STUDENT TEXT For Use in Preparing Tax Year 2003 Returns

VOLUNTEER ASSISTOR'S GUIDE



FOR USE IN IRS VOLUNTEER PROGRAMS VITA Volunteer Income Tax Assistance TCE Tax Counseling for the Elderly

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The IRS Mission

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



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Confidentiality Statement:

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

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DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE

ATLANTA, GA 30308

NOV 0 7 2003

WELCOME, VOLUNTEERS!

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

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

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

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

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

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

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

Sincerely,

Mark E. Pursley

Director, Stakeholder Partnerships, Education and Communication

Important Tax Law Changes for 2003

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment income is \$2,600 or less.

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

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

Adjusted gross income less than:

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

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

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

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

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

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

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

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

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

The Health Coverage Tax Credit (HCTC). The HCTC was introduced by the Trade Act of 2002 to assist certain taxpayers. Potentially eligible taxpayers receive a HCTC Program Kit in the mail. This credit is primarily available to workers who have lost

their jobs due to the effects of international trade and taxpayers over age 55 who receive benefits from the Pension Benefit Guaranty Corporation. Calculation of the credit is outside of the scope of the volunteer programs. For further information go to www.irs.gov

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

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STU	DENT NOTES

Introduction and Administrative Guidelines

Welcome to the Internal Revenue Service's (IRS) Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs! These volunteer programs are very important to the IRS, our partners and the community. As an IRS volunteer you provide a tremendous service to the American public and to your community. You are about to embark on a very challenging and rewarding task as an important player in tax administration.

Every year thousands of volunteers assist millions of taxpayers with their federal return. The people receiving your assistance need it the most. They are those with low to moderate incomes, individuals with disabilities, limited English proficient, and elderly taxpayers. Thank you for your hard work and dedication!

This section highlights important changes to the VITA and TCE programs.

VITA/TCE Site Identification Number: We will capture all of our statistics from internal reports. Each paper or electronically filed return should be identified with the appropriate "Site Identification Number". This will ensure that all volunteer prepared returns are correctly counted once received by the Internal Revenue Service.

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

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

EVALUATION PROCESS

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

OTHER IMPORTANT ADMINISTRATIVE INFORMATION

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

e-file: Each year the IRS contracts with a software developer to provide tax return preparation software. All returns prepared using the software should be electronically filed. The only exception is when a return is transmitted electronically to the IRS and you experience unworkable rejects.

Scope and Sequence

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

Basic Module

All volunteers must complete the following lessons:

Introduction

Lesson 1—Getting Started

Lesson 2—Income

Lesson 3—Adjustments

Lesson 4—Standard Deduction and Itemized Deductions

Lesson 5—Credit for Qualified Retirement Savings Contributions, Mortgage Interest, and Foreign Tax Credit

Lesson 6—Finishing the Return

Wage Earner Module

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

Lesson 7—Credit for Child and Dependent Care

Lesson 8—Education Credits

Lesson 9—Earned Income Tax Credit

Lesson 10—Child Tax Credit

Pension Earner Module

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

Lesson 11—Sale of Stock

Lesson 12—Sale of Home

Lesson 13—Pensions

Lesson 14—Credit for Elderly or Disabled

Those who are taking this training with the expectation of becoming instructors themselves must learn all lessons.

The sequence of lessons generally follows the order of topics on the tax returns which you will complete at the volunteer site. In a few instances, this does not parallel the order of the tax form itself. For example, while the entity section (taxpayer's name, address, and social security number) appears first on the form, it is covered in the lesson on finishing the return since it is one of the last things to do when completing the return. (Have you ever tried to peel off one of the stick-on labels after you have found an error on the return?)

It is very important for you to assist only with returns and supporting schedules and forms for which you have been trained. If you go beyond your training, you risk making errors and causing difficulties for those you wish to help. Refer taxpayers with difficult returns, or with portions of returns that are beyond the scope of your training to a paid professional tax preparer.

There are separate training materials available for the following categories of taxpayers:

Publication 678FS—Foreign Students and Scholars

Publication 678M—Military/International Student Text

Publication 678PR—Tax Issues for Puerto Rico

As a volunteer, you are not allowed to charge for your services. This includes taxpayer return preparation advice and return preparation. You may at times need to remind taxpayers that the assistance that you are providing is **FREE**. Do not solicit or accept donations on behalf of the VITA or TCE sponsor, or any other individual or organization, while providing assistance in this program.

Assisting taxpayers includes helping to make sure they are aware of their rights. Publication 1, *Your Rights as a Taxpayer*, is available free, from the IRS. Taxpayers can help ensure that they receive fair treatment in tax matters when they are aware of their rights.

Testing

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

Proof Copies of Forms

Forms imprinted in this publication were current as of the "draft" date shown on each form. Final forms may be found at www.irs.gov and may have supplemental changes. Be sure to compare the final forms with those in this publication and make sure you understand processing changes (if any) before helping taxpayers with their returns.

Exercises and Exhibits

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

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

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

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

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

Lesson Features

Introduction

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

"Summing Up This Section, Segment or Lesson"

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

Sidebar Features

Sidebar features appear in the outer margins (left and right) of the text. These boxed features emphasize important points presented in the lesson, or provide additional, related information. **Potential Pitfalls** point out commonly made errors and indicate ways to avoid these errors. **Alert!** identifies pending legislation, tax law changes, or tax forms changes that were expected, but not enacted or in final form when this publication went to print. As a volunteer please confirm that you have the latest information on the tax law and forms before assisting your clients.

CONFIDENTIALITY AND INTEGRITY

ALERT-
CONFIDENTIALITY
AND INTEGRITY

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

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

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

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

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

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

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

QUALITY OF SERVICE

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

- Where possible prepare the return using electronic filing software.
- Use a calculator to check your math (paper returns).
- Refer to your Publication 17, other IRS publications and job aids for help with complicated topics.
- Use the checklists and worksheets provided.
- Consult with other, more experienced, volunteers.
- Call the Volunteer Hotline (described later in this lesson).

Volunteer Hotline

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

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

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

Effective Interviewing

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

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

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

Person(s) with a disability;

Persons who are blind; persons who are visually impaired;

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

Persons who use a wheelchair;

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

Steps to Effective Interviewing:

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

WHAT IF . . . ?

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

1. What is the CHIP Program?

The Children's Health Insurance Program (CHIP) is designed to help millions of children of working families obtain affordable and much-needed health insurance. CHIP informational materials are available at IRS Tax Assistance Centers and Volunteer Income Tax Assistance (VITA) sites. CHIP information (i.e. brochures, flyers) should be provided to VITA sites prior to the filing season. Volunteers at VITA site locations are not expected to answer any questions pertaining to this program, just to make information available to taxpayers visiting their sites.

2. How can I direct someone to their closest AARP sponsored Tax-Aide Site?

AARP Tax-Aide operates a toll-free nationwide number to help people find their closest Tax-Aide Site. The number is 1-888-227-7669. The information is also available on the AARP web page. The address is www.aarp.org/taxaide.

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

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

4. Who needs an Individual Taxpayer Identification (ITIN) Number?

An ITIN is available for certain resident and nonresident aliens, their spouses, and their dependents who are not eligible for a SSN. To obtain an ITIN, you must complete, sign, and submit IRS Form W-7, Application for IRS Individual Taxpayer Identification Number to the Internal Revenue Service with proper documentation to support your status.

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

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

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

By Internet:

- 1. World Wide Web www.irs.gov
- 2. FTP <u>ftp.irs.ustreas.gov</u>
- 3. Telnet <u>iris.irs.ustreas.gov</u>

6. What if the taxpayers move?

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

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

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

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

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

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

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

10. How long should taxpayers keep their tax returns?

Taxpayers should keep a copy of the tax return, worksheets used, and records of all items appearing on it (such as 1099 forms) until the statute of limitations runs out for that return. Usually, this is 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever is later. They should keep forms W-2 until the Social Security Administration has recorded the earnings reflected on the forms. Keep property records (including those on a home) as long as they are needed to figure the basis of the original or replacement property. Closing statements for a home should be kept until the home is sold. Brokerage statements showing the purchase price of stock should be kept until the stock is sold. Also, contributions to nondeductible IRAs should be kept until all IRA funds are withdrawn. Calculations determining the nontaxable portion of pension income should be kept until all of the pension income is taxable. For additional recordkeeping information, see Publication 552, Recordkeeping for Individuals.

11. What is On-Line filing?

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

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

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

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

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

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

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

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

13. Your Civil Rights Are Protected

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

WHERE IS THE TOPIC?

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

FORM 1040EZ

Vour social security number Seposes social security number N	Form		-	Treasury—Internal Reve		and	2000			
Label. Use the IRS label. Otherwise, please print Income Presidential Excitor Income I	1040EZ		Joint Filer	s With No De	pende	nts -	2003		ON	MB No. 1545-0675
See page 14 Use the IRS Iabel.	Label	L	Your first name and in	nitial	Last na	ame 6			Your social sec	curity number
Important A Impo	Use the IRS	A B E	If a joint return, spous	se's first name and initial	Last na	ame		1	Spouse's social	security number
City, town or poet office, steek, and ZIP code. If you have a foreign acclases, see page 14. You must either your SSNNs) above. You Spouse	Otherwise,	H	Home address (numb	er and street). If you have	a P.O. box,	see page 14.		Apt. no.	-	
Note. Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if a joint return, want \$3 to go to this fund? Note. Yes No Yes No Yes No Yes No Note Yes No Yes N	or type.		City, town or post offi	ice, state, and ZIP code. If	f you have a	foreign address, s	ee page 14.			
Note Checking res will not enange your tax of recouce your retund. Ves No Ves No Note		_							Vou	Spouse
Attach Formis) W-2 here. Enclose, but do not attach, any payment. 4 Add lines 1, 2, and 3. This is your adjusted gross income. 4 Add lines 1, 2, and 3. This is your adjusted gross income. 4 Add lines 1, 2, and 3. This is your adjusted gross income. 5 Can your parents (or someone else) claim you on their return? Yes or No. 6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0. 6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0. 7 Federal income tax withheld from box 2 of your Eornits) W-2. 7 Federal income credit (EIC). 8 9 Add lines 7 and 8. These are your total payments. 10 Tax. Use the amount on line 6 above to find your tax in the tax table on pages 25-29 of the booklet Their, enter the tax from the table on this line. 11 If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. Amount you owe 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is your refund. Amount you owe. For details on how to pay, see page 22. 12 Third party designee Designee's horse your for line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 14 Third party designee Designee's horse your for line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 15 Do you want to allow another person to discuss this return with the IRS (see page 22)? ves. Complete the following. No or all information of which the proparer has any knowledge. 16 Date										•
Formiss W-2 here. Enclose, but do not attach, any payment. 2 Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ. 2 2 2		_			ould be sh	nown in box 1	of your Form(s) V	W-2.	1 2	
Add lines 1, 2, and 3. This is your adjusted gross income. 4	Form(s) W-2	_				•			2 (2)	
Add lines 1, 2, and 3. This is your adjusted gross income. 4	do not attach,	_		t compensation and	Alaska I	Permanent Fur	nd dividends		3 (2)	
Yes Enter amount from No. If single, center \$7.800.	arry paymont.	_		•					4	
worksheet on back.	Note. You									
Payments and tax 7 Federal income tax withheld from box 2 of your Form(s) W-2. 8 Earned income credit (EIC). 8 9 Add lines 7 and 8. These are your total payments. 9 Add lines 7 and 8. These are your total payments. 10 Tax. Use the amount on line 6 above to find your tax in the tax table on pages 25–29 of the booklet. Then, enter the tax from the table on this line. 11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 11a Mount of Account number 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 13 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 15 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 15 If line 10 is larger than line 9, subtract line 9 from line 10. This is your refund. 16 If line 10 is larger than line 9, subtract line 9 from line 10. This is your refund. 17 Federal income tax withheld from box 2 of your line 10. This is your refund. 18 If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 19 Account number 10 Account number 10 Account number 11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 12 If line 10 is larger than line 10, subtract line 10 from line 9. This is your refund. 13 If line 10 is larger than line 10, subtract line 10 from lin	111111111111				No.	If married	filing jointly, ente	er \$15,600.		
Technology Federal income tax withheld from box 2 of your Eorm(s) W-2. The party		_			e 5 is larg	ger than line 4	, enter -0	<i>></i>	6	
8 Earned income credit (EIC). 9 Add lines 7 and 8. These are your total payments. 10 Tax. Use the amount on line 6 above to find your tax in the tax table on pages 25–29 of the booklet. Then, enter the tax from the table on this line. 11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 11b It line 9 is larger than line 9, subtract line 10 from line 9. This is your refund. 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is you owe 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 12 Do you want to allow another person to discuss this return with the IRS (see page 22)? Yes. Complete the following. No lesignee's name	Payments			4.1			C/,		6	
Paid Preparer's Separed 2P Preparer'	and tax	_	7 Federal income	e tax withheld from	box 2 of	f your Form(s)	W-2.		$\stackrel{\prime}{\sim}$	
Tax. Use the amount on line 6 above to find your tax in the tax table on pages 25–29 of the booklet. Then, enter the tax from the table on this line. 10 4		_	8 Earned incom	ne credit (EIC).	C				•	
Refund Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d. Third party designee Do you want to allow another person to discuss this return with the IRS (see page 22)? Yes. Complete the following. No Personal identification number (PIN) Designee's name No. No.		_	9 Add lines 7 an	d 8. These are your	r total pa	yments.		>	9 (6)	
Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d. Manual to the amount you owe Designee's name Do you want to allow another person to discuss this return with the IRS (see page 22)? Yes. Complete the following. No you designee Designee's name Do you want to allow another person to discuss this return with the IRS (see page 22)? Yes. Complete the following. No you designee Designee's name Designee'		1						oages	10 (4)	
Date Personal identification Personal identification Personal identification Pour signature Paid Preparer's Signature Paid Preparer's Signature Paid Preparer's Signature Paid Preparer's Signature Phone Personal identification Preparer's Signature Paid Preparer's Signature Phone Personal identification Preparer's Signature Paid Preparer's Signature Paid Preparer's Signature Paid Preparer's Signature Preparer's Signature Preparer's Phone Personal identification Preparer's Phone Personal identification Preparer's Phone Personal identification Preparer Personal identification Preparer Personal identification Preparer Preparer Preparer Preparer Preparer Preparer Preparer Preparer Preparer's Preparer's Pour occupation Preparer's P		1	la If line 9 is larg	ger than line 10, su	btract line	e 10 from line	9. This is your re	fund.	11a 6	
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Third party designee Do you want to allow another person to discuss this return with the IRS (see page 22)? Do you want to allow another person to discuss this return with the IRS (see page 22)? Do you want to allow another person to discuss this return with the IRS (see page 22)? Personal identification number (PIN) Dosignee's name Personal identification number (PIN) Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge. Your signature Daytime phone number () Spouse's signature. If a joint return, both must sign. Date Check if self-employed Firm's name (or yours if self-employed), address, and ZIP code Phone no. ()	and 11d.	•	d Account number	er]		
designee Designee's name No. ► () Designee's name No. ► () Designee's name Designee's name No. ► () Designee's name No. ► () Designee's name Designee's name Designee's name No. ► () Designee's name Designee's name No. ► () Designee's name Designee's name No. ► () Designee's name Des		1						>	12	
Designee's name Designee's n	Third party	D	o you want to allow	w another person to	discuss	this return with	the IRS (see page	e 22)?	. Complete the	following. \square No
here Joint return? See page 13. Keep a copy for your records. Paid preparer's use only Preparer's use only Preparer's use only Accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge. Your occupation Daytime phone number () Spouse's signature. If a joint return, both must sign. Date Spouse's occupation Preparer's syn or PTIN Enter Site Identification Numbe Firm's name (or yours if self-employed), address, and ZIP code Accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge. Your occupation Daytime phone number () Check if self-employed Preparer's SSN or PTIN Enter Site Identification Number () Proparer's syn or PTIN Enter Site Identification Number () Proparer's syn or PTIN Enter Site Identification Number () Proparer's syn or PTIN Enter Site Identification Number () Proparer's syn or PTIN Enter Site Identification Number () Proparer's syn or PTIN Enter Site Identification Number ()	designee	n	ame ►	um. I deelere that I ha	ua avamina	no. ▶ ()	number (PIN)) ▶∟⊥	at and
Joint return? See page 13. Keep a copy for your records. Paid preparer's use only Preparer's use only Your signature Firm's name (or yours if self-employed), address, and ZIP code Pout Spouse's occupation Date Spouse's occupation Date Spouse's occupation Paid Spouse's occupation Date Check if self-employed Enter Site Identification Number Enter Site Identification Number Preparer's SSN or PTIN	. •	a	curately lists all amou	unts and sources of inc	ome I rece	ived during the t				
See page 13. Keep a copy for your records. Paid preparer's use only Preparer's use only Spouse's signature. If a joint return, both must sign. Date Spouse's occupation Check if self-employed Self-employed Enter Site Identification Number Enter Site Identification Number Self-employed, address, and ZIP code					,		Your occupation		Daytime ph	one number
Paid preparer's signature 6 Date Check if self-employed Preparer's SSN or PTIN Enter Site Identification Number Firm's name (or yours if self-employed), address, and ZIP code Phone no. ()	See page 13. Keep a copy for your	s	pouse's signature. If a		st sign.	Date	Spouse's occupat	ion		
preparer's use only Firm's name (or yours if self-employed), address, and ZIP code Phone no. ()				6			Date	Check if		
use only yours if self-employed), address, and ZIP code Phone no. ()		_	,	<u>, o</u>				self-employed	Enter Site Ide	ntification Numbe
		y	ours if self-employed),						<u> </u>	
	For Disclosure		· ·		tion Act	Notice, see	page 24.	•	V Form	1040EZ (2003)

FORM 1040A

Form 1040A	Department of the Treasury—Internal Revenue Service U.S. Individual Income Tax Return 2003 IRS Use Only—	Do not write or staple in this space.
	Your first name and initial Last name	OMB No. 1545-0085
Label	6	Your social security number
(See page 21.) L		
B E	If a joint return, spouse's first name and initial Last name	Spouse's social security number
Use the		
IRS label. Otherwise.	Home address (number and street). If you have a P.O. box, see page 22. Apt. no.	A Important A
please print R		▲ Important! ▲
or type.	City, town or post office, state, and ZIP code. If you have a foreign address, see page 22.	You must enter your SSN(s) above.
Presidential Election Campaign	Note. Checking "Yes" will not change your tax or reduce your refund.	You Spouse
(See page 22.)	Do you, or your spouse if filing a joint return, want \$3 to go to this fund?	☐Yes ☐ No ☐Yes ☐ No
	1 ☐ Single 4 ☐ Head of household (with	n qualifying person). (See page 23.)
Filing		is a child but not your dependent,
status (1)	3 ☐ Married filing separately. Enter spouse's SSN above and enter this child's name	here. ►
one box.	full name here. ►	th dependent child (See page 24.)
Exemptions	6a Yourself. If your parent (or someone else) can claim you as a	No. of boxes checked on
	dependent on his or her tax return, do not check box 6	a. 6a and 6b
(1)	b Spouse	qualifying No. of children on 6c who:
\mathbf{O}	(2) Dependent's social relationship to child	for child • lived with
	Security number	redit (see you ge 25)
If more than six dependents,		● did not live with you due
see page 24.		to divorce or separation
		(see page 26)
	C	Dependents
	11 40	on 6c not entered above
		Add numbers
	d Total number of exemptions claimed.	on lines above
Income	- W 15 ()W	7 (2)
Attach	7 Wages, salaries, tips, etc. Attach Form(s) W-2.	<u> </u>
Form(s) W-2	8a Taxable interest. Attach Schedule 1 if required.	_{8a} (2)
here. Also attach	b Tax-exempt interest. Do not include on line 8a. 8b (2)	
Form(s)	9a Ordinary dividends. Attach Schedule 1 if required.	9a
1099-R if tax	b Qualified dividends (see page XX). 9b	- (2)
was withheld.	10a Capital gain distributions (see page 27).	10a
If you did not get a W-2, see	b Post-May 5 capital gain distributions (see page 27). 10b	
page 27.	11a IRA 11b Taxable amount (see page 27)	441
Enclose, but do	distributions: Tra	11b
not attach, any	Pensions and annuities. 12a 13 Taxable amount (see page 28).	12b
payment.		
	13 Unemployment compensation and Alaska Permanent Fund dividends.	13 (2)
	44a Casial assumity	
	benefits. 14a (see page 30).	_14b
	A= A	_
A II	<u> </u>	▶ 15
Adjusted	16 Educator expenses (see page 30). 16 17 IRA deduction (see page 30). 17	$ \bigcirc$
gross	18 Student loan interest deduction (see page 33). 18	_
income	19 Tuition and fees deduction (see page 33). 19	
	20 Add lines 16 through 19. These are your total adjustments.	
	· · · · · · · · · · · · · · · · · · ·	
	21 Subtract line 20 from line 15. This is your adjusted gross income.	▶ 21
For Disclosure, P	rivacy Act, and Paperwork Reduction Act Notice, see page 57. Cat. No. 1132	Form 1040A (2003)

