unrecovered cost of the annuity in figuring, at the annuity starting date, the investment in the contract. Figure the excludable part of each payment under the *General Rule,* or *Simplified General Rule,* discussed earlier.

Social Security and Equivalent Railroad Retirement Benefits

Beginning in 1994, if you received social security or tier 1 equivalent railroad retirement benefits, you may have to include a greater percentage of these benefits in taxable income. Some persons may have to include up to 50% in taxable income and others may have to include up to 85% of their benefits in taxable income. See *Are Any of Your Benefits Taxable,* later, for more information.

When the term ''benefits'' is used in this section, it applies to social security benefits and equivalent tier 1 railroad retirement benefits. These equivalent tier 1 railroad retirement benefits are equal to the social security benefits that a railroad employee or beneficiary would have been entitled to receive if the employee's service had been covered under the social security system rather than the railroad retirement system.

SSI payments. Social security benefits you receive during the year do not include any supplemental security income (SSI) payments.

Who is taxed. The person who has the legal right to receive the benefits must determine if the benefits are taxable. For example, if you and your child receive benefits, but the check for your child is made out in your name, you must use only your portion of the benefits in figuring if any part is taxable to you. The portion of the benefits that belongs to your child must be added to your child's other income to see if any of those benefits are taxable.

Are Any of Your Benefits Taxable?

If the only income you received during 1994 was your social security or equivalent tier 1 railroad retirement benefits, your benefits generally are not taxable and you probably do not have to file a return. However, if you have income in addition to your benefits, you may have to include part of your benefits in your taxable income.

How to Determine

To determine whether any of your benefits are taxable, you will need to figure the total amount of your income and one-half of your benefits and compare the total to a *base amount* for your filing status, as explained next.

Base amount. If you received income during 1994 in addition to benefits, ***up to 50% of your benefits*** could be included in your taxable income if your income (the amount on line 7 of Worksheet 1 or 1A) is more than the following ***base amounts:***

- $25,000 if you are single, head of household, or qualifying widow(er),
- $25,000 if you are married filing separately and ***lived apart*** from your spouse for ***all of 1994***,

- $32,000 if you are married filing jointly, or
- $–0– if you are married filing separately and ***lived with*** your spouse at any time during 1994.

Adjusted base amount. If you received income during 1994 in addition to benefits, ***up to 85% of your benefits*** could be included in your taxable income if your income (the amount on line 7 of Worksheet 1 or 1A, provided later) is more than the following ***adjusted base amounts:***

- $34,000 if you are single, head of household, or qualifying widow(er),
- $34,000 if you are married filing separately and ***lived apart*** from your spouse for all of 1994,
- $44,000 if you are married filing jointly, or
- $–0– if you are married filing separately and ***lived with*** your spouse at any time during 1994.

How 50% and 85% rates apply. The 50% rate is used to figure the taxable part of income (the amount on line 7 of Worksheet 1 or 1A, provided later) that exceeds the base amount but does not exceed the higher adjusted base amount. The 85% rate is used to figure the taxable part of income that exceeds the adjusted base amount.

Limits on taxable benefits. If your income (the amount on line 7 of Worksheet 1 or 1A, provided later):

1) Is equal to or less than your base amount, none of your benefits are included in taxable income.
2) Exceeds your base amount but does not exceed your adjusted base amount, no more than 50% of your benefits can be included in taxable income.
3) Exceeds your adjusted base amount, no more than 85% of your benefits can be included in taxable income.

Married filing separately and lived with spouse. If you are married filing separately and you lived with your spouse at any time during 1994, your base amount and adjusted base amount will be zero. In that case, your gross income will include the lesser of:

1) 85% of your benefits, or
2) 85% of your income on line 7 of Worksheet 1 or 1A, provided later.

Joint return. If you are married and file a joint return for 1994, you and your spouse must combine your incomes and your benefits when figuring if any of your combined benefits are taxable. Even if your spouse did not receive any benefits, you must add your spouse's income to yours when figuring if any of your benefits are taxable.

You can use the worksheet in the following example, substituting your own amounts, to figure whether your income is more than the base amount for your filing status. A similar worksheet is included in your Form SSA–1099 package.

Example. You and your spouse are filing a joint return for 1994 and you both received social security benefits during the year. In January 1995, you received a Form SSA–1099 showing net benefits of $6,600 in box 5. Your spouse received a Form SSA–1099 showing $2,400 in box 5. You also received a taxable pension of $10,000 and interest income of $500 during 1994. You did not have any tax-exempt interest in 1994. Your benefits are not taxable for 1994 because your income, as figured in the following worksheet, is not more than your base amount ($32,000).

A. Write in the amount from box 5 of all your Forms SSA–1099 and RRB–1099. Include the full amount of any lump-sum benefit payments received in 1994, for 1994 and earlier years, if you choose to report the full amount for the 1994 tax year. (If you received more than one form, combine the amounts from box 5 and write in the total.)	A. $ 9,000
Note. *If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.*	
B. Divide line A by 2 and write the result	B. 4,500
C. Add your taxable pensions, wages, interest, dividends, and other taxable income and write in the total	C. 10,500
D. Write in any tax-exempt interest, (such as interest on municipal bonds) plus any exclusions from income (such as U.S. Savings Bond interest exclusion)	D. –0–
E. Add lines B, C, and D, and write in the total	E. $ 15,000

Note. *If the amount on line E is more than the base amount for your filing status, part of your benefits will be taxable this year. If the amount on line E is less than the base amount for your filing status, none of your benefits are taxable this year.*

Repayments. Any repayment of benefits you made during 1994 is automatically subtracted from the gross benefits you received in 1994. It does not matter if the repayment you made in 1994 was for a benefit you received before 1994. Your repayment is shown in box 4 of the Form SSA–1099 or Form RRB–1099 you receive.

Example. In 1993 you received $3,000 in social security benefits, and in 1994 you received $2,700. In March 1994, the Social Security Administration notified you that you should have only received $2,500 in benefits in 1993. During 1994, you repaid $500 to the Social Security Administration. The Form SSA–1099 you received for 1994 shows $2,700 in box 3 and $500 in box 4. Box 5 shows your net benefits of $2,200.

How Much Is Taxable?

If your benefits are taxable, you can generally figure the taxable amount by using Worksheet 1 (for Form 1040 filers) or Worksheet 1A (for Form 1040A filers), provided later.

Special worksheets for IRA deduction and taxable benefits. If you made contributions to an individual retirement arrangement (IRA) for 1994 and if your IRA deduction is limited because you or your spouse is covered by a retirement plan at work, you must use the special worksheets in Appendix B of Publication 590, *Individual Retirement Arrangements (IRAs),* to figure your IRA deduction and taxable benefits to be reported on your return.

What to do first. Before you figure the amount of your taxable benefits, read *How To Figure and Report,* next, and the following examples, which you can use as a guide to figure taxable benefits. You will find that the amount of benefits to be included in taxable income cannot be more than 50% or 85% of the total net benefits (amounts received minus amounts repaid) received during the year. See *How 50% and 85% rates apply* earlier.

How To Figure and Report

After you figure your taxable benefits on one of the worksheets discussed under *Which worksheet to use,* next, report your taxable benefits on Form 1040 or Form 1040A. You cannot use Form 1040EZ. Report your net benefits (the amount in box 5 of your Form SSA–1099 or Form RRB–1099) on line 20a, Form 1040, or on line 13a, Form 1040A. Report the taxable part (from the last line of the worksheet) on line 20b, Form 1040, or on line 13b, Form 1040A.

If none of your benefits are taxable, do not enter any amounts on Form 1040A lines 13a or 13b, or Form 1040 lines 20a or 20b.

Which worksheet to use. If you are not required to use the Publication 590 worksheets (see *Special worksheets for IRA deduction and taxable benefits,* earlier) to figure your taxable benefits, you can use Worksheet 1 or 1A, provided later. You also may be able to use the worksheet in the Form 1040 or Form 1040A instruction package. However, if you are not required to use the Publication 590 worksheets and you take the U.S. savings bond interest exclusion, the foreign earned income exclusion, the foreign housing exclusion or deduction, the exclusion of income from U.S. possessions, or the exclusion of income from Puerto Rico by bona fide residents of Puerto Rico, you must use the worksheets in Publication 915.

Examples

Following are two examples you can use as a guide to figure the taxable part of your benefits.

Example 1. George White is single and files Form 1040 for 1994. He received the following income in 1994:

Fully taxable pension	$18,600
Wages from part-time job	9,400
Interest income	990
Total	$28,990

George also received social security benefits during 1994. The Form SSA–1099 he received in January 1995 shows $7,200 in box 3; $1,220 in box 4; and $5,980 in box 5. To figure his taxable benefits, George completes the worksheet shown next for Form 1040 filers.

Social Security and Equivalent Railroad Retirement Benefits Worksheet 1—Form 1040 Filers (Keep for your records)

Check only one box.

- ☑ **A.** Single, Head of household, or Qualifying widow(er)
- ❑ **B.** Married filing jointly
- ❑ **C.** Married filing separately and lived with your spouse at any time during 1994
- ❑ **D.** Married filing separately and **did not** live with your spouse at any time during 1994

1.	Enter the total amount from **box 5** of **ALL** your **Forms SSA–1099 and RRB–1099** (if applicable)	5,980

Note. *If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go to line 2.*

2.	Enter one-half of line 1	2,990
3.	Add the amounts on Form 1040, lines 7, 8a, 8b, 9 through 14, 15b, 16b, 17 through 19, and line 21. Do not include here any amounts from box 5 of Forms SSA–1099 or RRB–1099	28,990
4.	Enter the amount of any exclusions from: U.S. savings bond interest, foreign earned income, foreign housing, income from U.S. possessions, or income from Puerto Rico by bona fide residents of Puerto Rico that you claimed	0
5.	Add lines 2, 3, and 4	31,980
6.	Enter the total adjustments plus any write-in amounts from Form 1040, line 30 (other than foreign housing deduction)	0
7.	Subtract line 6 from line 5	31,980
8.	Enter: **$25,000** if you checked box **A** or **D,** or **$32,000** if you checked box **B,** or **–0–** if you checked box **C**	25,000
9.	Subtract line 8 from line 7. If zero or less, enter –0–	6,980
	Is line 9 more than zero? **No.** Stop here. None of your benefits are taxable. Do not enter any amounts on lines 20a or 20b. But if you are married filing separately and you lived apart from your spouse for all of 1994, enter –0– on line 20b. Be sure you entered ''D'' to the left of line 20a. **Yes.** Go to line 10.	
10.	Enter $9,000 ($12,000 if married filing jointly; $0 if married filing separately and you lived with your spouse at any time in 1994)	9,000
11.	Subtract line 10 from line 9. If zero or less, enter –0–	0
12.	Enter the smaller of line 9 or line 10	6,980
13.	Enter one-half of line 12	3,490

Worksheet 1-For Form 1040 Filers. **Social Security and Equivalent Railroad Retirement Benefits**
(Keep for your records)

Check only one box:

- ❏ **A.** Single, Head of household, or Qualifying widow(er)
- ❏ **B.** Married filing jointly
- ❏ **C.** Married filing separately and lived with your spouse at any time during 1994
- ❏ **D.** Married filing separately and lived apart from your spouse for all of 1994

1. Enter the total amount from box 5 of ALL your Forms SSA–1099 and RRB–1099 (if applicable) .... **1.** ______

Note: *If line 1 is zero or less, stop here; none of your benefits are taxable. Otherw ise, go to line 2.*

2. Enter one half of line 1 .... **2.** ______

3. Add the amounts on your 1994 Form 1040, lines 7, 8a, 8b, 9 through 14, and line 15b, 16b, 17 through 19, and 21. Do not include any amounts from box 5 of Forms SSA–1099 or RRB–1099 here .... **3.** ______

4. Enter the amount of any exclusion from U.S. savings bond interest, foreign earn ed income, foreign housing, income from U.S. possessions, or income from Puerto Ri co by bona fide residents of Puerto Rico that you claimed .... **4.** ______

5. Add lines 2, 3, and 4 .... **5.** ______

6. Enter the total adjustments, plus any write-in amounts from Form 1040, line 30 (other than the foreign housing deduction) .... **6.** ______

7. Subtract line 6 from line 5 .... **7.** ______

8. Enter:
$25,000 if you checked Box **A** or **D,** or
$32,000 if you checked Box **B,** or
–0– if you checked Box **C** .... **8.** ______

9. Subtract line 8 from line 7. If zero or less, enter -0-. .... **9.** ______

Is line 9 more than zero?

No. *Stop here. None of your benefits are taxable. Do not enter any amounts on lines 20a or 20b. But if you are married filing separately and you lived apart from y our spouse for all of 1994, enter –0– on line 20b. Be sure you entered 'D' to the l eft of line 20a.*

Yes. *Go to line 10.*

10. Enter $9,000 ($12,000 if married filing jointly; $0 if married filing separate ly and you lived with your spouse at any time in 1994) .... **10.** ______

11. Subtract line 10 from line 9. If zero or less, enter –0– .... **11.** ______

12. Enter the **smaller** of line 9 or line 10 .... **12.** ______

13. Enter one half of line 12 .... **13.** ______

14. Enter the **smaller** of line 2 or line 13 .... **14.** ______

15. Multiply line 11 by 85% (.85). If line 11 is zero, enter –0– .... **15.** ______

16. Add lines 14 and 15 .... **16.** ______

17. Multiply line 1 by 85% (.85) .... **17.** ______

18. **Taxable benefits.** Enter the smaller of line 16 or line 17 .... **18.** ______

- Enter on Form 1040, line 20a, the amount from line 1.
- Enter on Form 1040, line 20b, the amount from line 18.

Note: *Use this worksheet whether or not you received a lump-sum payment. If you recei ved a lump-sum payment in this year that was for an earlier year, see Lump-Sum Benefits, earlier, and get Publication 915.*

Worksheet 1A For 1040A Filers. **Social Security and Equivalent Railroad Retirement Benefits**
(Keep for your records)

Check only one box:

❏ **A.** Single, Head of household, or Qualifying widow(er)
❏ **B.** Married filing jointly
❏ **C.** Married filing separately and lived with your spouse at any time during 1994
❏ **D.** Married filing separately and lived apart from your spouse for all of 1994

1. Enter the total amount from box 5 of ALL your Forms SSA–1099 and RRB–1099 (if applicable) .... **1.** ______
Note: *If line 1 is zero or less, stop here; none of your benefits are taxable. Other wise, go to line 2.*
2. Enter one half of line 1 .... **2.** ______
3. Add the amounts on Form 1040A, lines 7, 8a, 8b, 9, 10b, 11b, and 12. Do not inc lude here any amounts from box 5 of Forms SSA–1099 or RRB–1099 .... **3.** ______
4. Enter the amount of any U.S. savings bond interest exclusion from Schedule 1, l ine 3, that you claimed .... **4.** ______
5. Add lines 2, 3, and 4 .... **5.** ______
6. Enter the amount from Form 1040A, line 15c .... **6.** ______
7. Subtract line 6 from line 5 .... **7.** ______
8. Enter:
$25,000 if you checked Box **A** or **D,** or
$32,000 if you checked Box **B,** or
–0– if you checked Box **C** .... **8.** ______
9. Subtract line 8 from line 7. If zero or less, enter -0- .... **9.** ______
Is line 9 more than zero?
No. *Stop here. None of your benefits are taxable. Do not enter any amounts on lines 13a or 13b. But if you are married filing separately and you lived apart from y our spouse for all of 1994, enter –0– on line 13b. Be sure you entered 'D' to the l eft of line 13a.*
Yes. *Go to line 10.*
10. Enter $9,000 ($12,000 if married filing jointly; $0 if married filing separate ly and you lived with your spouse at any time in 1994) .... **10.** ______
11. Subtract line 10 from line 9. If zero or less, enter –0– .... **11.** ______
12. Enter the **smaller** of line 9 or line 10 .... **12.** ______
13. Enter one half of line 12 .... **13.** ______
14. Enter the **smaller** of line 2 or line 13 .... **14.** ______
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter –0– .... **15.** ______
16. Add lines 14 and 15 .... **16.** ______
17. Multiply line 1 by 85% (.85) .... **17.** ______
18. **Taxable benefits.** Enter the smaller of line 16 or line 17 .... **18.** ______

- Enter on Form 1040A, line 13a, the amount from line 1.
- Enter on Form 1040A, line 13b, the amount from line 18.

Note: *Use this worksheet whether or not you received a lump-sum payment. If you recei ved a lump-sum payment in this year that was for an earlier year, see Lump-Sum Benefits, earlier, and get Publication 915.*

14.	Enter the smaller of line 2 or line 13	2,990
15.	Multiply line 11 by 85% (.85). If line 11 is zero, enter –0–	0
16.	Add lines 14 and 15	2,990
17.	Multiply line 1 by 85% (.85)	5,083
18.	Taxable benefits. Enter the smaller of line 16 or line 17	2,990

- Enter on Form 1040, line 20a, the amount from line 1
- Enter on Form 1040, line 20b, the amount from line 18

The amount on line 18 of George's worksheet shows that $2,990 of his social security benefits is taxable. On line 20a of his Form 1040, George enters his net benefits of $5,980. On line 20b, he enters the taxable part of $2,990.

Example 2. Joe and Betty Johnson file a joint return on Form 1040A for 1994. Joe is retired and receives social security benefits. Joe's Form SSA–1099 shows $10,000 in box 5. Betty is a retired government worker and receives a fully taxable pension of $38,000. The only other income Joe and Betty had in 1994 was $2,300 in interest income. They claim a $200 exclusion of U.S. savings bond interest income. They figure their taxable social security benefits by completing the worksheet shown next.

Worksheet for Social Security and Equivalent Railroad Retirement Benefits Worksheet 1A—Form 1040A Filers

Check only one box.

❑ **A.** Single, Head of household, or Qualifying widow(er)
☑ **B.** Married filing jointly
❑ **C.** Married filing separately and lived with your spouse at any time during 1994
❑ **D.** Married filing separately and lived apart from your spouse for all of 1994

1.	Enter the total amount from box 5 of all your Forms SSA–1099 and RRB–1099 (if applicable)	10,000

Note. *If line 1 is zero or less, stop; none of your benefits are taxable. Otherwise, go on to line 2.*

2.	Enter one-half of line 1	5,000
3.	Add the amounts on Form 1040A, lines 7, 8a, 8b, 9, 10b, 11b, and 12. Do not include any amounts from box 5 of Forms SSA–1099 or RRB–1099	40,300
4.	Enter the amount of any U.S. savings bond interest exclusion from Schedule 1, line 3 that you claimed	200
5.	Add lines 2, 3, and 4	45,500
6.	Enter the amount from Form 1040A, line 15c	0
7.	Subtract line 6 from line 5.	45,500
8.	Enter: **$25,000** if you checked box **A** or **D,** or **$32,000** if you checked box **B,** or **–0–** if you checked box **C**	32,000
9.	Subtract line 8 from line 7. If zero or less, enter –0–	13,500

Is line 9 more than zero? **No.** Stop here. None of your benefits are taxable. Do not enter any amounts on lines 13a or 13b. But if you are married filing separately and you lived apart from your spouse for all of 1994, enter –0– on line 13b. Be sure you entered "D" to the left of line 13a. **Yes.** Go to line 10.

10.	Enter $9,000 ($12,000 if married filing jointly; $0 if married filing separately and you lived with your spouse at any time in 1994)	12,000
11.	Subtract line 10 from line 9. If zero or less, enter –0–	1,500
12.	Enter the smaller of line 9 or line 10	12,000
13.	Enter one-half of line 12	6,000
14.	Enter the smaller of line 2 or line 13	5,000
15.	Multiply line 11 by 85% (.85). If line 11 is zero, enter –0–	1,275
16.	Add lines 14 and 15	6,275
17.	Multiply line 1 by 85% (.85)	8,500
18.	Taxable benefits. Enter the smaller of line 16 or line 17	6,275

- Enter on Form 1040A, line 13a, the amount from line 1
- Enter on Form 1040A, line 13b, the amount from line 18

Because the income on line 7 ($45,500) of the worksheet is more than $44,000 (the Johnsons' adjusted base amount), the Johnsons include more than 50% ($6,275 ÷ $10,000 = 62¾%) of their benefits in taxable income. They enter $10,000 on line 13a, Form 1040A, and $6,275 on line 13b, Form 1040A.

Lump-Sum Benefits

Generally, a lump-sum (or retroactive) payment of benefits is included in your total benefits for the year in which you receive it.

Benefits for earlier year. However, if you receive a lump-sum payment of benefits in 1994 that includes benefits for one or more earlier years, you can figure whether any part of these earlier year benefits are taxable based on the earlier year's income. If that method gives you a lower taxable benefit, you can make the election discussed next.

Election to treat benefits as received in earlier year. If it will lower your taxable benefits, you can choose to treat the earlier benefits as received in the earlier year. In that case, any part of the earlier year benefits that is taxable is then added to your taxable benefits for the current year and the total is included in your current year's income. For more information on lump-sum benefit payments, see Publication 915.

Lump-sum payments received in 1994. If you received a lump-sum payment in 1994 that included benefits for one or more earlier years, it will be included in box 3 of either Form SSA–1099 or RRB–1099.

If you received a lump-sum payment of benefits in 1994 that includes benefits for one or more earlier years, and choose to treat the earlier benefit as if it were received in those earlier years, you must use the worksheets in Publication 915. Otherwise, you should treat the amount as if it were fully attributable to 1994 and include it in your total benefits received during that year.

Repayments More Than Gross Benefits

In some situations, your net benefits in box 5 of your Form 1099 may be a negative figure and none of your benefits will be taxable. If you receive more than one form, a negative figure in box 5 of one form is used to offset a positive figure in box 5 of another form. If you have any questions about this negative figure, contact your local Social Security Administration office or your local U.S. Railroad Retirement Board field office.

Joint return. If you and your spouse file a joint return, and your Form SSA–1099 or RRB–1099 show that your repayments are more than your gross benefits, but your spouse's are not, subtract the amount in box 5 of your form from the amount in box 5 of your spouse's form. You do this to get your net benefits when figuring if your combined benefits are taxable.

Example. John and Mary file a joint return for 1994. John received Form SSA–1099 showing $3,000 in box 5. Mary also received Form SSA–1099 and the amount in box 5 was ($500). John and Mary will use $2,500 ($3,000 minus $500) as the amount of their net benefits when figuring if any of their combined benefits are taxable.

Repayment of benefits received in an earlier year. If the sum of the amount shown in box 5 of all of your Forms SSA–1099 and RRB–1099 is a negative figure and all or part of this negative figure is for benefits you included in gross income in an earlier year, you can take an itemized deduction on Schedule A (Form 1040) for the amount of the negative figure that represents those benefits.

This deduction, if ***$3,000 or less***, is subject to the 2%-of-adjusted-gross-income limit discussed under *Miscellaneous Deductions,* later. It is claimed on line 22 of Schedule A (Form 1040).

If this deduction is ***more than $3,000***, you should figure your tax two ways:

1) Figure your tax for 1994 with the itemized deduction. This more-than-$3,000 deduction is not subject to the 2%-of-adjusted-gross-income limit that applies to certain miscellaneous itemized deductions.
2) Figure your tax for 1994 without the deduction. If a portion of the negative figure represents a repayment of 1984 benefits, you must first recompute your 1984 tax, reducing your 1984 social security benefits by that portion. Recompute your 1985, 1986, etc., tax in the same manner, using any portion of the negative figure that represents a repayment of benefits for those years. Reduce your 1994 tax, figured without the deduction, by the total decrease in your 1984, 1985, 1986, etc. tax as recomputed.

Compare the tax figured in methods (1) and (2). Your tax for 1994 is the smaller of the two amounts. If method (1) results in less tax, take the itemized deduction on line 28, Schedule A (Form 1040). If method (2) results in less tax, claim a credit for the applicable amount on line 59 of Form 1040 and write ''I.R.C. 1341'' in the margin to the left of line 59. If both methods produce the same tax, deduct the repayment on line 28, Schedule A.

Form SSA–1099. If you received or repaid social security benefits during 1994, you will receive Form SSA–1099, *Social Security Benefit Statement.* You should receive Form SSA–1099 by January 31, 1995. An IRS Notice 703 will be enclosed with your Form SSA–1099. This notice includes a worksheet you can use to determine if any of your benefits are taxable. If you are married and file a joint return for 1994, you and your spouse must combine your incomes and your benefits when figuring if any of your combined benefits are taxable. Keep Form SSA–1099 and the notice for your own records. Do not mail them to either the IRS or the SSA.

Every person who received social security benefits will receive a Form SSA–1099, even if the benefit is combined with another person's in a single check. If you receive benefits on more than one social security record, you may get more than one Form SSA–1099.

Box 3, Benefits Paid in 1994. The figure shown in this box is the total amount of benefits paid in 1994 to you (the person named in box 1). This figure may not agree with the amounts you actually received because adjustments may have been made to your benefits before you received them. An asterisk (*) after the figure shown in this box means that it includes benefits received in 1994 for one or more earlier years. These adjustments are explained in the column ''Description of Amount in Box 3'' of your Form SSA–1099. If no adjustments were made to the benefits paid, the word ''none'' is shown in this column.

Box 4, Benefits Repaid to SSA in 1994. The figure shown in this box is the total amount of benefits you repaid to the SSA in 1994. Entries in the column ''Description of Amount in Box 4'' of your Form SSA–1099 explain the kinds of repayments you made. The word ''none'' is shown if you did not make any repayments.

Box 5, Net Benefits for 1994 (Box 3 minus Box 4). The figure in this box is the net amount of benefits paid to you for the year. It is the result of subtracting the figure in box 4 from the amount in box 3. Enter this amount on line A of IRS Notice 703, or on line 1 of Worksheet 1 or 1A in this publication, or the worksheet in either the Form 1040 or the Form 1040A instruction package.

If there are parentheses around the figure in box 5, it means that the figure in box 4 is larger than the figure in box 3. This is a negative figure and means you repaid more money than you received in 1994. If you have any questions about the negative amount, contact your local Social Security Administration office. If you receive more than one benefit statement (or if you are married and filing jointly and both you and your spouse each receive a Form SSA–1099), a negative figure on one Form SSA–1099 is used to offset a positive figure on another Form SSA–1099.

For a full explanation of the information found on your Form SSA–1099, see Publication 915, *Social Security Benefits and Equivalent Railroad Retirement Benefits.*

Form RRB–1099. If you received or repaid the social security equivalent portion of tier 1 railroad retirement benefits or special guaranty benefits during 1994, you will receive Form RRB–1099, *Payments by the Railroad Retirement Board.*

Each beneficiary will receive his or her own Form RRB–1099. If you receive benefits on more than one railroad retirement record, you may get more than one Form RRB–1099. If you received nonequivalent tier 1 benefits, tier 2 benefits, vested dual benefits, or a supplemental annuity payment, see Publication 575 for information on how these benefits are taxed.

Box 3, Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 1994. The figure shown in this box is the total amount of benefits paid to you in 1994.

Box 4, Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 1994. The figure shown in this box is the total SSEB portion of tier 1 benefits you repaid to the RRB in 1994. This box also includes any social security equivalent benefits you repaid in 1994 that were for one or more years before 1994.

Box 5, Net Social Security Equivalent Benefit (SSEB) Portion of Tier 1 Paid in 1994. The figure shown in this box is the net amount of the SSEB portion of tier 1 benefits paid to you for the year. It is the result of subtracting the amount in box 4 from the amount in box 3. Use this amount to determine if any of your benefits are taxable.

If there are parentheses around the figure in box 5, it means that the figure in box 4 is larger than the figure in box 3. This is a negative figure and means that you repaid more money than you received in 1994. If you receive more than one Form RRB–1099 (or if you are married and file a joint return and both you and your spouse each receive Form RRB–1099), use any negative figure on one Form RRB–1099 to offset a positive figure on another Form RRB–1099.

Box 6, Workers' Compensation Offset in 1994. The figure shown in this box is the amount you received in workers' compensation benefits during the year that was used to offset the full amount of your tier 1 payments. The SSEB portions of your tier 1 benefits shown in boxes 3 and 5 include the amounts you received from workers' compensation. Your workers' compensation amount is shown in this box separately only for your information. If you did not receive workers' compensation benefits, box 6 is blank.

For a full explanation of the information found on your Form RRB–1099, see Publication 915.

Sale of Home

If you sell your main home at a gain and, within the replacement period (beginning 2 years before and ending 2 years after the sale), you buy and live in another home, the tax on the gain must be postponed if certain conditions are met.

In certain circumstances, you can exclude from gross income all or part of the gain from the sale of your home. If you choose to exclude some of the gain from gross income, as discussed later, the tax on the balance of the gain may be postponed. Or, you may be able to use the installment method to report the balance of the gain.

For more information on postponing your gain, see Publication 523, *Selling Your Home.* For information on the installment method of reporting your gain, see Publication 537, *Installment Sales.*

Form 1099–S. The law requires that transactions involving the sale of most residential real estate property be reported to the IRS on Form 1099–S, *Proceeds From Real Estate Transactions.* Real estate brokers are prohibited from charging any customer separately for preparing Form 1099–S.

The information reported (generally by the settlement agent) to the IRS and seller of the home on Form 1099–S must include the part of any real estate tax that is treated as tax imposed on the buyer.

Moving expenses. If you incurred selling expenses after December 31, 1993, you no longer have the option of deducting some of these expenses as moving expenses. They are only deductible as selling expenses. For information on deductible moving expenses, see *Moving Expenses,* under *Adjustments to Income,* later.

Exclusion of Gain

You can exclude from gross income all or part of your gain from the sale of your main home if you meet certain age, ownership, and use tests at the time of the sale. This is a one-time exclusion of gain for sales after July 26, 1978.

The decision of when to take the exclusion depends on many factors. You will want to consider your personal tax and financial situation before deciding when to make the choice. Any gain you exclude is not taxed.

If you change your mind after you file the return for the year of sale, you may be able to make or revoke the choice later. You would have to file an amended return for the year of sale within certain time limits. See *How to make and revoke a choice to exclude gain,* later.

Amount excluded. If you meet the age, ownership, and use tests, you can choose to exclude $125,000 of your gain on the sale of your home. If you are married on the date of the sale and file a separate return, you can choose to exclude only $62,500. If there is gain remaining after the exclusion, you may be required to postpone tax on the rest of the gain if you meet the conditions explained in Publication 523.

Age, Ownership, and Use

You can choose to exclude from income $125,000 of gain ($62,500 if you were married on the date of the sale and file a separate return) if you meet all the following requirements.

1) You were ***55 or older*** on the date of the sale.
2) During the ***5-year period*** ending on the date of the sale, you:
   - ***Owned*** your main home for at least ***3 years***, and
   - ***Lived in*** your main home for at least ***3 years***.
3) You or your spouse have never excluded gain on the sale of a home after July 26, 1978. However, see *Effect of marital status,* later, for more details.

Age 55 at time of sale. You must be 55 by the date you sell the home to qualify for the exclusion. You do not meet the age 55 test if you sell the property during the year in which you will be 55 but before you actually become 55. The earliest date on which you can sell your home and still qualify for the exclusion is your 55th birthday.

Ownership and use tests. The required 3 years of ownership and use (during the 5-year period ending on the date of the sale) do not have to be continuous. You meet the tests if you can show that you owned and lived in the property as your main home for either 36 full months or 1,095 days (365×3) during the 5-year period. Short temporary absences for vacations or other seasonal absences, even if you rent out the property during the absences, are counted as periods of use. See *Ownership and use tests met at different times,* later.

Example 1. From 1987 through 1991, Joseph Mooney lived with his son and daughter-in-law in a house owned by his son. On January 5, 1992, he bought this house from his son. He continued to live there until May 29, 1994, when he sold it. Although Joseph lived in the property as his main home for more than 3 years, he cannot exclude his gain on the sale. This is because he did not own the property for the required 3 years.

Example 2. Professor John Thomas bought and moved into a house on January 4, 1991. He lived in it as his main home continuously until February 1, 1993, when he went abroad for a 1-year sabbatical leave. During part of the period of leave, the property was unoccupied, and during the rest of the period, he rented it out. On March 4, 1994, he sold the house. Because his leave was not a short temporary absence, he cannot include the period of leave to meet the test of living in the house as his main home for 3 years or more. He cannot exclude his gain from income because he did not live in the house for the required period.

More than one owner. If a husband and wife sell their jointly owned home and either one meets the age, ownership, and use tests, both are considered to have met the tests. See *Jointly owned home,* later.

If the joint owners of a home are other than husband and wife, each owner who chooses to exclude gain from income must meet the age, ownership, and use tests. If one owner meets the tests, that does not automatically qualify the other owners to exclude their gain from income. Each owner excludes gain on an individual basis. A choice by one owner does not keep the other owners from making a choice when they sell a different home in the future.

Previous home destroyed or condemned. For the ownership and use tests, you can add the time you owned and lived in a previous home that was destroyed or condemned to the time you owned and lived in the home on which you wish to exclude gain. This rule applies if any part of the basis of the home you sold depended on the basis of the destroyed or condemned home. Otherwise, you must have owned and lived in the ***same*** home for 3 of the 5 years before the sale to qualify for the exclusion.

Ownership and use tests met at different times. You can meet the ownership and use tests during different 3-year periods. However, you must meet both tests during the 5-year period ending on the date of the sale.

Example. In 1987, Grace Jones was 50 years old and lived in a rented apartment. The apartment building was later changed to a condominium and she bought her apartment on December 1, 1990. In 1992, Grace became ill and on April 14 of that year she moved to her daughter's home. On February 14, 1994, while still living in her daughter's home, she sold her apartment.

Grace can exclude the gain on the sale of her apartment because she met the age, ownership, and use tests. Grace was over 55 at the time of the sale. Her 5-year period is from February 15, 1989, to February 14, 1994, the date she sold the apartment. She owned her apartment from December 1, 1990, to February 14, 1994 (over 3 years). Grace lived in the apartment from February 15, 1989, to April 14, 1992 (over 3 years).

Exception for disabled individual. There is an exception to the 3 of 5-year use test if you become physically or mentally unable to care for yourself at any time during the 5-year period. This exception applies to sales made after September 30, 1988.

You qualify for this exception to the use test if, during the 5-year period before the sale of your home:

1) You owned and lived in your home as your main home for a total of at least 1 year, and

2) You became physically or mentally unable to care for yourself.

Under this exception, you are considered to live in your home during any time that you reside in a facility (including a nursing home) that is licensed by a state or political subdivision to care for persons in your condition.

Jointly owned home. Both you and your spouse will meet the age, ownership, and use tests if you meet all of the following requirements.

1) You hold the home either as joint tenants, tenants by the entirety, or community property on the date of the sale.

2) You file a joint return for the tax year in which you sell the home.

3) Either you or your spouse is 55 or older on the date of sale and has owned and lived in the property as a main home for the required time before the sale.

Home of spouse who died. You will meet the ownership and use tests if your spouse is deceased on the date you sell your main home, and:

1) You have not remarried,

2) Your deceased spouse had met the ownership and use tests for that main home, and

3) Your deceased spouse had not previously chosen or joined in choosing to exclude gain on the sale of another main home after July 26, 1978.

You must still meet the age test (be at least 55 on the date of sale) to qualify for the exclusion.

Example. Ellen and Doug Smith were married January 6, 1992. After their marriage, their main home was property Doug had owned and lived in as his main home since January 2, 1982. Doug died on January 2, 1994, and he had never chosen or joined in choosing to exclude gain on the sale of any home.

Ellen inherited the property and continued to live in it as her main home until December 10, 1994, when she sold it. At the date of sale she was 56 years old, had not remarried, and had never chosen or joined in choosing to exclude gain on the sale of any home. Ellen can choose to exclude up to $125,000 of the gain from the sale of her home. This is because she meets the age test and Doug met the 3 of 5-year ownership and use tests for the property.

Sale by executor. Gain from the sale of a home by the executor of an estate may qualify for this exclusion. To qualify, the sale must be made under a contract entered into before death by a taxpayer who met the age, ownership, and use tests.

Main home. Usually, the home in which you live is your main home. Your main home can be a houseboat, a mobile home, a cooperative apartment, or a condominium.

Part of property used as main home. You may use only part of the property as your main home. In this case, the rules for exclusion of gain apply only to the gain on the part of the property used as your main home.

Example. Dr. Martin Russell met the age, ownership, and use tests when he sold his main home. However, for the whole time he owned the home, he used half of it exclusively as an office for treating his patients. Only the half of the property used as his home qualifies for the choice to exclude gain from gross income. This is because Dr. Russell did not use the whole property as his main home.

Home traded. If you trade your old home for a different home, the trade is treated as a sale and a purchase. Gain on the old home may qualify for exclusion from gross income.

Land. If you sell the land on which your main home is located, but not the house itself, you cannot exclude from income any gain you have from the sale of the land.

Home on condemned property. If your home is condemned for public use, you can treat the transaction as a sale of the home. If you treat it as a sale and you meet the requirements discussed earlier in this section, you can choose to exclude the gain from the condemnation. You must follow the rules explained earlier in this section. If you have any gain remaining after the exclusion, you may have to postpone the tax on the rest of the gain as explained under *Postponement of Gain* in Publication 523. Or, you may be able to postpone it under the rules for a condemnation, as explained under *Involuntary Conversions* in Publication 544, *Sales and Other Dispositions of Assets.*

Effect of marital status. For purposes of the exclusion, your marital status is determined as of the date of sale of your home. If you are legally separated under a decree of divorce or of separate maintenance, you are not considered married.

Married persons. If you are married when you sell your main home, you cannot choose to exclude the gain unless your spouse joins you in making the choice. Your spouse must join you in the choice, even if:

1) You or your spouse owned the home separately,

2) You and your spouse file separate returns, or

3) The spouse not owning an interest in the home had not lived in it for the required period before the sale.

If your spouse died after the sale, but before making the choice to exclude the gain, his or her personal representative (for example, the administrator or executor) must join with you in making the choice. You, as the surviving spouse, are considered the personal representative of your deceased spouse if no one else has been appointed.

If the home is not jointly owned, the spouse who owns the property must meet the age, ownership, and use tests. The other spouse must join in making the choice.

Separate return. If you are married on the date of the sale, file a separate return, and meet the age, ownership and use tests, you can exclude no more than $62,500 of gain on the sale of your main home. Your spouse must show agreement to your choice by writing in the bottom margin of Form 2119, *Sale of Your Home,* or on an attached statement, ''I agree to the Part II election,'' and signing his or her name.

Damage to home. If your home is damaged by fire, storm, or other casualty, you can choose to exclude gain from insurance proceeds or other compensation. You must follow the rules explained earlier in this section. However, you cannot postpone the tax on the rest of the gain as explained in Publication 523. The rest may qualify, however, under the postponement-of-gain rules for casualties. For more information, see Publication 547, *Nonbusiness Disasters, Casualties, and Thefts.*

You or your spouse can exclude gain only once. If you or your spouse chooses to exclude gain from a sale after July 26, 1978, neither of you can choose to exclude gain again for a sale after that date. If you and your spouse each owned separate homes before your marriage and sold both homes after your marriage, you can exclude the gain on one of them, but not on both. If after choosing to exclude gain, you and your spouse divorce, neither of you can exclude gain again. If you remarry, you and your new spouse cannot exclude gain on sales after your marriage. However, you can revoke a previous choice as discussed later under *How to make and revoke a choice to exclude gain.*

Marital status on date of sale. Your marital status on the date of the sale determines the amount you can exclude, whether your spouse must join you in the election to exclude gain, and whether each spouse can make his or her own election later.

Sale before marriage. If you meet the age, ownership, and use tests when you sell your separately owned home during the year, you can exclude gain up to $125,000. If you marry before the end of the year, you can take the exclusion whether you file a joint return or a separate return. This is because you were single on the date of the sale.

If one spouse sells a home before the marriage, the other spouse is not required to join in the election to exclude gain. The spouse who did not join in the election is eligible to make an election if he or she later sells a house, meets the age, ownership, and use tests, and is single or married to a different spouse who has never made or joined in an election.

If one spouse makes an election to exclude up to $125,000 of the gain from a house sold before marriage, that spouse cannot join in another election to exclude gain. If this couple then sells a home during their marriage, neither can exclude any gain. This is because both spouses are required to join in the election, and one spouse has already excluded gain.

Example 1. Tom Oak sold his main home in January 1992. He met the age, ownership, and use tests to exclude gain on the sale. In June 1992, he married Susan Green. They filed a joint return for 1992 and Tom elected to exclude the gain on the sale of his house. Susan was not required to join in Tom's election since they were not married on the date of the sale.

While married, Tom and Susan lived in Susan's separately owned house. Tom died in 1994 and Susan sold her house shortly after Tom's death. She met the age, ownership, and use tests to exclude the gain on the sale. She can exclude up to $125,000 of the gain. This is because she was single on the date of the sale and she has never made an election to exclude gain before. She was not required to join in Tom's election.

Example 2. Frank and Sheila Brown were married in 1987. In January 1993, they sold their jointly owned home. Frank and Sheila met the age, ownership, and use tests, so they chose to exclude their gain of $70,000 on their joint return for 1993. The Browns divorced in February 1994.

In July 1994, Sheila married Mike Jones. Mike had sold his home in March 1994 when he was single. He met the age, ownership, and use tests at the time of sale. Mike can choose to exclude up to $125,000 gain on a separate or joint return because he was single at the time he sold his home. This is so even though Sheila joined Frank in choosing to exclude gain.

Example 3. Joe Johnson and Betty Smith were single and each owned a home. In August 1994, they sold their homes and each had a gain of $125,000, for a total gain of $250,000. Each met the age, ownership, and use tests at the time of sale.

In October 1994, Joe and Betty married. Because Joe and Betty were single when they sold their homes, they each can choose to exclude $125,000 of gain ($250,000 total). This is true if they file a joint return or separate returns.

Example 4. In February 1994, Bill and Sally White were divorced. At that time they had their jointly owned home up for sale. Sally married Ken Brown in November 1994. In December 1994, Bill and Sally sold their home at a gain. Because Bill and Sally were not married to each other at the time they sold their home and they each met the tests to exclude gain, each can choose to exclude up to $125,000 gain based on the part of the home each owned.

Sally files a joint return and chooses to exclude up to $125,000 of her part of the gain. Ken must join Sally in her choice. Bill files a single return and chooses to exclude up to $125,000 of his gain.

If Ken Brown later sells a home, he cannot choose to exclude gain because he was required to join Sally in her choice. Ken is considered to have made a lifetime choice.

Example 5. David and Beth Pine sell their jointly owned home. They both meet the ownership and use tests at the time of sale, but David is 62 and Beth is 50. They file separate returns for the year they sell their house. Because Beth does not meet the age test, she cannot choose to exclude gain on her separate return. David can choose to exclude up to $62,500 of the gain on his separate return only if Beth joins him in making his choice.

If Beth did join David in making his choice and she later sells a home, she cannot choose to exclude gain because she joined David in his choice.

How to make and revoke a choice to exclude gain. You can exclude gain on the sale of your main home ***only once*** for sales after July 26, 1978.

Time to exclude gain. You can make or revoke a choice to exclude gain from a particular sale at any time before the ***latest*** of the following dates:

1) Three years from the due date of the return for the year of sale,
2) Three years from the date you filed the return, or
3) Two years from the date you paid the tax.

How to make the choice. Make the choice by attaching a filled-in **Form 2119**, *Sale of Your Home,* to your income tax return for the year in which you sell your home. However, if you do not have Form 2119, you can make the choice by attaching a signed statement to your return. The statement must say you choose to exclude from income the gain from the sale. It must also include:

1) Your name, age, social security number, and marital status on the date of the sale. If jointly owned, give this information for each owner.
2) The dates you bought and sold the home.
3) The amount realized and the adjusted basis of the property on the date of sale.
4) How long you were away from the home during the 5 years before the sale. Do not include vacations and other seasonal absences, even if you rented out the home during those absences.
5) Whether you or a joint owner ever chose to exclude gain on the sale of a home, and if you did, when and where you did so. If you revoked the choice, give the date you revoked it.

You can choose to exclude the gain even if you originally included it on your tax return for the year of the sale. You do so by filing an amended return on Form 1040X for that year. You must send a filled-in Form 2119 or a statement that includes the information listed above with your amended return.

How to revoke the choice. You can revoke your choice to exclude gain by filing an amended return for the year of sale using Form 1040X. Attach a new completed Form 2119 and, if needed, a Schedule D (Form 1040). Send the forms to the Internal Revenue Service Center for the place where you live.

If you were married when you sold your home, your spouse who joined you in making the choice must join you in revoking it. If your spouse is deceased, his or her personal representative must join you in revoking the choice.

Note. If you revoke your choice to exclude gain when less than a year is left in the assessment period (time for determining your correct tax) for the return on which the choice was made, you must agree to extend the assessment period. Before the end of the period, you must file a statement that the assessment period will not end until 1 year after the date the statement is filed. The assessment period normally ends on the latest of the dates shown earlier under *Time to exclude gain.*

How to Exclude Gain

To figure the gain you can exclude, you must first know your total gain. This is determined by the selling price, the amount realized, and the adjusted basis.

Selling price. The selling price is the total amount you receive for your home. It includes money, all notes, mortgages, or other debts assumed by the buyer as part of the sale, and the fair market value of any other property you receive.

Selling expenses. Selling expenses include commissions, advertising, and legal fees. Loan charges paid by the seller, such as loan placement fees or ''points,'' are usually a selling expense.

Amount realized. The amount realized is the selling price minus selling expenses.

Gain. Your gain on the sale is the amount realized minus the adjusted basis of the home.

Adjusted basis. Adjusted basis is your basis (generally the amount you paid in cash and other property) increased or decreased by certain amounts. You ***increase*** your basis for items such as:

- Improvements,
- Additions,
- Special assessments for local improvements, and
- Amounts spent after a casualty to restore damaged property.

You ***decrease*** your basis by items such as:

- Gain from the sale of an old home on which you postponed tax,
- Insurance reimbursements you receive for casualty losses,
- Deductible casualty losses not covered by insurance,

- Payments you receive for any easement or right-of-way you give up,
- Any allowed or allowable depreciation if you use your home for business or rental purposes,
- Any residential energy credit (generally allowed from 1977 through 1987) you claimed for the cost of energy improvements that you added to the basis of your home, and
- Any energy conservation subsidy excluded from your gross income because you received it (directly or indirectly) from a public utility after December 31, 1992, for the purchase or installation of any energy conservation measure.

Energy conservation measure. This includes installations or modifications that are primarily designed to reduce consumption of electricity or natural gas, or improve the management of energy demand, for a home.

Other basis. There are numerous instances when a basis other than cost must be used, for example, if you acquired your home by gift or inheritance. For a complete discussion of basis, see Publication 551, *Basis of Assets.*

Adjustments to Income

You may be able to subtract certain adjustment amounts from your gross income to get your adjusted gross income.

Individual Retirement Arrangement (IRA) Deductions

This section explains the tax treatment of amounts you pay into individual retirement arrangements (IRAs).

IRA contributions. An IRA is a personal savings plan that offers you tax advantages to set aside money for your retirement. That means that you may be able to deduct your contributions to your IRA in whole or in part, depending on your circumstances, and that, generally, amounts in your IRA, including earnings and gains, are not taxed until they are distributed.

Note. Although interest earned on your IRA is generally not taxed in the year earned, it is not tax-exempt interest. Do not report this interest on your tax return as tax-exempt interest.

Contribution limits. Generally, you can take a deduction for the contributions that you are allowed to make to your IRA. However, if you or your spouse is covered by an employer retirement plan at any time during the year, your allowable IRA deduction may be less than your contribution. Your deduction may be reduced or eliminated, depending on your filing status and the amount of your income.

Although your deduction for IRA contributions may be reduced or eliminated because of the adjusted gross income limitation, you can still make contributions of up to $2,000 ($2,250 for a regular and a spousal IRA combined) or 100% of your compensation, whichever is less. The difference between your total permitted contributions and your total deductible contributions, if any, is your nondeductible contribution. You must file **Form 8606**, *Nondeductible IRAs (Contributions, Distributions, and Basis),* to report nondeductible contributions even if you do not have to file a tax return for the year.

Moving Expenses

If you changed job locations or started a new job in 1994, you may be able to deduct a limited amount of your moving expenses.

Your moving expense deduction may include the reasonable expenses of:

- Moving your household goods and personal effects (including certain storage expenses), and
- Traveling (including lodging) to your new home.

How to qualify. You can deduct your allowable moving expenses if your expenses are reasonable, closely related to the start of work, and you also meet the following tests.

1) Distance. Your new main job location must be at least 50 miles farther from your former home than your old main job location was. If you did not have an old job location, your new job location must be at least 50 miles from your former home. If the distance is not at least 50 miles, you cannot deduct your moving expenses.

2) Time. You must be employed full time for at least 39 weeks during the first 12 months after you arrive in the general area of your new job location. If you are self-employed, you must work full time for at least 39 weeks during the first 12 months and for a total of at least 78 weeks during the first 24 months after you arrive in the area of your new job location.

For more information, see Publication 521, *Moving Expenses.*

Health Insurance Costs for Self-Employed Individuals

Caution. The self-employed health insurance deduction expired at the end of 1993. However, at the time this publication went to print, a bill to extend this deduction was pending in Congress. To see if this deduction is allowed for 1994, see Publication 553. If it is extended, the following rules apply.

If you are self-employed, a general partner (or a limited partner receiving guaranteed payments), or a more than 2% shareholder in an S corporation you may be able to deduct part (up to 25%) of the medical insurance premiums paid for yourself, your spouse, and dependents. You take this deduction on line 26 of Form 1040. If you itemize your deductions, include the remaining premiums with all other medical care expenses on Schedule A, subject to the 7.5% limitation.

The following restrictions and limitations apply to the deduction.

1) The deduction cannot exceed the net earnings from the trade or business in which the health insurance plan is established or your wages from the S corporation.

2) You may not take the deduction for any month in 1994 in which you were eligible to participate in any subsidized health plan of your employer or your spouse's employer.

Figure your deduction by using the worksheet in the Form 1040 Instructions. Under certain circumstances, you may have to see Publication 535 to find out how to figure your deduction. For those circumstances, see the Form 1040 Instructions for line 26.

Penalty on Early Withdrawal of Savings

If you withdrew funds from a time savings account before maturity, you may be charged a penalty. You must report (on line 8a, Form 1040) the gross amount of interest paid or credited to your account during 1994 without subtracting the penalty. You deduct the penalty on line 28, Form 1040. Deduct the entire penalty even if it exceeds your interest income. The financial institution will notify you of the amount of both the interest and the penalty on Form 1099–INT or, if applicable, Form 1099–OID.

Alimony

You can deduct payments of alimony or separate maintenance you made to your spouse or former spouse under a divorce or separation instrument. You cannot deduct child support payments or noncash property settlements.

You do not have to itemize deductions to claim your alimony payments. Deduct alimony payments on line 29, Form 1040. Be sure to enter the recipient's social security number in the space provided. You cannot use Form 1040EZ or Form 1040A if you want to claim this deduction.

For information on alimony and other federal income tax rules of particular interest to divorced or separated individuals, see Publication 504, *Divorced or Separated Individuals.*

Other Adjustments

There are other items you can claim as adjustments to income. These adjustments are discussed in the Form 1040 instructions. For other retirement plan items you can claim as adjustments to income, see Publication 560, *Retirement Plans for the Self-Employed*.