FORM 1040A

Form 1040A	(2003				Page 2
Tax,	22	Enter the amount from line 21 (adjusted gross income).		22	
credits, and		Check	за 🔲	4	
Standard Deduction	b	If you are married filing separately and your spouse itemizes deductions, see page 34 and check here ► 23	3b 🔲		
for—	24	Enter your standard deduction (see left margin).		24	
People who checked any	25 26	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-Multiply \$3,050 by the total number of exemptions claimed on line 60		25 26	
box on line 23a or 23b or	27	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-		20	+
who can be		This is your taxable income.		27	
claimed as a dependent,	28	Tax, including any alternative minimum tax (see page 35).	1	28 (4)	
see page 34.All others:	29	Credit for child and dependent care expenses. Attach Schedule 2. 29			
Single or Married filing separately,	30	Credit for the elderly or the disabled. Attach Schedule 3.			
\$4,750 Married filing	31	Education credits. Attach Form 8863.	/ 		
jointly or Qualifying	32	Retirement savings contributions credit. Attach Form 8880. Child tax credit (see page 38).			
widow(er), \$9,500	33 34	Child tax credit (see page 38). Adoption credit. Attach Form 8839. 33 (10)	//-		
Head of household,	35	Add lines 29 through 34. These are your total credits.		35	
\$7,000	36	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0		36	
	37 38	Advance earned income credit payments from Form(s) W-2. Add lines 36 and 37. This is your total tax.		37 (9) 38	
	39	Fordered to a constant with head from Fords MCO		30	
		and 1099.			
If you have	40	2003 estimated tax payments and amount applied from 2002 return.			
a qualifying child, attach	41	Earned income credit (EIC). 41 (9)			
Schedule EIC.	42	Additional child tax credit. Attach Form 8812. 42 (10)		(6)	1
Refund	43 44	Add lines 39 through 42. These are your total payments. If line 43 is more than line 38, subtract line 38 from line 43.		$\stackrel{+_0}{\sim}$	
		This is the amount you overpaid.		44 (6)	
Direct deposit?		Amount of line 44 you want refunded to you.	>	45a (6)	
See page 52 and fill in 45b, 45c,	▶ b	Routing number			
and 45d.		Account number	(6)		
A	46	Amount of line 44 you want applied to your 2004 estimated tax. 46 6			ı
Amount	47	Amount you owe. Subtract line 43 from line 38. For details on how to pay, see page 53.	> 4	47 (6)	
you owe	48	Estimated tax penalty (see page 53). 48			
Third party	, [Do you want to allow another person to discuss this return with the IRS (see page 54)?	Yes. C	complete the following	g. 🗌 No
designee	[Personal ident umber (PIN)	tification	
Sign	Ų	Under penalties of perjury, I declare that I have examined this return and accompanying schedules an	nd statements		
here	C	mowledge and belief, they are true, correct, and accurately list all amounts and sources of income I record preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.		·	hau
Joint return? See page 22.	\ '	our signature 6 Date Your occupation		Daytime phone num	ber
Кеер а сору	-	Spouse's signature. If a joint return, both must sign. Date Spouse's occupation			
for your records.	7		T		
Paid	S	Preparer's Date Check if self-emp		Preparer's SSN or PTI Enter Site Identificatio	
preparer's	F	Firm's name (or	noyed		
use only) a	ours if self-employed), iddress, and ZIP code	hone no.	()	
		Printed on recycled paper		Form 1040	(2003)

FORM 1040

Chest New Just - Lock 31, 303), order tax year baggreing	1040		artment of the Treasury—Internal Revenue Service S. Individual Income Tax Return				
Vour first name and initial Last name Secretary numbers of the property number of page 21 Use the IRS label. Incomposition of the property of the prop	<u> 1070</u>	_	individual incomo fux flotari incomo fux				
See instructors on page 21 Use the IRS Industry Use the IRS Industry Use of IRS Us	l abal	-		20			
Sepolary	· · · · · · · · · · · · · · · · · · ·	Yo	ur first name and initial Last name (6)	į	Your s	ocial security num	ber
Use the IRS I label. Whome address fourniber and street). If you have a POL box, see page 21. Apt. no. More Checking "Yee" will not change your tax or reduce your refund. You must enther your SSN(s) above Presidential	instructions A	<u> </u>					
Home address (number and steed). If you have a P.O. box, see page 21.	~4\	If a	a joint return, spouse's first name and initial Last name	- 1	Spous	e's social security n	umber
Important You must enterpressed print Figure and street, if you have a foreign address, see page 21.	· · · · · · · · · · · · · · · · · · ·					<u> </u>	
City, town or post office, state, and ZIP code. If you have a foreign address, see page 21.	label. H	Ho	me address (number and street). If you have a P.O. box, see page 21. Apt. no.			Important!	
Presidential Election Campaign Note. Checking "Yea" will not change your tax or reduce your refund. Note. Checking "Yea" will not change your tax or reduce your refund. Note. Checking "Yea" will not change your tax or reduce your refund. Note. Checking "Yea" will not change your tax or reduce your refund. Note. Checking "Yea" will not change your tax or reduce your refund. I single 2 Married filing plainty (even if only one had income) 4 Head of household (with qualifying person) is a child but not your dependent the inschild same here. For your your your your your your your yo		\vdash				-	_
Note. Checking "Yes" will not change your tax or reduce your refund. You Spouse Spous	produce print	Cit	y, town or post office, state, and ZIP code. If you have a foreign address, see page 21.	J			
Note. Checking Yes will not change your tax or reduce your return.	Presidential						
Filing Status Check only	Election Campaign		Note. Checking "Yes" will not change your tax or reduce your refund.		Yo	u Spous	e —
Filing Status Check only 1 Sometiment of the qualifying person is a child but not your dependent one box. Exemptions Ga	(See page 21.)	<u> </u>	Do you, or your spouse if filing a joint return, want \$3 to go to this fund?	. ▶	Ye	s ∐No ∐Yes	<u> </u>
Check only one box. Attach Source Company Comp		1 [Single 4 Head of househo	old (with o	qualifying	person). (See page	e 21.) If
and full name here. ▶ 5 ☐ Qualifying widow(er) with dependent child. (See page 25) Total number of exemptions See page 22. Sependents See page 23. See page 24. See page 25. See page 26. See page 27. See page 27. See page 28. See page 28. See page 29. See page 29.	Filing Status	2	Married filing jointly (even if only one had income) the qualifying per	son is a	child but	not your dependen	t, enter
and full name here. ▶ 5	Check only 1	3 [here. ►			
Exemptions Components Comp				w(er) with	n depen	dent child. (See pa	ge 21.)
Total number of exemptions claimed Spouse		6a	Yourself. If your parent (or someone else) can claim you as a dependent on h	nis or he	r tax)		
b Spouse c C Dependents: (1) First name Last name social search younder or certific experience (1) First name Last name social search younder or certific experience (1) First name Last name social search younder or certific experience (1) First name Last name social search younder or certific experience (1) First name Last name social search younder or certific experience (1) First name Last name social search younder or certific experience (1) First name Last name social search younder or certific experience (1) First name Last name social search younder or certific experience (1) First name Last name social search younder or certific experience or certific (1) First name Last name social search younder or certific (1) First name Last name social search younder or certific (1) First name Last name social search younder or certific (1) First name Last name social search younder or certific (1) First name Last name social search younder or certific (1) First name Last name social search younder or certific (1) First name Last name social search younder or certific (1) First name Last name social search younder or certific (1) First name Last name social search younder or certific (1) First name Last name social search younder or certific (1) First name carried (1) First name Last name social search you due to do not attach social search younder or former or (1) First name carried (1) First name carrie	Exemptions				}		
If more than five dependents, see page 22. Income Attach Total number of exemptions claimed Total number of exe		b	Spouse		J		
If more than five dependents, see page 22. d Total number of exemptions claimed Taxable interest. Attach Schedule B if required Attach Attach Forms W-2 and W-26 here. Also attach schedule B if required Attach Forms W-2 and withheld. 10 Tax-exempt interest. Do not include on line 8a 9a Ordinary dividends. Attach Schedule B if required b Ualified dividends (see page 25) 10 Taxable retunds, gredits, or offsets of state and local income taxes (see page 25) 11 Alimony received If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 23. If you did not get a W-2, see page 24. If you did not get a W-2, see page 25. If you did not get a W-2, see page	\bigcirc	С				on 6c who:	
If more than five dependents, see page 22. Income	\Box		social security number relationship to			-	
d Total number of exemptions claimed Total number of exemptions claimed Capability Capab			5 0 2 10				
See page 22. Comparison of the properties of						•	
Income Attach Forms W-2 and W-2G here. Also attach Formig) 1099-R if tax was withheld. If you did not get age 22, see page 23, see page 23, see page 23, please use Form 1040-V. Enclose, but do not attach, any payment. Also, please use Form 1040-V. Adjusted Gross Income Adjusted Gross Income Total number of exemptions claimed Wages, salaries, tips, etc. Attach Form(s) W-2 Taxable interest. Attach Schedule B if required Asa Add justed Tax -exempt interest. Do not include on line 8a Ba Q Q Total required Ba Q Q Q Q Q Q Q Q Q Q Q Q Q	•		100				
Income Total number of exemptions claimed	see page 22.		210 1 20				
Total number of exemptions claimed 3paug 1				一百			
Income		Ь	Total number of exemptions claimed				
Attach b Tax-exempt interest. Attach Schedule B if required b Tax-exempt interest. Do not include on line 8a 8b 9a 2				· · ·	7		
Attach Forms W-2 and W-26 here. Also attach Form (s) 1099-R (if tax was withheld. If you did not get a W-2. 15a Rand istrach, any payment. Also, please use Form 1040-V. Adjusted Gross Income Adjusted Gross Income Tax-exempt interest. Do not include on line 8a	Income						
Forms W-2 and W-2G here. Also attach Schedule S if required b Qualified dividends. Attach Schedule B if required b Qualified dividends (see page 25) 10 11				· · ·		$\overline{}$	
W-2G here. Also attach Form(s) 1099-R form(s) 1099-R form(s) 1099-R if tax was withheld. If you did not get a W-2, see page 23. 16a Pensions and annuites 15a			Tax exempt interest. Be not include on line oa		_//////	(2)	
Also attach Form(s) 1099-R if tax was withheld. 10 Taxable refunds, credits, or offsets of state and local income taxes (see page 25)				· ·		$\check{\sim}$	
if tax was withheld. 1			dualified dividends (see page 25)		_//////	(2)	
Susiness income or (loss). Attach Schedule C or C-EZ 12 2 13a Capital gain or (loss). Attach Schedule D if required. If not required, check here)			_
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					34		
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 76. Cat. No. 11320B Form 1040	For Disclosure. Pr	rivacv	Act, and Paperwork Reduction Act Notice, see page 76. Cat. No.	11320B		Form 1040	(2003)

Form 1040

Tax and	35	Amount from line 34 (adjusted gross income)	3	35	
rax and Credits	36a	Check [You were born before January 2, 1939, Blind.] Total boxes			
	1	if: Spouse was born before January 2, 1939, ☐ Blind. checked ▶ 36a ☐	_///		
Standard Deduction	b	If you are married filing separately and your spouse itemizes deductions, or			
for—		you were a dual-status alien, see page 34 and check here ▶ 36b □		(4)	
People who	່37	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	3	37	
checked any box on line	38	Subtract line 37 from line 35		38	
36a or 36b or	39	If line 35 is \$104,625 or less, multiply \$3,050 by the total number of exemptions claimed on			
who can be claimed as a		line 6d. If line 35 is over \$104,625, see the worksheet on page 35	١.	39	
dependent,	40	Taxable income. Subtract line 39 from line 38. If line 39 is more than line 38, enter -0-		40 (4)	
see page 34.	41	Tax (see page 36). Check if any tax is from: a ☐ Form(s) 8814 b ☐ Form 4972	4	41 (4)	
All others:	42	Alternative minimum tax (see page 37). Attach Form 6251	4	42	
Single or Married filing	43	Add lines 41 and 42	4	43	
separately,	44	Foreign tax credit. Attach Form 1116 if required			
\$4,750	45	Credit for child and dependent care expenses. Attach Form 2441			
Married filing	46	Credit for the elderly or the disabled. Attach Schedule B. 46 (14)			
jointly or Qualifying	47	Education credits. Attach Form 8863			
widow(er),	48	Retirement savings contributions credit. Attach Form 8880	_///		
\$9,500	49	Child tax credit (see page 39)	_{///		
Head of nousehold,	50	Adoption credit. Attach Form 8839			
\$7,000	51	Credits from: a Form 8396 b Form 8859 51	_{///		
	52	Other credits. Check applicable box(es): a Form 3800			
	J_	b Form 8801 c Specify 52			
	53	Add lines 44 through 52. These are your total credits		53	
	54	Subtract line 53 from line 43. If line 53 is more than line 43, enter -0-		54	
	55	Self-employment tax. Attach Schedule SE		55 (2)	
Other	56	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137		56	
Taxes	57	Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required		57 (13)	
	58	Advance earned income credit payments from Form(s) W-2		58	
	59	Household employment taxes. Attach Schedule H		59	
	60	Add lines 54 through 59. This is your total tax		60	
Payments	61	Federal income tax withheld from Forms W-2 and 1099 61 6			
dymonto	62	2003 estimated tax payments and amount applied from 2002 return . 62 6			
If you have a	63	Earned income credit (EIC)			
qualifying	64	Excess social security and tier 1 RRTA tax withheld (see page 56)			
child, attach Schedule EIC.	65	Additional child tax credit. Attach Form 8812	_{///		
ocricadic Lio.	66	Amount paid with request for extension to file (see page 56)			
	67	Other payments from: a Form 2439 b Form 4136 c Form 8885 .			
	68	Add lines 61 through 67. These are your total payments		68	
) of up d	69	If line 68 is more than line 60, subtract line 60 from line 68. This is the amount you overpaid		69	
Refund	69 70а	Amount of line 69 you want refunded to you		r0a (6)	
Direct deposit? See page 56	_				
nd fill in 70b,	► b ► d				
0c, and 70d.		Account number 600 and 100 and	リ께		
Amount	71	Amount of line 69 you want applied to your 2004 estimated tax 71	_\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\	72	
Amount ∕ou Owe	72 73	Amount you owe. Subtract line 68 from line 60. For details on how to pay, see page 57 ► Estimated tax penalty (see page 57)			
				mplete the following	<i>////////</i> na. □ N
Third Party				·	.a. 🗀 🗸
Designee	De nai	signee's Phone Personal iden no. ▶ () number (PIN)	tificatio	ion	
Sign		der penalties of perjury, I declare that I have examined this return and accompanying schedules and statements,	and to	o the best of mv knowl	edge and
		ief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information o			
Here	Yo	ur signature Date Your occupation	[Daytime phone numb	er
loint return? See page 21.		(6)	,	()	
беер а сору	$\frac{1}{80}$	ouse's signature. If a joint return, both must sign. Date Spouse's occupation			
or your	J Sh	Spouse's occupation			
ecords.		Date	-///	Preparer's SSN or PT	//////////////////////////////////////
Paid		Check if		nter Site Identificat	
Preparer's		Self-employed [<u> </u>		
		m's name (or EIN urs if self-employed),			
Jse Only	you	dress, and ZIP code Phone no.			

TAXWISE HINTS

Each year the Internal Revenue Service contracts with a tax preparation software vendor to provide free software to our volunteers. This year you will find TaxWise hints integrated throughout the text. They will be at the end of each lesson just before "Summing Up This Lesson" or "Summing Up This Section."

► SUMMING UP THIS SECTION ◀ ◀

- ➤ Remember that the information used to prepare an individual's income tax return must be treated as confidential.
- ▶ Use the steps for effective interviewing.

INTRODUCTION AND OBJECTIVES

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

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

After completing this lesson you should be able to:

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

Social Security Number

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

POTENTIAL PITFALLS



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

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

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

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

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

Individual Taxpayer Identification Numbers

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

SUMMING UP THIS LESSON

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

PERSONAL AND DEPENDENCY EXEMPTIONS

After completing this section, you will be able to:

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

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

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

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

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

Personal Exemptions

The Taxpayer

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

The Spouse

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

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

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

ALERT



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

DEPENDENCY **E**XEMPTIONS

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

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

1. The Member of Household or Relationship Test

To meet this test, the person must either:

- **A.** Live with the taxpayer for the entire year as a member of his or her household, or
- **B.** Be related to the taxpayer in one of the ways listed later, under *Relatives who do not have to live with the taxpayer.*

Note:

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

Relatives who do not have to live with the taxpayer

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

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

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

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

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

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

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

2. Citizen or Resident Test

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

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

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

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

3. Joint Return Test

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

4. The Gross Income Test

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

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

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

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

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

5. The Support Test

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

There are two exceptions to the support test:

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

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

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

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

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

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

Do not include in support any amounts that are:

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

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

Example 1

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

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

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

Exhibit 1

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

Is line 21 more than line 22?