The Standard Deduction

Most taxpayers have a choice of either taking a standard deduction or itemizing their deductions. The ***standard deduction*** is a dollar amount that reduces the income on which you are taxed. It is a benefit that reduces the need for many taxpayers to itemize their actual deductions. The benefit is higher for taxpayers who are 65 or older or blind. If you have a choice, you should use the method which gives you the lower tax.

You benefit from the standard deduction if your standard deduction is more than the total of your allowable itemized deductions.

Persons not eligible for the standard deduction. Your standard deduction is ***zero*** and you should itemize any deductions you have if:

1) You are married and filing a separate return, and your spouse itemizes deductions,

2) You are filing a tax return for a short tax year on account of a change in your annual accounting period, or

3) You are a nonresident or dual-status alien during the year. You are considered a dual-status alien if you were both a nonresident alien and a resident alien during the year.

Note: If you are a nonresident alien who is married to a U.S. citizen or resident at the end of 1994, you can choose to be treated as a U.S. resident for 1994.

Higher standard deduction for age (65 or older). If you do not itemize deductions, you are entitled to a higher standard deduction if you are age 65 or older at the end of the year.

You are considered 65 on the day before your 65th birthday. Therefore, you can take the higher standard deduction for 1994 if your 65th birthday was on or before January 1, 1995.

Higher standard deduction for blindness. If you are blind on the last day of the year and you do not itemize deductions, you are entitled to a higher standard deduction shown in *Table 5* in this publication. You qualify for this benefit if you are totally or partly blind.

Totally blind. If you are totally blind, attach a statement to this effect to your return.

Partly blind. If you are partly blind, you must submit with your return each year a certified statement from an eye physician or registered optometrist that:

- You cannot see better than 20/200 in the better eye with glasses or contact lenses, or

- Your field of vision is not more than 20 degrees.

If your eye condition will never improve beyond these limits, you can avoid having to get a new certified statement each year by having the examining eye physician include this fact in the certification you attach to your return. In later years just attach a statement referring to the certification. You should keep a copy of the certification in your records.

If your vision can be corrected beyond these limits only by contact lenses that you can wear only briefly because of pain, infection, or ulcers, you can take the higher standard deduction for blindness if you otherwise qualify.

Spouse 65 or older or blind. You may take the higher standard deduction if your spouse is age 65 or older or blind and:

1) You file a joint return, or
2) You file a separate return, and your spouse had no gross income and could not be claimed as a dependent by another taxpayer.

Note: You cannot claim the higher standard deduction for an individual, other than yourself and your spouse.

If you are 65 or older or blind, see *Table 5* in this publication, to figure the standard deduction amount you are entitled to.

If you are under age 65 and not blind, see *Table 4* in this publication, to figure the standard deduction amount you are entitled to.

Dependents may have a limited standard deduction. If you can be claimed as a dependent on another person's return, your standard deduction may be limited. See *Table 6* in this publication.

Decedents. The amount of the standard deduction for a decedent's final return is the same as it would have been had the decedent continued to live. However, if the decedent was not 65 or older at the time of death, the higher standard deduction for age cannot be claimed.

If you decide to take the standard deduction, you may find your standard deduction amount by referring to the chart that fits your circumstances.

Example 1. Larry, 66, and Donna, 67, are filing a joint return for 1994. Neither is blind. They decide not to itemize their deductions. They use *Table 5*. Their standard deduction is $7,850.

Example 2. Assume the same facts as in *Example 1* except that Larry is blind at the end of 1994. They use *Table 5*. Larry and Donna's standard deduction is $8,600.

Example 3. Susan, 67, who is blind, qualifies as head of household in 1994. She has no itemized deductions. She uses *Table 5*. Her standard deduction is $7,500.

Standard Deduction for Dependents

The standard deduction for an individual who can be claimed as a dependent on another person's tax return is generally limited to the greater of:

- $600, or
- The individual's earned income for the year (but not more than the regular standard deduction amount for the dependent's filing status, generally $3,800).

However, if you are a dependent who is 65 or older or blind, your standard deduction may be higher. Use *Table 6* to determine your standard deduction.

Itemized Deductions

Some individuals should itemize their deductions because it will save them money. Others should itemize because they do not qualify for the standard deduction. See the discussion under *The Standard Deduction,* earlier, to decide if it would be to your advantage to itemize deductions.

Medical and dental expenses, some taxes, certain interest expenses, charitable contributions, certain losses, and other miscellaneous expenses may be itemized as deductions on Schedule A (Form 1040).

Caution: You may be subject to a limit on some of your itemized deductions if your adjusted gross income (AGI) is more than $111,800 ($55,900 if you file married filing separately). See the instructions for Schedule A (Form 1040), line 29, for more information on figuring the correct amount of your itemized deductions.

You may benefit from itemizing your deductions on Schedule A of Form 1040 if you:

- Cannot take the standard deduction,
- Had large uninsured medical or dental expenses,
- Paid interest and taxes on your home,
- Had large unreimbursed employee business expenses or other miscellaneous deductions,
- Had large uninsured casualty or theft losses,
- Made large contributions to qualified charities (however, see Publication 526, *Charitable Contributions.*), or
- Have total itemized deductions that are more than the highest standard deduction you can claim.

1994 Standard Deduction Tables

Caution: If you are married filing a separate return and your spouse itemizes deductions, or if you are a dual-status alien, you cannot take the standard deduction even if you were 65 or older or blind.

Table 4. Standard Deduction Chart for Most People*

If Your Filing Status is:	Your Standard Deduction Is:
Single	$3,800
Married filing joint return or Qualifying widow(er) with dependent child–	6,350
Married filing separate return	3,175
Head of household	5,600

* DO NOT use this chart if you were 65 or older or blind, OR if someone can claim you as a dependent.

Table 5. Standard Deduction Chart for People Age 65 or Older or Blind*

Check the correct number of boxes below. Then go to the chart.

You 65 or older ❑ Blind ❑

Your spouse, if claiming spouse's exemption 65 or older ❑ Blind ❑

Total number of boxes you checked ❑

If Your Filing Status is:	And the Number in the Box Above is:	Your Standard Deduction is:
Single	1	$4,750
	2	5,700
Married filing joint return or Qualifying widow(er) with dependent child	1	7,100
	2	7,850
	3	8,600
	4	9,350
Married filing separate return	1	3,925
	2	4,675
	3	5,425
	4	6,175
Head of household	1	6,550
	2	7,500

* If someone can claim you as a dependent, use Table 6, instead.

Table 6. Standard Deduction Worksheet for Dependents*

If you were 65 or older or blind, check the correct number of boxes below. Then go to the worksheet.

You 65 or older ❑ Blind ❑

Your spouse, if claiming spouse's exemption 65 or older ❑ Blind ❑

Total number of boxes you checked ❑

1. Enter your **earned income** (defined below). If none, go on to line 3.	**1.**________
2. Minimum amount	**2.** $600
3. Compare the amounts on lines 1 and 2. Enter the **larger** of the two amounts here.	**3.**________
4. Enter on line 4 the amount shown below for your filing status. • Single, enter $3,800 • Married filing separate return, enter $3,175 • Married filing jointly or Qualifying widow(er) with dependent child, enter $6,350 • Head of household, enter $5,600	**4.**________
5. Standard deduction. **a.** Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts here. If under 65 and not blind, stop here. This is your standard deduction. Otherwise, go on to line 5b.	**5a.**________
b. If 65 or older or blind, multiply $950 ($750 if married or qualifying widow(er) with dependent child) by the number in the box above. Enter the result.	**5b.**________
c. Add lines 5a and 5b. This is your standard deduction for 1994.	**5c.**________

Earned income *includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income.*

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

Medical and Dental Expenses

You can deduct certain medical and dental expenses you paid for yourself, your spouse, and your dependents, if you itemize your deductions on Schedule A (Form 1040).

The following lists show items that you can or cannot include in figuring your medical expense deduction.

List of Medical Expenses

Use the following list for a ***quick check*** of expenses that you can include or cannot include. These and other expense items are more fully described later in this publication.

You can include:

Fees for medical services,

Fees for hospital services,

Insurance premiums you paid for medical and dental care,

Meals and lodging provided by a hospital during medical treatment,

Special equipment, such as a motorized wheelchair, etc.,

Special items, including false teeth, artificial limbs, eyeglasses, hearing aids, crutches, etc.,

Transportation and lodging for needed medical care, and

Medicines and drugs that are prescribed, and insulin.

Do not include:

Bottled water,

Funeral, burial, or cremation expenses,

Health club dues,

Household help,

Illegal operation or treatment,

Life insurance or income protection policies,

Program to stop smoking,

Medicare insurance (Medicare A) basic cost,

Medicine or drugs you bought without a prescription,

Toothpaste, toiletries, cosmetics, etc.,

Trip for general improvement of health, or

Weight loss program.

7.5% limit. You can deduct only the amount of your medical and dental expenses that is more than 7.5% of your adjusted gross income shown on line 32, Form 1040.

You can include only the medical and dental expenses you paid during 1994, regardless of when the services were provided. If you pay medical expenses by check, the day you mail or deliver the check generally is the date of payment. If you use a ‘‘pay-by-phone’’ account to pay your medical expenses, the date reported on the statement of the financial institution showing when payment was made is the date of payment. You can include medical expenses you charge to your credit card in the year the charge is made. It does not matter when you actually pay the amount charged.

Include in Medical Expenses

Medical care expenses include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, and for treatments affecting any part or function of the body. Medical care expenses also include the amounts you pay for transportation to get medical care. Do not include amounts repaid to you, or paid to anyone else, by hospital, health or accident insurance, or by your employer.

Spouse. You can include medical expenses you paid for your spouse. To claim these expenses, you must have been married either at the time your spouse received the medical services or at the time you paid the medical expenses.

Dependents. You can include medical expenses you paid for your dependent. To claim these expenses, the person must have been your dependent at the time the medical services were provided or at the time you paid the expenses. A person generally qualifies as your dependent for purposes of the medical expense deduction if:

1) That person lived with you for the entire year as a member of your household or is related to you, and
2) That person was a U.S. citizen or resident, or a resident of Canada or Mexico for some part of the calendar year in which your tax year began, and
3) You provided over half of that person’s total support for the calendar year.

You can include the medical expenses of any person who is your dependent even if you cannot claim an exemption for him or her on your return only because the dependent received $2,450 or more of gross income or filed a joint return.

Medicines and Drugs

You can include in medical expenses, the amounts you pay for prescribed medicines and drugs. A prescribed drug is one which requires a prescription by a doctor for its use by an individual. You can also include amounts you pay for insulin. Except for insulin, you cannot include in medical expenses amounts you pay for a drug that is not prescribed.

Medical Insurance Premiums

You can include in medical expenses insurance premiums you pay for policies that cover medical care. Policies can provide payment for:

- Hospitalization, surgical fees, X-rays, etc.,
- Prescription drugs,
- Replacement of lost or damaged contact lenses, or
- Membership in an association that gives cooperative or so-called ''free-choice'' medical service, or group hospitalization and clinical care.

If you have a policy that provides more than one kind of payment, you can include the premiums for the medical care part of the policy if the charge for the medical part is reasonable. The cost of the medical portion must be separately stated in the insurance contract or given to you in a separate statement.

Medicare A. If you are covered under social security (or if you are a government employee who paid Medicare tax), you are enrolled in Medicare A. The tax paid for Medicare A is not a medical expense. If you are not covered under social security (or were not a government employee who paid Medicare tax), you may voluntarily enroll in Medicare A. In this situation the premiums paid in 1994 for Medicare A can be included as a medical expense.

Medicare B. Medicare B is a supplemental medical insurance. Premiums you pay for Medicare B are a medical expense. If you applied for it at age 65, you can deduct $41.10 for each month in 1994 for which you paid a premium. If you were over age 65 when you first enrolled, check the information you received from the Social Security Administration to find out your premium.

Prepaid insurance premiums. Premiums you pay before you are 65 for insurance for medical care for yourself, your spouse, or your dependents after you are 65 are medical care expenses in the year paid if they are:

1) Payable in equal yearly installments, or more often, and
2) Paid for at least 10 years, or until you reach 65 (but not for less than 5 years).

Unused sick leave used to pay premiums. You must include in gross income cash payments you receive at the time of retirement for unused sick leave.

You must also include in gross income the value of unused sick leave that, at your option, your employer applies to the cost of your continuing participation in your employer's health plan after you retire. You can include this cost of continuing participation in the health plan as a medical expense.

If you participate in a health plan where your employer automatically applies the value of unused sick leave to the cost of your continuing participation in the health plan (and you do not have the option to receive cash), you do not include the value of the unused sick leave in gross income. You cannot deduct this cost of continuing participation in that health plan as a medical expense.

You cannot include premiums you pay for:

Life insurance policies,

Policies providing payment for loss of earnings,

Policies for loss of life, limb, sight, etc.,

Policies that pay you a guaranteed amount each week for a stated number of weeks if you are hospitalized for sickness or injury, or

The part of your car insurance premiums that provides medical insurance coverage for all persons injured in or by your car because the part of the premium for you and your dependents is not stated separately.

Medical and Dental Expenses

You can include in medical expenses your payments for:

- Medical services by physicians, surgeons, specialists, or any other medical practitioner.
- Hospital services, therapy and nursing services (including part of the cost of all nurses' meals you pay for), ambulance hire, and laboratory, surgical, obstetrical, diagnostic, dental, and X-ray fees.
- Life-care fee or a founder's fee paid either monthly or as a lump sum under an agreement with a ***retirement home***. The part of the payment you include is the amount properly allocable to medical care. The agreement must require a specified fee payment as a condition for the home's promise to provide lifetime care that includes medical care.
- Wages and other amounts you pay for nursing services. Services need not be performed by a nurse as long as the services are of a kind generally performed by a nurse. This includes services connected with caring for the patient's condition, such as giving medication or changing dressings, as well as bathing and grooming the patient.

  Only the amount spent for nursing services is a medical expense. If the attendant also provides personal and household services, these amounts must be divided between the time spent in performing household and other personal services and time spent on nursing services. However, certain expenses for household services or for the care of a qualifying individual incurred to enable you to work may qualify for the child and dependent care credit. See Publication 503, *Child and Dependent Care Expenses.*

  You can also include in medical expenses part of the amounts you pay for an attendant's meals. Divide the food expense among the household members to find the cost of the attendant's food. Then apportion that cost in the same manner that you apportioned the attendant's wages between nursing services and all other services. If you had to pay additional amounts for household upkeep because of the attendant, you can include the extra amounts with your medical expenses. This includes extra rent or utilities you pay because you moved to a larger apartment to provide space for the attendant.

- Social security tax, FUTA, and Medicare tax, and state employment taxes for a worker who provided medical care. For information on employment tax responsibilities of household employers, see Publication 926, *Employment Taxes for Household Employers.*
- Treatment at a therapeutic center for drug or alcohol addiction, including meals and lodging provided by the center during treatment.
- Surgical, hospital, laboratory, and transportation expenses for a donor or a possible donor of a kidney or other organ. You cannot include expenses if you did not pay for them.

Meals and Lodging

You can include in medical expense the cost of meals and lodging at a hospital or similar institution if your main reason for being there is to receive medical care.

You may be able to include in medical expenses the cost of lodging not provided in a hospital or similar institution. You can include the cost of such lodging while away from home if you meet all of the following requirements:

1) The lodging is primarily for, and essential to, medical care,
2) The medical care is provided by a doctor in a licensed hospital or in a medical care facility related to, or the equivalent of, a licensed hospital,
3) The lodging is not lavish or extravagant under the circumstances, and
4) There is no significant element of personal pleasure, recreation, or vacation in the travel away from home.

The amount you include in medical expenses cannot exceed $50 for each night for each person. Lodging is included for a person for whom transportation expenses are a medical expense because that person is traveling with the person receiving the medical care. For example, if a parent is traveling with a sick child, up to $100 per night is included as a medical expense for lodging. (Meals are not deductible.)

Nursing home. You can include in medical expenses the cost of medical care in a nursing home or a home for the aged for yourself, your spouse, or your dependents. This includes the cost of meals and lodging in the home if the main reason for being there is to get medical care.

Do not include the cost of meals and lodging if the reason for being in the home is personal. You can, however, include in medical expenses the part of the cost that is for medical or nursing care.

Medical trip. You cannot deduct the cost of your meals and lodging while you are away from home for medical treatment if you do not receive the treatment at a medical facility or if the lodging is not primarily for or essential to the medical care.

Special Items and Equipment

Include payments for:

- False teeth, artificial limbs, contact lenses, eyeglasses, hearing aid and batteries to operate it, and crutches.
- The cost and care of a guide dog or other animal to be used by a visually or hearing impaired person. You can also include the cost and care of a dog or other animal trained to assist persons with other physical disabilities.
- The cost and repair of special telephone equipment that lets a hearing-impaired person communicate over a regular telephone.
- The extra cost of a specially equipped television set and the cost of an adapter for a regular set that provides subtitles for a hearing-impaired person.
- The part of the cost of braille books and magazines for use by a visually-impaired person that is more than the price for regular printed editions.
- A plan that keeps your medical information so that it can be retrieved from a computer data bank for your medical care.
- Oxygen and oxygen equipment to relieve breathing problems caused by a medical condition.
- Legal fees paid to authorize treatment for mental illness. If part of the legal fees is not for medical care, you cannot include that part in medical expenses.
- Special hand controls and other special equipment installed in a car for the use of a person with a disability. Include the amount by which the cost of a car specially designed to hold a wheelchair is more than the cost of a regular car.
- An autoette or a wheelchair used mainly for the relief of sickness or disability, and not just to provide transportation to and from work. The cost of operating and keeping up an autoette or wheelchair is also a medical expense.

Do not include the cost of operating a specially equipped car, except as discussed next.

Transportation

Amounts paid for transportation primarily for, and essential to, medical care qualify as medical expenses.

You can include:

- Bus, taxi, train, or plane fares, or ambulance service.
- Transportation expenses of a nurse or other person who can give injections, medications, or other treatment required by a patient who is traveling to get medical care and is unable to travel alone.
- Actual car expenses, such as gas, oil, parking fees, and tolls. Instead of deducting actual car expenses, you can deduct ***9 cents a mile*** for use of your car for

medical reasons. Add the cost of parking fees and tolls to this amount.

You cannot include depreciation, insurance, or general repair and maintenance expenses on your car, no matter which method you choose to figure the deduction.

Do not include transportation expenses if, for non-medical reasons, you choose to travel to another city, such as a resort area, for an operation or other medical care prescribed by your doctor.

Capital Expenses

You can include in medical expenses amounts you pay for special equipment installed in your home or for improvements, if their main purpose is medical care for you, your spouse, or a dependent. The cost of permanent improvements that increase the value of the property may be partly included as a medical expense. The cost of the improvement is reduced by the increase in the value of the property. The difference is a medical expense. If the value of the property is not increased by the improvement, the entire cost is included as a medical expense.

Example 1. You suffer from an allergy. On your doctor's advice you have central air conditioning installed to give you relief from your allergy and your difficulty in breathing. The cost of the equipment is $3,000 but, according to competent appraisers, your property is increased in value by $2,500. You can include the difference of $500 as a medical expense. If the value of your home did not increase, you could include all of the $3,000 in medical expenses.

Example 2. You have a heart ailment. On your doctor's advice, you install an elevator in your home so you will not have to climb stairs. This elevator costs $2,000. An appraisal shows that the elevator increases the value of your home by $1,400. The $600 difference is a medical expense. However, you can include the total cost in medical expenses if the elevator does not increase the value of your home.

Home improvements. Certain improvements made to accommodate your personal residence to your disabled condition, or that of your spouse or your dependents who live with you, do not usually increase the value of the residence and the cost can be included in full as medical expenses. These improvements include, but are not limited to, the following items:

- Constructing entrance or exit ramps to your residence,
- Widening doorways at entrances or exits to your residence,
- Widening or otherwise modifying hallways and interior doorways,
- Installing railing, support bars, or other modifications to bathrooms,
- Lowering or modifying kitchen cabinets and equipment,
- Moving or modifying electrical outlets and fixtures,
- Installing porch lifts and other forms of lifts (but generally not elevators),
- Modifying fire alarms, smoke detectors, and other warning systems,
- Modifying stairs,
- Adding handrails or grab bars anywhere (whether or not in bathrooms),
- Modifying hardware on doors,
- Modifying areas in front of entrance and exit doorways, and
- Grading the ground to provide access to the residence.

Only reasonable costs to accommodate a personal residence to a disabled condition are considered medical care. Additional costs for personal motives, such as for architectural or aesthetic reasons, are not medical expenses.

Publication 502, *Medical and Dental Expenses,* contains additional information and examples, including a capital expense work chart, to assist you in figuring the amount of the capital expense that you can include in your medical expenses. Also, see Publication 502 for information about deductible operating and upkeep expenses related to such capital expense items, and for information about improvements, for medical reasons, to property rented by a person with disabilities.

Do Not Include In Medical Expenses

Do not include in medical expenses the cost of the following items, even if they are related to medical care:

- A trip or vacation taken for a change in environment, improvement of morale, or general improvement of health, even if you make the trip on the advice of a doctor.
- The part of your car insurance premiums that provides medical insurance coverage for all persons injured in or by your car.
- Weight loss program, for your general health, even if your doctor prescribes the program.
- Program to stop smoking that you join for the improvement of your general health, even if your doctor suggests the program.
- Health club dues, YMCA dues, or amounts paid for steam baths, for your general health or to relieve physical or mental discomfort that is not related to a particular medical condition.
- Cosmetic surgery that is directed at improving the patient's appearance and does not meaningfully promote the proper function of the body or prevent or treat illness or disease. You can include in medical expenses

the amount you pay for cosmetic surgery if it is necessary to improve a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease.

- Household help, even if your doctor recommended it.
- Social activities, such as dancing lessons, or swimming for the general improvement of your health, even if they are recommended by your doctor.

Impairment-Related Work Expenses

If you are disabled and have expenses which are necessary for you to be able to work (impairment-related work expenses), take a business deduction for these expenses, rather than a medical deduction. These expenses are not subject to the 2% of adjusted gross income limit that applies to other employee business expenses. If you are self-employed, deduct the business expenses on the appropriate form (Schedule C, C–EZ, E, or F) used to report your business income and expenses.

Example. You are blind. You must use a reader to do your work. You use the reader both during your regular working hours at your place of work and outside your regular working hours away from your place of work. The reader's services are only for your work. You can deduct your expenses for the reader as business expenses.

Reimbursed Expenses

You must reduce your total medical expenses for the year by all reimbursements for medical expenses that you receive from insurance or other sources during the year. This includes payments received from Medicare. It does not matter if the reimbursement is paid to the patient or to the doctor, hospital, etc.

Reimbursement in a later year. If you are reimbursed in a later year for a medical expense you deducted in an earlier year, you must report the amount you received from insurance or other sources that is equal to, or less than the amount you previously deducted as medical expenses. However, you do not have to report as income the amount of reimbursement you received up to the amount of your medical deductions that did not reduce your tax for the earlier year.

Medical expenses not deducted. If you did not deduct a medical expense in the year you paid it because your medical expenses were not more than 7.5% of your adjusted gross income, or because you did not itemize deductions, do not include in income the reimbursement for this expense that you receive in a later year.

A more detailed discussion of the medical expense deduction is in Publication 502.

Deductible Taxes

You can deduct certain taxes if you itemize deductions.

Deductible taxes include:

- Income taxes (state, local, or foreign),
- Real estate taxes (state, local, or foreign), and
- Personal property taxes (state or local).

You may be able to deduct other taxes and fees not listed above if you incur them in a business or income-producing activity. Generally, your trade or business expenses are deducted on Schedule C, Schedule C–EZ, or Schedule F (Form 1040).

State or local taxes. These are taxes imposed by the 50 states, U.S. possessions, or any of their political subdivisions (such as a county or city), or by the District of Columbia. An Indian tribal government that is recognized by the Secretary of the Treasury as performing substantial government functions will be treated as a state for this purpose. Any of the taxes mentioned above that are imposed by that Indian tribal government (or by any of its subdivisions that are treated as political subdivisions of a state) are deductible.

Foreign taxes. These are taxes imposed by a foreign country or any of its political subdivisions.

Tests to deduct any tax. The following two tests must be met for any tax to be deductible by you.

1) The tax must be imposed on you.

2) The tax must be paid during your tax year.

Taxes imposed by the federal government. Certain taxes imposed by the federal government (such as federal income taxes and employee social security taxes) are not deductible. Others (such as excise taxes, estate taxes, and social security taxes for household workers) may be deductible if they qualify as an expense for business, producing income, medical care, or child care.

Refund, rebate, or credit received in 1994. If you received a tax refund, rebate, or credit in 1994 for taxes you paid in 1994, you must reduce your deduction by the amount refunded to you. Do not reduce your 1994 deduction for taxes by any refund of taxes deducted in any earlier year.

If you received a tax refund, rebate, or credit in 1994 for taxes that you deducted in an earlier year, you may have to include all or part of the amount in income on your 1994 federal income tax return. See *Recoveries* in Publication 525 for a discussion of how much you must include in income. If you did not deduct the tax in the year for which you received the refund, rebate, or credit, you do not have to include any of the amount in your income.

Interest Expense

You can deduct certain interest you pay if you itemize deductions on Schedule A (Form 1040). However, how much interest you can deduct depends on the type of interest you paid. Mortgage interest and personal interest are discussed in this section. Publication 550 contains information on investment interest. Publication 936, *Home Mortgage Interest Deduction,* contains more information on home mortgage interest.

Legally liable. To deduct interest on a debt, you must be legally liable for that debt. You cannot deduct payments you make for someone else if you are not legally liable to make them. Both the lender and the borrower must intend that the loan be repaid. In addition, there must be a true debtor-creditor relationship between the lender and the borrower.

Interest paid in advance. If you pay interest for a period that goes beyond the end of the tax year, you must spread this interest paid in advance over the tax years to which it applies. You can deduct in each year only the interest for that year. However, see *Points,* later.

Home Mortgage Interest

Generally, home mortgage interest is any interest you pay on a loan secured by your home (main home or a second home). These loans include a:

1) Mortgage to buy your home,
2) Second mortgage,
3) Line of credit, and
4) Home equity loan.

In most cases, you will be able to deduct all of your home mortgage interest. Whether it is all deductible depends on the date you took out the mortgage, the amount of the mortgage, and your use of its proceeds.

If all of your mortgages fit into one or more of the following three categories, you can deduct all of the interest on those mortgages. If any one mortgage fits into more than one category, add the parts of the mortgage that fit in each category to your other mortgages in the same category. If one or more of your mortgages does not fit into any of these three categories, get Publication 936 to figure the amount of interest you can deduct.

- Mortgages you took out on or before October 13, 1987 (called grandfathered debt).
- Mortgages you took out after October 13, 1987, to buy, build, or improve your home (called home acquisition debt), but only if these mortgages plus any grandfathered debt totaled $1 million or less throughout 1994.
- Mortgages you took out after October 13, 1987, other than to buy, build, or improve your home (called home equity debt), but only if these mortgages totaled $100,000 or less throughout 1994.

If you are married and file a separate return, the home acquisition debt limit is $500,000 and the home equity debt limit is $50,000.

If the total amount of all mortgages exceeds the fair market value of the home, an additional limit may apply. For more information, get Publication 936.

Note: You cannot deduct this interest if you use the proceeds of the mortgage to purchase securities or certificates that produce tax-free income.

See Publication 936 for more information on home mortgage interest and home equity loans.

Form 1098. If you paid mortgage interest of $600 or more during the year on any one mortgage to any person (including a financial institution, a governmental unit, or a cooperative housing corporation) in the course of that person's trade or business, you generally will receive a Form 1098, *Mortgage Interest Statement,* or similar statement.

The statement will show the total interest that you paid during the year. If you purchase a main home during 1994, it will also show the deductible points you paid during the year. However, it should not show housing assistance payments under section 235 of the National Housing Act.

If you received a refund of interest you overpaid in an earlier year, you generally will receive a Form 1098 showing the refund in box 3. For information on how to treat the refund, see *Recoveries* in Publication 525.

If you prepaid interest in 1994 that accrued in full by January 15, 1995, this prepaid interest may be included in box 1 of Form 1098. However, even though the prepaid amount may be included in box 1, you cannot deduct the prepaid amount in 1994. You will have to figure the interest that accrued for 1995 and subtract it from the amount in box 1. You will include the interest for 1995 with the other interest you pay for 1995.

You should receive the statement by January 31, 1995. A copy will also be sent to the IRS.

You can deduct only your share of the mortgage interest you paid. If your mortgage payments were subsidized by a government agency, do not deduct the amount paid for you.

If you and at least one other person (other than your spouse if you file a joint return) were liable for, and paid, interest on a mortgage that was for your home, and the other person received a Form 1098 showing the interest paid during 1994, attach a statement to your return explaining this, showing how much of the interest each of you paid, and giving the name and address of the person who received the form. Next to line 11, Schedule A (Form 1040), write "see attached."

If you are the payer of record on a mortgage on which there are other borrowers entitled to a deduction for the interest shown on the Form 1098 you received, you should furnish the other borrowers with information about the proper distribution of the amounts shown on the form you received.

Points. The term ''points'' is used to describe certain charges paid, or treated as paid, by a borrower to obtain a home mortgage. The term also describes certain charges that a home seller pays to a lender for the buyer's mortgage. Points may also be called loan origination fees, maximum loan charges, loan discount, or discount points.

You cannot deduct the full amount of points in the year paid. You must spread the points over the life (term) of the mortgage. Generally, you can deduct an equal portion in each year of the mortgage.

However, you can fully deduct in 1994 the amount paid on your loan as points if you meet the tests in *Exception 1* or *Exception 2* described under *Points* in Publication 936.

Points paid by a seller. The seller cannot deduct these amounts as interest. But they are a selling expense that reduces the seller's amount realized. See *Sale of Home*, earlier, for information on selling your home. The buyer may be able to deduct the points paid by the seller, as explained in Publication 936.

Points paid by seller in 1991, 1992, or 1993. You can deduct these points on an amended return, if:

1) The person who sold you your home paid points for your mortgage in 1991, 1992, or 1993,
2) You did not deduct the points on your original return for the year paid, and
3) You meet the tests for deducting the points described under *Exception 1* or *Exception 2* in Publication 936.

Mortgage ending early. If you spread your deduction for points over the life of the mortgage, you can deduct any remaining balance in the year the mortgage ends. A mortgage may end early due to a prepayment, refinancing, foreclosure, or similar event.

Refinancing. Generally, points you pay to refinance a mortgage are not deductible in full in the year you pay them. This is true even if the new mortgage is secured by your main home. For more information on refinancing, see Publication 936.

Mortgage interest credit. You may be able to claim a mortgage interest credit if you were issued a qualified mortgage credit certificate by a state or local government. Figure the credit on **Form 8396**, *Mortgage Interest Credit.* If you take this credit, you must reduce your mortgage interest deduction by the amount of the credit. Publication 530, *Tax Information for First-Time Homeowners,* contains information on the mortgage interest credit and the reduction you must make to your interest deduction if you claim the credit.

Reverse mortgage loans. A reverse mortgage loan is a loan that is based on the value of your home and is secured by a mortgage on your home. The lending institution pays you the proceeds of the loan in installments over a period of months or years. The loan agreement may provide that interest will be added to the outstanding loan balance monthly as it accrues. If you are a cash method taxpayer, you deduct the interest on a reverse mortgage loan when you actually pay it, not when it is added to the outstanding loan balance.

Where to deduct. Deduct fully deductible home mortgage interest and points reported to you on Form 1098 on line 10 of Schedule A (Form 1040). Deduct fully deductible home mortgage interest that was not reported to you on Form 1098 on line 11 of Schedule A. If you paid home mortgage interest to the person from whom you bought your home, show that person's name, address, and social security number (SSN) or employer identification number on the dotted lines next to line 11. The seller must give you this number and you must give the seller your SSN. Failure to meet any of these requirements may result in a $50 penalty for each failure. Deduct points paid on a mortgage that were not reported to you on Form 1098 on line 12 of Schedule A.

Personal Interest

Personal interest is not deductible. Personal interest is any interest that is not home mortgage interest, investment interest, or business interest. Personal interest includes interest you pay on car loans, installment purchases, credit cards, and income taxes you owe.

Contributions

A charitable contribution is a contribution or gift to, or for the use of, a qualified organization. To deduct your contributions, you must file Form 1040 and itemize deductions on Schedule A.

Qualified organizations. You may ask any organization whether it is a qualified organization, and most will be able to tell you. Generally, only the five following types of organizations can be qualified organizations:

1) The United States or any state, the District of Columbia, a U.S. possession (including Puerto Rico), a political subdivision of a state or U.S. possession, or an Indian tribal government or any of its subdivisions that perform substantial government functions.

   Note: To be able to deduct your contribution to this type of organization, you must make it for public purposes only.
2) A community chest, corporation, trust, fund, or foundation organized or created in or under the laws of the United States, any state, the District of Columbia, or any possession of the United States (including Puerto Rico). It must be organized and operated only for charitable, religious, educational, scientific, or literary purposes, or for the prevention of cruelty to children or animals. This includes the Red Cross, the United Way, Boy Scouts, and Girl Scouts. Certain organizations that foster national or international amateur sports competition also qualify.

3) War veterans' organizations, including posts, auxiliaries, trusts, or foundations, organized in the United States or any of its possessions.

4) Domestic fraternal societies, orders, and associations operating under the lodge system.

   Note: Your contribution to this type of organization is deductible only if it is to be used only for charitable, religious, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

5) Certain nonprofit cemetery companies or corporations.

   Note: Your contribution to this type of organization is not deductible if it can be used for the care of a specific lot or mausoleum crypt.

Examples. Examples of qualified organizations include:

Churches, a convention or association of churches, temples, synagogues, mosques, and other religious organizations,

Civil defense organizations,

Most nonprofit educational organizations,

Nonprofit hospitals and medical research organizations,

Nonprofit volunteer fire companies, and

Public parks and recreation facilities.

Out-of-pocket expenses in giving services. You can deduct some amounts that you pay in giving services to a qualified organization. However, you cannot deduct the value of your time or services.

Deductible expenses include amounts you pay for transportation from your home to the place where you serve.

Conventions. You cannot deduct your expenses in attending a church convention if you go only as a member of your church rather than as a chosen representative. You can deduct unreimbursed expenses that are directly connected with giving services for your church during the convention. However, see *Travel expenses,* later.

Car expenses. You can deduct unreimbursed out-of-pocket expenses, such as the cost of gas and oil, that are directly related to the use of your car in giving services to a charitable organization. You cannot deduct general repair or maintenance expenses, depreciation, registration fees, or the costs of tires or insurance.

If you do not want to deduct your actual expenses, you can use a standard rate of ***12 cents a mile*** to figure your contribution.

You can deduct parking fees and tolls whether you use your actual expenses or the standard rate.

Travel expenses. You can claim a charitable contribution deduction for travel expenses necessarily incurred while you are away from home performing services for a charitable organization only if there is no significant element of personal pleasure, recreation, or vacation in such travel. This applies whether you pay the expenses directly or indirectly. You are paying the expenses indirectly if you make a payment to the charitable organization and the organization pays for your travel expenses.

Retirement homes. You cannot deduct a gift you pay to a retirement home operated by a qualified organization if you receive financial or economic benefits reasonably equal to the gift. An amount clearly for room, board, maintenance, or being admitted is not a charitable contribution. Also, if the amount of your contribution depends on the type or size of apartment you will occupy, it is not a charitable contribution.

Form 8283. If your total deduction for all noncash contributions for the year is over $500, you must file Form 8283, *Noncash Charitable Contributions.*

Records to keep. You must keep records to prove the amount of the contributions you make during the year. The kind of records you must keep depends on the amount of your contributions and whether they are made in cash.

Additional information. Deductible contributions are discussed in detail in Publication 526.

Miscellaneous Deductions

Most miscellaneous itemized deductions are deductible only to the extent the total of all these deductions is more than 2% of your adjusted gross income. This includes unreimbursed employee business expenses, expenses of producing income, and most other miscellaneous expenses. The 2% limit is applied after all other deduction limits (such as the 50% limit on meals and entertainment) are considered.

Some of the miscellaneous expenses subject to the 2% limit are as follows:

Expenses of producing income, etc. These are expenses you pay or incur to produce or collect income, or to manage, conserve, or maintain property held for producing income. The expenses must be directly related to the income or income-producing property, and the income must be taxable to you.

Fees to collect interest and dividends. You can deduct fees you pay to a broker, bank, trustee, or similar agent to collect your taxable bond interest or dividends on shares of stock. But you cannot deduct a fee you pay to a broker to buy investment property, such as stocks or bonds. You must add the fee to the cost of the property.

Safe deposit box rent. You can deduct safe deposit box rent if you use the box to store taxable income-producing stocks, bonds, or investment-related papers and documents. You cannot deduct the rent if you use the box only for jewelry or other personal items, or for tax-exempt securities.

Expenses to determine, contest, pay, or claim a refund of any tax. You can usually deduct tax preparation fees in the year you pay them. These fees include the cost of tax preparation software and tax publications. It also includes any fee you pay for electronic filing of your return.

Certain employee business expenses. Get **Form 2106**, *Employee Business Expenses,* or **Form 2106–EZ**, *Unreimbursed Employee Business Expenses,* to figure the amount of your expenses to enter on Schedule A (Form 1040) subject to the 2% limit. However, if none of your employee business expenses are reimbursed by your employer and you are not claiming any meal, entertainment, travel, or transportation expenses, you generally do not have to complete either form. Instead, list your employee business expenses on line 20, Schedule A (Form 1040).

Other Miscellaneous Deductions

Certain miscellaneous expenses are not subject to the 2% limit. Some of these expenses are:

Federal estate tax on income in respect of a decedent. You can deduct the federal estate tax attributable to income in respect of a decedent that you as the beneficiary include in your gross income. Income in respect of a decedent is gross income that the decedent would have received had death not occurred and that was not properly includible on the decedent's final income tax return. Get Publication 559, *Survivors, Executors, and Administrators,* for information about figuring the amount of this deduction.

Gambling losses to the extent of gambling winnings. You must report the full amount of your gambling winnings on line 21, Form 1040. You deduct your gambling losses on line 28, Schedule A (Form 1040). You cannot deduct gambling losses that are more than your winnings. You must keep an accurate diary or similar record of your losses and winnings, and you must be able to prove the amounts of your winnings and losses by receipt, ticket, or statement.

Repayments under claim of right. If you had to repay more than $3,000 that you included in income in an earlier year because at the time you thought you had an unrestricted right to it, you may be able to deduct the amount you repaid, or take a credit against your tax. See *Repayments* in Publication 525 for more information.

Unrecovered investment in pension. If a retiree had contributed to the cost of a pension or annuity, a part of each payment received can be excluded from income as a tax-free return of the retiree's investment. If the retiree dies before the entire investment is returned, any unrecovered investment is allowed as a deduction on the retiree's final return. See Publication 575 for more information.

Other Deductions

There are more items that you can claim as itemized deductions. These deductions are discussed in the following publications:

- Publication 547, *Nonbusiness Disasters, Casualties, and Thefts,* and
- Publication 529, *Miscellaneous Deductions,* which includes information on other miscellaneous itemized deductions that are subject to the 2% limit.

IRS Will Figure Your Tax

The IRS will figure your tax on Form 1040, Form 1040A, or Form 1040EZ.

The IRS will figure your tax in the way that will let you pay the smallest amount. If you paid too much, you will receive a refund. If you did not pay enough, you will receive a bill for the balance. You will not be charged interest or the penalty for late payment if you pay the bill within 30 days of the notice date or by the due date for your tax return, whichever is later.

If you choose to have the IRS figure your tax, you may change your mind by filing an amended return.

For an explanation of what you must do for the IRS to figure your tax, see the forms instructions for the form you file (Form 1040, Form 1040A, or Form 1040EZ).

How to Figure Your Tax

How you figure your tax depends on which form you use and whether you itemize your deductions.

Form 1040EZ

If you file Form 1040EZ, you must figure your taxable income before you can find your tax.

Taxable income (line 5, Form 1040EZ) is the total of your wages, salaries, tips, taxable scholarship and fellowship grants, and taxable interest, minus your standard deduction and the deduction for your personal exemption(s) (line 4). The total of your standard deduction ($3,800 if single or $6,350 if married filing joint) and your personal exemption(s) ($2,450 each) is $6,250 if single or $11,250 if married, unless you and/or your spouse can be claimed as a dependent by another taxpayer. See the Form 1040EZ instructions for line 4. If you (or your spouse) can be claimed as a dependent by another taxpayer, check the ''Yes'' box on line 4 of your Form

1040EZ and complete the worksheet on the back of Form 1040EZ. Enter the result from line G of the worksheet on line 4.

Payments. After you have figured your taxable income, you enter the total of your federal income tax withheld on line 6. This amount is shown on your Form(s) W–2.

If you received a Form 1099–INT or Form 1099–OID showing income tax withheld for 1994, include the tax withheld in the total on line 6. To the left of line 6, write ‘‘Form 1099.’’

To see if you can take the earned income credit (EIC), answer the EIC questions in the instructions for Form 1040EZ. If you can, use the EIC worksheet in those instructions to figure the amount to enter on line 7. Also enter the amount and type of any nontaxable earned income you received in the spaces provided.

Add lines 6 and 7, and enter the sum on line 8. These are your total payments.

To find your tax, use the Tax Table in the instructions for Form 1040EZ. Use the amount on line 5 to find your tax in the Tax Table. Enter the tax on line 9, Form 1040EZ.

Form 1040A

If you file Form 1040A, you must figure your adjusted gross income and your taxable income before you can find your tax.

Adjusted gross income (line 16, Form 1040A) is your total income (line 14) minus the deduction for contributions to an IRA. To figure this IRA deduction, complete the applicable worksheet in the instructions for Form 1040A.

Taxable income (line 22) is your adjusted gross income (line 17) minus your standard deduction (line 19) and the deduction for your exemptions (line 21). To figure the deduction for your exemptions, multiply $2,450 by the number of exemptions claimed on line 6e.

Tax, credits, and payments. To find your tax, use the ***Tax Table*** in the instructions for Form 1040A, unless you are required to use Form 8615.

Tax. In the Tax Table, find the income line that includes your taxable income shown on line 22. Next, find the column heading that describes your filing status and read down the column. The amount shown where the income line and the filing status column meet is your tax. Enter it on line 23 and check the box marked *Tax Table.*

Credits. After you have figured your tax, figure any credit for child and dependent care expenses (line 24a) or any credit for the elderly or the disabled (line 24b) you may have. If you claim the credit for child and dependent care expenses, you must complete all applicable parts of Schedule 2 and attach it to your return. If you claim the credit for the elderly or the disabled, you must complete Schedule 3 and attach it to your return. Add lines 24a and 24b and enter the result on line 24c. Subtract your total credits (line 24c) from your tax (line 23) and enter the result (but not less than zero) on line 25.

If you received advance earned income credit payments, the amount will be shown on your Form(s) W–2. Enter the amount of these payments on line 26.

Payments. Your next step is to figure your total payments. On line 28a, you enter the total federal income tax withheld from your pay. If you received a Form 1099 showing income tax withheld on dividends or interest income for 1994, check the box and include the amount withheld in the total on line 28a.

On line 28b, enter your 1994 estimated tax payments and any amount applied from your 1993 federal income tax return.

To see if you can take the earned income credit (EIC), answer the EIC questions in the instructions for Form 1040A. If you can, use the EIC worksheet in those instructions to figure the amount to enter on line 28c. Also enter the amount and type of any nontaxable earned income you received in the spaces provided. If required, attach Schedule EIC. Add the amounts on lines 28a, 28b, and 28c and enter your total payments on line 28d. Also include on line 28d any excess social security or railroad retirement tax withheld. Write ‘‘Excess SST’’ and the amount in the space to the left of line 28d.

Form 1040

If you file Form 1040, you must compute your adjusted gross income and taxable income before you can find your tax.

Adjusted Gross Income

Adjusted gross income (line 31, Form 1040) is the total of all your income (line 22) minus any of the following adjustments:

- IRA deduction for you (and for your spouse if you are married),
- Moving expenses,
- Deduction for one-half of self-employment tax,
- Self-employed health insurance deduction (if extended),
- Keogh retirement plan and self-employed SEP deduction,
- Penalty on early withdrawal of savings,
- Alimony paid, and
- Other adjustments listed in the Form 1040 Instructions for line 30.

Taxable Income

There are two ways to figure the amount of your taxable income (line 37). You can itemize your deductions on Schedule A or take the standard deduction.

If you do not itemize your deductions, your taxable income is your adjusted gross income minus your standard deduction and the deduction for your exemptions. Generally, to figure the deduction for your exemptions, multiply $2,450 by the number of exemptions you claimed on line 6e. If your taxable income exceeds $83,850, see *Personal Exemptions,* earlier.

If you choose to itemize your deductions, your taxable income is your adjusted gross income minus your itemized deductions and the deduction for exemptions.

Figuring Your Tax

Most people will use the Tax Table to figure their tax. However, you must use the Tax Rate Schedules to figure your tax if your taxable income (line 37) is $100,000 or more unless you are required to use Form 8615 or you use the Capital Gain Tax Worksheet.

Tax Table. If your taxable income is under $100,000, you must use the Tax Table to find your tax, unless you are required to use Form 8615 or you use the Capital Gain Tax Worksheet. You can find the Tax Table in the instructions for your Form 1040.

To find your tax, read down the income column to the line that includes your taxable income as shown on line 37, Form 1040. Then read across the line to the column heading that describes your filing status. The amount shown where the income line and filing status column meet is your tax. Enter it on line 38 and check the box marked *Tax Table.*

Tax Rate Schedules. If your taxable income (line 37) is $100,000 or more, you must figure your tax by using Tax Rate Schedule X, Y–1, Y–2, or Z unless you are required to use Form 8615 or you use the Capital Gain Tax Worksheet.

Credit for the Elderly or the Disabled

This section explains who may take the credit for the elderly or the disabled and how to figure this credit. The maximum credit available is $1,125. You may be able to claim this credit if you are 65 or older, or if you retired on permanent and total disability.

You can claim the credit if you file Form 1040 or Form 1040A. You figure the credit on Schedule R (Form 1040), *Credit for the Elderly or the Disabled,* or on Schedule 3 (Form 1040A), *Credit for the Elderly or the Disabled for Form 1040A Filers*. You cannot take the credit if you file Form 1040EZ.

The IRS will figure your credit. If you choose to have the IRS figure your tax on Form 1040 or Form 1040A, and you qualify for the credit for the elderly or the disabled, the IRS will figure the credit for you. See *IRS Will Figure Your Tax,* earlier.

Can You Take the Credit?

You can take the credit for the elderly or the disabled if you are a ***qualified individual*** and if your income is not more than certain limits. See *Limits on Credit,* later.

Qualified individual. You are a qualified individual for this credit if you are a U.S. citizen or resident and:

1) You are age 65 or older by the end of the tax year, or
2) You are under 65 at the end of the tax year, and
   a) You are retired on permanent and total disability,
   b) You did not reach mandatory retirement age before 1994, and
   c) You received taxable disability benefits in 1994.

Age 65. You are considered 65 on the day before your 65th birthday. Therefore, you are 65 by the end of 1994 if your 65th birthday is on January 1, 1995.

U.S. citizen or resident. You must be a U.S. citizen or resident to claim the credit. Generally, you cannot claim the credit if you were a nonresident alien at any time during the tax year. However, if you are a nonresident alien who is married to a U.S. citizen or resident at the end of the tax year and you both choose to be treated as U.S. residents and be taxed on your worldwide income, you may be able to claim the credit.

Married persons. Generally, if you are married at the end of the tax year, you and your spouse must file a joint return to claim the credit. If you and your spouse did not live in the same household at any time during the tax year, you may file either a joint return or separate returns and still take the credit.

You will not be considered married, for tax purposes, if you meet all of the tests for certain married persons who lived apart. See *Head of Household,* under *Your Filing Status* earlier. If you meet all these tests, you can file as head of household and qualify to claim the credit for the elderly or the disabled even if your spouse lived with you during the first 6 months of the year.

Qualified individual under age 65. If you are under age 65, you may qualify for the credit only if you are retired on permanent and total disability. You are retired on permanent and total disability if:

1) You were permanently and totally disabled when you retired, and
2) You retired on disability before the end of the tax year.

You are considered retired on disability, even if you do not retire formally, when you have stopped working because of your disability.

Permanent and total disability. You are permanently and totally disabled if you cannot engage in any substantial gainful activity because of your physical or mental condition. A physician must certify that the condition has lasted or can be expected to last continuously for 12 months or more, or that the condition can be expected to result in death. See *Physician's statement,* later.

Substantial gainful activity. Substantial gainful activity is the performance of significant duties over a reasonable period of time while working for pay or profit, or in work generally done for pay or profit. Full-time work (or part-time work done at the employer's convenience) in a competitive work situation for at least the minimum wage conclusively shows that you are able to engage in substantial gainful activity. The minimum wage is $4.25 an hour.

Substantial gainful activity is not work you do to take care of yourself or your home. It is not unpaid work on hobbies, institutional therapy or training, school attendance, clubs, social programs, and similar activities. However, the kind of work you do may show that you are able to engage in substantial gainful activity. The fact that you have not worked for some time is not, of itself, conclusive evidence that you cannot engage in substantial gainful activity. The following examples illustrate the tests of substantial gainful activity.

Example 1. Trisha, a sales clerk, retired on disability. She is 53 years old and now works as a full-time babysitter for minimum wage. Even though Trisha is doing different work, she is able to do the duties of her new job in a full-time competitive work situation for the minimum wage. She is able to engage in substantial gainful activity and, therefore, cannot take the credit.

Example 2. Tom, a bookkeeper, retired on disability. He is 59 years old and now drives a truck for a charitable organization. He sets his own hours and is not paid. Duties of this nature generally are performed for pay or profit. Some weeks he works 10 hours and some weeks he works 40 hours. Over the year he averages 20 hours a week. The kind of work and his average hours a week conclusively show that Tom is able to engage in substantial gainful activity. This is true even though Tom is not paid and he sets his own hours. He cannot take the credit.

Example 3. John, who retired on disability, took a job with a former employer on a trial basis. The purpose of the job was to see if John could do the work. The trial period lasted for 6 months during which John was paid the minimum wage. Because of John's disability, he was assigned only light duties of a nonproductive ''make-work'' nature. The activity was gainful because John was paid at least the minimum wage. But the activity was not substantial because his duties were nonproductive. These facts do not, by themselves, show that John is able to engage in substantial gainful activity.

Example 4. Joan, who retired on disability from employment as a bookkeeper, lives with her sister who manages several motel units. Joan assists her sister for one or two hours a day by performing duties such as washing dishes, answering phones, registering guests, and bookkeeping. Joan can select the time during the day when she feels most fit to perform the tasks undertaken. Work of this nature, performed off and on during the day at Joan's convenience, is not activity of a ''substantial and gainful'' nature even if she is paid for the work. The performance of these duties does not, of itself, show that Joan is able to engage in substantial gainful activity.