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

Multiple Support

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

Example 2

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

Exhibit 2 Henry's Form 2120 OMB No. 1545-0071 Multiple Support Declaration (Rev. December 2002) Attachment Department of the Treasury Sequence No. 114 Attach to Form 1040 or Form 1040A. Internal Revenue Senice Your social security number Name(s) shown on return Henry E. Rust 000 00 4877 the eligible persons listed below each paid over 10% of the support of: During the calendar year Margaret S. Rust Name of person supported I have a signed statement from each eligible person waiving his or her right to claim this person as a dependent for any tax year that began in the above calendar year. 000 | 00 | 2780 Harold S. Rust Bigible person's name 123 Main Street, Springfield, VA 22140 Address inumber, street, apt. no., city, state, and ZIP code Bigible person's name Social security number Address inumber, street, apt. no., city, state, and ZIP codel Bigible person's name Social security number Address inumber, street, apt. no., city, state, and ZIP codel-Bioble person's name Social security number Address (number, street, apt. no., city, state, and ZIP code)

Children of Divorced or Separated Parents

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

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

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

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

Example 3

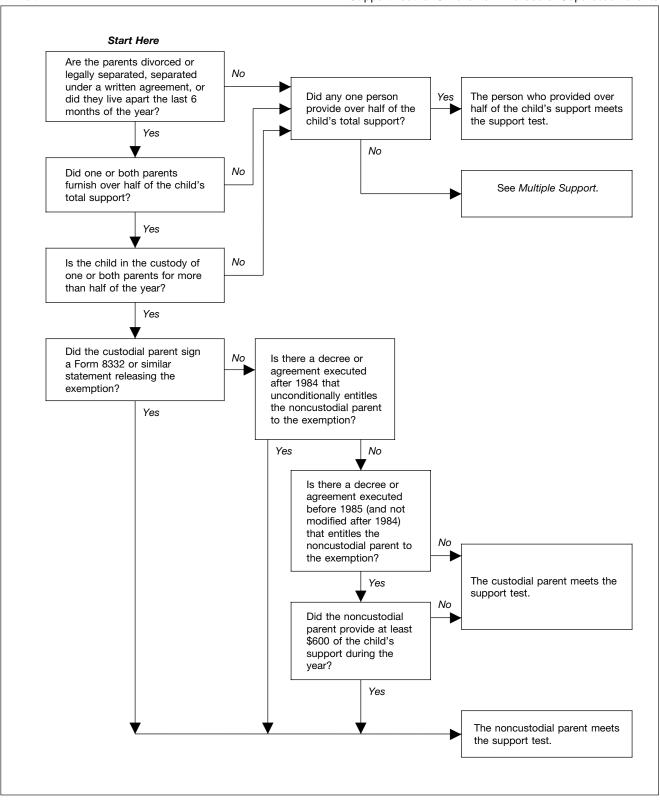
Ellen M. and Richard A. Stonehill are divorced. Under the terms of the 1984 divorce, Richard has custody of their two children, Alan R. and Mary E. The divorce decree specifies that Ellen can claim the dependency exemptions. Ellen provided \$1,500 of support for each child. Assuming all other tests are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

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

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

Exhibit 3 Ellen's Form 8332

Form 8332 (Rev. December 2000)	for Child of Diverged or Separated Parents		OMB No. 1545-0915
Department of the Treasury Internal Revenue Service	The Tressury Attach to noncustodial parent's return each year exemption is claimed.		
Name of noncustodial parent o	fairning exemption	Noncustodial parent's	
Ellen M. Stonehill social security number (SSN) ▶			000 00 2338
			000 : 00 : 000
Part I Release of	f Claim to Exemption for Current Yea	r	1000,000,000
Part Release of		r	1000,00,200
Part I Release of	f Claim to Exemption for Current Yea	Mary E. Stonehill	1000,00,200
Part I Release of agree not to claim an effor the tax year 20_03	f Claim to Exemption for Current Yea	Mary E. Stonehill	3/26/2004



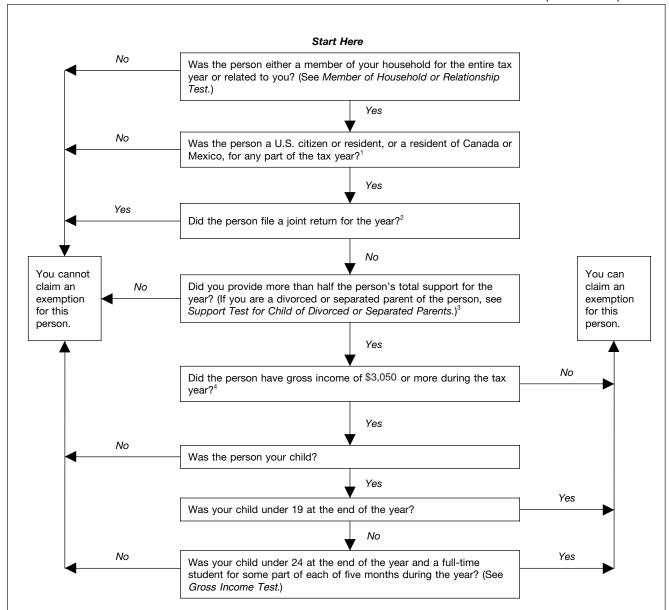
Determining the Number of Exemptions To Claim

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

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

Exhibit 5

Can You Claim an Exemption for a Dependent?



¹ If the person was your legally adopted child and lived in your home as a member of your household for the entire tax year, answer "yes" to this question.
2 If neither the person nor the person's spouse is required to file a return, but they file a joint return only to claim a refund of tax withheld, answer "no" to this

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

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

Completing the Exemption Section of Forms 1040A and 1040

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

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

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

Exhibit 6				Forr	n 1040/1040A	page
Exemptions 6a Vourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a. b V Spouse						2
If more than six	c Dependents: (1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) vif qualifying child for child tax credit (see page 25)	No. of children on 6c who: Iived with you did not live	_1_
dependents, see page 24.	James Nicholson	000 00 3333	son		with you due to divorce or separation (see page 26)	
					Dependents on 6c not entered above	
	d Total number of exemptions	s claimed.			Add numbers on lines above	3

TAXWISE HINTS

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

▶ ► Summing Up This Section **◄**

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

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

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

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

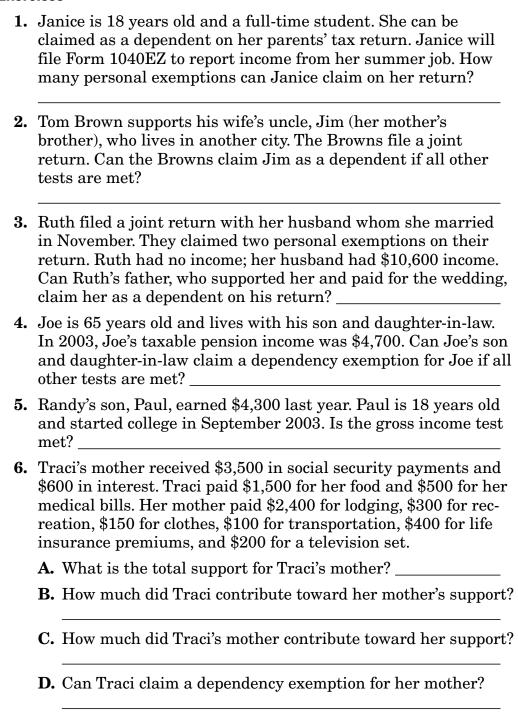
There are two exceptions to the gross income test.

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

There are two exceptions to the support test.

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

Exercises



- 7. Mrs. Wiley has three children, Mark, Tim, and Mary. Each child contributes toward Mrs. Wiley's support. Mark provides 45 percent, Tim, 35 percent, and Mary, 10 percent.
 - **A.** Which, if any, of her children can claim a dependency exemption for Mrs. Wiley under a multiple-support agreement?
 - **B.** If Mark is to claim the dependency exemption, who must sign a statement waiving his/her right to claim Mrs. Wiley as a dependent?
- **8.** Under the terms of Peter's pre-1985 divorce decree, his former wife has custody of their child. The decree states that Peter can claim the exemption. He provided \$700 toward the child's support. Can he claim the exemption?

Exercise 1

0

Exercise 2

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

Exercise 3

No, the husband has a filing requirement

Exercise 4

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

Exercise 5

Yes; Paul is under the age of 19.

Exercise 6

- A. \$5,150 (\$1,500 + \$500 + \$2,400 + \$300 + \$150 + \$100 + \$200) Note that life insurance premiums are not considered support.
- B. \$2,000 (\$1,500 + \$500)
- C. \$3,150 (\$2,400 + \$300 + \$150 + \$100 + \$200) Note that life insurance premiums are not considered support.
- D. No; she did not pass the Gross Income Test.

Exercise 7

- A. Mark or Tim are eligible to claim the exemption. Both provide more than 10 percent of Mrs. Wiley's support. Mary is not eligible since she does not provide more than 10 percent of the support.
- B. Only Tim must sign. Mary is not eligible to take the exemption. Therefore, she does not have to sign a waiver.

Exercise 8

Yes; Peter provided at least \$600 in support.

FILING STATUS

SINGLE

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

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

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

MARRIED FILING A JOINT RETURN

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

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

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

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

POTENTIAL PITFALLS



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

Married Filing a Separate Return

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

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

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

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

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

HEAD OF HOUSEHOLD

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

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

Head of Household Qualifications

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

OR

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

AND

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

- **A.** The taxpayer's unmarried child who must have lived with the taxpayer but does not have to have been the taxpayer's dependent,
- **B.** The taxpayer's foster child who must have lived with the taxpayer and must have been the taxpayer's dependent (To qualify as a dependent, a foster child must live with the taxpayer for the entire tax year.), or
- **C.** Certain relatives (see the list at the end of this discussion) who lived with the taxpayer and who were the taxpayer's dependents.

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

- **D.** The taxpayer's married child—who must have lived with the taxpayer and who must have been the taxpayer's dependent unless:
 - The child is not a dependent because the taxpayer signed a written declaration allowing the noncustodial parent to claim the child as a dependent, or
 - The child is not a dependent because the noncustodial parent provides at least \$600 of support for the child and claims the child as a dependent under a pre-1985 divorce decree or agreement.

"Child" includes:

■ Grandchild; stepchild; adopted child

"Relative" includes:

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

AND (if related by blood)

■ Uncle, or aunt, nephew, or niece

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

Keeping Up the Home

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

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

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

Exhibit 7

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

- The married child does not have to be the taxpayer's dependent if a noncustodial parent claims the child as a dependent under the rules for children of divorced or separated parents.
- ** Cousins and more distant relatives do not qualify as "relatives" in determining head of household status.
 - NOTE: The taxpayer's home must be the main home of the relative for more than half the year. The relative cannot be a person who files a joint return.
- ***The foster child must live with the taxpayer for the entire year.

Married Persons Living Apart With Dependent Children

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

A married taxpayer can file as head of household if:

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

Reporting Head of Household Filing Status

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

Example 4

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

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

Exhibit 8	Samantha's Form 1040A, page 1
Filing	1 ☐ Single 4 ☑ Head of household (with qualifying person). (See page 23.)
status	2 Married filing jointly (even if only one had income) If the qualifying person is a child but not your dependent,
otatao	3 ☐ Married filing separately. Enter spouse's SSN above and enter this child's name here. ▶ Pa.m
Check only	full name here. ▶
one box.	(year spouse died ►). (See page 24.)

Lesson 1 1-23

QUALIFYING WIDOW(ER) WITH DEPENDENT CHILD

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

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

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

AND

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

AND

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

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

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

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

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

Exhibit 9

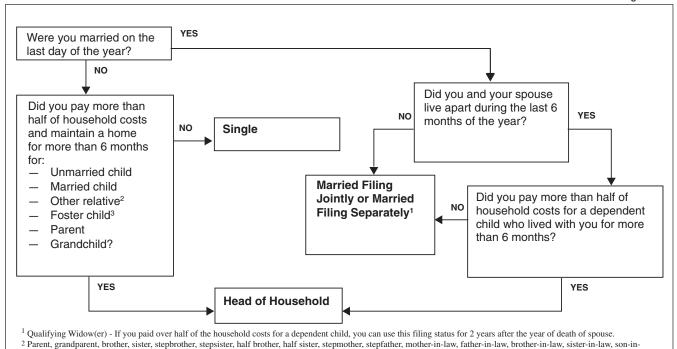
Filing Status After Death of Spouse							
Tax Year	Filing Status	Exemption for Deceased Spouse?					
1. Year of Death	Married (joint) OR	Yes					
	Married (separate)	Yes					
2. First Year after death	Qualifying widow(er)*	No					
3. Second year after death	Qualifying widow(er)*	No					
4. After the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

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

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

Exhibit 10

Determination of Filing Status



law, daughter-in-law AND (if related by blood) uncle or aunt, nephew or niece.

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

TAXWISE HINTS

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

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

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

▶ ► Summing Up This Section **◄**

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

Tax Status

(from lowest tax to highest tax)

- 1. Married filing jointly*
- 2. Qualifying widow(er) with dependent child*
- 3. Head of household
- 4. Single
- **5.** Married filing separately
- * Numbers 1 and 2 yield the same (lowest) tax.

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

Exercises

- **9.** Carol and Roger were married in 2002. They are not divorced, but lived apart all of 2003. They are not legally separated under a decree of divorce or separate maintenance. They have no children. Can they use the married filing jointly status? _____
- **10.** Martin does not know which filing status to use. You ask if he is married. He answers that he got divorced in December but supported his wife all year and has not remarried. Can Martin and his ex-wife file a joint return? ______
- **11.** Ginger is single and paid more than half the cost of keeping up her home. Her grandmother lived with her all year. Ginger claims her grandmother as a dependent. What is Ginger's filing status?
- **12.** Bill is single and lives alone. He paid over half the cost of maintaining a home for his father for the entire year. He claims his father as a dependent. What is Bill's filing status? ______
- **13.** Franklin is single and lives alone. He paid over half the cost of maintaining a separate home for his father. He does not claim his father as a dependent. What is Franklin's filing status?
- 14. Mrs. Calvin tells you that she is divorced and that her 21-year-old unmarried son lived with her all year. She paid for their rent and food and provided over half of her son's total support. She cannot claim her son as a dependent because he earned \$4,000 and is not a student. Her son used his earnings to pay for his car, clothing, and entertainment. Can Mrs. Calvin file as head of household?
- **15.** Kathy lived with her unemployed roommate, Sandra, for the entire year. Kathy had to pay more than half of the cost of keeping up their apartment. Can Kathy file as head of household?

- **16.** Jack has lived apart from his wife for several years. Their children live with his wife but Jack pays over half the children's support. What filing status can Jack use? ______
- 17. Lily left her husband in August 2003. She took her children with her. She supported the children during all of 2003 and will claim them as dependents. Lily will not file a joint return with her husband. Which filing status should Lily use in 2003? ___
- **18.** Rose and her husband separated in October 2003, but were still married on December 31, 2003. What filing status can she use?

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

Exercise 9

Yes

Exercise 10

No

Exercise 11

Head of household

Exercise 12

Head of household

Exercise 13

Single

Exercise 14

Yes

Exercise 15

No; Sandra is not a qualifying person.

Exercise 16

Married filing jointly or married filing separately.

Exercise 17

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

Exercise 18

Either married filing jointly or married filing separately.

Exercise 19

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

Who Must File—Who Should File

WHO MUST FILE

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

- filing status,
- age,
- gross income,

and if:

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

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

How to Use the Charts and Flowcharts

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

Exhibit 11

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

- * If you turned age 65 on January 1, 2003, you are considered to be age 65 at the end of 2003
- ** **Gross Income** means all income you received in the form of money, goods, property, and services that are not exempt from tax including any income from sources outside the United States (even if you may exclude part or all of it). **Do not** include social security benefits unless you are married filing a separate return and you lived with your spouse at any time in 2003.
- *** If you did not live with your spouse at the end of 2003 (or on the date your spouse died) and your gross income was at least \$3,050, you must file a return regardless of your age.

POTENTIAL PITFALLS



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

Chart B—For Children and Other Dependents

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

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

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

CAUTION	If your gross income was \$3,050 or more, you usually age 19 or a student and under age 24. For details, see			unless you were under
Single dep	endents. Were you either age 65 or older or blind?			
Yes	You must file a return if any of the following apply. Your unearned income was over \$750. Your earned income was over \$4,750. Your gross income was more than the larger of— • \$750 or • Your earned income (up to \$4,500) plus \$250. You must file a return if any of the following apply.	.00	03	
•	Your earned income was over \$1,900 (\$3,050 if 65 or Your earned income was over \$5,900 (\$7,050 if 65 or			
•	Your gross income was more than—	1	ŕ	
	The larger of:	Plus	This amount:	
	\$750 orYour earned income (up to \$4,500) plus \$250.	}	\$1,150 (\$2,300 if 65 or older and blind)	
□ No.	ependents. Were you either age 65 or older or blind? You must file a return if any of the following apply. Your unearned income was over \$750. Your earned income was over \$4,750. Your gross income was at least \$5 and your spouse fi Your gross income was more than the larger of— \$750 or Your earned income (up to \$4,500) plus \$250. Your must file a return if any of the following apply. Your unearned income was over \$1,700 (\$2,650 if 65 Your earned income was over \$5,700 (\$6,650 if 65 or Your gross income was at least \$5 and your spouse fi Your gross income was more than— The larger of:	or older ar older and les a separa	nd blind.) blind.) ate return and itemizes de	
	The larger of:	Plus	This amount:	
	\$750 orYour earned income (up to \$4,500) plus \$250.	}	\$950 (\$1,900 if 65 or older and blind)	

DEPENDENTS WHO MUST OR SHOULD FILE A RETURN—CHECKLIST

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

Exhibit 13

Checklist—Children and Other Dependents

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

OTHER SITUATIONS

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

Chart C — Other Situations When You Must File

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

- 1. You owe any special taxes, such as:
 - Social security and Medicare tax on tips you did not report to your employer,
 - Uncollected social security and Medicare or RRTA tax on tips you reported to your employer or on group-term life insurance,
 - Alternative minimum tax,
 - Recapture taxes (see the instructions for lines 41 and 60 that begin on pages 33 and 40), or
 - Tax on a qualified plan, including an individual retirement arrangement (IRA), or other tax-favored account. But if you are filing a return only because you owe this tax, you can file Form 5329 by itself.
- 2. You received any advance earned income credit (EIC) payments from your employer. These payments are shown in box 9 of your Form W-2.
- 3. You had net earnings from self-employment of at least \$400.
- 4. You had wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes.

Who Should File A Return?

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

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

HELPING THOSE WHO DON'T NEED TO FILE

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

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

TAXWISE HINT

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

► SUMMING UP THIS SECTION ◀ ◀

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

Exercises

- **20.** Emily is married and has one dependent child. She has not lived with her husband since May and is head of household. She is under 65 and not blind. Her gross income from wages is \$15,000. Is she required to file a tax return?
- **21.** Larry and Zelda are married but will not file a joint return. Both are under 65 and not blind. Larry's gross income from wages is \$30,150. Zelda's gross income is \$3,500.
 - **A.** Is Larry required to file?
 - B. Is Zelda required to file?

WHO MUST FILE WHO SHOULD FILE

Answers to Exercises

Exercise 20

Yes

Exercise 21

A. Yes

B. Yes

Which Form to Use?

FORM 1040EZ

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

FORM 1040A

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

Form 1040

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

IRS E-FILE



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

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

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

TeleFile

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

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

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

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



INTRODUCTION AND OBJECTIVES

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

This lesson will help you achieve the following objectives.

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

TAXABLE AND NONTAXABLE INCOME

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

The following types of income are taxable:

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

- Estate or trust income
- Supplemental unemployment benefits
- Unemployment compensation
- Railroad retirement benefits (part may be taxable)
- Social security benefits (part may be taxable)
- Jury duty pay
- Executors' fees
- Gambling winnings (including lotteries, contests, raffles, etc.)
- Nonqualifying scholarships and fellowships
- Payments for punitive damages and compensatory damages not attributable to physical injuries or sickness
- Certain long-term care benefits. If the taxpayer received copy B of Form 1099-LTC, refer him or her to a paid professional preparer because some of the benefits may be taxable.
- *Some interest is not taxable (for example, interest on certain state and local bonds and on qualified Series EE and Series I savings bonds used to pay for higher education expenses).
- **Refunds of state and local taxes are taxable only if the taxpayer itemized deductions in the year the taxes were paid and the individual's tax liability was REDUCED because of the deduction.

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

The following types of income are nontaxable:

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

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

Example 1

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

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

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

Lesson 2 **2-3 BASIC**

Exercise 1 Indicate whether the income listed is taxable or nontaxable. **Type of Income Nontaxable Taxable** 1. Wages 2. Dividends from stock 3. Veterans' disability benefits 4. Child Support 5. Credit union dividends 6. Cash bonuses 7. Inheritances 8. Tips 9. Worker's compensation 10. Veteran's life insurance dividends

ALERT



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

Qualified dividends are eligible for the capital gains rates.

Where to Report Income

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

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

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

EARNED **I**NCOME

Wages and Salaries

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

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

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

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

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

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

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

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

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

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

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

POTENTIAL PITFALLS



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

- Forms W-2 that are typed, handwritten or have noticeable corrections
- Form W-2 from a firm in the area that is different from other Forms W-2s issued by the same firm
- Suspicious person accompanying the taxpayer and observed on other occasions
- Multiple refunds directed to the same address or P.O. Box
- Employment or earnings, that are a basis for refundable credits, that are not well documented
- Similar returns
 (e.g. same amount
 of refund, or
 same number of
 dependents, or same
 number of Forms W2s)

ALERT



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

Exhibit 1

a Control number	0	MB No. 1545-0008	Safe, accurate, FAST! Use	e ≁file	Visit the IF at www.irs	RS Web Site s.gov.
b Employer identification number	,		1 Wages, tips, other comp	ensation 2	Federal income t	tax withheld
c Employer's name, address, and ZIP code			3 Social security wages	4	Social security ta	ax withheld
			5 Medicare wages and	tips 6	Medicare tax wit	thheld
			7 Social security tips	8	Allocated tips	
d Employee's social security number			9 Advance EIC payment	10	Dependent care	benefits
e Employee's first name and initial L	ast name		11 Nonqualified plans 13 Statutory Retirement plan	12a C G Third-party sick pay C C G G C G C G C G C G C G C G C G C	See instructions	for box 12
			14 Other	12c		
f Employee's address and ZIP code				C C d		
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income ta	18 Local wages, tips,	etc. 19 Local	income tax	20 Locality name
Form W-2 Wage and Tax Statement		2003		Department of the	Treasury—Interna	al Revenue Servic
Copy B To Be Filed with Employee's I This information is being furnished to the						

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

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

		<u>C</u> TI	ED (if checked)				
PAYER'S name, street address, city	, state, ZIP code, and telephone no.	1	Rents	ON	B No. 1545-0115		
		\$	Royalties	-	2003	I	Miscellaneous Income
		\$		For	m 1099-MISC		
		3		4	Federal income tax withh	eld	Сору Е
		\$		\$			For Recipien
PAYER'S Federal identification number	RECIPIENT'S identification number	5	Fishing boat proceeds	6	Medical and health care payn	nents	
Turniser	number	\$		\$			
RECIPIENT'S name		7		8	Substitute payments in lieu dividends or interest	ı of	This is important ta information and being furnished the Internal Revenu
Street address (including apt. no.)		9	Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale		Crop insurance proceed	eds	Service. If you a required to file return, a negligend penalty or oth sanction may k
City, state, and ZIP code		11		12			imposed on you this income taxable and the IF
Account number (optional)		13	Excess golden parachute payments	14	Gross proceeds paid t an attorney	to	determines that has not been reporte
15		-	State tax withheld	-	State/Payer's state no		18 State income
		\$ \$					\$ \$
orm 1099-MISC	(keep	for y	our records)	De	epartment of the Treasu	ıry -	Internal Revenue Service

Tip Income

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

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

POTENTIAL PITFALLS



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

POTENTIAL PITFALLS



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

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

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

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

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

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

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

Example 2

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

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

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

Scholarships and Fellowships

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

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

Exercise 2

- **A.** Mike worked two jobs. He was a quality inspector during the week and a bartender on the weekends. He reported all of his tip income (\$3,000) to his employer. His Forms W-2, box 1, showed income of \$21,000 (quality inspector) and \$8,250 (bartender). What amount will Mike report on his Form 1040A, line 7?
- **B.** John works as a food server in an expensive restaurant. He tells you that he did not report his tip income of \$18,100 to his employer. Can John file Form 1040A?
- C. Randy had several employers during the tax year. On February 3, 2004, he comes into the VITA site to have his return prepared. He tells you that he has not received the Form W-2 for XYZ Inc. What should you tell Randy?

Interest Income

Money earns interest when it:

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

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

TAXABLE INTEREST INCOME

Savings Accounts

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

POTENTIAL PITFALLS



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

U.S. Savings Bonds

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

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

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

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

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

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

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

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

Exhibit 3

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

Example 3

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

Barbara can report interest income in one of two ways.

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

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

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

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

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

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

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

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

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

Example 4

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

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

Certificates of Deposit with Maturities of Over One Year

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

Example 5

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

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

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

Example 6

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

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

Interest on Insurance Proceeds

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

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

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

COVERDELL ESA

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

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

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

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

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

ALERT



Starting in 2003, Coverdell ESA distributions are no longer reported on Form 1099-R. They are reported on Form 1099-0.

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

TAX-EXEMPT INTEREST

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

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

Examples of tax-exempt bonds are those issued by:

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

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

Form 1099-INT

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

Box 1 shows taxable interest income from various institutions.

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

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

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

chibit 4					
	☐ CORRE	CTED (if checked)			
PAYER'S name, street address, city,	state, ZIP code, and telephone no.	Payer's RTN (optional)	OMB No. 1545-0112]	
			2003	Inte	rest Income
			Form 1099-INT		
PAYER'S Federal identification number	RECIPIENT'S identification number	1 Interest income not included	d in box 3		Copy B
		\$			For Recipient
RECIPIENT'S name		2 Early withdrawal penalty	3 Interest on U.S. Sav Bonds and Treas. of		inionnation and to
		\$	\$		being furnished to the Internal Revenue
Street address (including apt. no.) City, state, and ZIP code		4 Federal income tax withheld \$	5 Investment expens	es	Service. If you are required to file a return, a negligence penalty or
		6 Foreign tax paid	possession impose		other sanction may be imposed on you if this income is taxable and
Account number (optional)		- \$			the IRS determines that it has not been reported.

(keep for your records)

Form 1099-0ID

Form **1099-INT**

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

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

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

Department of the Treasury - Internal Revenue Service

Reporting Interest Income

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

Example 7

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

xhibit 5		Jennifer's 1040E
Income	Total wages, salaries, and tips. This should be shown in box 1 of your W-2 form(s). Attach your W-2 form(s).	
Attach Form(s) W-2 here.	2 Taxable interest. If the total is over \$400, you cannot use Form 1040EZ. TEI=\$23.00 2	6500
Enclose, but do not attach,	3 Unemployment compensation, qualified state tuition program earnings, and Alaska Permanent Fund dividends (see page 14).	
any payment.	4 Add lines 1, 2, and 3. This is your adjusted gross income.	
Note. You	5 Can your parents (or someone else) claim you on their return? Yes. Enter amount from No. If single, enter 7,450.00.	

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

If the taxpayer files Forms 1040A or 1040 and:

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

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

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

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

Exercise 3

- **A.** Randy and Ann have three Forms 1099-INT: Epping National Bank, \$62; Epping Credit Union, \$178; and Brenton Savings and Loan, \$760.
 - **1.** How much interest income will be reported on Schedule 1 (Form 1040A)?
 - **2.** How much interest income will be reported on Form 1040A, line 8a?
- **B.** Catherine received \$398 interest income this year. She files Form 1040EZ. How much interest income is reported on her return, and where is it reported?
- C. Emily and Andrew file a joint return on Form 1040. They have the following interest income: City Savings and Loan (joint), \$320; Third National Bank (Andrew), \$100; U.S. Series HH Savings Bonds (joint), \$45; and Welder's Credit Union (Emily), \$30.

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

DIVIDEND INCOME AND OTHER CORPORATE DISTRIBUTIONS

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

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

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

ALERT



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

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

Other types of nontaxable dividends are:

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

Reporting Dividends and Capital Gain Distributions

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

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

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

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

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

Capital gain distributions occur when a mutual fund (regulated investment company) sells assets for more than their cost, and the realized capital gain is distributed to the fund's shareholders. This should not be confused with a capital gain that occurs when the owner of a mutual fund or a capital asset sells shares in the fund

ALERT



In 2003, Line 1 of Form 1099-DIV was changed to Line 1a-Ordinary dividends and Line 1b-Qualified dividends. or the asset for more than the cost and realizes a capital gain. For more information on capital gains and losses, see Lesson 11, $Sale\ of\ Stock$.

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

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

Exhibit 6

CORRECTED (if checked)						
PAYER'S name, street address, city	, state, ZIP code, and telephone no.	1a Total ordinary dividends	OMB No. 1545-0110			
		\$ 1b Qualified dividends	2003	Dividends and Distributions		
		\$	Form 1099-DIV			
		2a Total capital gain distr.	2b Post-May 5 capital (gain distr. Copy B		
		\$	\$	For Recipient		
PAYER'S Federal identification number	RECIPIENT'S identification number	2c Qualified 5-year gain	2d Unrecap. Sec. 1	250 gain		
		\$	\$			
RECIPIENT'S name		2e Section 1202 gain	2f Collectibles (289	6) gain This is important		
		\$	\$	tax information		
		3 Nontaxable distributions \$	4 Federal income tax	withheld and is being furnished to the		
Street address (including apt. no.)			5 Investment expen	Internal Revenue Service. If you are required to file a return, a		
City, state, and ZIP code		6 Foreign tax paid	7 Foreign country or U.S. p			
		\$		penalty or other sanction may be		
Account number (optional)		8 Cash liquidation distributions	Noncash liquidations	imposed on you if this income is		
		\$	\$	taxable and the		
				that it has no been reported		
orm 1099-DIV	(keep for your recor	rds)	Department of the Tr	reasury - Internal Revenue Service		

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

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

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

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

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

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

ome tax refund ects any deductions, STATE AND LOCAL TAX REFUNDS

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

POTENTIAL PITFALLS

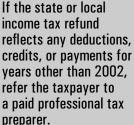


Exhibit 7

	☐ CORRE	CTED (if checked)			
PAYER'S name, street address, city, sta	ate, ZIP code, and telephone no.	1 Unemployment compensation	OMB No. 1545-0120		
		\$ 2 State or local income tax refunds, credits, or offsets	2003		Certain Government Payments
		\$	Form 1099-G		
PAYER'S Federal identification number	RECIPIENT'S identification number	3 Box 2 amount is for tax year	4 Federal income tax v	vithheld	Сору В
			\$		For Recipient
RECIPIENT'S name		5	6 Taxable grants		This is important tax information and is being furnished to the Internal Revenue
Street address (including apt. no.)		7 Agriculture payments	8 Box 2 is trade or business income	- 🗆	Service. If you are required to file a return, a negligence penalty or
City, state, and ZIP code					other sanction may be imposed on you if this income is taxable and the IRS determines that
Account number (optional)					it has not been reported.
Form 1099-G	(keep f	or your records)	Department of the Tr	easury -	Internal Revenue Service

ALIMONY RECEIVED

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

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

Income from Business (Optional Topic)

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

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

Who Can Use Schedule C-EZ

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

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

POTENTIAL PITFALLS



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

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

Completing Schedule C-EZ

Schedule C-EZ has three parts:

Part I: General Information

Part II: Figure Your Net Profit

Part III: Information on Your Vehicle

Part I: General Information

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

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

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

Part II: Figure Your Net Profit

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

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

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

- Standard Mileage Rate, or
- Actual Car Expenses.

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

Business miles incurred during the year × 36¢ per mile

+ Parking and tolls incurred while on business

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

1. Compute the percentage of business use:

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

2. Determine the deductible expenses:

(% of business use × total actual expenses)

+ Parking and tolls incurred while on business

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

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

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

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

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

Part III: Information on Your Vehicle

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

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

SCHEDULE C-EZ (Form 1040)

Department of the Treasury

Net Profit From Business

(Sole Proprietorship)

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

OMB No. 1545-0074

	_
Attachment	
Sequence No.	09A

▶ Attach to Form 1040 or 1041. ▶ See instructions on back. Internal Revenue Service Name of proprietor Social security number (SSN) Part I **General Information** • Had business expenses of \$2,500 or Had no employees during the year. • Are not required to file Form 4562, You May Use Depreciation and Amortization, for · Use the cash method of accounting. Schedule C-EZ this business. See the instructions Instead of for Schedule C, line 13, on page Did not have an inventory at any Schedule C time during the year. C-4 to find out if you must file. And You: Only If You: • Do not deduct expenses for • Did not have a net loss from your business use of your home. business. • Do not have prior year unallowed • Had only one business as a sole passive activity losses from this proprietor. business. B Enter code from pages C-7, 8, & 9 Principal business or profession, including product or service Business name. If no separate business name, leave blank. D Employer ID number (EIN), if any Business address (including suite or room no.). Address not required if same as on Form 1040, page 1. City, town or post office, state, and ZIP code Part II **Figure Your Net Profit** Gross receipts. Caution. If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see Statutory Employees in the instructions for 1 2 Total expenses (see instructions). If more than \$2,500, you must use Schedule C Net profit. Subtract line 2 from line 1. If less than zero, you must use Schedule C. Enter on Form 1040, line 12, and also on Schedule SE, line 2. (Statutory employees do not report this amount on Schedule SE, line 2. Estates and trusts, enter on Form 1041, line 3.) Part III **Information on Your Vehicle.** Complete this part **only** if you are claiming car or truck expenses on line 2. When did you place your vehicle in service for business purposes? (month, day, year) ▶ _____/___. Of the total number of miles you drove your vehicle during 2003, enter the number of miles you used your vehicle for: Business b Commuting c Other 6 7 Was your vehicle available for personal use during off-duty hours? ☐ No ☐ Yes ☐ No **b** If "Yes," is the evidence written? Schedule C-EZ (Form 1040) 2003 For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 14374D

Self-Employment Tax

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

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

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

Who Must File Schedule SE

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

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

OR

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

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

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

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

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

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

Deduction of Self-Employment Tax

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

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

SCHEDULE SE (Form 1040)

Department of the Treasury

Self-Employment Tax

► Attach to Form 1040. ► See Instructions for Schedule SE (Form 1040).

2003
Attachment
Sequence No. 17

OMB No. 1545-0074

Name of person with self-employment income (as shown on Form 1040)

Social security number of person with **self-employment** income ▶

Who Must File Schedule SE

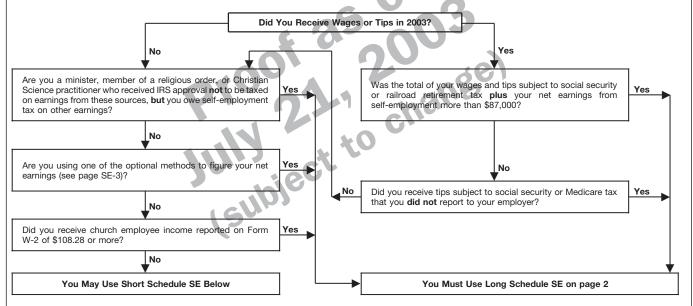
You must file Schedule SE if:

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

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

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

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



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

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1	
2 3 4 5	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report	2 3 4	
	 \$87,000 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 55. More than \$87,000, multiply line 4 by 2.9% (.029). Then, add \$10,788.00 to the result. Enter the total here and on Form 1040, line 55. 	5	
6	Deduction for one-half of self-employment tax. Multiply line 5 by 50% (.5). Enter the result here and on Form 1040, line 28 6		

Cat. No. 11358Z

Schedule SE (Form 1040) 2003

For Paperwork Reduction Act Notice, see Form 1040 instructions.

CAPITAL GAINS AND LOSSES

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

SALE OF BUSINESS PROPERTY

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

PENSION AND ANNUITY INCOME

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

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

RENTS, ROYALTIES, PARTNERSHIPS, ESTATES, AND TRUSTS

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

FARM INCOME

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

UNEMPLOYMENT **C**OMPENSATION

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

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

POTENTIAL PITFALLS



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

TAXWISE HINTS

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

Go to Line 7 and click F9 ((Link), Click the right mouse and select "Link" or Click on add form and select "W-2".

■ All the information entered into TaxWise should be exactly what is on the W-2.

Note: TaxWise automatically rounds numbers.

- When an entry is made for Alimony paid, TaxWise requires the Social Security Number of the spouse receiving the alimony.
- Form 4852, Substitute for Form W-2, Wage and Tax Statement or Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRA's, Insurance Contracts, etc. is available and can be completed in TaxWise.

► SUMMING UP THIS LESSON ◀ ◀

Form 1040EZ can be used to report only income from wages, salaries, tips, qualified tuition program earnings, Alaska Permanent Fund dividends, taxable scholarships and fellowship grants, interest of \$1500 or less, and unemployment compensation.

You can report several types of income on Form 1040A:

- ➤ Wages, salaries, tips, scholarships and fellowship grants, qualified tuition program payments, and Alaska Permanent Fund dividends
- ► Interest income
- **▶** Dividend income
- ► Capital gain distributions
- ► Unemployment compensation

Use Form 1040A, Schedule 1, or Form 1040, Schedule B, to report:

- ▶ Interest and/or dividend income over \$1500 and
- ▶ Interest from Series I and/or Series EE savings bonds, issued after 1989, that is excluded from taxable income.

Report any early withdrawal penalties on Form 1040, line 31, as an adjustment to income. Do not subtract penalties from interest income.

Report captial gain distributions directly on Form 1040, line 13a or Form 1040A, line 10, if the taxpayer is not required to file Schedule D.

State and local tax refunds are included in taxable income if:

- ► the taxpayer itemized deductions AND
- received a tax benefit by including the state and local tax in itemized deductions.

Alimony and separate maintenance payments are taxable income of the person recieving these payments. The person paying these payments can subtract them as an adjustment to income.

Business income or loss is generally beyond the scope of VITA or TCE. However, in some cases, trained volunteers may help self-employed taxpayers who qualify to use Schedule C-EZ.

Taxpayers with net self-employment income of \$400 or more must complete Schedule SE to compute self-employment tax.

Some nontaxable income is reported but is not included in taxable income:

- ➤ Tax-exempt interest
- ► Nontaxable portion of IRA distributions, including rollovers

Other income, such as prizes, awards, lottery winnings, and jury duty pay, is reported on line 21 of Form 1040, including the amount and description.

Volunteers should refer taxpayers with any of the following items to paid professional tax preparers:

- ➤ Sales of business property
- ► Income from rental property, royalties, partnerships, estates, or trusts
- ► Farm income

Exercise 1

- 1. Taxable
- 2. Taxable
- 3. Nontaxable
- 4. Nontaxable
- 5. Taxable
- 6. Taxable
- 7. Nontaxable
- 8. Taxable
- 9. Nontaxable
- 10. Nontaxable

Exercise 2

- (A) Mike will report \$29,250 on line 7. The tip income is included in the \$8,250.
- (B) No; John must file Form 1040 to pay social security and Medicare tax on his tip income.
- (C) Randy should be advised to contact the employer and request that a Form W-2 be issued or reissued. If after waiting a reasonable amount of time, it still has not been received, Randy should contact the IRS (but not before February 15th).

Exercise 3

- (A) 1. None
 - 2. \$1,000
- (B) \$398 is reported on line 2 of Form 1040EZ.
- (C) \$495 is reported on line 8a of Form 1040.

	STUD	ENT NOTES	
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INTRODUCTION AND OBJECTIVES

In this lesson you will learn about adjustments to income. There are six adjustments covered in this lesson. They are educators expenses, traditional IRA deductions, student loan interest deduction, tuition and fees deduction, penalty on early withdrawal of savings, and alimony payments. Lesson 2 discusses an additional adjustment to income covered in the VITA/TCE training — one-half of self employment tax.

The remaining adjustments — moving expenses; self-employed health insurance deduction; and self-employed SEP, SIMPLE, and qualified plans — are not covered in traditional VITA/TCE training. Taxpayers who need assistance with these adjustments should be referred to a paid professional tax preparer.

After completing this lesson you should be able to:

- Calculate and accurately report adjustments to income.
- Identify which IRA contributions are within the scope of the VITA/TCE program.
- Identify contribution limits for IRAs.

Adjustments to Income

Adjustments are subtractions from total income. Total income minus adjustments results in **adjusted gross income** (**AGI**), an important number for tax purposes. Adjusted gross income is used to figure some limitations. In addition, it is used to figure income tax in some states.

Taxpayers cannot take any adjustments to income on Form 1040EZ. On Form 1040EZ total income and adjusted gross income are the same. Form 1040A filers can take adjustments for educator expenses, contributions to a traditional IRA, the student loan interest deduction, and tuition and fees payments. Form 1040 filers can take any of the adjustments for which they are eligible.

DEDUCTION FOR **E**DUCATOR **E**XPENSES

If the taxpayer is an eligible educator, he or she can deduct as an adjustment to income up to \$250 in qualified expenses. The taxpayer can deduct these expenses even if he or she does not itemize deductions on Schedule A (Form 1040). This adjustment to income is for expenses paid or incurred in 2003. If both the taxpayer and spouse are eligible educators and choose to file a joint tax return, they may deduct up to \$500 (\$250 each) of qualified expenses. Prior to 2002 these expenses were deductible only as miscellaneous itemized deductions.