Sheltered employment. Certain work offered at qualified locations to physically or mentally impaired persons is considered sheltered employment. These locations are in sheltered workshops, hospitals and similar institutions, homebound programs, and Department of Veterans Affairs (VA) sponsored homes. Compared to commercial employment, pay is lower for sheltered employment. Therefore, one usually does not look for sheltered employment if he or she can get other employment. The fact that one has accepted sheltered employment is not proof of the person's ability to engage in substantial gainful activity.

Physician's statement. If you are under 65, you must have your physician complete a statement certifying that you are permanently and totally disabled. Attach the statement to your return. You may use the physician's statement in Part II of either Schedule R (Form 1040) or of Schedule 3 (Form 1040A). However, check the box on line 2 and do not attach a physician's statement if:

1) You filed a physician's statement for this disability for 1983 or an earlier year, or you filed 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 1994.

If you have not filed a physician's statement in a previous year, or if the statement you filed did not meet these conditions, your doctor must complete the statement.

Disability income. If you are under age 65, you may qualify for the credit only if you have disability income. Disability income must meet the following two requirements:

1) The income must be paid under your employer's accident or health plan or pension plan.
2) The income must be wages or payments in lieu of wages for the time you are absent from work because of permanent and total disability.

Any payment you receive from a plan that does not provide for disability retirement is not disability income. Any lump-sum payment for accrued annual leave that you receive when you retire on disability is a salary payment and is not disability income.

For purposes of the credit for the elderly or the disabled, disability income does not include amounts you

Table 7. **Base Amounts for Schedule R and Schedule 3**

If your filing status is:	Your Base Amount to enter on line 10 of Schedule R or Schedule 3 is:
Single, an unmarried head of household, or a qualifying widow(er) with dependent child and	
• 65 or older	$5,000
• under 65 and retired on permanent and total disability [1]	$5,000
Married filing a joint return and	
• both of you are 65 or older	$7,500
• both of you are under 65 and one of you retired on permanent and total disability [1]	$5,000
• both of you are under 65 and both of you retired on permanent and total disability [1]	$7,500
• one of you is 65 or older, and the other is under 65 and retired on permanent and total disability [2]	$7,500
• one of you is 65 or older, and the other is under 65 and ***not*** retired on permanent and total disability	$5,000
Married filing a separate return and did not live with your spouse at any time during the year and	
• 65 or older	$3,750
• under 65 and retired on permanent and total disability [1]	$3,750

[1] Your base amount cannot be more than your total taxable disability income.
[2] Your base amount is $5,000 plus the taxable disability income of the spouse under age 65, but not more than $7,500.

receive after you reach mandatory retirement age. Mandatory retirement age is the age set by your employer at which you would have been required to retire had you not become disabled.

Reporting your disability income. For purposes of reporting your disability income, disability payments are taxable as wages only until you reach minimum retirement age. After you reach the minimum retirement age set by your employer, disability income is taxable as a pension. Minimum retirement age is generally the earliest age at which you may receive a pension whether or not you are disabled. Minimum retirement age does not affect the treatment of disability income for the credit for the elderly or the disabled. For more information on reporting your disability income, see Publication 525, *Taxable and Nontaxable Income.*

Figuring the Credit

If you figure the credit yourself, fill out the front of either Schedule R (if you are filing Form 1040) or Schedule 3 (if you are filing Form 1040A). Next, fill out Part III of either Schedule R or Schedule 3. There are three steps to follow in Part III to determine the amount on which you figure your credit:

1) Determine your ***base amount*** (lines 10–12 of either Schedule R or Schedule 3).
2) Total any ***nontaxable social security*** or ***railroad retirement benefits*** and other nontaxable pensions and disability benefits you received (lines 13a, 13b, and 13c of either Schedule R or Schedule 3).
3) Determine your ***excess adjusted gross income***, (lines 14–17 of either Schedule R or Schedule 3).

Amount of credit. If (1) is more than the total of (2) and (3), multiply the difference by 15% to get the amount of your credit. If the total of (2) and (3) is more than (1), you cannot claim the credit. This computation is found in Part III, lines 18–21 of either Schedule R or Schedule 3. In certain cases the amount of your credit may be limited.

Step 1. Determine Base Amount

To figure the credit, you must first determine your base amount. See *Table 7. Base Amounts for Schedule R and Schedule 3*.

Base amounts for persons under age 65. If you are a qualified individual under age 65, your base amount cannot be more than your taxable disability income. This limit affects you only if:

1) Your filing status is single, head of household, or qualifying widow(er) with dependent child and your taxable disability income is less than $5,000,

2) Your filing status is married filing a joint return and:

   a) Your spouse is also a qualified individual under 65 and your combined taxable disability income is less than $7,500,

   b) Your spouse is under 65 and not a qualified individual and your taxable disability income is less than $5,000, or

   c) Your spouse is 65 or older and your taxable disability income is less than $2,500, or

3) Your filing status is married filing separately and your taxable disability income is less than $3,750.

Step 2. Total Certain Nontaxable Income

Once you have determined your base amount, you must reduce it by the total amount of nontaxable social security and certain other nontaxable payments you receive during the year. Enter these nontaxable payments on lines 13a or 13b of either Schedule R or Schedule 3, and total them on line 13c. If you are married filing a joint return, you must enter the combined amount of nontaxable payments both you and your spouse receive.

Worksheets are provided in the instructions for Forms 1040 and 1040A to help you determine if any part of your social security (or equivalent railroad retirement benefits) is taxable. The nontaxable portions are used to reduce your base amount.

The following payments reduce your base amount.

- Nontaxable social security payments. This is the nontaxable part of the amount of benefits shown in box 5 of Form SSA–1099, which includes disability benefits, before deducting any amounts withheld to pay premiums on supplementary Medicare insurance, and before any reduction because of receipt of a benefit under workers' compensation.

  Do not include a lump-sum death benefit payment you may receive as a surviving spouse, or a surviving child's insurance benefit payments you may receive as a guardian.

- Social security equivalent part of tier 1 railroad retirement pension payments that are not taxed. This is the nontaxable part or the amount of benefits shown in box 5 of Form RRB–1099

- Nontaxable pension or annuity payments or disability benefits that are paid under a law administered by the Department of Veterans Affairs (VA). Do not include amounts received as a pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in the armed forces of any country or in the Coast and Geodetic Survey or the Public Health Service, or as a disability annuity under section 808 of the Foreign Service Act of 1980.

- Pension or annuity payments or disability benefits that are excluded from income under any provision of federal law other than the Internal Revenue Code. Amounts that are a return of your cost of a pension or annuity do not reduce your base amount.

In order to avoid mistakes in figuring the credit which could result in additional tax to you later, it is important to correctly report all these nontaxable amounts. These amounts are verified by the IRS through information supplied by other government agencies.

Step 3. Determine Excess Adjusted Gross Income

You also have to subtract the amount of your excess adjusted gross income from the base amount used to figure your credit.

You figure your ***excess adjusted gross income*** as follows:

1) Subtract from your adjusted gross income the amount shown for your filing status in the following list:

   - $7,500 if you are single, head of household, or a qualifying widow(er) with dependent child,
   - $10,000 if you are married filing a joint return, or
   - $5,000 if you are married filing a separate return and you and your spouse did not live in the same household at any time during the tax year.

2) Divide the result of (1) by 2.

Figure your excess adjusted gross income on lines 14 through 17 of either Schedule R or Schedule 3.

You will not be able to claim the credit on Schedule R or Schedule 3 if—

- You are single, a head of household, or a qualifying widow(er) with dependent child, and you receive nontaxable social security or other nontaxable pensions of $5,000 or more or have adjusted gross income of $17,500 or more.
- You are married filing a joint return, only ***one spouse*** is a qualified individual, and together you receive nontaxable social security or other nontaxable pensions of $5,000 or more or have adjusted gross income of $20,000 or more.
- You are married filing a joint return, ***both*** of you are qualified individuals, and together you receive nontaxable social security or other nontaxable pensions of $7,500 or more or have adjusted gross income of $25,000 or more.
- You are married filing a separate return, you and your spouse did not live in the same household at any time during the tax year, and you receive nontaxable social security or other nontaxable pensions of $3,750 or more or have adjusted gross income of $12,500 or more.

Example. You are 66 years old and your spouse is 64. Your spouse is not disabled. You file a joint return on Form 1040. Your adjusted gross income is $14,630. Together you received $3,200 from social security, which was nontaxable. You figure the credit as follows:

Base amount		$5,000
Subtract the total of:		
Social security and other nontaxable pensions	$3,200	
Excess adjusted gross income [($14,630 – $10,000) ÷ 2]	2,315	5,515
Balance (not less than –0–)		–0–
Credit		$ –0–

You may not take the credit since your nontaxable social security plus your excess adjusted gross income is more than your base amount.

Limits on Credit

The amount of your credit may be limited if:

1) You file Schedules C, C–EZ, D, E, or F (Form 1040), and
2) The amount on Form 1040, line 22, is more than:
   - $33,750 if you are single or head of household,
   - $45,000 if married filing jointly or qualifying widow(er) with dependent child, or
   - $22,500 if married filing separately.

For purposes of (2), any tax-exempt interest from private activity bonds issued after August 7, 1986, and any net operating loss deduction must be added to the amount from Form 1040, line 22.

If both (1) and (2) do not apply, your credit is not subject to this limit. Enter the amount of the credit from Schedule R, line 21, on Form 1040, line 42. If you meet both (1) and (2), get **Form 6251**, *Alternative Minimum Tax—Individuals,* and complete it through line 24. The limit on your credit will be the smaller of:

1) Your credit as computed, or
2) Your regular tax minus:
   a) Any credit for child and dependent care expenses, and
   b) Any amount shown on line 24, Form 6251.

Enter the smaller of (1) or (2) on Form 1040, line 42. If (2) is the smaller amount, also write ''AMT'' on the dotted line next to line 42, Form 1040, and replace the amount on Schedule R, line 21, with that amount.

Tax credit not refundable. Your credit for the elderly or the disabled cannot be more than the amount of your tax liability. Therefore, you cannot get a refund for any part of the credit that is more than your tax.

Credit figured for you. If you want the IRS to figure your credit, see *IRS Will Figure Your Tax,* earlier.

Examples. The following examples illustrate the credit for the elderly or the disabled. Assume that none of the taxpayers in these examples had to file a Form 6251.

Example 1. Jerry Ash is single and 68 years old. He received the following income for the year:

Nontaxable social security	$3,120
Interest (taxable)	$ 215
Pension (all taxable)	$3,600
Wages from a part-time job	$4,245

Jerry's adjusted gross income is $8,060 ($4,245 + $3,600 + $215). Jerry figures the credit as follows:

Base amount		$5,000
Subtract the total of:		
Social security and other nontaxable pensions	$3,120	
Excess adjusted gross income [($8,060 – $7,500) ÷ 2]	280	3,400
Balance		$1,600
Credit (15% of $1,600)		$ 240

Jerry's credit is $240.

Example 2. James Davis is single, 58 years old, and files Form 1040A. Two years ago he retired on permanent and total disability and he is still permanently and totally disabled. He filed the required physician's statement with his return for the year he retired on disability, so this year he checks the box in Part II of Schedule 3. This year he received nontaxable social security disability benefits of $3,000, a taxable disability pension of $8,400, and $100 interest. His adjusted gross income is $8,500 ($8,400 + $100). James figures his credit on Schedule 3 as follows:

Base amount		$5,000
Taxable disability pension		$8,400
Smaller of these amounts		$5,000
Subtract the total of:		
Nontaxable disability benefits (social security)	$3,000	
Excess adjusted gross income [($8,500 – $7,500) ÷ 2]	500	3,500
Balance		$1,500
Credit (15% of $1,500)		$ 225

His credit is $225. James enters $225 on line 24b of Form 1040A.

Child and Dependent Care Credit

If you pay someone to care for your dependent who is under age 13, or your spouse or dependent who is not capable of self-care, you may be able to get a credit of up to 30% of your expenses. To qualify, you must pay these expenses so you can work or look for work.

If you claim this credit, you must show on your return the name, address, and generally the social security number of the person who provided the care.

For information, see Publication 503.

Earned Income Credit

Beginning with your 1994 tax return, the earned income credit is available to persons with a qualifying child and to persons without a qualifying child. This section will list separately the rules that persons with a qualifying child must meet to get the credit and the rules that persons without a qualifying child must meet to get the credit.

More people may get the earned income credit. The earned income credit has expanded to include some persons who work, earn under $9,000, and do not have a qualifying child. The credit could be as much as $306. See *Persons Who Work and Do Not Have a Qualifying Child* to see if you can get this credit.

Increased earned income credit amount. If you have one qualifying child, the maximum credit you could get has increased from $1,434 in 1993 to $2,038 in 1994. If you have two or more qualifying children, the maximum credit you could get has increased from $1,511 in 1993 to $2,528 in 1994.

Form 1040EZ. Beginning with your 1994 tax return, if you do not have a qualifying child, you can use Form 1040EZ to claim the credit.

Schedule EIC and the Earned Income Credit Worksheet (EIC Worksheet). Beginning in 1994, not everyone who gets the credit has to fill out Schedule EIC, *Earned Income Credit*. Only persons who have a qualifying child must fill out Schedule EIC and attach it to Form 1040 or Form 1040A. Schedule EIC contains only information about qualifying children. Do not use Schedule EIC to figure the credit. You must use the EIC Worksheet to figure the amount of the credit. The Worksheet can be found in the instructions for Form 1040, 1040A, or 1040EZ.

Social security number. You must provide a correct and valid social security number (SSN) for each person listed on your tax return who is age 1 or older at the end of your tax year (usually December 31). The processing of your tax return will be delayed if the social security numbers are missing or incorrect. See Publication 596, for more information.

Credit has no effect on certain welfare benefits. The earned income credit and the advance earned income credit payments you receive will not be used to determine whether you are eligible for the following benefit programs, or how much you can receive from the programs.

- Aid to Families With Dependent Children (AFDC),
- Medicaid,
- Supplemental Security Income (SSI),
- Food Stamps, and
- Low-income housing.

How to get the credit. To get the earned income credit, you must:

- File a tax return even if you do not owe any tax or you did not earn enough money to file a return.
- Fill out the EIC Worksheet to figure the credit amount and where to enter it on Forms 1040, 1040A, or 1040EZ. Only fill out Schedule EIC and attach it to Form 1040 or 1040A if you have a qualifying child.
- Meet certain rules. These rules are explained later.

An easier way. Let the Internal Revenue Service figure the credit for you. For more information, see Publication 596.

Who May Take the Credit?

Some of the rules to get the credit only apply to persons with a qualifying child or to persons without a qualifying child. Use the discussion that applies to you. A ''qualifying child'' is explained later, under *Who Is a Qualifying Child.*

Persons Who Work and Have One or More Qualifying Children

In order to take the earned income credit under this section, you must meet all the following rules:

1) You must have a qualifying child who lived with you in the United States for more than half the year (the whole year for an eligible foster child). See *Social security number* earlier.
2) You must have earned income during the year.
3) Your earned income and adjusted gross income must each be less than:
   - $23,755 if you have one qualifying child, or
   - $25,296 if you have more than one qualifying child.
4) Your return must cover a 12-month period. This does not apply if you file a short period return because of an individual's death.
5) Your filing status can be any filing status except married filing a separate return. (See *Married persons exception,* later).
6) You cannot be a qualifying child of another person.

7) Your qualifying child cannot be the qualifying child of another person whose adjusted gross income is more than yours.
8) You usually must claim a qualifying child who is married as a dependent. (See Publication 596 for details.)
9) You are not filing Form 2555, *Foreign Earned Income* (or Form 2555–EZ, *Foreign Earned Income Exclusion*). These forms are filed to exclude from your gross income any income earned in foreign countries, or to deduct or exclude a foreign housing amount. U.S. possessions are not foreign countries. See Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, for more information.

Note. If you meet all these rules, fill out Schedule EIC and attach it to either Form 1040 or Form 1040A. Also complete the EIC Worksheet to figure the amount of your credit. If you do not meet all these rules, enter ''NO'' next to line 56, Form 1040 (or next to line 28c, Form 1040A). If you have a qualifying child, you cannot file Form 1040EZ.

Who Is a Qualifying Child?

You have a qualifying child if your child meets three tests. They are:

- Relationship,
- Residency, and
- Age.

Each test has separate rules.

Relationship test. To meet the relationship test for a qualifying child, the child must be your:

1) Son, daughter, or adopted child (or a descendant of your son, daughter, or adopted child — for example, your grandchild),
2) Stepson or stepdaughter, or
3) Eligible foster child (this could include a niece, nephew, brother, sister, cousin, etc.).

Residency test. To meet the residency test, there are two rules:

1) You must have a child who lived with you for more than half the year (the whole year if your child is an eligible foster child), and
2) The home must be in the United States (one of the 50 states or the District of Columbia).

Age test. To meet the age test for a qualifying child, the child must be:

1) Under age 19 at the end of the year,
2) A full-time student under age 24 at the end of the year, or
3) Permanently and totally disabled at any time during the tax year, regardless of age.

For more information regarding these eligibility requirements, see Publication 596.

Persons Who Work and Do Not Have a Qualifying Child

In order to take the earned income credit under this section, you must meet all the following rules:

1) You must have earned income during 1994.
2) Your earned income and adjusted gross income must each be less than $9,000.
3) Your return must cover a 12-month period. This does not apply if you file a short period return because of an individual's death.
4) Your filing status can be any filing status except married filing a separate return. See *Married persons exception*, later, for an exception.
5) You cannot be a qualifying child of another person.
6) You (or your spouse if filing a joint return) must be at least age 25 but ***under age 65*** before the close of your tax year (usually December 31).
7) You cannot be eligible to be claimed as a dependent on anyone else's return.
8) Your main home must be in the United States for more than half the year.
9) You are not filing Form 2555, *Foreign Earned Income*, or Form 2555–EZ, *Foreign Earned Income Exclusion*. These forms are filed to exclude from your gross income any income earned in foreign countries, or to deduct or exclude foreign housing amounts. U.S. possessions are not foreign countries. See Publication 54 for more information.

Important note. If you meet all these rules, fill out the EIC Worksheet to figure the amount of your credit. If you do not meet all these rules, enter ''NO'' next to line 56 (Form 1040), next to line 28c (Form 1040A), or next to line 7 (Form 1040EZ).

Married persons exception. Married taxpayers living apart usually must file a joint return to claim the earned income credit. Even though you are married, you may file as head of household and claim the credit on your return if:

1) Your spouse did not live in your home at any time during the last 6 months of the year,
2) You paid more than half the cost to keep up your home for the entire year, and
3) Your home was, for more than half the year, the main home of your child, adopted child, stepchild, or foster child. You also must be entitled to claim your child as a dependent.

You will meet (3), even if you cannot claim your child as a dependent because:

- You released your claim in writing to the other parent, or
- There is a pre-1985 agreement (decree of divorce, separate maintenance or written agreement) granting the exemption to your child's other parent.

If the child who qualifies you for head of household status also meets the requirements of your qualifying child, you cannot take the credit under the rules for *Persons Who Work and Do Not Have a Qualifying Child*.

Advance Earned Income Credit Payments

If you expect to qualify for the earned income credit in 1995, you can choose to receive advance payments of part of the credit in your regular paycheck. You must file a 1994 return to report what you already received in 1994 and to take advantage of any additional earned income credit.

You can request advance payments of the credit by completing Form W–5, *Earned Income Credit Advance Payment Certificate.* See Publication 596 for more information on the advance earned income credit.

Caution. The advance earned income credit payment is available only to persons who have at least one qualifying child.

Estimated Tax

Estimated tax is the method used to pay tax on income that is not subject to withholding. This includes income from self-employment, unemployment compensation, interest, dividends, alimony, rent, gains from the sale of assets, prizes, and awards.

Income tax is generally withheld from pensions and annuity payments you receive. However, if the tax withheld is not enough, you may have to pay estimated tax. If you do not pay enough tax through withholding or by making estimated tax payments, you may be charged a penalty.

Who Must Make Estimated Tax Payments

If you had a tax liability for 1994, you may have to pay estimated tax for 1995. Generally, you must make estimated tax payments for 1995 if you expect to owe at least $500 in tax for 1995 after subtracting your withholding and credits, and you expect your withholding and credits to be less than the smaller of:

1) 90% of the tax to be shown on your 1995 tax return, or
2) 100% of the tax shown on your 1994 tax return. The 1994 tax return must cover all 12 months.

If all of your 1995 income will be subject to income tax withholding, you probably do not need to make estimated tax payments.

For more information on estimated tax for 1995, see Publication 505, *Tax Withholding and Estimated Tax.*

How To Avoid Common Errors On Your Tax Return

Before you mail your income tax return, check it over. Be sure you:

1) Transfer the address label (***after*** you have completed your return) from the tax return package you received in the mail to your Form 1040, Form 1040A, or Form 1040EZ, and make any necessary corrections to your name, address, and social security number. Be sure to use the label from your federal tax return package and not the one that came with your state tax return. Use of the label saves processing time.
2) Attach the first copy or Copy B of all your Forms W–2, W–2G, and 1099–R (showing federal income tax withheld) to the front of your Form 1040, Form 1040A, or Form 1040EZ.
3) Put all forms and schedules in the proper order.
4) Put all income, deductions, credits, and tax items on the correct lines.
5) Recheck your return to make sure you have made no mistakes in arithmetic.
6) Use the correct column in the Tax Table or the appropriate Tax Rate Schedule.
7) Sign and date your return. On a joint return, both you and your spouse must sign the return. Any person you pay to prepare your return must also sign it as the preparer and show his or her taxpayer identification number.
8) Enter your occupation in the space provided in the signature section. If you file a joint return, enter both your occupation and your spouse's occupation.
9) If you are making a payment, do not attach it to your return. Instead, place it in the envelope with your return. Make your check or money order out to the *Internal Revenue Service,* and be sure to put your name, address, daytime phone number, social security number, tax form number, and tax year (for example, *John Doe, 111–00–1111, 1994 Form 1040*) on the check or money order.
10) Send your return to the Internal Revenue Service Center for your area. If an addressed envelope came with your tax return package, please use it. If you do not have one or if you moved during the

year, mail your return to the Internal Revenue Service Center for the place where you now live. All addresses are listed in the instructions for your Form 1040, Form 1040A, or Form 1040EZ.

Address Change

If you change your mailing address, be sure to notify the IRS using **Form 8822**, *Change of Address.* Mail it to the Internal Revenue Service Center for your old address (addresses for the Service Centers are on the back of the form). If you move after you file your return and you are expecting a refund, also notify the post office serving your old address. This will help to forward your check to your new address.

Sample Returns

This part of the publication gives examples of two filled-in tax returns. The first example is Malcolm and Rebecca Brown's filled-in Form 1040A. The second example is Martin and Hayley Green's filled-in Form 1040.

Form 1040A

Malcolm and Rebecca Brown are married. They are both over age 65 and retired. Their income for 1994 consists of a pension, interest, dividends, and social security benefits. They decide to file Form 1040A for 1994.

Identifying information. The Browns use the pre-addressed label that came with their tax forms to show their names, address, and social security numbers. They check the label to make sure the information is correct.

Presidential Election Campaign Fund. Both Malcolm and Rebecca want $3 of their taxes to go to this fund. They check both *Yes* boxes. Their tax will not change by checking *Yes.*

Filing status (lines 1–5). Malcolm and Rebecca decide to file a joint return. They check the filing status box on line 2, *Married filing joint return.*

Exemptions (lines 6a–6e). The Browns show the exemption for Malcolm on line 6a and for Rebecca on line 6b. They then enter the number of boxes checked (2) on the line to the right of lines 6a and 6b. Malcolm and Rebecca have no dependents, so they also enter the number 2 in the box to the right of line 6e to show the total exemptions they claim.

Income (lines 7–14)

Malcolm and Rebecca are now ready to report their income.

Taxable interest income (line 8a and Part I of Schedule 1). The Browns add their taxable interest income shown on the Forms 1099–INT they received and enter the total of $4,236 on line 8a, Form 1040A. Because their total interest is more than $400, the Browns must complete Part I of Schedule 1. They list all payers and all amounts on line 1 of Part I, and show the total on lines 2 and 4, Part I of Schedule 1.

Dividends (line 9 and Part II of Schedule 1). The Browns received $1,490 in ordinary dividends from ABC Corp. during 1994.

Because their total dividends received are more than $400, the Browns must complete Part II of Schedule 1. They list the payer and the amount on line 5, Schedule 1. The total dividend amount received of $1,490 is entered on line 6, Schedule 1, and on line 9, Form 1040A.

Pensions and annuities (lines 11a and 11b). Malcolm and Rebecca received fully taxable pension income totaling $19,375 in 1994. They enter $19,375 on line 11b, Form 1040A. Because their pensions are fully taxable, they make no entry on line 11a.

Social security benefits (lines 13a and 13b). The Browns received a Form SSA–1099 showing net social security benefits of $8,620 in box 5. The rest of the Browns' income on Form 1040A totaled $25,101. They did not receive any nontaxable interest income and they did not claim any adjustments to income. None of their social security benefits are taxable because half of the net benefits, plus the Browns' other income, is less than $32,000. They do not enter any amounts on lines 13a or 13b.

Total income (line 14). Malcolm and Rebecca add lines 8a, 9, and 11b to find their total income of $25,101 and enter that amount on line 14. The Browns do not have any adjustments to income, so they enter zero on line 15c. They then enter $25,101 on line 16. This is their adjusted gross income.