Eligible educator

The taxpayer is an eligible educator if, for the tax year, he or she is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide, and he or she works at least 900 hours during a school year in a school that provides elementary or secondary education as determined under state law.

Qualified expenses

Qualified expenses are the *unreimbursed expenses* paid or incurred for books, supplies, computer equipment (including related software and services), other equipment and supplementary materials that the taxpayer uses in his or her classroom. For courses in health and physical education, expenses for supplies are qualified expenses only if they are related to athletics.

To be deductible as an adjustment to income, the qualified expenses must be more than the following amounts for the tax year:

- The interest on qualified U.S. savings bonds that the taxpayer excluded from income because he or she paid qualified higher education expenses.
- Any distributions from a qualified tuition program that the taxpayer excluded from income, or
- Any tax-free withdrawals by the taxpayer from a Coverdell education savings account.

The educator expense can be claimed on Form 1040, line 23 or Form 1040A, line 16.

Example 1

Joe and Mary will file a joint return for 2003. Joe is a high school math teacher and incurred \$500 in qualified unreimbursed expenses. Mary is a grade school principal and incurred \$200 in qualified unreimbursed expenses. Both Joe and Mary meet the definition of eligible educators. They will claim \$450 (\$250 for Joe and \$200 for Mary) on Form 1040, line 23.

Individual Retirement Arrangements

An **Individual Retirement Arrangement (IRA)** is a taxsheltered savings plan set up by the taxpayer, generally for retirement income. This lesson discusses only **traditional IRAs** (IRAs other than Roth IRAs, SIMPLE IRAs, or Coverdell education savings accounts (ESAs). Contributions to the nontraditional IRAs are not deductible as adjustments to income.

Information on nontraditional IRAs can be found in Publication 590, *Individual Retirement Arrangements (IRAs)*.

Contributions to a traditional IRA can be either deductible or nondeductible. Earnings and gains on the contributions are not taxed until withdrawn from the traditional IRA account.

Example 2

Anna contributed a total of \$2,500 over the last two years to her traditional IRA account. During 2003 she earned \$140 of interest on her traditional IRA. All of the interest was added to her traditional IRA savings account.

Anna will not have to pay tax on the interest until she withdraws it from her traditional IRA account.

Contributions

Anyone under 70 1/2 years of age (at the end of the tax year) who has taxable compensation can contribute to a traditional IRA. If both the taxpayer and spouse have compensation and both are under age 701/2, each can set up an IRA. However, they cannot participate in the same IRA — they must have separate accounts.

Compensation includes wages, salaries, commissions, tips, bonuses, professional fees, and earnings from self-employment. Alimony or separate maintenance payments that are included in total income are also compensation for traditional IRA purposes. Compensation *does not include* interest, rents, dividends, pension and annuity income, deferred compensation received, or income you can exclude.

General Contribution Limits

The most that can be contributed for any year to a traditional IRA is the lesser of:

- \$3,000 (\$3,500 if age 50 or older), or
- Compensation that is includible in gross income for the year.

If a taxpayer has more than one traditional IRA, the taxpayer must combine all of the traditional IRAs and treat them as one when figuring the amount that can be contributed for the year.

Example 3

Dan, a college student, working part time earned \$1,500 in 2003. His IRA contributions for 2003 are limited to \$1,500 (the lesser of \$3,000 or compensation includible in income for the year).

Example 4

George has three traditional IRA accounts. During 2003 he contributed \$1,000 to each. His total IRA contributions for 2003 will be \$3,000.

Deemed IRAs

ALERT

Deemed IRAs are new for tax year 2003.

Beginning in 2003, employers who provide qualified employer retirement plans can maintain a separate account or annuity under the plan to receive voluntary employee contributions. This separate account is referred to as a deemed IRA. A deemed IRA can be a traditional IRA or a Roth IRA, and the same limits apply whether they are deemed or not. If a taxpayer has both a regular IRA and a deemed IRA, the taxpayer can divide contributions between them in any manner, but total contributions to both cannot exceed the \$3,000/\$3,500 limit.

Spousal IRA limit

If taxpayers file a joint return and one spouse's compensation is less than that of the other spouse's compensation, the most that can be contributed for that spouse is the lesser of:

- 1) \$3,000 (\$3,500 if age 50 or older), or
- 2) The total compensation includible in the gross income of both spouses for the year, reduced by:
 - a) IRA contributions for the spouse with the greater compensation,
 - b) Any contribution for the year to a Roth IRA for the spouse with the greater compensation.

The total combined contributions to both traditional IRAs cannot exceed the lesser of:

- \blacksquare \$6,000 (\$7,000 if both individuals are age 50 or older), or
- The total taxable compensation of both spouses.

Example 5

Kristen, a full time student with no taxable compensation, marries Jeremy during the year. Neither will be 50 by the end of the year. For the year, Jeremy has taxable compensation of \$30,000. He will contribute \$3,000 to a traditional IRA. If he and Kristen file a joint return, each can contribute \$3,000. This is because Kristen, who has no compensation, can add Jeremy's compensation, reduced by his IRA contribution (\$30,000 - \$3,000 = \$27,000) to her own compensation (0) to figure her maximum contribution. In her case, \$3,000 is her contribution limit, because \$3,000 is less than \$27,000 (her compensation for purposes of the figuring the spousal IRA).

Example 6

Tom and Darcy are married and both are 53. They both work and each has a traditional IRA. Tom earned \$1,800 and Darcy earned \$48,000 in 2003. Because of the spousal IRA limit rule, even though Tom earned less than \$3,500, they can contribute up to \$3,500 in each of their IRAs if they file a joint return. If they file separate returns, the amount that can be contributed to Tom's IRA is limited to \$1,800 (his taxable compensation).

Excess Contributions

Generally, an excess contribution is the amount contributed to a traditional IRA that is more than the lesser of the:

- 1) Taxable compensation for the year, or
- 2) \$3,000 (\$3,500 if age 50 or older).

This limit applies whether the contributions are deductible or nondeductible. Contributions made in the year the taxpayer reaches age 70 1/2 and any later year are also excess contributions.

In general, if the excess contribution for a year and any earnings on it are not withdrawn by the due date of the tax return (including extensions), the taxpayer is subject to an additional 6% tax. The additional 6% tax must be paid each year on the excess amounts that remain in the traditional IRA at the end of the tax year. The tax cannot be more than 6% of the value of the IRA as of the end of the tax year. The excise tax is figured on Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts.

A taxpayer who has taxable compensation, but can no longer contribute to a traditional IRA because of age (70 1/2 years or older) may continue to contribute to a spouse's traditional IRA until the year in which the spouse reaches 70 1/2.

Example 7

Eldridge is a 73-year-old attorney. He earned \$12,000 during the year.

Eldridge had compensation for traditional IRA purposes but he cannot make an IRA contribution because he is 70 1/2 or older. If Eldridge files a joint return with his spouse who is 68 years old, he can still contribute up to \$3,500 to his spouse's IRA.

Exercise 1

- A. Liz receives alimony which is included in her total income. All of her other income is from interest and dividends. Can Liz make a traditional IRA contribution? Explain.
- B. David is 73 and works part time in a hardware store. David's wife, Mary, does not work outside of the home. Mary is 68. Can David make a traditional IRA contribution for Mary? Explain
- C. Carla receives all her income from a rental property, interest income, and dividends. Can Carla make a traditional IRA contribution? Explain. ____
- D. Joy is 62 years old. Most of her income comes from a pension. However, Joy did earn \$1,250 doing consumer testing. How much can Joy contribute to a traditional IRA? Explain.

Deductible IRA Contributions

Generally, you can deduct the lesser of the contributions to your traditional IRA for the year or the general limit (or the spousal IRA limit, if it applies).

The actual deductible amount for a traditional IRA depends on the following:

- Whether or not the taxpayer or taxpayer's spouse is covered by a retirement plan set up by an employer for any part of the year,
- The taxpayer's modified adjusted gross income, and
- The taxpayer's filing status.

Modified Adjusted Gross Income

Generally, **modified adjusted gross income** is the adjusted gross income without consideration of certain deductions. The modified adjusted gross income (MAGI) can be figured as follows:

AGI (Form 1040 Line 34) plus

- IRA deduction
- Student loan interest deduction
- Tuition and fees deduction
- Foreign earned income exclusion
- Foreign housing exclusion or deduction
- Exclusion of qualified savings bond interest shown on Form 8815

■ Exclusion of employer-paid adoption expenses shown on Form 8839.

Not covered by an employer retirement plan.

A taxpayer whose filing status is single, head of household, or qualifying widow(er), and who is not covered by an employer retirement plan, can take a full traditional IRA deduction of either his or her taxable compensation or \$3,000 (whichever amount is smaller). The \$3,000 amount is increased to \$3,500 if the taxpayer is age 50 or older.

Example 8

Cyril is single and 40 years of age. His modified adjusted gross income is \$50,000. He is not covered by a retirement plan at work. Cyril's traditional IRA contribution of \$3,000 is deductible.

Married taxpayers who file separate returns for a taxable year and who live apart at all times during the taxable year are treated as single and can take a full IRA deduction, if not covered by an employer plan. This is true even if the other spouse is covered by an employer retirement plan.

Married taxpayers who file jointly or separately may each be able to take the full IRA deduction of \$3,000 (\$3,500 if age 50 or older) or taxable compensation (whichever amount is smaller), if they had taxable compensation and both were not covered by an employer retirement plan. The total deduction for a joint return cannot exceed \$6,000 (\$7,000 if both individuals are age 50 or older). When determining the allowable deduction each spouse figures the deduction separately.

Covered by an employer retirement plan.

If the taxpayer is covered by a retirement plan at work, the traditional IRA deduction will be reduced or eliminated, as shown in **Table 1**, depending on filing status and modified AGI.

NOTE: If Box 13, Retirement Plan, on Form W-2 is checked, the taxpayer is covered by an employer retirement plan. If taxpayers do not agree with the Form W-2 they must contact their employer. Volunteers cannot make a determination on whether or not a taxpayer is covered by an employer retirement plan. Refer taxpayers with questions on their employer retirement plans to their employer or Publication 590, Individual Retirement Arrangements (IRAs).

Table 1. Traditional IRA Deduction Phaseout Chart (If taxpayer is covered by an employer retirement plan)

(ii taxpayci is cov	cica by all t	simple yet tetilet	ilciit piaii,		
		Allowable traditional IRA deduction is			
	reduced if modified AGI is:		zero when modified AGI is:		
Filing Status	at least	but less than			
Single or Head of household	\$40,000	\$50,000	\$50,000 or more		
Married filing jointly or Qualifying widow(er)	\$60,000	\$70,000	\$70,000 or more		

ALERT



For 2003, the MAGI limits increased for taxpayers covered by an employer retirement plan.

¹If the taxpayer did not live with his or her spouse at any time during the year, his or her filing status is considered Single for this purpose.

\$0.01

Example 9

Married filing

separately¹

Emily, 36 years old, is single. Her modified AGI was \$49,500. She is covered by a retirement plan at work. Emily's \$3,000 traditional IRA contribution will be reduced or modified on her tax return because her modified AGI is between \$40,000 and \$50,000.

\$10,000

\$10,000 or

more

If either the taxpayer or the taxpayer's spouse is covered by an employer retirement plan, he or she may be entitled to only a partial deduction or no deduction at all, depending on filing status and modified adjusted gross income, as shown in **Table 2**.

Table 2. Traditional IRA Deduction Phaseout Chart (If taxpayer is not covered, but the spouse is)

Allowable traditional

		RA deduction i	S
	_		
	reduced i AGI is:	f modified	zero when modified AGI is:
Filing Status	more than	but less than	
Married filing jointly or Qualifying widow(er)	\$150,000	\$160,000	\$160,000 or more
Married filing separately 1	\$0.01	\$10,000	\$10,000 or more

¹The taxpayer is entitled to the full deduction if he or she did not live with their spouse at any time during the year.

Example 10

David and Ruth are filing a joint return. David earned \$72,000 and is covered by his employer's retirement plan. Ruth, age 32, is a homemaker, and has no compensation. David, age 36, contributed \$2,800 to his traditional IRA and \$3,000 to a traditional IRA for Ruth.

Because David is covered by his employer's retirement plan, the modified AGI limits apply (Table 1). Based on Table 1, David is not allowed a deduction for his traditional IRA contributions. Because David made traditional IRA contributions for Ruth, they can take a deduction on the tax return for her IRA contributions. Ruth is not covered by an employer's retirement plan. Their compensation for IRA purposes is \$72,000 and their modified AGI is not more than \$150,000 (see Table 2).

POTENTIAL PITFALLS



When determining the allowable deduction, each spouse figures the deduction separately.

Example 11

Assume still that David earned \$72,000 and is covered by his employer's retirement plan. Assume too that Ruth is employed; she earned \$66,000 and she is not covered by her employer's retirement plan. David cannot deduct his traditional IRA contribution, but Ruth can deduct hers. The modified AGI limits that apply to David are shown in Table 1. Table 2 modified AGI limits apply to Ruth's deduction. Her deduction would not be reduced unless the couple's modified AGI was more than \$150,000. It would not be eliminated unless their modified AGI was \$160,000 or more.

Exercise 2	
A. Angela and Joe are married and file a joint return. Joe, age is covered by a retirement plan at work, but Angela, age 25 is not. Joe earned \$25,000 and Angela earned \$20,000; the modified AGI is \$45,000. Is any portion of Angela's tradition IRA contribution deductible, and why?	5, ir
B. Annette, age 26, is single. She earned \$23,000, and her more field AGI is \$24,500. She made a \$500 contribution to a tractional IRA. Annette is covered by a retirement plan at work any portion of her contribution deductible, and why?	di- k. Is
C. Richard and Lynn are married and lived together during the year. They file separate returns. Richard is covered by a rement plan at work. Lynn is not covered by a retirement plan work. Richard, age 40, earned \$17,000 and contributed \$1, to a traditional IRA. Lynn, age 33, worked part-time and earned \$4,500. She contributed \$1,000 to a traditional IRA Can Richard or Lynn deduct any of the IRA contributions, why?	tire- an at 400 a.

When to Deduct Traditional IRS Contributions

Individuals may deduct traditional IRA contributions on their 2003 tax return if the contributions are made in 2003 or by April 15, 2004. Taxpayers may not deduct on their 2003 tax return contributions made in 2003 which were deducted on the 2002 tax return. The contributions do not have to be made before the return is filed. However, if the taxpayer deducts traditional IRA contributions on the 2003 tax return but does not make the traditional IRA contributions by April 15, 2004, for the exact amount deducted, the taxpayer must file an amended tax return.

Usng the Worksheet and Reporting the Deduction

Use the IRA Deduction Worksheet in the Form 1040A or Form 1040 instructions booklet to figure the traditional IRA deduction.

The traditional IRA deduction is reported on Form 1040A, line 17 or Form 1040, line 24. On joint returns when both spouses are making deductible traditional IRA contributions, enter the total contribution.

Example 12

Nick and Susan file a joint return. Both work, and Nick, age 27, was covered by a retirement plan, but Susan, age 25, was not. Nick earned \$12,300 and Susan earned \$10,990. Their total income (Form 1040, line 22) is \$23,400. Nick and Susan each contributed \$500 to a traditional IRA.

The completed worksheet is shown in Exhibit 1. The information for Nick is shown in the column for *Your IRA*. The information for Susan is shown in the column for *Spouse's IRA*.

Exhibit 1 IRA Deductions Worksheet

IRA	Deduction Worksheet—Line 24			I	Keep for Your Records
Bef	Fore you begin: Complete Form 1040, lines 27 through 32a, if they apply Figure any amount to be entered on the dotted line next Be sure you have read the list beginning on page 28.				<i>#</i>
			Your IRA		Spouse's IRA
1a.	Were you covered by a retirement plan (see page 30)?				
1b.	If married filing jointly, was your spouse covered by a retirement plan?			1b.	☐ Yes 🗷 No
	Next. If you checked "No" on line 1a (and "No" on line 1b if married filing jointly), sk lines 2 through 6; enter \$3,000 (\$3,500 if age 50 or older at the end of 2003) on line 7a (and 7b if applicable), and go to line 8. Otherwise, go to line 2.				
2.	Enter the amount shown below that applies to you.	1			
	 Single, head of household, or married filing separately and you lived apart from your spouse for all of 2003, enter \$50,000 	3			
	• Qualifying widow(er), enter \$70,000				
	 Married filing jointly, enter \$70,000 in both columns. But if you checked "No" on either line 1a or 1b, enter \$160,000 for the person who was not covered by a plan 	2a.	70,000	2b.	160,000
	 Married filing separately and you lived with your spouse at any time in 2003, enter \$10,000)			
3.	Enter the amount from Form 1040, line 22	_			
4.	Enter the total of the amounts from Form 1040, lines 23, 27 through 32a, plus any amount you entered on the dotted line next to line 33				
5.	Subtract line 4 from line 3. Enter the result in both columns	. 5a.	23,400	5b.	23,400
6.	Is the amount on line 5 less than the amount on line 2?				
	No. Stop None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606.				
	X Yes. Subtract line 5 from line 2 in each column. If the result is \$10,000 or more	,			
	enter \$3,000 (\$3,500 if age 50 or older at the end of 2003) on line 7 for	60	46,600	Ch.	136,600
7.	that column and go to line 8. Otherwise, go to line 7		40,000	6b.	
/•	individual who is age 50 or older at the end of 2003). If the result is not a multiple of	11			
	\$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). If the state of the next multiple of \$10 (for example, increase \$490.30 to \$500).		7.000		7 000
	result is \$200 or more, enter the result. But if it is less than \$200, enter \$200	7a.	3,000	7b.	3,000_
8.	Enter your wages, and your spouse's if filing jointly, and other earned income from Form 1040, minus any deductions on Form				
	1040 lines 28 and 30. Do not reduce wages by any loss from				
	self-employment	_			
	If married filing jointly and line 8 is less than \$6,000 (\$6,500 if one spouse is age 50 or older at the end of 2003; \$7,000 if both spouses a	ıra			
	age 50 or older at the end of 2003), stop here and see Pub. 590 to	пе			
	figure your IRA deduction.				
9.	Enter traditional IRA contributions made, or that will be made by April 15, 2004, for				
	2003 to your IRA on line 9a and to your spouse's IRA on line 9b	. 9a.	500	9b.	500
10.	On line 10a, enter the smallest of line 7a, 8, or 9a. On line 10b, enter the smallest of line 10b, enter				
	7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b are				
	enter the total on Form 1040, line 24. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)		500	10b.	500
	(

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Need more information or forms? See page 7.

Nondeductible IRA Contributions

Although the deductible amount of traditional IRA contributions can be reduced or eliminated because of the modified adjusted gross income limitation, a taxpayer can make nondeductible contributions to new or existing traditional IRAs. Earnings and gains on these contributions are not taxed until they are distributed to the taxpayer.

The total traditional IRA contribution, whether deductible or nondeductible, cannot be more than the taxpayer's taxable compensation or \$3,000 (\$3,500 if age 50 or older), whichever amount is smaller.

Taxpayers must complete Form 8606, *Nondeductible IRAs*, for each year that nondeductible contributions are made.

If taxpayers do not report nondeductible contributions, all of the contributions to a traditional IRA will be treated as deductible. This means all distributions will be taxed unless the taxpayer can show, with satisfactory evidence, that nondeductible contributions were made.

Example 13

Rachel, age 35, is single and wants to contribute the maximum amount possible to her traditional IRA. She is covered by her employer's retirement plan and her total income, Form 1040A Line 15, is \$41,000. Her total basis in traditional IRAs from line 14 of her 2002 Form 8606 is \$10,000. The completed IRA Deduction Worksheet and Form 8606 are shown in Exhibits 2 and 3.

Need more information or forms? See page 7.

RA	Deduction Worksheet—Line 24			i	Keep for Your Record
Bef	fore you begin: Complete Form 1040, lines 27 through 32a, if they apply Figure any amount to be entered on the dotted line next to Be sure you have read the list beginning on page 28.				
	Were you covered by a retirement plan (see page 30)?			1b.	Spouse's IRA Yes No
2.	 Enter the amount shown below that applies to you. Single, head of household, or married filing separately and you lived apart from your spouse for all of 2003, enter \$50,000 Qualifying widow(er), enter \$70,000 Married filing jointly, enter \$70,000 in both columns. But if you checked "No" on either line 1a or 1b, enter \$160,000 for the person who was not covered by a plan Married filing separately and you lived with your spouse at any time in 2003, enter \$10,000 	} 2a.	50,000	2b.	
3. 4. 5. 6.	Enter the amount from Form 1040, line 22	5a.	41,000	5b.	
0.	No. Stop None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606. Yes. Subtract line 5 from line 2 in each column. If the result is \$10,000 or more, enter \$3,000 (\$3,500 if age 50 or older at the end of 2003) on line 7 for that column and go to line 8. Otherwise, go to line 7	6a.	9,000	6b.	
7. 8.	Multiply lines 6a and 6b by 30% (.30) (or by 35% (.35) in the column for the IRA of an individual who is age 50 or older at the end of 2003). If the result is not a multiple of \$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200		2,700	7b.	
	If married filing jointly and line 8 is less than \$6,000 (\$6,500 if one spouse is age 50 or older at the end of 2003; \$7,000 if both spouses are age 50 or older at the end of 2003), stop here and see Pub. 590 to figure your IRA deduction.	<u> </u>			
9.	Enter traditional IRA contributions made, or that will be made by April 15, 2004, for 2003 to your IRA on line 9a and to your spouse's IRA on line 9b		3,000	9b.	
	enter the total on Form 1040, line 24. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)	10a.	2,700	10b.	

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Exhibit 3 Rachel's Form 8606

8606

Nondeductible IRAs

► See separate instructions.

► Attach to Form 1040, Form 1040A, or Form 1040NR.

OMB No. 1545-1007 2003 Attachment Sequence No. 48

Department of the Treasury Internal Revenue Service

Name. If married, file a separate form for each spouse required to file Form 8606. See page 5 of the instructions. Rachel Green

Your social security number 000 00 6220

Fill in Your Address Only if You Are Filing This Form by Itself and Not

Home address (number and street, or P.O. box if mail is not delivered to your home)

Apt. no.

With Your Tax Return

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

Part I Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, SEP, and SIMPLE IRAs Complete this part only if:

- You made nondeductible contributions to a traditional IRA for 2003,
- You took distributions from a traditional, SEP, or SIMPLE IRA in 2003 (other than a rollover, conversion, recharacterization, or return of certain contributions) and you made nondeductible contributions to a traditional IRA in 2003 or an earlier year, or
- You converted part, but not all, of your traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2003 (excluding any portion

	you recharacterized) and you made nondeductible contributions to a traditional IRA in 2	003 or	an earlier year.	
1	Enter your nondeductible contributions to traditional IRAs for 2003, including those made for 2003 from January 1, 2004, through April 15, 2004 (see page 5 of the instructions)	1	300	
2	Enter your total basis in traditional IRAs (see page 6 of the instructions)	2	10,000	
3	Add lines 1 and 2	3	10,300	
	In 2003, did you take a distribution from traditional, SEP, or SIMPLE IRAs or make a Roth IRA conversion? No Enter the amount from line 3 on line 14. Do not complete the rest of Part I. Yes Go to line 4.			
4	Enter those contributions included on line 1 that were made from January 1, 2004, through April 15, 2004	4		
5	Subtract line 4 from line 3	5		
6	Enter the value of all your traditional, SEP, and SIMPLE IRAs as of December 31, 2003, plus any outstanding rollovers (see page 6 of the instructions)			
7	Enter your distributions from traditional, SEP, and SIMPLE IRAs in 2003. Do not include rollovers, conversions to a Roth IRA, certain returned contributions, or recharacterizations of traditional IRA contributions (see page 6 of the instructions)			
8	Enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2003. Do not include amounts converted that you later recharacterized (see page 7 of the instructions). Also enter this amount on line 16			
_	Add lines 6. 7 and 8.			
9 10	Add lines 6, 7, and 8			
11	Multiply line 8 by line 10. This is the nontaxable portion of the amount you converted to Roth IRAs. Also enter this amount on line 17			
12	Multiply line 7 by line 10. This is the nontaxable portion of your distributions that you did not convert to a Roth IRA			
13	Add lines 11 and 12. This is the nontaxable portion of all your distributions	13		
14	Subtract line 13 from line 3. This is your total basis in traditional IRAs for 2003 and earlier			
	years	14	10,300	
15	Taxable amount. Subtract line 12 from line 7. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	15		77777
	Note: You may be subject to an additional 10% tax on the amount on line 15 if you were under age 59% at the time of the distribution (see page 7 of the instructions).			
For I	Paperwork Reduction Act Notice, see page 8 of the instructions. Cat. No. 63966F		Form 8606 (20	003)

Bill and Kathy are both employed and each earned \$15,000 in 2003. Both Bill and Kathy are age 32. Bill was covered by an employer retirement plan but Kathy was not. In July 2003, Bill contributed \$1,200 to his 2003 traditional IRA. In February 2004, he contributed \$800 to his 2003 traditional IRA. Kathy contributed \$400 to her 2003 traditional IRA. They file a joint return. Their total income on line 22 is \$30,000. They have no other adjustments to income.

Complete their IRA deduction worksheet (Exhibit 4).

Additional Taxes and Penalties

Taxpayers are generally subject to additional taxes and penalties for:

- Contributing more to a traditional IRA than is allowed,
- Making traditional IRA withdrawals before age 59 1/2, and
- Not withdrawing enough traditional IRA funds after age 70 1/2.
- Investing in collectibles
- Prohibited transactions, such as borrowing money from one's own IRA or selling property to it.

There are penalties for overstating the amount of nondeductible contributions and for failure to file Form 8606, if required.

Credit for Qualified Retirement Savings Contribution

Refer to Lesson 5 to determine if a taxpayer is also eligible to receive the credit for qualified retirement savings contributions based on their contributions to an IRA.

RA	Deduction Work	sheet—Line 24	Keep for Your Record
Bef	32.)		
		Your IRA	Spouse's IRA
		tirement plan (see page 30)?	
10.		as your spouse covered by a retirement plan?	1b. \(\superset \text{Yes} \) \(\superset \text{No} \)
		3,000 (\$3,500 if age 50 or older at the end of 2003) on line 7a	
		I go to line 8. Otherwise, go to line 2.	
2.	Enter the amount shown b		
	0 1	old, or married filing separately and you lived for all of 2003, enter \$50,000	
	 Qualifying widow(er), e 		
		nter \$70,000 in both columns. But if you	2b.
	checked "No" on either	line 1a or 1b, enter \$160,000 for the person	20.
	who was not covered by		
	 Married filing separately in 2003, enter \$10,000 	y and you lived with your spouse at any time	
3.		rm 1040, line 22 3.	
4.	Enter the total of the amo	unts from Form 1040, lines 23, 27	
		ount you entered on the dotted line	
5.		3. Enter the result in both columns 5a.	5b.
6.		ss than the amount on line 2?	
		f your IRA contributions are deductible. For details on actible IRA contributions, see Form 8606.	
	Yes. Subtract line 5	from line 2 in each column. If the result is \$10,000 or more,	
		\$3,500 if age 50 or older at the end of 2003) on line 7 for	6b.
7.		or y 30% (.30) (or by 35% (.35) in the column for the IRA of an	6b
		or older at the end of 2003). If the result is not a multiple of	
		t multiple of \$10 (for example, increase \$490.30 to \$500). If the	71
8.		ter the result. But if it is less than \$200, enter \$200	7b
0.		1040, minus any deductions on Form	
	1040, lines 28 and 30. Do	not reduce wages by any loss from	
	self-employment	8.	
	A If marri	ed filing jointly and line 8 is less than \$6,000 (\$6,500 if one	
		is age 50 or older at the end of 2003; \$7,000 if both spouses are	
		or older at the end of 2003), stop here and see Pub. 590 to our IRA deduction.	
0			
9.		ributions made, or that will be made by April 15, 2004, for 9a and to your spouse's IRA on line 9b 9a.	9b.
10.		allest of line 7a, 8, or 9a. On line 10b, enter the smallest of line	
		nost you can deduct. Add the amounts on lines 10a and 10b and	
		040, line 24. Or, if you want, you may deduct a smaller amount deductible contribution (see Form 8606)	10b.
	und treat the rest as a non-	deducation continuation (see Form 6000)	100.

3-17

STUDENT LOAN INTEREST DEDUCTION

If a taxpayer paid interest on a student loan in 2003, he or she may be able to deduct up to \$2,500 of the interest paid.

If the taxpayer paid \$600 or more in interest to a single lender, the taxpayer should receive a statement from the lender showing the amount of interest paid. This information will assist you in completing the student loan interest deduction.

Qualified Student Loan Interest

Generally, student loan interest is the interest paid during the year on a loan for qualified higher education expenses that were:

- 1. For the taxpayer, the taxpayer's spouse, or a person who was the taxpayer's dependent when the loan was obtained.
- 2. Paid within a reasonable period of time before or after obtaining the loan, and
- 3. For an eligible student.

Interest can be the interest paid during the life of the loan (voluntary and required interest payments), loan origination fees, capitalized interest, interest on revolving lines of credit, and interest on refinanced student loans.

Interest does not include interest on any of the following:

- 1. A loan from a related person.
- 2. A loan from a qualified employer plan.
- 3. A loan for which the taxpayer is not legally liable.

Who Can Claim the Deduction

Generally, a taxpayer can claim the deduction if all the following requirements are met:

- 1. Taxpayer cannot use married filing separately filing status.
- 2. Taxpayer cannot be claimed as a dependent on someone else's return.
- 3. The interest is on a loan to pay tuition and other qualified higher education expenses for the taxpayer, the taxpayer's spouse, or someone whom the taxpayer can claim as a dependent, when the loan was taken out.
- 4. The education expenses were paid or incurred within a reasonable period of time before or after the loan was taken out.
- 5. The person for whom the expenses were paid or incurred was an eligible student.

Qualified Higher Education Expenses

Generally, qualified higher education expenses include tuition and fees; room and board; books, supplies and equipment; and other necessary expenses.

These costs must be reduced by the following:

- 1. Employer provided educational assistance benefits.
- 2. Tax-free withdrawals from a Coverdell ESA.
- 3. Tax-free withdrawals from a qualified tuition program.
- 4. U.S. savings bond interest excluded from income because it is used to pay qualified higher education expenses.
- 5. Certain scholarships.
- 6. Veteran's educational assistance benefits.
- 7. Any other nontaxable payments (other than gifts, bequests, or inheritances) received for educational expenses.

Eligible educational institution

An eligible educational institution is any college, university, vocational school or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education. It includes virtually all accredited public, nonprofit, and privately owned profit-making postsecondary institutions.

For the student loan interest deduction only, an eligible educational institution also includes an institution conducting an internship or residency program leading to a degree or certificate from an institution of higher education, hospital, or health care facility that offers postgraduate training.

If a taxpayer does not know if the educational institution is an eligible institution, the taxpayer should contact the school.

Eligible student

An eligible student is a student who is enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential.

The standard for what is half the normal full-time work load is determined by each eligible educational institution.

Deduction Limits

The student loan interest deduction is generally the smaller of \$2,500 or the interest payments paid in 2003.

This amount may be gradually reduced (phased out) or eliminated based on the taxpayer's filing status and modified adjusted gross income (MAGI). Table 3 depicts when the limits apply.

Table 3

Limit on Student Loan Interest Deduction				
If your filing status is	AND your modified AGI is	THEN		
Singe, head of household, or qualifying widow(er)	\$50,000 or less	You can deduct all your interest, up to \$2,500		
	More than \$50,000, but less than \$65,000	Your deduction is limited		
	\$65,000 or more	You cannot claim this deduction.		
Married filing jointly	\$100,000 or less	You can deduct all your interest up to \$2,500		
	More than \$100,000, but less than \$130,000	Your deduction is limited		
	\$130,000 or more	You cannot claim this deduction.		

Figuring the Deduction

Use the Student Loan Interest Deduction worksheet found in the Form 1040 or Form 1040A instructions to figure the deduction.

Claiming the Deduction

The student loan interest deduction is entered on Form 1040, line 25, or Form 1040A, line 18.

Example 14

During 2003, Rick paid \$2,650 in qualified interest on his student loan. His total income, Form 1040, line 22, is \$35,000. He has no other adjustments to his income. His completed student loan interest deduction worksheet, Exhibit 5, shows Rick is entitled to \$2,500. Although his MAGI falls within the income limits, he is only entitled to a maximum \$2,500 deduction.

Stı	udent Loan Interest Deduction Worksheet—Line 25 Ke	ep for Your Records			
Be	Before you begin: Complete Form 1040, lines 27 through 32a, if they apply to you. Figure any amount to be entered on the dotted line next to line 33 (see page 32). See the instructions for line 25 that begin on this page. Be sure you have read the Exception above to see if you can use this worksheet instead of Pub. 970 to figure your deduction.				
	Enter the total interest you paid in 2003 on qualified student loans (defined above). Do not enter more than \$2,500	12,500_			
3.	 Enter the amount from Form 1040, line 22				
	Subtract line 3 from line 2				
	• Married filing jointly—\$100,000				
6.	Is the amount on line 4 more than the amount on line 5? No. Skip lines 6 and 7, enter -0- on line 8, and go to line 9. Yes. Subtract line 5 from line 4				
7.	Divide line 6 by \$15,000 (\$30,000 if married filing jointly). Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000	7			
8.	Multiply line 1 by line 7	80			
9.	line 25. Do not include this amount in figuring any other deduction on your return (such as on Schedule A, C, E, etc.)	9. 2,500			

Tuition and Fees Deduction

Taxpayers can deduct an amount equal to the qualified tuition and related expenses paid during the tax year as an adjustment to income. The adjustment is reported on Form 1040, line 26, or Form 1040A, line 19.

To claim the deduction the taxpayer must have incurred *qualified expenses* for an *eligible student* to attend an *eligible educational institution* during the tax year. In addition, the taxpayer must include on the tax return the name and taxpayer identification number of the qualified student.

Qualified Expenses

Qualified tuition and related expenses include tuition and fees required for enrollment or attendance at an eligible educational institution and generally include fees for:

■ Course-related books, supplies and equipment, and

The fees must be paid to the institution as a condition of enrollment or attendance.

Qualified tuition and related expenses do not include the cost of:

- **■** Insurance,
- Medical expenses (including student health fees),
- Room and board,
- Student activities.
- Transportation or similar personal, living or family expenses, even if the fees must be paid to the institution as a condition of enrollment or attendance.
- Athletic fees.
- Other expenses unrelated to an individual's academic course of instruction.

Eligible Student

The deduction can be claimed for the taxpayer, the taxpayer's spouse (if filing a joint return) and any dependent (for whom the taxpayer claims a dependency exemption).

Married taxpayers that file as married filing separately cannot take the deduction.

An individual who is the dependent of another taxpayer cannot claim the deduction.

Eligible Educational Institution

An eligible educational institution is generally any accredited public, nonprofit, or private postsecondary institution eligible to participate in the student aid programs administered by the Department of Education. It includes virtually all accredited, public, nonprofit, and privately owned profit-making post secondary institutions.

If the taxpayer does not know if the educational institution is an eligible institution, he or she should contact the school.

Deduction Amount

The deduction amount is determined by the taxpayer's filing status and adjusted gross income. Table 4 depicts when the income limitations apply.

The total amount of qualified tuition and related expenses are reduced by:

- Distributions from qualified state tuition programs
- Distributions from Coverdell ESAs
- Interest from savings bonds used for higher education expenses

Table 4 Limit on Tuiton and Fees Deduction

IF your filing status is	AND your modified AGI is	THEN
Single, Head of Household, or Qualifying widow(er)	Equal to or less than \$65,000	You can deduct all of your qualified tuition and fees up to \$3,000.
	More than \$65,000	You cannot claim the credit
Married filing jointly	Equal to or less than \$130,000	You can deduct all of your qualified tuition and fees up to \$3,000
	More than \$130,000	You cannot claim the credit.
Married filing separately	Any amount	You cannot claim the credit.

Modified adjusted gross income for purposes of the deduction for qualified tuition and related fees is adjusted gross income before the deduction for qualified tuition and related fees and after adding back the following:

- Foreign earned income exclusion,
- Foreign housing exclusion or deduction,
- Exclusion of income for bona fide residents of Guam, Puerto Rico, American Samoa, or the Northern Mariana Islands.

Figuring the Deduction

Use the Tuition and Fees Deduction worksheet found in the Form 1040 or Form 1040A instructions to figure the modified adjusted gross income and the resulting deduction amount.

Example 15

Luis and Priscilla file a joint return for 2003. Their 1040 line 22 total income is \$49,620. In 2003, Priscilla paid \$1,300 for classes taken at the local university. She had allowable IRA deductions of \$1,500. Their allowable tuition and fees deduction is \$1,300, shown in Exhibit 6.

Exhibit 6

Luis and Priscilla's Tuition and Fees Deduction Worksheet

Before you begin:	Complete Form 1040, lines 27 through 32a, if they apply to you. Figure any amount to be entered on the dotted line next to line 33 (see page 5) See the instructions for line 26 above. Be sure you have read the Exception above to see if you can use this winstead of Pub. 970 to figure your deduction.		•
1. Enter amount from Form	1040, line 22	1.	49,620
2. Enter the total of the am amount you entered on t	ounts from Form 1040, lines 23 through 25, 27 through 32a, plus any he dotted line next to line 33	2.	1,500
	1. If the result is more than \$65,000 (\$130,000 if married filing of take the deduction for tuition and fees	3.	48,120
4. Tuition and fees deduc 2003. Do not enter more	ion. Enter the total qualified tuition and fees (defined above) you paid in than \$3,000. Also, enter this amount on Form 1040, line 26. Do not		
	guring any other deduction on your return (such as on Schedule A, C, E,	4.	1,300

No Double Benefits

A taxpayer cannot:

- Deduct qualified tuition and related expenses if the same expense is deductible on a different line of the return.
- Claim the Hope credit or the lifetime learning credit for an individual in the same year as a deduction for qualified tuition and related expenses are claimed.
- Claim a credit based on expenses paid with a tax-free scholarship, grant, or an employer-provided educational assistance.

ONE-HALF OF SELF-EMPLOYMENT TAX

Report on Form 1040, line 28, the adjustment for one-half of self-employment tax from Schedule SE. This subject was covered in Lesson 2, for volunteers who will be helping self-employed taxpayers.

PENALTY ON EARLY WITHDRAWAL OF SAVINGS

Depositors may withdraw funds from ordinary savings accounts any time they wish. However, if they withdraw funds from a time deposit (such as a certificate of deposit) before the maturity date, a penalty is charged. Form 1099-INT reports the interest earned as well as any early withdrawal penalties.

As you learned in Lesson 2, taxpayers must report the total amount of interest earned. They cannot subtract the early withdrawal penalty from the interest earned and report the difference. The early withdrawal penalty can be claimed as an adjustment only on Form 1040, line 31. The entire penalty is deducted, even if it is greater than the interest income.

Example 16

Arlene has one Form W-2 and one Form 1099-INT and no other income. Her Form 1099-INT shows both interest income and an early withdrawal penalty. Arlene does not pay alimony, and she did not make a contribution to a traditional IRA. She will not itemize deductions, and she cannot claim any tax credits. Normally, she would be able to file Form 1040A.

However, Arlene must file Form 1040 to claim the adjustment for the penalty on early withdrawal of savings.