Tax Computation (lines 17–27)

The Browns are now ready to figure their tax. They enter their adjusted gross income of $25,101 (from line 16), on line 17. Malcolm and Rebecca are both 65 or older, so they check the appropriate boxes on line 18a, and enter "2" in the box to the right of line 18a. Neither can be claimed as a dependent on another person's return, so no entry is required on line 18b. They skip line 18c. The Browns use the chart in the Form 1040A instructions to find their standard deduction. (The amount of their standard deduction depends on their filing status and whether they are 65 or older or blind. It is not built into the Tax Table but is figured separately.)

The Browns enter their $7,850 standard deduction on line 19. They subtract $7,850 from line 17 and enter $17,251 on line 20.

They multiply $2,450 by the total number of exemptions claimed on line 6e and enter $4,900 on line 21. They subtract $4,900 from $17,251 and enter $12,351 on line 22. This is their taxable income.

Malcolm and Rebecca use the Tax Table to find their tax. They read down the income column until they find the line that includes their taxable income of $12,351. They then read across to the column headed *Married filing jointly.* The amount shown ($1,856) is their tax. Malcolm and Rebecca enter this amount on line 23 and check the box marked *Tax Table.* The Browns are not eligible for the credit for the elderly or the disabled or the credit for child and dependent care expenses, so they enter zero on line 24c and $1,856 on lines 25 and 27.

Payments (lines 28a–28d)

Malcolm and Rebecca received a Form 1099–R showing that they had $2,303 of federal income tax withheld in 1994. They enter $2,303 on line 28a, Form 1040A and check the box. Because this is the only payment the Browns have, they also enter $2,303 on line 28d.

Refund or Amount You Owe (lines 29–32)

Because line 28d ($2,303) is more than line 27 ($1,856), Malcolm and Rebecca have overpaid their taxes. The Browns enter their overpayment of $447 on line 29. Since they wish to have this amount refunded, they enter $447 on line 30.

The Browns check their return to make certain they have completed all the items and schedules called for. They both sign and date the return and enter ''retired'' in the space provided for their occupations. They attach the label and mail the return to the Internal Revenue Service Center for their area. They keep a copy of their return for their records.

Form 1040

Martin and Hayley Green are married. Their financial transactions during the year are shown on the tax forms on the sample Form 1040. Both Martin and Hayley are retired.

The Greens were sent a Form 1040 tax package for 1994. The forms they received were based on the return and schedules they filed for 1993. They use the order blank in their Form 1040 tax package to order the other forms they need.

Identifying information. The Greens use the pre-addressed label that came with their tax forms to show their names, address, and social security numbers. Because they filed Form 8822 when they moved during the year, the label shows their new address. They check the label to make sure the information is correct.

Presidential Election Campaign Fund. Both Martin and Hayley want $3 of their taxes to go to this fund. They check both *Yes* boxes. Their tax will not change by checking *Yes.*

Filing status (lines 1–5). Martin and Hayley decide to file a joint return. They check the filing status box on line 2, *Married filing joint return.*

Exemptions (lines 6a–6e). The Greens show the exemption for Martin on line 6a and for Hayley on line 6b. They then enter the number of boxes checked (2) on the line to the right of lines 6a and 6b. Martin and Hayley have no dependents, so they also enter the number 2 in the box to the right of line 6e to show the total exemptions they claim.

Income (lines 7–22)

Martin and Hayley are now ready to report their income.

Taxable interest income (line 8a and Part I of Schedule B). The Greens add their taxable interest income shown on the Forms 1099–INT they received and enter the total of $3,142 on line 8a, Form 1040. Because their total interest is more than $400, the Greens must complete Part I of Schedule B. They list all payers and all amounts on line 1 of Part I and show the total on lines 2 and 4, Part I of Schedule B.

Dividends (line 9 and Part II of Schedule B). During the time Hayley was working, she participated in a stock bonus plan that her employer had set up. She received $1,490 in ordinary dividends from the company in 1994. This is the only dividend income Martin and Hayley received during 1994.

Because the total amount of dividends received is more than $400, the Greens must complete Part II of Schedule B. They list the payer and the amount on line 5, Schedule B. The total dividends received of $1,490 is entered on line 6, Schedule B. Because the dividends Hayley received did not include capital gain distributions or nontaxable distributions, they skip lines 7 through 9 and enter $1,490 on line 10, Schedule B, and on line 9, Form 1040.

Foreign accounts and foreign trusts (Part III of Schedule B). Neither Martin nor Hayley had a foreign account or were a grantor of, or transferor to, a foreign trust. They check the *No* boxes for lines 11a and 12 in Part III of Schedule B.

Capital gains and losses (line 13 and Schedule D). On line 13, Martin and Hayley show their income from the sale or exchange of capital assets (100 shares of Z Company stock). The income is figured on Schedule D.

Part I of Schedule D is used to report short-term capital gains or losses on assets held one year or less. The Greens do not have any short-term gains or losses for 1994.

Part II of Schedule D is used to report long-term capital gains or losses on assets held more than one year. Martin and Hayley complete line 9 to show their $3,250 gain on the sale of one hundred shares of stock. They also complete lines 11, 16, and 17 of Part II.

Form **1040A** Department of the Treasury—Internal Revenue Service

U.S. Individual Income Tax Return (T) 1994

IRS Use Only—Do not write or staple in this space. OMB No. 1545-0085

Label

(See page 16.)

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

LABEL HERE

Your first name and initial | Last name

CAR-RT SORT**CR01
BN 111-00-1111 222-00-2222 S29 30
MALCOLM A & REBECCA L BROWN
1001 FIRST ST
ANYTOWN, AS 00000

IRS

Apt. no.

Your social security number

Spouse's social security number

For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Presidential Election Campaign Fund (See page 17.)

	Yes	No
Do you want $3 to go to this fund?	√	
If a joint return, does your spouse want $3 to go to this fund?	√	

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Check the box for your filing status

(See page 17.) Check only one box.

1 ☐ Single
2 ☑ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 18.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 19.)

Figure your exemptions

(See page 20.)

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. But be sure to check the box on line 18b on page 2.

b ☑ **Spouse**

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

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 1	(3) If age 1 or older, dependent's social security number	(4) Dependent's relationship to you	(5) No. of months lived in your home in 1994

If more than seven dependents, see page 23.

No. of your children on 6c who:
• lived with you
• didn't live with you due to divorce or separation (see page 23)

Dependents on 6c not entered above

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐

e Total number of exemptions claimed.

Add numbers entered on lines above: 2

Figure your total income

Attach Copy B of your Forms W-2 and 1099-R here.

If you didn't get a W-2, see page 25.

Enclose, but do not attach, any payment with your return.

7	Wages, salaries, tips, etc. This should be shown in box 1 of your W-2 form(s). Attach Form(s) W-2.	7	
8a	**Taxable** interest income (see page 25). If over $400, attach Schedule 1.	8a	4,236
b	**Tax-exempt** interest. DO NOT include on line 8a. 8b		
9	Dividends. If over $400, attach Schedule 1.	9	1,490
10a	Total IRA distributions. 10a — 10b Taxable amount (see page 26).	10b	
11a	Total pensions and annuities. 11a — 11b Taxable amount (see page 27).	11b	19,375
12	Unemployment compensation (see page 30).	12	
13a	Social security benefits. 13a — 13b Taxable amount (see page 31).	13b	
14	Add lines 7 through 13b (far right column). This is your **total income.** ▶	14	25,101

Figure your adjusted gross income

15a	Your IRA deduction (see page 34). 15a		
b	Spouse's IRA deduction (see page 34). 15b		
c	Add lines 15a and 15b. These are your **total adjustments.**	15c	0
16	Subtract line 15c from line 14. This is your **adjusted gross income.** If less than $25,296 and a child lived with you (less than $9,000 if a child didn't live with you), see "Earned income credit" on page 44. ▶	16	25,101

Cat. No. 11327A

Figure your standard deduction, exemption amount, and taxable income

17	Enter the amount from line 16.	17	25,101
18a	Check if: ☑ You were 65 or older ☐ Blind; ☑ Spouse was 65 or older ☐ Blind. **Enter number of boxes checked** ▶	18a	2
b	If your parent (or someone else) can claim you as a dependent, check here ▶	18b ☐	
c	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 38 and check here. ▶	18c ☐	
19	Enter the **standard deduction** shown below for your filing status. **But if you checked any box on line 18a or b,** go to page 38 to find your standard deduction. **If you checked box 18c,** enter -0-. • Single—$3,800 • Married filing jointly or Qualifying widow(er)—$6,350 • Head of household—$5,600 • Married filing separately—$3,175	19	7,850
20	Subtract line 19 from line 17. If line 19 is more than line 17, enter -0-.	20	17,251
21	Multiply $2,450 by the total number of exemptions claimed on line 6e.	21	4,900
22	Subtract line 21 from line 20. If line 21 is more than line 20, enter -0-. This is your **taxable income.** ▶	22	12,351

Figure your tax, credits, and payments

If you want the IRS to figure your tax, see the instructions for line 22 on page 39.

23	Find the tax on the amount on line 22. Check if from: ☑ Tax Table (pages 62–67) or ☐ Form 8615 (see page 40).			23	1,856
24a	Credit for child and dependent care expenses. Attach Schedule 2.	24a			
b	Credit for the elderly or the disabled. Attach Schedule 3.	24b			
c	Add lines 24a and 24b. These are your **total credits.**			24c	0
25	Subtract line 24c from line 23. If line 24c is more than line 23, enter -0-.			25	1,856
26	Advance earned income credit payments from Form W-2.			26	
27	Add lines 25 and 26. This is your **total tax.** ▶			27	1,856
28a	Total Federal income tax withheld. If any tax is from Form(s) 1099, check here. ▶ ☑	28a	2,303		
b	1994 estimated tax payments and amount applied from 1993 return.	28b			
c	**Earned income credit.** If required, attach Schedule EIC (see page 44). Nontaxable earned income: amount ▶ and type ▶	28c			
d	Add lines 28a, 28b, and 28c (don't include nontaxable earned income). These are your **total payments.** ▶			28d	2,303

Figure your refund or amount you owe

29	If line 28d is more than line 27, subtract line 27 from line 28d. This is the amount you **overpaid.**			29	447
30	Amount of line 29 you want **refunded to you.**			30	447
31	Amount of line 29 you want **applied to your 1995 estimated tax.**	31			
32	If line 27 is more than line 28d, subtract line 28d from line 27. This is the **amount you owe.** For details on how to pay, including what to write on your payment, see page 52.			32	
33	Estimated tax penalty (see page 52). Also, include on line 32.	33			

Sign your return

Keep a copy of this return 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
Malcolm A. Brown	3-15-95	Retired
Spouse's signature. If joint return, BOTH must sign.	**Date**	**Spouse's occupation**
Rebecca L. Brown	3-15-95	Retired

Paid preparer's use only

Preparer's signature	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address		E.I. No.	
		ZIP code	

Printed on recycled paper

Schedule 1 Department of the Treasury—Internal Revenue Service
(Form 1040A)

Interest and Dividend Income for Form 1040A Filers (T) 1994

OMB No. 1545-0085

Name(s) shown on Form 1040A: Malcolm A and Rebecca L Brown

Your social security number: 111:00:1111

Part I — Interest income

(See pages 25 and 68.)

Note: *If you received a Form 1099–INT, Form 1099–OID, or substitute statement from a brokerage firm, enter the firm's name and the total interest shown on that form.*

			Amount
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page 68 and list this interest first. Also, show that buyer's social security number and address.		
	Hometown National Bank	1	2,358
	Hometown Credit Union		1,878
2	Add the amounts on line 1.	2	4,236
3	Excludable interest on series EE U.S. savings bonds issued after 1989 from Form 8815, line 14. You MUST attach Form 8815 to Form 1040A.	3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, line 8a.	4	4,236

Part II — Dividend income

(See pages 26 and 69.)

Note: *If you received a Form 1099–DIV or substitute statement from a brokerage firm, enter the firm's name and the total dividends shown on that form.*

			Amount
5	List name of payer		
	ABC Corporation	5	1,490
6	Add the amounts on line 5. Enter the total here and on Form 1040A, line 9.	6	1,490

For Paperwork Reduction Act Notice, see Form 1040A instructions. Cat. No. 12075R **1994 Schedule 1 (Form 1040A) page 1**

Printed on recycled paper

Part III of Schedule D is a summary of Parts I and II. Martin and Hayley enter $3,250 on line 18, Schedule D, and on line 13, Form 1040.

If the Green's taxable income had been more than $91,850, they would have filled out the Capital Gain Tax Worksheet to take advantage of the 28% tax rate on capital gains. Since their taxable income is less than that, they will not complete the worksheet.

Sale of home (Form 2119). Martin and Hayley sold their old home on January 16, 1994. Because their children were grown, they did not feel they needed a house anymore. The Greens are now renting an apartment.

The Greens bought their old home on October 19, 1957, for $25,500. Throughout the years, they added improvements to the home. These improvements cost $7,667. They sold their home for $138,000 and paid $8,280 commissions to the realty company.

Mr. and Mrs. Green want to exclude gain on the sale from their income. Because they were age 55 or older before the date of the sale, had owned and used the property sold as their main home for at least 3 years out of the 5–year period ending on the date of sale, and have not excluded gain on the sale of a home after July 26, 1978, they may exclude up to $125,000.

The Greens figure their gain on the sale as follows:

1)	Selling price of home	$138,000
2)	Minus: Selling expense (commission)	8,280
3)	Amount realized	$129,720
4)	Minus: Basis of home ($25,500 cost plus $7,667 improvements)	33,167
5)	**Gain on sale**	$ 96,553

Because the Greens' gain on the sale is less than $125,000, they do not include any of the gain in their income. But they fill out Form 2119 and attach it to their return to report the sale.

Pensions and annuities (lines 16a and 16b). Hayley retired on January 1, 1994, with a monthly pension of $425 beginning in February. Her contributions to the plan (her pension cost) were $17,000. She is 67 years old.

Hayley figures the taxable part of her pension using the worksheet in the Form 1040 instructions for the Simplified General Rule. The taxable part is $3,575 (line 9 of the worksheet). Her worksheet is shown below.

Martin retired in 1987. He receives a fully taxable pension of $600 a month. The Greens enter $11,875 (Hayley's pension of $4,675 plus Martin's pension of $7,200) on line 16a, Form 1040. They enter $10,775 (the taxable amount) on line 16b, Form 1040.

Social security benefits (lines 20a and 20b). In January 1995, Hayley received a Form SSA–1099 showing net social security benefits of $2,220 in box 5. Martin did not receive any social security benefits or railroad retirement benefits during 1994. The Greens' income on Form 1040 totaled $18,657. They did not receive any nontaxable interest income and they did not claim any adjustments to income. None of Hayley's social security benefits are taxable because half of the net benefits, plus the rest of the Greens' income, is less than $32,000. They do not enter any amounts on lines 20a or 20b.

Total income (line 22). Martin and Hayley add lines 8a, 9, 13, and 16b to find their total income of $18,657 and enter it on line 22. The Greens do not have any adjustments to income, so they enter zero on line 30. They then enter $18,657 on line 31. This is their adjusted gross income.

Tax Computation (lines 32–40)

The Greens are now ready to figure their tax. They enter their adjusted gross income of $18,657 (from line 31), on line 32. Martin and Hayley are both 65 or older, so they check the appropriate boxes on line 33a, and enter ''2'' in the box to the right of line 33a. Neither can be claimed as a dependent on another person's return, so no entry is required on line 33b. They skip line 33c. The Greens use the chart in the Form 1040 instructions to find their standard deduction. (Their standard deduction depends on their filing status and whether they are 65 or older or blind. It is not built into the Tax Table or the Tax Rate Schedules but is figured separately.)

Martin and Hayley choose not to itemize their deductions because their total itemized deductions are less than the $7,850 standard deduction to which they are entitled.

The Greens enter their $7,850 standard deduction on line 34. They subtract it from line 32 and enter $10,807 on line 35.

They multiply $2,450 by the total number of exemptions claimed on line 6e and enter $4,900 on line 36. They subtract $4,900 from $10,807 and enter $5,907 on line 37. This is their taxable income.

Martin and Hayley use the Tax Table to find their tax because their taxable income is less than $100,000. They read down the income column until they find the line that includes their taxable income, $5,907. They then read across to the column headed *Married filing jointly.* The amount shown of $889 is their tax. Martin and Hayley enter this amount on line 38 and check the box marked *Tax Table.* The Greens do not owe any additional taxes. They enter $889 on line 40.

Credits (lines 41–46)

The Greens check to see if they can claim any credits.

Credit for the elderly or the disabled (line 42 and Schedule R). Because Martin and Hayley are both 65 or older, they complete Schedule R to see if they can claim this credit.

They check box 3 in Part I of Schedule R and enter $7,500 on lines 10 and 12 in Part III. They do not complete Part II because neither of them is under 65.

Table 8. **Simplified General Rule Worksheet** (keep for your records)

1. Enter the total pension or annuity payments received this year. Also enter this amount on Form 1040, line 16a		**1.** ______
2. Enter your cost in the plan at the annuity starting date, plus any death benefit exclusion	**2.** ______	
3. Age at annuity starting date: / Enter: 55 and under — 300 56-60 — 260 61-65 — 240 66-70 — 170 71 and older — 120	**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, also enter this amount on line 8; skip lines 6 and 7. 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 am ount, use the amount on this line instead of the amount from Form 1099-R		**9.** ______

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

On lines 13a and 13c, the Greens enter $2,220, the total of Hayley's social security benefits. They enter $18,657, their adjusted gross income, on line 14, and $10,000 on line 15. They subtract $10,000 from $18,657 and enter the difference ($8,657) on line 16. They divide line 16 by 2 and enter $4,329 on line 17.

The Greens enter the total of lines 13c and 17 ($6,549) on line 18. They subtract line 18 from line 12, and enter the difference of $951 on line 19. They multiply $951 by 15% and enter the result of $143 on line 21. The Greens' credit for the elderly or the disabled is $143 and they can take the full amount of the credit. They enter $143 on line 42, Form 1040.

The Greens do not claim any other credits. They enter $143 on line 45, Form 1040. They then subtract the $143 from the tax shown on line 40 ($889) and enter the balance of $746 on line 46. Because they do not owe any of the taxes listed on lines 47 through 51 and did not receive advance earned income credit payments (line 52), they also enter $746 on line 53.

Payments (lines 54–60)

In January 1994, Martin and Hayley gave the payers of their pensions Forms W–4P choosing not to have taxes withheld. Because they would have no withholding, they made estimated tax payments. Using the estimated tax worksheet on Form 1040–ES, they figured their estimated tax for 1994 to be $800. They decided to pay their estimated tax in four equal installments and paid $200 on April 15, 1994; June 15, 1994; September 15, 1994; and January 17, 1995. The Greens did not have any part of their 1993 refund credited to their estimated tax for 1994, so they enter $800 on line 55, Form 1040. Because this is the only payment the Greens have, they also enter $800 on line 60, Form 1040.

Refund or Amount You Owe (lines 61–65)

Because line 60 ($800) is more than line 53 ($746), Martin and Hayley have overpaid their taxes. The Greens enter their overpayment of $54 on line 61. Since they wish to have this amount refunded, they enter $54 on line 62.

The Greens check their return to make certain they have completed all the items and schedules called for. They both sign and date the return and enter ''retired'' in the space provided for their occupations. They attach the label and mail the return to the Internal Revenue Service Center for their area. They keep a copy of their return for their records.

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return (T) **1994**

IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 1994, or other tax year beginning , 1994, ending , 19 | OMB No. 1545-0074

Label

(See instructions on page 12.)

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

LABEL HERE

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

CAR-RT SORT**CR01
BN 333-00-3333 444-00-4444 S29 30
MARTIN D & HAYLEY S GREEN
2001 MAIN ST
EVERYTOWN, ES 00000

Apt. no.

Spouse's social security number

For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Presidential Election Campaign (See page 12.)		Yes	No
	Do you want $3 to go to this fund?	✓	
	If a joint return, does your spouse want $3 to go to this fund?	✓	

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status

(See page 12.)

Check only one box.

1 ☐ Single
2 ☑ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 13.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 13.)

Exemptions

(See page 13.)

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. But be sure to check the box on line 33b on page 2

b ☑ **Spouse**

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

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 1	(3) If age 1 or older, dependent's social security number	(4) Dependent's relationship to you	(5) No. of months lived in your home in 1994

If more than six dependents, see page 14.

No. of your children on 6c who:
- lived with you ____
- didn't live with you due to divorce or separation (see page 14) ____

Dependents on 6c not entered above ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed

Add numbers entered on lines above ▶ 2

Income

Attach Copy B of your Forms W-2, W-2G, and 1099-R here.

If you did not get a W-2, see page 15.

Enclose, but do not attach, any payment with your return.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	
8a	**Taxable** interest income (see page 15). Attach Schedule B if over $400	8a	3,142
b	**Tax-exempt** interest (see page 16). DON'T include on line 8a 8b		
9	Dividend income. Attach Schedule B if over $400	9	1,490
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 16)	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	
13	Capital gain or (loss). If required, attach Schedule D (see page 16)	13	3,250
14	Other gains or (losses). Attach Form 4797	14	
15a	Total IRA distributions 15a	b Taxable amount (see page 17)	15b	
16a	Total pensions and annuities 16a 11,875	b Taxable amount (see page 17)	16b	10,775
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 (see page 18)	19	
20a	Social security benefits 20a	b Taxable amount (see page 18)	20b	
21	Other income. List type and amount—see page 18	21	
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22	18,657

Adjustments to Income

Caution: See instructions ▶

23a	Your IRA deduction (see page 19)	23a	
b	Spouse's IRA deduction (see page 19)	23b	
24	Moving expenses. Attach Form 3903 or 3903-F	24	
25	One-half of self-employment tax	25	
26	Self-employed health insurance deduction (see page 21)	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. Recipient's SSN ▶	29	
30	Add lines 23a through 29. These are your **total adjustments** ▶	30	0

Adjusted Gross Income

31	Subtract line 30 from line 22. This is your **adjusted gross income**. If less than $25,296 and a child lived with you (less than $9,000 if a child didn't live with you), see "Earned Income Credit" on page 27 ▶	31	18,657

Cat. No. 11320B Form **1040** (1994)

Tax Computation

(See page 23.)

32	Amount from line 31 (adjusted gross income)	32	18,657
33a	Check if: ☑ You were 65 or older, ☐ Blind; ☑ Spouse was 65 or older, ☐ Blind. Add the number of boxes checked above and enter the total here . . . . ▶ 33a	2	
b	If your parent (or someone else) can claim you as a dependent, check here . ▶ 33b ☐		
c	If you are married filing separately and your spouse itemizes deductions or you are a dual-status alien, see page 23 and check here. . . . . ▶ 33c ☐		
34	Enter the larger of your: **Itemized deductions** from Schedule A, line 29, **OR** **Standard deduction** shown below for your filing status. **But if you checked any box on line 33a or b,** go to page 23 to find your standard deduction. If you checked **box 33c,** your standard deduction is zero. • Single—$3,800 • Head of household—$5,600 • Married filing jointly or Qualifying widow(er)—$6,350 • Married filing separately—$3,175	34	7,850
35	Subtract line 34 from line 32	35	10,807
36	If line 32 is $83,850 or less, multiply $2,450 by the total number of exemptions claimed on line 6e. If line 32 is over $83,850, see the worksheet on page 24 for the amount to enter	36	4,900
37	**Taxable income.** Subtract line 36 from line 35. If line 36 is more than line 35, enter -0-	37	5,907
38	Tax. Check if from a ☑ Tax Table, b ☐ Tax Rate Schedules, c ☐ Capital Gain Tax Worksheet, or d ☐ Form 8615 (see page 24). Amount from Form(s) 8814 ▶ e ____	38	889
39	Additional taxes. Check if from a ☐ Form 4970 b ☐ Form 4972	39	
40	Add lines 38 and 39 ▶	40	889

If you want the IRS to figure your tax, see page 24.

Credits

(See page 24.)

41	Credit for child and dependent care expenses. Attach Form 2441	41			
42	Credit for the elderly or the disabled. Attach Schedule R	42	143		
43	Foreign tax credit. Attach Form 1116	43			
44	Other credits (see page 25). Check if from a ☐ Form 3800 b ☐ Form 8396 c ☐ Form 8801 d ☐ Form (specify)____	44			
45	Add lines 41 through 44			45	143
46	Subtract line 45 from line 40. If line 45 is more than line 40, enter -0- ▶			46	746

Other Taxes

(See page 25.)

47	Self-employment tax. Attach Schedule SE	47	
48	Alternative minimum tax. Attach Form 6251	48	
49	Recapture taxes. Check if from a ☐ Form 4255 b ☐ Form 8611 c ☐ Form 8828	49	
50	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	50	
51	Tax on qualified retirement plans, including IRAs. If required, attach Form 5329	51	
52	Advance earned income credit payments from Form W-2	52	
53	Add lines 46 through 52. This is your **total tax** ▶	53	746

Payments

Attach Forms W-2, W-2G, and 1099-R on the front.

54	Federal income tax withheld. If any is from Form(s) 1099, check ▶ ☐	54			
55	1994 estimated tax payments and amount applied from 1993 return	55	800		
56	**Earned income credit.** If required, attach Schedule EIC (see page 27). Nontaxable earned income: amount ▶ ____ and type ▶ ____	56			
57	Amount paid with Form 4868 (extension request)	57			
58	Excess social security and RRTA tax withheld (see page 32)	58			
59	Other payments. Check if from a ☐ Form 2439 b ☐ Form 4136	59			
60	Add lines 54 through 59. These are your **total payments** ▶			60	800

Refund or Amount You Owe

61	If line 60 is more than line 53, subtract line 53 from line 60. This is the amount you **OVERPAID** ▶			61	54
62	Amount of line 61 you want **REFUNDED TO YOU** ▶			62	54
63	Amount of line 61 you want **APPLIED TO YOUR 1995 ESTIMATED TAX** ▶	63			
64	If line 53 is more than line 60, subtract line 60 from line 53. This is the **AMOUNT YOU OWE**. For details on how to pay, including what to write on your payment, see page 32			64	
65	Estimated tax penalty (see page 33). Also include on line 64	65			

Sign Here

Keep a copy of this return 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
Martin D. Green	2-1-95	Retired
Spouse's signature. If a joint return, BOTH must sign.	**Date**	**Spouse's occupation**
Hayley S. Green	2-1-95	Retired

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address		E.I. No.	
		ZIP code	

Printed on recycled paper

Name(s) shown on Form 1040. Do not enter name and social security number if shown on other side.
Martin D and Hayley S Green

Your social security number
333 00 3333

Schedule B—Interest and Dividend Income

Attachment Sequence No. 08

Part I Interest Income

(See pages 15 and B-1.)