ALIMONY PAID

As you learned in Lesson 2, alimony and separate maintenance payments are taxable to the person receiving these payments. The person paying the alimony or separate maintenance can claim it as an adjustment to income. This adjustment can be claimed only on Form 1040. The amount paid during the year and the recipient's social security number are entered on line 32a and 32b, respectively. Claim the adjustment only for amounts paid during the tax year.

Child support is not the same as alimony or separate maintenance payments. Child support is not taxable to the recipient and cannot be claimed as an adjustment by the payer.

JURY DUTY PAY GIVEN TO EMPLOYER

As you learned in Lesson 2, *Income*, jury duty pay received by taxpayers is included in other income on line 21 of Form 1040.

Some employees receive their regular wages from their employers when they are serving on a jury instead of working at their jobs. Often the jury duty pay the employees receive is turned over to their employers. The amount given to the employer may be claimed as an adjustment to income. On the dotted line next to line 33, write "jury pay" and the amount. Include jury duty pay with the adjustments claimed on lines 23 through 32a.

OTHER ADJUSTMENTS

The other adjustments that can be claimed on Form 1040 are beyond the scope of the VITA/TCE Program. Taxpayers who have adjustments that aren't discussed in this lesson should be advised to seek paid professional tax assistance.

Total Adjustments and Adjusted Gross Income

Add all adjustments and enter the total on Form 1040A, line 20, or Form 1040, line 33. Subtract the total adjustments from total income on Form 1040A, line 15, or Form 1040, line 22. Enter the result on Form 1040A, line 21, or Form 1040, line 34. This is **adjusted gross income** and is often referred to as "AGI." Adjusted gross income is used to compute some limitations, such as the medical and dental deduction on Schedule A and the credit for child and dependent care expenses.

TAXWISE HINTS

TaxWise will quickly complete any worksheets needed to determine adjustments to income.

There is one worksheet for educator expenses, student loan interest deduction, and tuition and fees deduction. You can link to this form from Form 1040, lines 23, 25, or 26.

Link to the Deductible and Non-deductible IRA Worksheet from Form 1040, line 24. Once the IRA contribution is input for the taxpayer (and spouse if married), TaxWise will complete the Form 8606, if necessary, and input the entry on Form 1040, line 24.

One half the self employment tax will be entered automatically when completing Schedule C or C-EZ.

The penalty on withdrawal from savings should be entered by linking to the Interest Received Worksheet. This worksheet is a link from Schedule B.

TaxWise breaks out the remaining adjustments. Simply input the appropriate amount.

► SUMMING UP THIS LESSON ◀ ◀

• An adjustment is an amount subtracted from total income.

The result is adjusted gross income.

- Adjustments covered in the VITA program are:
- ► Educator expenses
- ► Contributions to a traditional IRA
- ➤ Student loan interest deduction
- ► Tuition and fees paid
- ➤ One-half of self-employment tax paid (volunteers trained to prepare Schedule C-EZ and SE can assist taxpayers claiming this adjustment)
- ► Penalty on early withdrawal of savings
- ► Alimony paid
- Jury duty pay given to employer
- The adjustments for traditional IRA contributions, student loan interest deduction, tuition and fees deduction, and educator expenses deduction can be claimed either on Form 1040A or Form 1040. The other adjustments can be claimed on Form 1040 only.
- Persons 70 1/2 years of age or older by the end of the tax year cannot make traditional IRA contributions for that tax year.
- Traditional IRA contributions generally cannot be more than the taxpayer's taxable compensation or \$3,000 (\$3,500 if age 50 or older), whichever amount is smaller.
- Individuals who are not covered by retirement plans at work may make deductible IRA contributions regardless of their modified adjusted gross income. Taxpayers who are covered by retirement plans at work may deduct all, part, or none of their traditional IRA contributions depending on their modified adjusted gross income and filing status.
- Taxpayers may be subject to additional tax for contributing more to a traditional IRA than is allowed, making traditional IRA withdrawals before age 59 1/2, and not withdrawing enough traditional IRA funds after 70 1/2.

- (A) Yes; alimony is considered compensation for traditional IRA purposes.
- (B) Yes; But only if they file a joint return.
- (C) No; Carla has no compensation for traditional IRA purposes.
- (D) \$1,250; The lessor of taxable compensation or \$13,500.

Exercise 2

- (A) Yes; all of her contribution up to \$3,000 is deductible because their combined modified adjusted gross income is not more than \$150,000.
- (B) Yes; all of it is deductible because her modified adjusted gross income is less than \$40,000.
- (C) Richard may not deduct any of his contribution because his modified adjusted gross income is at least \$10,000. Lynn will be able to deduct a portion of her IRA contribution because she is not covered by an employer-sponsored retirement plan and her income is less than \$10,000.

Bill and Kathy's IRA Deductions Worksheet

IRA	Deduction Worksheet—Line 24		ì	Keep for Your Records
Bet	Complete Form 1040, lines 27 through 32a, if they apply to y Figure any amount to be entered on the dotted line next to line Be sure you have read the list beginning on page 28.			<i>#</i> /
	Were you covered by a retirement plan (see page 30)?		1b.	Spouse's IRA Yes No
2.	Enter the amount shown below that applies to you. Single, head of household, or married filing separately and you lived apart from your spouse for all of 2003, enter \$50,000 Qualifying widow(er), enter \$70,000 Married filing jointly, enter \$70,000 in both columns. But if you checked "No" on either line 1a or 1b, enter \$160,000 for the person who was not covered by a plan Married filing separately and you lived with your spouse at any time in 2003, enter \$10,000	ea70,000	2b.	160,000
3. 4.	Enter the amount from Form 1040, line 22			
5. 6.	Subtract line 4 from line 3. Enter the result in both columns	5a. <u>30,000</u>	5b.	30,000
7.	☐ Yes. Subtract line 5 from line 2 in each column. If the result is \$10,000 or more, enter \$3,000 (\$3,500 if age 50 or older at the end of 2003) on line 7 for that column and go to line 8. Otherwise, go to line 7 6 Multiply lines 6a and 6b by 30% (.30) (or by 35% (.35) in the column for the IRA of an individual who is age 50 or older at the end of 2003). If the result is not a multiple of	6a. 40,000	6b.	130,000
8.	\$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200	_{/a.}	7b.	3,000
	If married filing jointly and line 8 is less than \$6,000 (\$6,500 if one spouse is age 50 or older at the end of 2003; \$7,000 if both spouses are age 50 or older at the end of 2003), stop here and see Pub. 590 to figure your IRA deduction.			
9. 10.	On line 10a, enter the smallest of line 7a, 8, or 9a. On line 10b, enter the smallest of line 7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b and	9a. 2,000	9b.	400
	enter the total on Form 1040, line 24. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)	_{0a.} 2,000	10b.	400

3.29

		- NOTES
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Standard and Itemized Deductions, and Tax Computation

Lesson 4

Introduction and Objectives

In this lesson you will learn about the standard deduction, itemized deductions and tax computations. You will learn which expenses can be included in itemized deductions. You will also learn when the taxpayer will use the tax tables and the Capital Gains Worksheet to compute their total tax.

After completing this lesson you should be able to:

- Identify the correct standard deduction.
- Calculate and accurately report itemized deductions on Schedule A.
- Identify the miscellaneous deductions reported on Schedule A, line 27.
- Review the Capital Gain Tax Worksheet.
- Explain the process to calculate and report tax liability.

STANDARD DEDUCTION

The **standard deduction** depends on:

- the taxpayer's filing status,
- whether the taxpayer (or the taxpayer's spouse) is 65 or older and/or blind, and
- whether the taxpayer can be claimed as a dependent on another taxpayer's return.

Based on the taxpayer's situation, you will figure the standard deduction by using one of the following:

- Standard deduction amount for the appropriate filing status from the appropriate tax form,
- Standard Deduction Chart for People Age 65 or Older or Blind, or
- Standard Deduction Worksheet for Dependents.

ALERT



In 2003, the basic standard deduction for married taxpayers filing jointly and qualifying widow(er)s has increased to \$9,500 (double that of single filers).

The standard deduction for married filing separately has increased to \$4,750 (one half of that for married filing jointly).

Example 1

Bob is 55 years old and is married to Janice, age 50. If they are filing a joint return and neither is blind, they can enter \$9,500 on either Form 1040 or Form 1040A for their standard deduction amount.

Example 2

John is 73 years old, blind, and files a single tax return. To find his standard deduction, use the Standard Deduction Chart for People Age 65 or Older or Blind. His standard deduction is \$7,050.

Personal Exemption in Connection With Standard Deduction on Form 1040EZ

If the taxpayer (or his or her spouse, if married filing a joint return) can be claimed as a dependent on another taxpayer's return, check the Yes box on line 5 of the Form 1040EZ. To fill in the amount on line 5 for this taxpayer, you must then turn the form over and complete the worksheet (Exhibit 1 shows a blank worksheet from Form 1040EZ, page 2).

If the taxpayer (or his or her spouse, if filing a joint return) cannot be claimed as a dependent on another taxpayer's return, check the No box on line 5. Enter on line 5 the amount shown below that applies to the taxpaver (and spouse, if married filing jointly).

A. Single, enter \$7,800. This is the total of the taxpayer's standard deduction (\$4,750) and personal exemption (\$3,050).

Exhibit 1 Form 1040EZ, Page 2

Worksheet
for
dependents
who
checked
"Yes" on
line 5
(keep a copy for

vour records)

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married filing jointly) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, use TeleTax tonic 354 (see page 8)

someone can claim you as a dependent, use Tele lax topic 33 1 (see page	0).
A. Amount, if any, from line 1 on front	
+ 250.00 Enter total	A
B. Minimum standard deduction	B. 750.00
C. Enter the larger of line A or line B here	C
D. Maximum standard deduction. If single , enter \$4,750; if married filing jointly , enter \$9,500	D
E. Enter the smaller of line C or line D here. This is your standard deduction	E
F. Exemption amount.	
• If single, enter -0	
 If married filing jointly and— 	} F
—both you and your spouse can be claimed as dependents, enter -0	
—only one of you can be claimed as a dependent, enter \$3,050.	
G. Add lines E and F. Enter the total here and on line 5 on the front .	G
u checked "No" on line 5 because no one can claim you (or your spouse ly) as a dependent, enter on line 5 the amount shown below that applies to	

- If you jointl
- Single, enter \$7,800. This is the total of your standard deduction (\$4,750) and your exemption
- Married filing jointly, enter \$15,600. This is the total of your standard deduction (\$9,500), your exemption (\$3,050), and your spouse's exemption (\$3,050).

B. Married, enter \$15,600. This is the total of the taxpayer's and spouse's standard deduction (\$9,500), exemption for the taxpayer (\$3,050), and exemption for the taxpayer's spouse (\$3,050).

Exercise 1

- **A.** James is 37 years old. He has two children who live with him and he files as head of household. What is James' standard deduction?
- **B.** Malcom is 37 years old. He was divorced in 2003. He is blind and has no dependent children. What is Malcom's standard deduction?
- **C.** Carl is 67 years old and married to Sue, who is 59 years old. Neither is blind. If they file a joint return, what is their standard deduction?
- **D.** If they are filing separate returns, what is Carl's standard deduction?
- **E.** If they are filing separate returns, what is Sue's standard deduction?
- **F.** Shirley is 15 years old and is claimed as a dependent on her parents' tax return. She earned \$1,500 during the summer and deposited it all into her savings account, where she earned \$40 in interest. What is her standard deduction?

POTENTIAL PITFALLS



Entering an incorrect standard deduction amount is a frequently made error on tax returns. Take care to report the correct standard deduction amount.

ITEMIZED DEDUCTIONS

Taxpayers can either claim the standard deduction or itemize their deductions. Both the standard deduction and itemized deductions reduce adjusted gross income. Most taxpayers choose the larger of their itemized deductions or the standard deduction. However, there are some exceptions:

- A married taxpayer filing a separate return cannot claim the standard deduction if the taxpayer's spouse itemizes deductions, and
- Nonresident aliens cannot claim the standard deduction.

When itemizing, you should complete the taxpayer's return through line 36 of Form 1040. Then figure itemized deductions on Schedule A.

POTENTIAL PITFALLS



Explain to taxpayers that they can only deduct expenses in the year they are paid. They cannot deduct expenses that are owed but not paid.

ALERT



The standard mileage rate for operating a vehicle for medical transportation is 12 cents a mile.

Medical and Dental Expenses

Claim medical and dental expenses paid in 2003 on lines 1 through 4 of Schedule A. Include expenses incurred for:

- the taxpayer and spouse,
- dependents claimed on the return, and
- others who could have been claimed as dependents except that they had gross income of \$3,050 or more, or they filed a joint return.

If a child of divorced or separated parents is claimed as a dependent on either parent's return, each parent may deduct the medical expenses that he or she pays for the child.

Deductible expenses include:

- Prescription medicines and drugs (including insulin)
- Medical, dental, and nursing care, including amounts paid for unreimbursed qualified long-term care services
- Medical and hospital insurance premiums, including amounts paid for eligible long-term care (subject to certain limitations based on the insured person's age see Exhibit 2, next page.)
- Prescription eyeglasses, hearing aids, crutches, wheelchairs, braces, and guide dogs
- Transportation for medical care at 12 cents a mile, or actual out-of-pocket expenses, plus parking fees and tolls
- Certain lodging expenses
- Certain home improvements made for medical care purposes or to make the home suitable for a disabled person
- Medicare A premiums for persons not enrolled in Social Security
- Medicare B
- Certain weight-loss programs to treat disease diagnosed by a physician, including obesity
- Unreimbursed costs of smoking-cessation programs, including the cost of prescription drugs designed to alleviate nicotine withdrawal
- Expenses for admission and transportation to a medical conference relating to the chronic disease of a dependent (if the costs are primarily for and essential to the medical care of the dependent).

Total medical and dental expenses must exceed 7.5 percent of a taxpayer's adjusted gross income (Form 1040, line 35) for Schedule A deduction.

Nondeductible expenses include:

- Medical expenses paid from a medical savings account (MSA). [Refer taxpayers with MSAs to Publication 969, *Medical Savings Accounts (MSAs)*, Publication 502, *Medical and Dental Expenses*, and a paid professional tax preparer.]
- Payroll tax paid for Medicare A
- Life insurance policy premiums
- Babysitting, child care, and nursing care for a healthy baby
- Illegal drugs
- Nonprescription drugs or medicines
- The cost of purchasing diet food items
- Nonprescription nicotine gum and patches designed to stop smoking
- Funeral, burial, or cremation costs
- Unnecessary cosmetic surgery (surgery that does not correct a congenital abnormality or an abnormality caused by injury or disease)
- Income protection policies, including nursing home policy premiums, if the policy ensures a maximum out-of-pocket expense per day
- Meals and lodging while attending a medical conference relating to the chronic disease of a dependent.

Eligible Long-Term Care Premiums

Exhibit 2

IF the person was, at the end of 2003, age	THEN the most you may deduct is
40 or under	\$250
41-50	\$470
51-60	\$940
61-70	\$2,510
71 or older	\$3,130

These figures should always be checked against the figures in the instructions for the Form 1040, Schedule A.

Sam and Paula Ferris file a joint return. Sam's social security number is 000-00-8612. Their adjusted gross income is \$40,000. They paid the following medical bills:

Unreimbursed doctor's bills	\$ 500
Unreimbursed orthodontist bill for braces	1,200
Hospital insurance premiums	300
Life insurance premiums	500
Unreimbursed prescription medicines	100
Vitamins	70
Hospital bill (before deducting \$1,000)	
reimbursed by insurance company)	2,000
Smoking cessation program	150

Complete the *Medical and Dental Expenses* section of Schedule A for the Ferris family.

Exhibit 3 Schedule A

SCHEDULE	S A	B Schedule A—Itemized Deductions	\vdash	OMB No. 1545-0074
(Form 1040) (Schedule B is on back)			2003	
Department of the T Internal Revenue Se		► Attach to Form 1040. ► See Instructions for Schedules A and B (Form 1040).		Attachment Sequence No. 07
Name(s) shown o	n Form	1040	You	r social security number
Medical		Caution. Do not include expenses reimbursed or paid by others.		
and	1	Medical and dental expenses (see page A-2)		
Dental	2	Enter amount from Form 1040, line 35 2		
Expenses	3	Multiply line 2 by 7.5% (.075)		
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0	4	

Taxes

To be deductible, a tax must be imposed on and paid by the taxpayer. Taxpayers **cannot** deduct:

- a tax that they do not owe, but pay for someone else,
- a tax that they owe, but someone else pays, or
- \blacksquare a tax that was not paid in 2003.

Report deductible taxes on lines 5 through 9 of Schedule A.

State, Local, and Foreign Income Taxes — Taxpayers can deduct income taxes paid to a state or local government or to a foreign government or tax any of its subdivisions. These taxes include tax withheld, estimated tax payments, and taxes paid in 2003 for an earlier year.

Real Estate Taxes — State, local, or foreign taxes on real property, such as the taxpayer's house or land, are deductible. Real estate taxes are deductible when paid. If the taxes are paid with a mortgage payment and held in escrow, do not deduct the taxes until they are paid by the bank or mortgage lender.

Assessments to pave a street or install lighting or a sewer generally are not deductible.

Personal Property Tax — Taxes that state and local governments charge on the value of personal property are deductible. A portion of the cost of personal vehicle registration may fall in this category.

Nondeductible Taxes — Many federal, state, and local government taxes are not deductible. The following taxes are not deductible:

- General sales tax
- Federal taxes-income tax, social security (FICA), Medicare, railroad retirement tax, gift tax, and excise taxes or customs duties
- Hunting licenses and dog licenses
- Water and sewer taxes
- Taxes on alcoholic beverages, cigarettes, and tobacco
- State, local, and federal taxes on gasoline, diesel, and other motor fuels used in a nonbusiness vehicle
- Utility taxes telephone, gas, electricity, etc.

Interest

Interest is the amount that is paid in order to borrow money. Only taxpayers who are legally liable for the debt can deduct the interest in the year it is paid or accrued. Interest expenses are reported on lines 10 through 14 of Schedule A.

Home Mortgage Interest — The amount of mortgage interest that a taxpayer can deduct depends on the:

- date of the loan,
- amount of the loan, and
- use of the proceeds of the loan.

If the mortgage debt was incurred on or before October 13, 1987, and was secured by a main or second home, the interest on that debt is fully deductible, regardless of the amount of the loan or the use of the loan proceeds.

If the mortgage debt was incurred after October 13, 1987, and was secured by a main or second home, the interest is fully deductible if:

- the loans plus any grandfathered debt do not exceed \$1 million (\$500,000 if married filing separate returns), and
- the proceeds were used to buy, build, or improve the home or homes.

SPECIAL POPULATIONS



Members of the clergy and military personnel can deduct real estate taxes even if they receive a housing allowance that is excluded from income. Also, they can deduct allowable mortgage interest even if the interest was paid from a nontaxable housing allowance.

In addition to loans used to buy, build, or improve a main or second home, taxpayers can deduct interest on other loans secured by a main or second home, regardless of the use of the proceeds, if:

- the total of these loans does not exceed \$100,000 (\$50,000 if married filing separate returns), and
- the total amount of the secured debt is not more than the home's fair market value minus any outstanding acquisition debt and any grandfathered debt on the home.

Points. Certain charges paid by a borrower and/or a seller to a lender to secure a loan are called points. They are also called loan origination fees (including VA and FHA loan origination fees), maximum loan charges, premium charges, loan discount, or discount points.

Points paid only for the use of money are considered prepaid interest. This interest, even if it qualifies as home mortgage interest, must be spread over the life of the mortgage and is considered paid and deductible over that period unless it meets the following exception.

Exception. A taxpayer may fully deduct points in the year he or she pays them only if all of the following conditions apply.