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

Note: If you had over $400 in taxable interest income, you must also complete Part III.

			Amount
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page B-1 and list this interest first. Also show that buyer's social security number and address ▶	1	
	Hometown Savings and Loan		1,870
	Hometown Bank		1,272
2	Add the amounts on line 1	2	3,142
3	Excludable interest on series EE U.S. savings bonds issued after 1989 from Form 8815, line 14. You MUST attach Form 8815 to Form 1040	3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040, line 8a ▶	4	3,142

Part II Dividend Income

(See pages 16 and B-1.)

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

Note: If you had over $400 in gross dividends and/or other distributions on stock, you must also complete Part III.

			Amount
5	List name of payer. Include gross dividends and/or other distributions on stock here. Any capital gain distributions and nontaxable distributions will be deducted on lines 7 and 8 ▶ Hometown Corporation	5	1,490
6	Add the amounts on line 5	6	1,490
7	Capital gain distributions. Enter here and on Schedule D*.	7	
8	Nontaxable distributions. (See the inst. for Form 1040, line 9.)	8	
9	Add lines 7 and 8	9	
10	Subtract line 9 from line 6. Enter the result here and on Form 1040, line 9 ▶	10	1,490

**If you do not need Schedule D to report any other gains or losses, enter your capital gain distributions on Form 1040, line 13. Write "CGD" on the dotted line next to line 13.*

Part III Foreign Accounts and Trusts

(See page B-2.)

	If you had over $400 of interest or dividends OR had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must complete this part.	Yes	No
11a	At any time during 1994, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See page B-2 for exceptions and filing requirements for Form TD F 90-22.1		✓
b	If "Yes," enter the name of the foreign country ▶		
12	Were you the grantor of, or transferor to, a foreign trust that existed during 1994, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926		✓

SCHEDULE D (Form 1040)

Department of the Treasury Internal Revenue Service (T)

Capital Gains and Losses

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).

▶ Use lines 20 and 22 for more space to list transactions for lines 1 and 9.

OMB No. 1545-0074

1994

Attachment Sequence No. **12**

Name(s) shown on Form 1040: Martin D and Harley S Green

Your social security number: 333 00 3333

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-3)	(e) Cost or other basis (see page D-3)	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
1							
2	Enter your short-term totals, if any, from line 21 2						
3	**Total short-term sales price amounts.** Add column (d) of lines 1 and 2 . . . 3						
4	Short-term gain from Forms 2119 and 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 9 of your 1993 Capital Loss Carryover Worksheet . . . 6						
7	Add lines 1, 2, and 4 through 6, in columns (f) and (g) . . . 7					( )	
8	**Net short-term capital gain or (loss).** Combine columns (f) and (g) of line 7 . . . ▶ 8						

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

	(a)	(b)	(c)	(d)	(e)	(f) LOSS	(g) GAIN
9	100 shares Z Co.	6-10-91	1-24-94	5,000	1,750		3,250
10	Enter your long-term totals, if any, from line 23 10						
11	**Total long-term sales price amounts.** Add column (d) of lines 9 and 10 . . . 11			5,000			
12	Gain from Form 4797; long-term gain from Forms 2119, 2439, and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . 12						
13	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . 13						
14	Capital gain distributions . . . 14						
15	Long-term capital loss carryover. Enter the amount, if any, from line 14 of your 1993 Capital Loss Carryover Worksheet . . . 15						
16	Add lines 9, 10, and 12 through 15, in columns (f) and (g) . . . 16					( )	3,250
17	**Net long-term capital gain or (loss).** Combine columns (f) and (g) of line 16 . . . ▶ 17						3,250

Part III Summary of Parts I and II

18	Combine lines 8 and 17. If a loss, go to line 19. If a gain, enter the gain on Form 1040, line 13. **Note:** *If both lines 17 and 18 are gains, see the* ***Capital Gain Tax Worksheet*** *on page 25* . .	18	3,250
19	If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of these losses:		
a	The (loss) on line 18; **or**		
b	($3,000) or, if married filing separately, ($1,500) . . .	19	( )
	Note: *See the* ***Capital Loss Carryover Worksheet*** *on page D-3 if the loss on line 18 exceeds the loss on line 19* ***or*** *if Form 1040, line 35, is a loss.*		

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 1994**

Schedule R
(Form 1040)

Department of the Treasury
Internal Revenue Service (T)

Credit for the Elderly or the Disabled

▶ **Attach to Form 1040.** ▶ **See separate instructions for Schedule R.**

OMB No. 1545-0074

1994

Attachment Sequence No. **16**

Name(s) shown on Form 1040: Martin D and Hayley S Green

Your social security number: 333 00 3333

You may be able to take this credit and reduce your tax if by the end of 1994:

- You were age 65 or older, **OR** • You were under age 65, you retired on **permanent and total** disability, and you received taxable disability income.

But you must also meet other tests. See the separate instructions for Schedule R.

Note: *In most cases, the IRS can figure the credit for you. See page 24 of the Form 1040 instructions.*

Part I Check the Box for Your Filing Status and Age

If your filing status is:	And by the end of 1994:		Check only one box:
Single, Head of household, or Qualifying widow(er) with dependent child	1	You were 65 or older . . . 1	☐
	2	You were under 65 and you retired on permanent and total disability . . . 2	☐
Married filing a joint return	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 a separate return	8	You were 65 or older and you lived apart from your spouse for all of 1994 . . 8	☐
	9	You were under 65, you retired on permanent and total disability, and you lived apart from your spouse for all of 1994 . . . 9	☐

If you checked box 1, 3, 7, or 8, skip Part II and complete Part III on the back. All others, 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 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 1994, check this box . . . ▶ ☐

- If you checked this box, you do not have to file another statement for 1994.
- If you **did not** check this box, have your physician complete the statement below.

Physician's Statement (See instructions at bottom of page 2.)

I certify that ______________________________
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **OR** was permanently and totally disabled on the date he or she retired. If retired after December 31, 1976, enter the date retired. ▶ ____________

Physician: Sign your name on **either** line A or B below.

A The disability has lasted or can be expected to last continuously for at least a year . . . . ______________________
Physician's signature Date

B There is no reasonable probability that the disabled condition will ever improve . . . . ______________________
Physician's signature Date

Physician's name | Physician's address

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11359K **Schedule R (Form 1040) 1994**

Part III **Figure Your Credit**

10	**If you checked (in Part I):** Box 1, 2, 4, or 7 . . . $5,000; Box 3, 5, or 6 . . . $7,500; Box 8 or 9 . . . $3,750	10	7,500
	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:** • Box 6 in Part I, add $5,000 to the taxable disability income of the spouse who was under age 65. Enter the total. • Box 2, 4, or 9 in Part I, enter your taxable disability income. • Box 5 in Part I, add your taxable disability income to your spouse's taxable disability income. Enter the total. **TIP:** For more details on what to include on line 11, see the instructions.	11	
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
13	Enter the following pensions, annuities, or disability income that you (and your spouse if filing a joint return) received in 1994:		
a	Nontaxable part of social security benefits, and Nontaxable part of railroad retirement benefits treated as social security. See instructions.	13a	2,220
b	Nontaxable veterans' pensions, and Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law. See instructions.	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	2,220
14	Enter the amount from Form 1040, line 32	14	18,657
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
16	Subtract line 15 from line 14. If zero or less, enter -0-	16	8,657
17	Divide line 16 above by 2	17	4,329
18	Add lines 13c and 17	18	6,549
19	Subtract line 18 from line 12. If zero or less, **stop;** you **cannot** take the credit. Otherwise, go to line 21	19	951
20	Decimal amount used to figure the credit	20	× .15
21	Multiply line 19 above by the decimal amount (.15) on line 20. Enter the result here and on Form 1040, line 42. **Caution:** *If you file Schedule C, C-EZ, D, E, or F (Form 1040), your credit may be limited. See the instructions for line 21 for the amount of credit you can claim*	21	143

Instructions for Physician's Statement

Taxpayer

If you retired after December 31, 1976, enter the date you retired in the space provided in Part II.

Physician

A person is permanently and totally disabled if **both** of the following apply:

1. He or she cannot engage in any substantial gainful activity because of a physical or mental condition, and

2. A physician determines that the disability has lasted or can be expected to last continuously for at least a year or can lead to death.

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ Attach to Form 1040 for year of sale.

▶ See separate instructions. ▶ Please print or type.

OMB No. 1545-0072

1994

Attachment Sequence No. **20**

Your first name and initial. If a joint return, also give spouse's name and initial.	Last name	Your social security number
Martin D and Hayley S	Green	333:00:3333

Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return

Present address (no., street, and apt. no., rural route, or P.O. box no. if mail is not delivered to street address)

Spouse's social security number: 444:00:4444

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

Part I Gain on Sale

1 Date your former main home was sold (month, day, year) . . . ▶ **1** 11/16/94

2 Have you bought or built a new main home? . . . ☐ Yes ☑ No

3 If any part of either main home was ever rented out or used for business, check here ▶ ☐ and see instructions.

4	Selling price of home. Do not include personal property items you sold with your home	4	138,000
5	Expense of sale (see instructions)	5	8,280
6	Subtract line 5 from line 4	6	129,720
7	Adjusted basis of home sold (see instructions)	7	33,167
8	**Gain on sale.** Subtract line 7 from line 6	8	96,553

Is line 8 more than zero?

— Yes ▶ If line 2 is "Yes," you **must** go to Part II or Part III, whichever applies. If line 2 is "No," go to line 9.

— No ▶ **Stop** and attach this form to your return.

9 If you haven't replaced your home, do you plan to do so within the **replacement period** (see instructions)? ☐ Yes ☑ No

- If line 9 is "Yes," stop here, attach this form to your return, and see **Additional Filing Requirements** in the instructions.
- If line 9 is "No," you **must** go to Part II or Part III, whichever applies.

Part II One-Time Exclusion of Gain for People Age 55 or Older—By completing this part, you are electing to take the one-time exclusion (see instructions). If you are not electing to take the exclusion, go to Part III now.

10 Who was age 55 or older on the date of sale? . . . ☐ You ☐ Your spouse ☑ Both of you

11 Did the person who was age 55 or older own and use the property as his or her main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale? If "No," go to Part III now . . ☑ Yes ☐ No

12 At the time of sale, who owned the home? . . . ☐ You ☐ Your spouse ☑ Both of you

13	Social security number of spouse at the time of sale if you had a different spouse from the one above. If you were not married at the time of sale, enter "None" ▶	13	: :
14	**Exclusion.** Enter the **smaller** of line 8 or $125,000 ($62,500 if married filing separate return). Then, go to line 15	14	96,553

Part III Adjusted Sales Price, Taxable Gain, and Adjusted Basis of New Home

15	If line 14 is blank, enter the amount from line 8. Otherwise, subtract line 14 from line 8	15	0
	• If line 15 is zero, stop and attach this form to your return. • If line 15 is more than zero and line 2 is "Yes," go to line 16 now. • If you are reporting this sale on the installment method, stop and see the instructions. • All others, stop and **enter the amount from line 15 on Schedule D, col. (g), line 4 or line 12.**		
16	Fixing-up expenses (see instructions for time limits)	16	
17	If line 14 is blank, enter amount from line 16. Otherwise, add lines 14 and 16	17	
18	**Adjusted sales price.** Subtract line 17 from line 6	18	
19a	Date you moved into new home ▶ / / **b** Cost of new home (see instructions)	19b	
20	Subtract line 19b from line 18. If zero or less, enter -0-	20	
21	**Taxable gain.** Enter the **smaller** of line 15 or line 20	21	
	• If line 21 is zero, go to line 22 and attach this form to your return. • If you are reporting this sale on the installment method, see the line 15 instructions and go to line 22. • All others, **enter the amount from line 21 on Schedule D, col. (g), line 4 or line 12,** and go to line 22.		
22	Postponed gain. Subtract line 21 from line 15	22	
23	**Adjusted basis of new home.** Subtract line 22 from line 19b	23	

Sign Here Only If You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature ▶ ____ Date ____ Spouse's signature ▶ ____ Date ____

If a joint return, both must sign.

Printed on recycled paper

Form **1040A** Department of the Treasury—Internal Revenue Service

U.S. Individual Income Tax Return (T) 1994

IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0085

Label (See page 16.)

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 17.	Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, see page 17.		

For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Presidential Election Campaign Fund (See page 17.)

	Yes	No
Do you want $3 to go to this fund?		
If a joint return, does your spouse want $3 to go to this fund?		

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Check the box for your filing status

(See page 17.)

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ *Married filing separate return.* Enter spouse's social security number above and full name here. ▶ ____
4 ☐ Head of household (with qualifying person). (See page 18.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ ____
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 19.)

For Practice Use Only

Figure your exemptions

(See page 20.)

If more than seven dependents, see page 23.

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. But be sure to check the box on line 18b on page 2.

b ☐ **Spouse**

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

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 1	(3) If age 1 or older, dependent's social security number	(4) Dependent's relationship to you	(5) No. of months lived in your home in 1994

No. of your children on 6c who:
- **lived with you** ____
- **didn't live with you due to divorce or separation (see page 23)** ____

Dependents on 6c not entered above ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here . . . . ▶ ☐

e Total number of exemptions claimed.

Add numbers entered on lines above ☐

Figure your total income

Attach Copy B of your Forms W-2 and 1099-R here.

If you didn't get a W-2, see page 25.

Enclose, but do not attach, any payment with your return.

7	Wages, salaries, tips, etc. This should be shown in box 1 of your W-2 form(s). Attach Form(s) W-2.		7
8a	**Taxable** interest income (see page 25). If over $400, attach Schedule 1.		8a
b	**Tax-exempt** interest. DO NOT include on line 8a.	8b	
9	Dividends. If over $400, attach Schedule 1.		9
10a	Total IRA distributions. 10a	**10b** Taxable amount (see page 26).	10b
11a	Total pensions and annuities. 11a	**11b** Taxable amount (see page 27).	11b
12	Unemployment compensation (see page 30).		12
13a	Social security benefits. 13a	**13b** Taxable amount (see page 31).	13b
14	Add lines 7 through 13b (far right column). This is your **total income.** ▶		14

Figure your adjusted gross income

15a	Your IRA deduction (see page 34).	15a	
b	Spouse's IRA deduction (see page 34).	15b	
c	Add lines 15a and 15b. These are your **total adjustments.**		15c
16	Subtract line 15c from line 14. This is your **adjusted gross income.** If less than $25,296 and a child lived with you (less than $9,000 if a child didn't live with you), see "Earned income credit" on page 44. ▶		16

Cat. No. 11327A

Figure your standard deduction, exemption amount, and taxable income

17 Enter the amount from line 16. 17

18a Check if: { ☐ **You** were 65 or older ☐ Blind / ☐ **Spouse** was 65 or older ☐ Blind } **Enter number of boxes checked** ▶ 18a ☐

b If your parent (or someone else) can claim you as a dependent, check here . . . . ▶ 18b ☐

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 38 and check here. ▶ 18c ☐

19 Enter the **standard deduction** shown below for your filing status. **But if you checked any box on line 18a or b,** go to page 38 to find your standard deduction. **If you checked box 18c,** enter -0-.

- Single—$3,800
- Married filing jointly or Qualifying widow(er)—$6,350
- Head of household—$5,600
- Married filing separately—$3,175

19

20 Subtract line 19 from line 17. If line 19 is more than line 17, enter -0-. 20

21 Multiply $2,450 by the total number of exemptions claimed on line 6e. 21

22 Subtract line 21 from line 20. If line 21 is more than line 20, enter -0-. This is your **taxable income.** ▶ 22

Figure your tax, credits, and payments

23 Find the tax on the amount on line 22. Check if from: ☐ Tax Table (pages 62–67) or ☐ Form 8615 (see page 40). 23

24a Credit for child and dependent care expenses. Attach Schedule 2. `24a

b Credit for the elderly or the disabled. Attach Schedule 3. 24b

c Add lines 24a and 24b. These are your **total credits.** 24c

If you want the IRS to figure your tax, see the instructions for line 22 on page 39.

25	Subtract line 24c from line 23. If line 24c is more than line 23, enter -0-.		25
26	Advance earned income credit payments from Form W-2.		26
27	Add lines 25 and 26. This is your **total tax.**		▶ 27
28a	Total Federal income tax withheld. If any tax is from Form(s) 1099, check here. ▶ ☐	28a	
b	1994 estimated tax payments and amount applied from 1993 return.	28b	
c	**Earned Income credit.** If required, attach Schedule EIC (see page 44). Nontaxable earned income: amount ▶ and type ▶	28c	
d	Add lines 28a, 28b, and 28c (don't include nontaxable earned income). These are your **total payments.**		▶ 28d

Figure your refund or amount you owe

29	If line 28d is more than line 27, subtract line 27 from line 28d. This is the amount you **overpaid.**		29
30	Amount of line 29 you want **refunded to you.**		30
31	Amount of line 29 you want **applied to your 1995 estimated tax.**	31	
32	If line 27 is more than line 28d, subtract line 28d from line 27. This is the **amount you owe.** For details on how to pay, including what to write on your payment, see page 52.		32
33	Estimated tax penalty (see page 52). Also, include on line 32.	33	

For Practice Use Only

Sign your return

Keep a copy of this return 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
▶ Spouse's signature. If joint return, BOTH must sign.	Date	Spouse's occupation

Paid preparer's use only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No.	
		ZIP code	

Printed on recycled paper

Schedule 1
(Form 1040A)

Department of the Treasury—Internal Revenue Service

Interest and Dividend Income for Form 1040A Filers (T)

1994

OMB No. 1545-0085

Name(s) shown on Form 1040A

Your social security number

Part I

Interest Income

(See pages 25 and 68.)

Note: *If you received a Form 1099–INT, Form 1099–OID, or substitute statement from a brokerage firm, enter the firm's name and the total interest shown on that form.*

			Amount
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page 68 and list this interest first. Also, show that buyer's social security number and address.	1	
2	Add the amounts on line 1.	2	
3	Excludable interest on series EE U.S. savings bonds issued after 1989 from Form 8815, line 14. You MUST attach Form 8815 to Form 1040A.	3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, line 8a.	4	

Part II

Dividend income

(See pages 26 and 69.)

Note: *If you received a Form 1099–DIV or substitute statement from a brokerage firm, enter the firm's name and the total dividends shown on that form.*

5 List name of payer		Amount
	5	
6 Add the amounts on line 5. Enter the total here and on Form 1040A, line 9.	6	

For Paperwork Reduction Act Notice, see Form 1040A instructions. Cat. No. 12075R **1994 Schedule 1 (Form 1040A) page 1**

Schedule 3 (Form 1040A)

Department of the Treasury—Internal Revenue Service

Credit for the Elderly or the Disabled for Form 1040A Filers (T) 1994

OMB No. 1545-0085

Name(s) shown on Form 1040A | Your social security number

You may be able to take this credit and reduce your tax if by the end of 1994:

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

But you must also meet other tests. See the separate instructions for Schedule 3.

Note: *In most cases, the IRS can figure the credit for you. See page 40 of the Form 1040A instructions.*

Part I

Check the box for your filing status and age

If your filing status is:	And by the end of 1994:	Check only one box:
Single, Head of household, or Qualifying widow(er) with dependent child	1 You were 65 or older.	1 ☐
	2 You were under 65 and you retired on permanent and total disability	2 ☐
Married filing a joint return	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 a separate return

8 You were 65 or older and you lived apart from your spouse for all of 1994 . . . . 8 ☐

9 You were under 65, you retired on permanent and total disability, and you lived apart from your spouse for all of 1994 . . . . 9 ☐

If you checked box 1, 3, 7, or 8, skip Part II and complete Part III on the back. All others, complete Parts II and III.

Part II Statement of permanent and total disability

Complete this part **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 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 1994, check this box . . . . ▶ ☐

- If you checked this box, you do not have to file another statement for 1994.
- If you **did not** check this box, have your physician complete the statement below.

Physician's statement (See instructions at bottom of page 2.)

I certify that ______________________
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **OR** was permanently and totally disabled on the date he or she retired. If retired after December 31, 1976, enter the date retired ▶ ______

Physician: Sign your name on **either** line A or B below.

A The disability has lasted or can be expected to last continuously for at least a year . . . . ______ Physician's signature ______ Date

B There is no reasonable probability that the disabled condition will ever improve . . . . ______ Physician's signature ______ Date

Physician's name | Physician's address

Name(s) shown on page 1 | **Your social security number**

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

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 box 6 in Part I, add $5,000 to the taxable disability income of the spouse who was under age 65. Enter the total.
- If you checked box 2, 4, or 9 in Part I, enter your taxable disability income.
- If you checked box 5 in Part I, add your taxable disability income to your spouse's taxable disability income. Enter the total.

TIP: For more details on what to include on line 11, see the instructions. — 11

12 If you completed line 11, enter the **smaller** of line 10 or line 11; **all others,** enter the amount from line 10. — 12

13 Enter the following pensions, annuities, or disability income that you (and your spouse if filing a joint return) received in 1994:

a Nontaxable part of social security benefits, and
Nontaxable part of railroad retirement benefits treated as social security. See instructions. — 13a

b Nontaxable veterans' pensions and any other pension, annuity, or disability benefit that is excluded from income under any other provision of law. See instructions. — 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	
14	Enter the amount from Form 1040A, line 17.	14	
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	
16	Subtract line 15 from line 14. If zero or less, enter -0-.	16	
17	Divide line 16 above by 2.	17	
18	Add lines 13c and 17.	18	
19	Subtract line 18 from line 12. If zero or less, **stop;** you **cannot** take the credit. Otherwise, go to line 21.	19	
20	Decimal amount used to figure the credit.	20	× .15
21	Multiply line 19 above by the decimal amount (.15) on line 20. Enter the result here and on Form 1040A, line 24b.	21	

Instructions for physician's statement

Taxpayer.—If you retired after December 31, 1976, enter the date you retired in the space provided in Part II.

Physician.—A person is permanently and totally disabled if **both** of the following apply:

1. He or she cannot engage in any substantial gainful activity because of a physical or mental condition, and
2. A physician determines that the disability has lasted or can be expected to last continuously for at least a year or can lead to death.

Printed on recycled paper

SCHEDULE EIC
(Form 1040A or 1040)
Department of the Treasury
Internal Revenue Service

Earned Income Credit
(Qualifying Child Information)
▶ Attach to Form 1040A or 1040.
▶ See instructions on back.

OMB No. 1545-0074
1994
Attachment Sequence No. **43**

Name(s) shown on return | Your social security number

Before You Begin . . .

- Answer the questions on page 44 (1040A) or page 27 (1040) to see if you can take this credit.
- If you can take the credit, fill in the worksheet on page 45 (1040A) or page 28 (1040) to figure your credit. **But if you want the IRS to figure it for you, see page 40 (1040A) or page 24 (1040).**

Then, complete and attach Schedule EIC only if you have a qualifying child (see boxes on back).

Information About Your Qualifying Child or Children

If you have more than two qualifying children, you only have to list two to get the maximum credit.

Caution: *If you don't fill in all the lines that apply, it will take us longer to process your return and issue your refund.*	**(a) Child 1**	**(b) Child 2**
1 Child's name (first, initial, and last name)		
2 Child's year of birth	19___	19___

3 If child was born **before 1976** AND—		
a was a student **under age 24** at the end of 1994, check the "Yes" box, **OR**	☐ **Yes**	☐ **Yes**
b was permanently and totally disabled (see back), check the "Yes" box	☐ **Yes**	☐ **Yes**
4 If child was born **before 1994,** enter the child's social security number		
5 Child's relationship to you (for example, son, grandchild, etc.)		
6 Number of months child lived with you in the U.S. in 1994	**months**	**months**

TIP: Do you want the earned income credit added to your take-home pay in 1995? To see if you qualify, get **Form W-5** from your employer or by calling the IRS at 1-800-TAX-FORM (1-800-829-3676).

Instructions

Purpose of Schedule

If you can take the earned income credit and have a qualifying child, use Schedule EIC to give information about that child. To figure the amount of your credit, use the worksheet on page 45 of the Form 1040A instructions or page 28 of the Form 1040 instructions.

Line 1

Enter each qualifying child's name.

Line 3a

If your child was born **before 1976** but was under age 24 at the end of 1994 and a student, put a checkmark in the "Yes" box.

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

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

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

Line 3b

If your child was born **before 1976** and was permanently and totally disabled during any part of 1994, put a checkmark in the "Yes" box.

A person is **permanently and totally disabled** if **both** of the following apply.

1. He or she cannot engage in any substantial gainful activity because of a physical or mental condition.

2. A doctor determines the condition has lasted or can be expected to last continuously for at least a year or can lead to death.

Line 4

If your child was born **before 1994,** you must enter his or her social security number (SSN) on line 4. If you don't enter an SSN or if the SSN you enter is incorrect, it will take us longer to issue any refund shown on your return. If your child doesn't have a number, apply for one by filing **Form SS-5** with your local Social Security Administration (SSA) office. It usually takes about 2 weeks to get a number. If your child won't have an SSN by April 17, 1995, you can get an automatic 4-month extension by filing Form 4868 with the IRS by that date.

Line 6

Enter the number of months your child lived with you in your home in the United States during 1994. Do not enter more than 12. Count temporary absences, such as for school, vacation, or medical care, as time lived in your home. If the child lived with you for more than half of 1994 but less than 7 months, enter "7" on this line.

Exception. If your child, including a foster child, was born or died in 1994 and your home was the child's home for the entire time he or she was alive during 1994, enter "12" on line 6.

Qualifying Child

A qualifying child is a child who:

is your:		was (at the end of 1994):		who:
son daughter adopted child grandchild stepchild or foster child	AND	under age 19 or under age 24 and a full-time student or any age and permanently and totally disabled	AND	lived with you in the U.S. for more than half of 1994* (or all of 1994 if a foster child*)

*If the child didn't live with you for the required time (for example, was born in 1994), see the **Line 6** instructions above.

If the child was married or is also a qualifying child of another person (other than your spouse if filing a joint return), special rules apply. For details, see page 47 of the Form 1040A instructions or page 28 of the Form 1040 instructions.

Printed on recycled paper

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return (T) **1994**

IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 1994, or other tax year beginning , 1994, ending , 19 | OMB No. 1545-0074

Label

(See instructions on page 12.)

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 12.	Apt. no.	**For Privacy Act and Paperwork Reduction Act Notice, see page 4.**
City, town or post office, state, and ZIP code. If you have a foreign address, see page 12.		

Presidential Election Campaign (See page 12.)

	Yes	No	
Do you want $3 to go to this fund?			**Note:** *Checking "Yes" will not change your tax or reduce your refund.*
If a joint return, does your spouse want $3 to go to this fund?			

Filing Status

(See page 12.)

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 13.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 13.)

Exemptions

(See page 13.)

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. But be sure to check the box on line 33b on page 2 . } **No. of boxes checked on 6a and 6b** ____

b ☐ **Spouse** . . . .

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 1	(3) If age 1 or older, dependent's social security number	(4) Dependent's relationship to you	(5) No. of months lived in your home in 1994

If more than six dependents, see page 14.

No. of your children on 6c who:
- **lived with you** ____
- **didn't live with you due to divorce or separation (see page 14)** ____

Dependents on 6c not entered above ____

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed . . . . **Add numbers entered on lines above** ▶ ☐

Income

Attach Copy B of your Forms W-2, W-2G, and 1099-R here.

If you did not get a W-2, see page 15.

Enclose, but do not attach, any payment with your return.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	
8a	**Taxable** interest income (see page 15). Attach Schedule B if over $400	8a	
b	**Tax-exempt** interest (see page 16). DON'T include on line 8a [8b]		
9	Dividend income. Attach Schedule B if over $400	9	
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 16)	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	
13	Capital gain or (loss). If required, attach Schedule D (see page 16)	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	Total IRA distributions [15a] b Taxable amount (see page 17)	15b	
16a	Total pensions and annuities [16a] b Taxable amount (see page 17)	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 (see page 18)	19	
20a	Social security benefits [20a] b Taxable amount (see page 18)	20b	
21	Other income. List type and amount—see page 18	21	
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22	

Adjustments to Income

Caution: See instructions . . ▶

23a	Your IRA deduction (see page 19)	23a	
b	Spouse's IRA deduction (see page 19)	23b	
24	Moving expenses. Attach Form 3903 or 3903-F	24	
25	One-half of self-employment tax	25	
26	Self-employed health insurance deduction (see page 21)	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. Recipient's SSN ▶	29	
30	Add lines 23a through 29. These are your **total adjustments** ▶	30	

Adjusted Gross Income

31	Subtract line 30 from line 22. This is your **adjusted gross income**. If less than $25,296 and a child lived with you (less than $9,000 if a child didn't live with you), see "Earned Income Credit" on page 27 ▶	31	

Cat. No. 11320B

Form **1040** (1994)

Tax Computation

(See page 23.)

32 Amount from line 31 (adjusted gross income) 32

33a Check if: ☐ **You** were 65 or older, ☐ Blind; ☐ **Spouse** was 65 or older, ☐ Blind.
Add the number of boxes checked above and enter the total here . . . . ▶ 33a

b If your parent (or someone else) can claim you as a dependent, check here . ▶ 33b ☐

c If you are married filing separately and your spouse itemizes deductions or you are a dual-status alien, see page 23 and check here . . . . ▶ 33c ☐

34 Enter the **larger** of your:
- **Itemized deductions** from Schedule A, line 29, **OR**
- **Standard deduction** shown below for your filing status. **But if you checked any box on line 33a or b,** go to page 23 to find your standard deduction. If you checked **box 33c,** your standard deduction is zero.
  - Single—$3,800
  - Head of household—$5,600
  - Married filing jointly or Qualifying widow(er)—$6,350
  - Married filing separately—$3,175

34

35 Subtract line 34 from line 32 35

36 If line 32 is $83,850 or less, multiply $2,450 by the total number of exemptions claimed on line 6e. If line 32 is over $83,850, see the worksheet on page 24 for the amount to enter . 36

If you want the IRS to figure your tax, see page 24.

37 **Taxable income.** Subtract line 36 from line 35. If line 36 is more than line 35, enter -0- . 37

38 Tax. Check if from **a** ☐ Tax Table, **b** ☐ Tax Rate Schedules, **c** ☐ Capital Gain Tax Worksheet, or **d** ☐ Form 8615 (see page 24). Amount from Form(s) 8814 ▶ **e** ______ 38

39 Additional taxes. Check if from **a** ☐ Form 4970 **b** ☐ Form 4972 39

40 Add lines 38 and 39 . . . . ▶ 40

Credits

(See page 24.)

41 Credit for child and dependent care expenses. Attach Form 2441 41

42 Credit for the elderly or the disabled. Attach Schedule R . . 42

43 Foreign tax credit. Attach Form 1116 43

44 Other credits (see page 25). Check if from **a** ☐ Form 3800 **b** ☐ Form 8396 **c** ☐ Form 8801 **d** ☐ Form (specify) ______ 44

45 Add lines 41 through 44 45

46 Subtract line 45 from line 40. If line 45 is more than line 40, enter -0- . . . . ▶ 46

Other Taxes

47 Self-employment tax. Attach Schedule SE 47

48 Alternative minimum tax. Attach Form 6251 48

49 Recapture taxes. Check if from **a** ☐ Form 4255 **b** ☐ Form 8611 **c** ☐ Form 8828 . . 49

(See page 25.)	50	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137		50
	51	Tax on qualified retirement plans, including IRAs. If required, attach Form 5329		51
	52	Advance earned income credit payments from Form W-2		52
	53	Add lines 46 through 52. This is your **total tax** ▶		53
Payments	54	Federal income tax withheld. If any is from Form(s) 1099, check ▶ ☐	54	
	55	1994 estimated tax payments and amount applied from 1993 return	55	
Attach Forms W-2, W-2G, and 1099-R on the front.	56	**Earned income credit.** If required, attach Schedule EIC (see page 27). Nontaxable earned income: amount ▶ and type ▶	56	
	57	Amount paid with Form 4868 (extension request)	57	
	58	Excess social security and RRTA tax withheld (see page 32)	58	
	59	Other payments. Check if from a ☐ Form 2439 b ☐ Form 4136	59	
	60	Add lines 54 through 59. These are your **total payments** ▶		60
Refund or Amount You Owe	61	If line 60 is more than line 53, subtract line 53 from line 60. This is the amount you **OVERPAID** ▶		61
	62	Amount of line 61 you want **REFUNDED TO YOU** ▶		62
	63	Amount of line 61 you want **APPLIED TO YOUR 1995 ESTIMATED TAX** ▶	63	
	64	If line 53 is more than line 60, subtract line 60 from line 53. This is the **AMOUNT YOU OWE**. For details on how to pay, including what to write on your payment, see page 32		64
	65	Estimated tax penalty (see page 33). Also include on line 64	65	

For Practice Use Only

Sign Here

Keep a copy of this return 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
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 social security no.
Firm's name (or yours if self-employed) and address		E.I. No.	
		ZIP code	

Printed on recycled paper

SCHEDULES A&B
(Form 1040)

Department of the Treasury
Internal Revenue Service (T)

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

1994

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-1)	1	
	2	Enter amount from Form 1040, line 32. 2		
	3	Multiply line 2 above 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-1.)	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-2.)	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. If required, attach Form 4952. (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-3.	15	Gifts by cash or check. If any gift of $250 or more, see page A-3	15	
	16	Other than by cash or check. If any gift of $250 or more, see page A-3. If over $500, you **MUST** attach Form 8283	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-4.)		19
Job Expenses and Most Other Miscellaneous Deductions	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. If required, you **MUST** attach Form 2106 or 2106-EZ. (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 32. 24		
	25	Multiply line 24 above 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	Moving expenses incurred before 1994. Attach Form 3903 or 3903-F. (See page A-5.)		27
	28	Other—from list on page A-5. List type and amount ▶		28
Total Itemized Deductions	29	Is Form 1040, line 32, over $111,800 (over $55,900 if married filing separately)? **NO.** Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter on Form 1040, line 34, the **larger** of this amount or your standard deduction. ▶ **YES.** Your deduction may be limited. See page A-5 for the amount to enter.		29

Name(s) shown on Form 1040. Do not enter name and social security number if shown on other side. | **Your social security number**

Schedule B—Interest and Dividend Income

Attachment Sequence No. **08**

Part I
Interest Income

(See pages 15 and B-1.)

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

Note: *If you had over $400 in taxable interest income, you must also complete Part III.*

			Amount
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page B-1 and list this interest first. Also show that buyer's social security number and address ▶	1	
2	Add the amounts on line 1	2	
3	Excludable interest on series EE U.S. savings bonds issued after 1989 from Form 8815, line 14. You MUST attach Form 8815 to Form 1040	3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040, line 8a ▶	4	

Part II Dividend Income

(See pages 16 and B-1.)

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

Note: *If you had over $400 in gross dividends and/or other distributions on stock, you must also complete Part III.*

				Amount
5	List name of payer. Include gross dividends and/or other distributions on stock here. Any capital gain distributions and nontaxable distributions will be deducted on lines 7 and 8 ▶		5	
6	Add the amounts on line 5		6	
7	Capital gain distributions. Enter here and on Schedule D*	7		
8	Nontaxable distributions. (See the inst. for Form 1040, line 9.)	8		
9	Add lines 7 and 8		9	
10	Subtract line 9 from line 6. Enter the result here and on Form 1040, line 9 ▶		10	

**If you do not need Schedule D to report any other gains or losses, enter your capital gain distributions on Form 1040, line 13. Write "CGD" on the dotted line next to line 13.*

Part III Foreign Accounts and Trusts

(See page B-2.)

If you had over $400 of interest or dividends OR had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must complete this part.

		Yes	No
11a	At any time during 1994, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See page B-2 for exceptions and filing requirements for Form TD F 90-22.1		
b	If "Yes," enter the name of the foreign country ▶		
12	Were you the grantor of, or transferor to, a foreign trust that existed during 1994, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926		

Schedule R
(Form 1040)

Department of the Treasury
Internal Revenue Service (T)

Credit for the Elderly or the Disabled

▶ **Attach to Form 1040.** ▶ **See separate instructions for Schedule R.**

OMB No. 1545-0074

1994

Attachment Sequence No. **16**

Name(s) shown on Form 1040

Your social security number

You may be able to take this credit and reduce your tax if by the end of 1994:

- You were age 65 or older, **OR** • You were under age 65, you retired on **permanent and total** disability, and you received taxable disability income.

But you must also meet other tests. See the separate instructions for Schedule R.
Note: *In most cases, the IRS can figure the credit for you. See page 24 of the Form 1040 instructions.*

Part I **Check the Box for Your Filing Status and Age**

If your filing status is:	And by the end of 1994:	Check only one box:
Single, Head of household, or Qualifying widow(er) with dependent child	1 You were 65 or older	1 ☐
	2 You were under 65 and you retired on permanent and total disability . . .	2 ☐
Married filing a joint return	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 a separate return

8 You were 65 or older and you lived apart from your spouse for all of 1994 . . 8 ☐

9 You were under 65, you retired on permanent and total disability, and you lived apart from your spouse for all of 1994. . . . . 9 ☐

If you checked box 1, 3, 7, or 8, skip Part II and complete Part III on the back. All others, 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 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 1994, check this box . . . . ▶ ☐

- If you checked this box, you do not have to file another statement for 1994.
- If you **did not** check this box, have your physician complete the statement below.

Physician's Statement (See instructions at bottom of page 2.)

I certify that ______________________________
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **OR** was permanently and totally disabled on the date he or she retired. If retired after December 31, 1976, enter the date retired. ▶ ____________

Physician: Sign your name on **either** line A or B below.

A The disability has lasted or can be expected to last continuously for at least a year . . . . ______________________
Physician's signature — Date

B There is no reasonable probability that the disabled condition will ever improve . . . . ______________________
Physician's signature — Date

Physician's name	Physician's address

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11359K **Schedule R (Form 1040) 1994**

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	10
Box 8 or 9	$3,750	

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:**
- Box 6 in Part I, add $5,000 to the taxable disability income of the spouse who was under age 65. Enter the total.
- Box 2, 4, or 9 in Part I, enter your taxable disability income.
- Box 5 in Part I, 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 the instructions.

12 If you completed line 11, enter the **smaller** of line 10 or line 11; **all others,** enter the amount from line 10 . . . 12

13 Enter the following pensions, annuities, or disability income that you (and your spouse if filing a joint return) received in 1994:

a Nontaxable part of social security benefits, and Nontaxable part of railroad retirement benefits treated as social security. See instructions. . . . 13a

b Nontaxable veterans' pensions, and Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law. See instructions. . . . 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

14	Enter the amount from Form 1040, line 32	14	
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	
16	Subtract line 15 from line 14. If zero or less, enter -0-	16	
17	Divide line 16 above by 2	17	
18	Add lines 13c and 17	18	
19	Subtract line 18 from line 12. If zero or less, **stop;** you **cannot** take the credit. Otherwise, go to line 21	19	
20	Decimal amount used to figure the credit	20	X .15
21	Multiply line 19 above by the decimal amount (.15) on line 20. Enter the result here and on Form 1040, line 42. **Caution:** *If you file Schedule C, C-EZ, D, E, or F (Form 1040), your credit may be limited. See the instructions for line 21 for the amount of credit you can claim*	21	

Instructions for Physician's Statement

Taxpayer

If you retired after December 31, 1976, enter the date you retired in the space provided in Part II.

Physician

A person is permanently and totally disabled if **both** of the following apply:

1. He or she cannot engage in any substantial gainful activity because of a physical or mental condition, and

2. A physician determines that the disability has lasted or can be expected to last continuously for at least a year or can lead to death.

Printed on recycled paper

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ **Attach to Form 1040 for year of sale.**

▶ **See separate instructions.** ▶ **Please print or type.**

OMB No. 1545-0072

1994

Attachment Sequence No. **20**

Your first name and initial. If a joint return, also give spouse's name and initial.	Last name	**Your social security number**

Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return	Present address (no., street, and apt. no., rural route, or P.O. box no. if mail is not delivered to street address)	**Spouse's social security number**
	City, town or post office, state, and ZIP code	

Part I **Gain on Sale**

1	Date your former main home was sold (month, day, year)	1	/ /
2	Have you bought or built a new main home?		☐ Yes ☐ No
3	If any part of either main home was ever rented out or used for business, check here ▶ ☐ and see instructions.		
4	Selling price of home. Do not include personal property items you sold with your home	4	
5	Expense of sale (see instructions)	5	
6	Subtract line 5 from line 4	6	
7	Adjusted basis of home sold (see instructions)	7	
8	**Gain on sale.** Subtract line 7 from line 6	8	

Is line 8 more than zero?

— **Yes** ▶ If line 2 is "Yes," you **must** go to Part II or Part III, whichever applies. If line 2 is "No," go to line 9.

— **No** ▶ **Stop** and attach this form to your return.

9 If you haven't replaced your home, do you plan to do so within the **replacement period** (see instructions)? ☐ Yes ☐ No

- If line 9 is "Yes," stop here, attach this form to your return, and see **Additional Filing Requirements** in the instructions.
- If line 9 is "No," you **must** go to Part II or Part III, whichever applies.

Part II **One-Time Exclusion of Gain for People Age 55 or Older**—By completing this part, you are electing to take the one-time exclusion (see instructions). If you are not electing to take the exclusion, go to Part III now.

10	Who was age 55 or older on the date of sale?	☐ You ☐ Your spouse ☐ Both of you		
11	Did the person who was age 55 or older own and use the property as his or her main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale? If "No," go to Part III now . .	☐ Yes ☐ No		
12	At the time of sale, who owned the home?	☐ You ☐ Your spouse ☐ Both of you		
13	Social security number of spouse at the time of sale if you had a different spouse from the one above. If you were not married at the time of sale, enter "None"		13	: :
14	**Exclusion.** Enter the **smaller** of line 8 or $125,000 ($62,500 if married filing separate return). Then, go to line 15		14	

Part III Adjusted Sales Price, Taxable Gain, and Adjusted Basis of New Home

15	If line 14 is blank, enter the amount from line 8. Otherwise, subtract line 14 from line 8 . . . • If line 15 is zero, stop and attach this form to your return. • If line 15 is more than zero and line 2 is "Yes," go to line 16 now. • If you are reporting this sale on the installment method, stop and see the instructions. • All others, stop and **enter the amount from line 15 on Schedule D, col. (g), line 4 or line 12.**		15	
16	Fixing-up expenses (see instructions for time limits)		16	
17	If line 14 is blank, enter amount from line 16. Otherwise, add lines 14 and 16		17	
18	**Adjusted sales price.** Subtract line 17 from line 6		18	
19a	Date you moved into new home ▶ / /	**b** Cost of new home (see instructions)	19b	
20	Subtract line 19b from line 18. If zero or less, enter -0-		20	
21	**Taxable gain.** Enter the **smaller** of line 15 or line 20 . . . . • If line 21 is zero, go to line 22 and attach this form to your return. • If you are reporting this sale on the installment method, see the line 15 instructions and go to line 22. • All others, **enter the amount from line 21 on Schedule D, col. (g), line 4 or line 12,** and go to line 22.		21	
22	Postponed gain. Subtract line 21 from line 15		22	
23	**Adjusted basis of new home.** Subtract line 22 from line 19b		23	

Sign Here Only If You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature	Date	Spouse's signature	Date
▶		▶	

If a joint return, both must sign.

List of Tax Publications for Individuals

General Guides

1 ...... Your Rights as a Taxpayer
17 ..... Your Federal Income Tax
225 .. Farmer's Tax Guide
334 .. Tax Guide for Small Business
509 .. Tax Calendars for 1995
553 .. Highlights of 1994 Tax Changes
910 .. Guide to Free Tax Services (Includes a list of publications)

Specialized Publications

3 ...... Tax Information for Military Personnel (Including Reservists Called to Active Duty)
54 ..... Tax Guide for U.S. Citizens and Resident Aliens Abroad
378 .. Fuel Tax Credits and Refunds
448 .. Federal Estate and Gift Taxes
463 .. Travel, Entertainment, and Gift Expenses
501 .. Exemptions, Standard Deduction, and Filing Information
502 .. Medical and Dental Expenses
503 .. Child and Dependent Care Expenses
504 .. Divorced or Separated Individuals
505 .. Tax Withholding and Estimated Tax
508 .. Educational Expenses
513 .. Tax Information for Visitors to the United States
514 .. Foreign Tax Credit for Individuals
516 .. Tax Information for U.S. Government Civilian Employees Stationed Abroad
517 .. Social Security and Other Information for Members of the Clergy and Religious Workers
519 .. U.S. Tax Guide for Aliens
520 .. Scholarships and Fellowships
521 .. Moving Expenses
523 .. Selling Your Home
524 .. Credit for the Elderly or the Disabled
525 .. Taxable and Nontaxable Income
526 .. Charitable Contributions
527 .. Residential Rental Property
529 .. Miscellaneous Deductions
530 .. Tax Information for First-Time Homeowners
531 .. Reporting Tip Income
533 .. Self-Employment Tax
534 .. Depreciation
537 .. Installment Sales
541 .. Tax Information on Partnerships
544 .. Sales and Other Dispositions of Assets
547 .. Nonbusiness Disasters, Casualties, and Thefts
550 .. Investment Income and Expenses
551 .. Basis of Assets
552 .. Recordkeeping for Individuals
554 .. Tax Information for Older Americans
555 .. Federal Tax Information on Community Property
556 .. Examination of Returns, Appeal Rights, and Claims for Refund
559 .. Survivors, Executors, and Administrators
560 .. Retirement Plans for the Self-Employed
561 .. Determining the Value of Donated Property
564 .. Mutual Fund Distributions
570 .. Tax Guide for Individuals with Income from U.S. Possessions
571 .. Tax-Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations
575 .. Pension and Annuity Income (Including Simplified General Rule)
584 .. Nonbusiness Disaster, Casualty, and Theft Loss Workbook
587 .. Business Use of Your Home
590 .. Individual Retirement Arrangements (IRAs)
593 .. Tax Highlights for U.S. Citizens and Residents Going Abroad
594 .. Understanding The Collection Process
596 .. Earned Income Credit
597 .. Information on the United States-Canada Income Tax Treaty
721 .. Tax Guide to U.S. Civil Service Retirement Benefits
901 .. U.S. Tax Treaties
907 .. Tax Highlights for Persons with Disabilities
908 .. Tax Information on Bankruptcy
911 .. Tax Information for Direct Sellers
915 .. Social Security Benefits and Equivalent Railroad Retirement Benefits
917 .. Business Use of a Car
919 .. Is My Withholding Correct for 1995?
925 .. Passive Activity and At-Risk Rules
926 .. Employment Taxes for Household Employers
929 .. Tax Rules for Children and Dependents
936 .. Home Mortgage Interest Deduction
938 .. Real Estate Mortgage Investment Conduits (REMICs) Reporting Information
945 .. Tax Information for Those Affected by Operation Desert Storm
946 .. How To Begin Depreciating Your Property
947 .. Practice Before the IRS and Power of Attorney
950 .. Introduction to Estate and Gift Taxes
1244 .. Employee's Daily Record of Tips and Report to Employers
1542 .. Per Diem Rates
1544 .. Reporting Cash Payments of Over $10,000
1546 .. How to use the Problem Resolution Program of the IRS

Spanish Language Publications

1SP .. Derechos del Contribuyente
556SP .. Revisión de las Declaraciones de Impuesto, Derecho de Apelación y Reclamaciones de Reembolsos
579SP .. Cómo Preparar la Declaración de Impuesto Federal
594SP .. Comprendiendo el Proceso de Cobro
596SP .. Crédito por Ingreso del Trabajo
850 .. English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service

Tax forms, publications and instructions listed on the order blank

You can get the following forms, schedules, and instructions at participating banks, post offices, or libraries.

Form 1040
Instructions for Form 1040 & Schedules
Schedule A for itemized deductions
Schedule B for interest and dividend income if over $400; and for answering the foreign accounts or foreign trusts questions
Schedule EIC for the earned income credit
Form 1040A
Instructions for Form 1040A & Schedules
Schedule 1 for Form 1040A filers to report interest and dividend income
Schedule 2 for Form 1040A filers to report child and dependent care expenses
Form 1040EZ
Instructions for Form 1040EZ

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

Schedule 3, Credit for the Elderly or the Disabled for Form 1040A Filers
Schedule C, Profit or Loss From Business
Schedule C-EZ, Net Profit From Business
Schedule D, Capital Gains and Losses
Schedule E, Supplemental Income and Loss
Schedule F, Profit or Loss From Farming
Schedule R, Credit for the Elderly or the Disabled
Schedule SE, Self-Employment Tax
Form 1040-ES, Estimated Tax for Individuals
Form 1040X, Amended U.S. Individual Income Tax Return
Form 2106, Employee Business Expenses
Form 2106-EZ, Unreimbursed Employee Business Expenses
Form 2119, Sale of Your Home
Form 2210, Underpayment of Estimated Tax by Individuals and Fiduciaries
Form 2441, Child and Dependent Care Expenses
Form 3903, Moving Expenses
Form 4562, Depreciation and Amortization
Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
Form 5329, Return for Additional Taxes Attributable to Qualified Retirement Plans, Annuities, and Modified Endowment Contracts
Form 8283, Noncash Charitable Contributions
Form 8582, Passive Activity Loss Limitations
Form 8606, Nondeductible IRA Contributions, IRA Basis, and Nontaxable IRA Distributions
Form 8822, Change of Address
Form 8829, Expenses for Business Use of Your Home

How to Get IRS Forms and Publications

You can visit your local IRS office or order tax forms and publications from the IRS Forms Distribution Center listed for your state at the address on this page. Or, if you prefer, you can photocopy tax forms from reproducible copies kept at participating public libraries. In addition, many of these libraries have reference sets of IRS publications that you can read or copy.

Where To Mail Your Order Blank for Free Forms and Publications

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

Detach at This Line

Order Blank

We will send you 2 copies of each form and 1 copy of each publication or set of instructions you circle. Please cut the order blank on the dotted line above and **be sure to print or type your name and address accurately on the bottom portion.**

Enclose this order blank in your own envelope and address your envelope to the IRS address shown above for your state.

To help reduce waste, please order only the forms, instructions, and publications you think you will need to prepare your return.

Use the blank spaces to order items not listed. If you need more space, attach a separate sheet of paper listing the additional forms and publications you may need.

You should either receive your order or notification of the status of your order within 7-15 work days after we receive your request.

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

Name		
Number and street		
City or town	State	ZIP code