- The taxpayer itemizes deductions.
- The taxpayer's loan is secured by his or her main home. (The main home is the one the taxpayer lives in most of the time.)
- Paying points is an established business practice in the area where the loan was made.
- The points paid were not more than the points generally charged in that area.
- The taxpayer uses the cash method of accounting. (The cash method means that the taxpayer reports income in the year received and deducts expenses in the year paid.)
- The points were not paid in place of amounts that ordinarily are stated separately on the settlement statement, such as appraisal fees, inspection fees, title fees, attorney fees, and property taxes.
- The taxpayer uses his or her loan to buy or build his or her main home.
- The points were computed as a percentage of the principal amount of the mortgage.
- The amount is clearly shown on the settlement statement (such as Form HUD-1) as points charged for the mortgage.
- The points may be shown as paid from either the taxpayer's or the seller's funds.

■ The funds the taxpayer provided at or before closing, plus any points the seller paid, were at least as much as the points charged. The funds the taxpayer provided do not have to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds the taxpayer paid at or before closing for any purpose. The taxpayer cannot have borrowed these funds from his or her lender or mortgage broker.

Charges by the lender for specific services, such as appraisal fees, preparation costs, VA funding fees, or notary fees, may be called points. However, these charges are not considered interest and are not deductible.

Points paid by the seller are deductible as interest by the buyer.

Points paid to refinance a mortgage are generally not deductible in full in the year the taxpayer paid them (unless they are paid in connection with the improvement of a main home and the first seven statements, discussed earlier under Exception, are true).

Points paid in excess of those generally charged in the area and points paid to refinance a mortgage can be deducted over the life of the mortgage. Deduct points reported to the taxpayer on Form 1098 on line 10 of Schedule A (Form 1040). Deduct points not reported to the taxpayer on Form 1098 on line 12 of Schedule A (Form 1040).

Investment Interest. Interest that is paid on money borrowed to buy or carry property held for investment is called **investment interest.** Taxpayers with investment interest expense that exceeds investment income (interest and ordinary dividend income) should see a paid professional tax preparer.

Interest that cannot be deducted. Interest that cannot be deducted includes:

- Interest on car loans where the car is used for personal use and other personal loans,
- Credit investigation fees,
- Loan fees; aid for services necessary to get a loan,
- Interest on a debt the taxpayer is not legally liable to pay, and
- Finance charges on credit card purchases of personal items.

POTENTIAL PITFALLS



Personal interest cannot be claimed as an itemized deduction. Personal interest includes interest on car loans, credit card balances, and installment plan loans that are incurred for personal use or for personal expenses.

John and Shannon file a joint return. During the year, they paid the bank \$2,180 of interest on their home mortgage that was reported to them on Form 1098 (all qualified), \$400 in credit card interest, \$300 on installment loan, and \$2,000 on a car loan. Complete the *Interest You Paid* section of Schedule A for John and Shannon.

Exhibit 4 Schedule A 10 Interest Home mortgage interest and points reported to you on Form 1098 You Paid 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 (See page A-3.) and show that person's name, identifying no., and address 11 Note. Personal Points not reported to you on Form 1098. See page A-3 interest is for special rules . Investment interest. Attach Form 4952 if required. (See deductible. page A-3.) Add lines 10 through 13

Contributions

Taxpayers can deduct contributions to organizations that are:

- Organized and operated exclusively for religious, charitable, educational, scientific, or literary purposes,
- Organizations that work to prevent cruelty to children or animals, and
- Organizations that foster national or international amateur sports competition if they do not provide athletic facilities or equipment.

To be deductible, contributions must be made to an organization, not an individual. *Qualifying organizations* include:

- Churches, synagogues, temples, mosques, Salvation Army, Red Cross, CARE, United Way, Boy Scouts, Girl Scouts, World Wildlife Fund, etc.,
- Fraternal orders (if used for the purposes listed above),
- Nonprofit schools and hospitals,
- Nonprofit medical research organizations,
- Veterans' groups and certain cultural groups, and
- Federal, state, and local governments (if the gifts are exclusively for public purposes).

Nonqualifying organizations include:

- Business organizations, such as the Chamber of Commerce,
- Civic leagues and associations,

- Political organizations and candidates,
- Social clubs,
- Foreign organizations,
- Homeowners' associations, and
- Communist organizations.

Deductible items include:

- Money gifts,
- Dues, fees, and assessments paid to qualified organizations above the value of the benefits received (not country clubs or other social organizations),
- Fair market value of used clothing, furniture,
- Cost and upkeep of uniforms that have no general use but must be worn while performing donated services,
- Unreimbursed transportation expenses that relate directly to the services the taxpayer gave the qualified organization, including bus fare, parking fees, tolls, and either the actual cost of gas and oil or a standard mileage charge of 14 cents per mile, and
- The part of a contribution above the fair market value for items such as merchandise and tickets to charity balls or sporting events.

Nondeductible items include:

- Cost of raffle, bingo, or lottery tickets,
- Tuition,
- Value of a person's time or service,
- Blood donated to a blood bank or the Red Cross,
- Car depreciation, insurance, general repairs, or maintenance,
- Direct contributions to an individual.
- Sickness or burial expenses for members of a fraternal society, and
- The part of a contribution that personally benefits the taxpayer (such as the fair market value of the meal eaten at a charity dinner).

Report cash and check contributions on Schedule A, line 15. Contributions other than cash or check are entered on line 16. Taxpayers with noncash contributions exceeding \$500 should see a paid professional tax preparer.

The taxpayer must keep records to prove the amount of the cash and noncash contributions he or she makes during the year.

POTENTIAL PITFALLS



If the taxpayer makes a contribution to a qualifying organization that is more than \$75 and is partly for goods or services, the qualifying organization must give the taxpayer a written statement. For more information, see Publication 526, Charitable Contributions.

A taxpayer can claim a deduction for any single contribution of \$250 or more **only** if he or she has a written acknowledgment of the contribution from the qualifying organization. You do not have to see the written acknowledgement, but you should ask the taxpayer if they have one.

Exercise 4

Rose contributed \$600 to St. Martin's Church (church gave letter verifying amount). \$32 to the Girl Scouts, and \$40 to a family whose house burned. She purchased \$50 worth of lottery tickets and spent \$100 playing bingo at her church. She donated used furniture with a fair market value of \$200 to Goodwill.

Complete the Gifts to Charity section of Schedule A for Rose.

Exhibit 5 Schedule A

Gifts to Charity	15	Gifts by cash or check. If you made any gift of \$250 or more, see page A-4	15		
If you made a	16	Other than by cash or check. If any gift of \$250 or more,			
gift and got a		see page A-4. You must attach Form 8283 if over \$500	16		
benefit for it, see page A-4.	17	Carryover from prior year	17		
see page A-4.	18	Add lines 15 through 17		18	

Casualty and Theft Losses

A casualty occurs when property is damaged as a result of a sudden, unexpected, or unusual event such as fire, storm, shipwreck, flood, earthquake, or automobile accident. Theft is the unlawful taking and removing of money or property with the intent to deprive the owner of it. Theft does not include the mere disappearance of money or property.

A casualty or theft may result in a gain if the insurance proceeds or other reimbursements exceed the adjusted basis of destroyed or stolen property.

Usually, however, a casualty or theft results in a loss. Part of a casualty or theft loss may be deductible if the taxpayer can prove that the casualty or theft occurred to property that the taxpayer owned. The taxpayer must also prove the dollar amount of the loss.

Miscellaneous Itemized Deductions

Certain employee expenses, expenses of producing income, and other qualifying expenses are reported as miscellaneous itemized deductions on Schedule A. Miscellaneous itemized deductions that exceed 2% of adjusted gross income are deductible. There are some miscellaneous itemized deductions that are deductible, regardless of a taxpayer's adjusted gross income.

Examples of deductions that are subject to the 2% limit and that are reported on lines 20 through 26 of Schedule A are:

- Union dues and fees,
- Professional society dues,
- Uniforms not adaptable to general use,
- Small tools and supplies,
- Professional books, magazines, journals,
- Employment-related educational expenses,
- Expenses of looking for a new job,
- Investment counsel fees,
- Investment expenses,
- Tax counsel and assistance,
- Fees paid to an IRA custodian, and
- Safe deposit box rental for investment documents.
- Unrecovered after-tax pension contributions (see Lesson 13).

Examples of deductions that are not subject to the 2% limit and that are reported on line 27 of Schedule A are:

- Gambling losses to the extent of gambling winnings, and
- Work-related expenses for an individual with a disability, such as attendant-care services at the individual's place of work, that are necessary for the person to work.

Nondeductible expenses include:

- Burial or funeral expenses,
- Wedding expenses,
- Fees and licenses, such as car and marriage licenses and dog tags,
- Fines and penalties, such as parking tickets,
- Home repairs, insurance, and rent,
- Illegal bribes and kickbacks,
- Insurance premiums (except medical insurance premiums),
- Losses from the sale of a taxpayer's home, furniture, or personal car,
- Lost or misplaced cash or property,
- Personal legal expenses, and
- Commuting expenses to and from work.

Robert is a janitor. His adjusted gross income is \$20,000. He wants to deduct the following items on his tax return:

2003 income tax preparation fee	\$ 100
Safe deposit box rental (used to keep bonds)	75
Life insurance premiums	300
Investment expenses	70
Loss on sale of personal home	800
Investment journals and newsletters	250
Investment advisory fees	200
Attorney fees for preparation of will	100

Complete Robert's Schedule A, line 20 through 26.

Exhibit 6 Schedule A

Job Expenses and Most Other Miscellaneous		Unreimbursed employee expenses—job travel, union dues, job education, etc. You must attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶	
Deductions	04	Tay proportion for	20 21
	21	Tax preparation fees	
(See page A-5 for expenses to deduct here.)	22	Other expenses—investment, safe deposit box, etc. List type and amount ▶	22
deddot fiele.)	23	Add lines 20 through 22	23
	24	Enter amount from Form 1040, line 35 24	
	25	Multiply line 24 by 2% (.02)	25
	26	Subtract line 25 from line 23. If line 25 is more than line	
Othor			Υ/////λ

TOTAL ITEMIZED DEDUCTIONS

Schedule A, line 28, is *Total Itemized Deductions*. It is the sum of lines 4, 9, 14, 18, 19, 26, and 27.

Compare the amount on line 28 to the standard deduction, and enter the larger of the two on Form 1040, line 38.

Seth A. and Karen Yale's adjusted gross income is \$28,000. Seth's social security number is 000-00-1039. They gave you a list of their itemized deductions. They received no insurance reimbursement for medical expenses. They purchased their home in 1989, and a commercial mortgage company holds the mortgage. They have not refinanced the mortgage or increased the principal balance since they bought their home. They are both under age 65 and not blind. Neither can be claimed as a dependent by another taxpayer.

Unreimbursed medical expenses:

Medical insurance premiums	\$480
Hospital	600
Doctors and dentists	820
Vitamins	75
Prescription drugs	300
Insulin	120

Taxes:

State income tax	\$1,200
Federal income tax	2,400
Real estate tax	780

Interest:

Interest on mortgage (reported on Form 1098)	\$4,500
Car loan	900
Credit cards	102

Contributions:

Church (gave Yales' letter verifying this amount)	\$850
Bingo costs	60
American Cancer Society	130
Canned goods donated to a food drive	15
Fair market value of donated used clothing	60

Miscellaneous:

Union dues	\$90
IRA custodial fee	10
Traffic fine	70
Investment expenses	20

Complete Seth and Karen's Schedule A.

Exhibit 7 Schedule A

SCHEDULES A&B (Form 1040)

Schedule A—Itemized Deductions

OMB No. 1545-0074

(101111 1040)	(Schedule B is on back)			2003)
	Department of the Treasury Internal Revenue Service ► Attach to Form 1040. ► See Instructions for Schedules A and B (Form 1040)		Attachment Sequence No. 07		
Name(s) shown or	n Form 1	040	Your	social security nu	
		VIIIIX	//////	<u>i i </u>	
Medical		Caution. Do not include expenses reimbursed or paid by others.			
and		Medical and dental expenses (see page A-2)			
Dental Expenses		· · · · · · · · · · · · · · · · · · ·			
Lxperises		Multiply line 2 by 7.5% (.075)	4		
Taxes You		State and local income taxes 5			+
Paid		Real estate taxes (see page A-2)			
(See		Personal property taxes			
page A-2.)		Other taxes. List type and amount ▶			
	_	8			
		Add lines 5 through 8	9		
Interest		Home mortgage interest and points reported to you on Form 1098	-/////		
You Paid		Home mortgage interest not reported to you on Form 1098. If paid			
(See page A-3.)		to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address			
page / C.)		and show that person's name, identifying no., and address			
Note.		11			
Personal	12	Points not reported to you on Form 1098. See page A-3			
interest is not		for special rules			
deductible.		Investment interest. Attach Form 4952 if required. (See			
		page A-3.)			
C:tto to		VIIII	14		+
Gifts to Charity		Gifts by cash or check. If you made any gift of \$250 or			
If you made a		more, see page A-4			
gift and got a		see page A-4. You must attach Form 8283 if over \$500			
benefit for it, see page A-4.		Carryover from prior year			
	18	Add lines 15 through 17	18		
Casualty and	10	Conveltor on the ft lead (as) Attack Form 1604 (Con many A.F.)	,		
Theft Losses	19	Casualty or theft loss(es). Attach Form 4684. (See page A-5.)	19		+
Job Expenses		Unreimbursed employee expenses—job travel, union			
and Most Other		dues, job education, etc. You must attach Form 2106 or 2106-EZ if required. (See page A-5.) ►			
Miscellaneous		or 2100-L2 in required. (See page A-5.)			
Deductions		20			
	21	Tax preparation fees			
(See	22	Other expenses—investment, safe deposit box, etc. List			
page A-5 for expenses to		type and amount ▶			
deduct here.)		Add lines 20 through 22 23	-//////		
		Add into 20 through 22			
		Enter amount from Form 1040, line 35 24 Multiply line 24 by 2% (.02)			
		Subtract line 25 from line 23. If line 25 is more than line 23, enter -0	26		
Other	27	Other—from list on page A-6. List type and amount ▶			
Miscellaneous	3				
Deductions			27		+-
Total	28	Is Form 1040, line 35, over \$139,500 (over \$69,750 if married filing separately)?			
Itemized		No. Your deduction is not limited. Add the amounts in the far right column	20		
Deductions		for lines 4 through 27. Also, enter this amount on Form 1040, line 37.	28		1//////
		Yes. Your deduction may be limited. See page A-6 for the amount to enter.			
For Paperwork	Reduc	ction Act Notice, see Form 1040 instructions. Cat. No. 11330X	Schedu	le A (Form 104	o) 2003
				,	,

TAXABLE INCOME COMPUTATION

Once you have determined the standard deduction, compare it to the total itemized deductions. In most cases, you will enter the larger of the two amounts on Form 1040, line 37. Subtract line 37 from line 35 and enter the result on line 38. Then subtract the exemption deduction (line 39) to compute the taxable income.

If the taxpayer has capital gain distributions that are reported directly on Form 1040 or Form 1040A, the taxpayer should use the Capital Gain Tax Worksheet to determine if the tax is less.

The taxpayer should:

- Check the box next to line 13a, Form 1040 and
- Use the Capital Gain Tax Worksheet (Exhibit 8) from either the Form 1040A or 1040 instruction booklet to compute tax.

Example 3

Marjorie is a single taxpayer with taxable income of \$46,250. She files Form 1040 and does not have to file a Schedule D. In 2003, she received capital gain distributions of \$798 from XYZ Investments. Marjorie pays less tax by using Capital Gain Tax Worksheet (Exhibit 8).

Qualified Dividen	ds and Capital G	aın Tax Worksh	eet—Line 41	h	Keep for Your Record
Before you begin	begin on page 2	not have to file Schedul 3).	•	s for Form 1040, 1	ine 13a, that
 Enter the amount from the amount	om Form 1040, line 40 om Form 1040, line 9b om Form 1040, line 13a nvestment interest expensant from line 4g; otherwise	2	798 798	46,250	
6. Subtract line 5 from	line 4. If zero or less, enter line 1. If zero or less, enter:	er -0		798 45,452	
• \$56,800 if marr \$28,400 if singl \$38,050 if head	ied filing jointly or qualify e or married filing separat of household.	ely, or	8.	28,400	
Yes. Skip lines	9 through 15; go to line 1	6 and check the "No"			
10. Subtract line 9 from	amount from line 7 line 8				
13. Multiply line 12 by :	line 10 or line 11				3.
15. Multiply line 14 by 16. Are the amounts on	10% (.10)				5.
No. Enter the amount from	smaller of line 1 or line 6 om line 10 (if line 10 is blan line 16	ank, enter -0-)	17.	798 0 798	
20. Enter the amount from	e 13b, and line 2 above	ank, enter -0-) 20.	0 0 0		
23. Multiply line 22 by	line 18 or line 21			0 798	230
25. Multiply line 24 by 26. Figure the tax on the	20% (.20)	e Tax Table or Tax Rate	e Schedules, whichever	applies 2	25. 160 26. 8,179 27. 8,339
	e amount on line 1. Use th	e Tax Table or Tax Rate	Schedules, whichever	applies 2	88. 8,379 99. 8,339

FINDING THE TAX

Taxpayers with taxable income of less than \$100,000 use the Tax Table to find their tax. However, children under 14 years of age who have more than \$1,500 of investment income (interest, dividends, etc.) might not be able to use the Tax Table. Their income might have to be taxed at the parents' tax rate. These taxpayers should be referred to a paid professional tax preparer.

The Tax Table is in the back of this book. The tax is based on the person's filing status and taxable income. To find the tax, use the **taxable income** from the tax forms (1040EZ, line 6; 1040A, line 27; and 1040, line 40), and:

- locate the income bracket for the taxable income,
- read across that line until you reach the column for the appropriate filing status, and
- find the amount where the taxable income and filing status meet. This is the tax liability.

If the taxable income is the same as the ending amount in an income bracket, go to the next bracket to find the tax.

Qualifying widows(ers) use the married filing jointly column.

Enter the tax on Form 1040EZ, line 10, Form 1040A, line 28, or Form 1040, line 41.

Double check the amount entered. **Common errors** include:

- Using the wrong standard deduction,
- Incorrectly figuring the exemption amount,
- Using an amount other than taxable income to find the tax,
- Picking up the wrong number from the Tax Table, and
- Transposing the numbers when entering the tax amount.

TAXWISE HINT

If a taxpayer wants to determine whether the standard or itemized deduction is best for him or her, input Schedule A information. TaxWise will automatically select the deduction that is more beneficial.

► SUMMING UP THIS LESSON ◀ ◀

Both the standard deduction (or total itemized deductions, if greater) and exemption amounts are subtracted from adjusted gross income to arrive at taxable income.

The standard deduction depends upon:

- ▶ filing status,
- age, eyesight, and
- ➤ whether the taxpayer can be claimed as a dependent on another taxpayer's return.

Determine the standard deduction by using the:

- ► Standard Deduction amount for the appropriate filing status from the appropriate tax form,
- ➤ Standard Deduction Chart for People Age 65 or Older or Blind, or
- ► Standard Deduction Worksheet for Dependents

Itemized deductions are specifically allowed by law. Claim itemized deductions on Schedule A (Form 1040).

Itemized deductions include:

- ► Medical and dental expenses
- ► Taxes paid
- ► Home mortgage and certain investment interest paid
- ► Charitable contributions
- ➤ Casualty and theft losses
- ➤ Miscellaneous itemized deductions.

Medical and dental expenses that exceed 7.5 percent of adjusted gross income are deductible.

To be deductible as a charitable contribution, a donation of \$250 or more must be acknowledged in writing by the charitable organization that received the donation.

Most miscellaneous itemized deductions that exceed 2% of adjusted gross income are deductible. However, there are certain miscellaneous itemized deductions that are fully deductible, regardless of gross income.

If deducted investment interest expense exceeds investment income, refer the taxpayer to a paid professional tax preparer.

If you are uncertain whether an expense qualifies as a deduction, do not guess. Refer the taxpayer to a paid professional tax preparer.

► SUMMING UP THIS LESSON ◀ ◀ (continued)

Most taxpayers compare their total itemized deductions to their standard deduction and enter the larger amount on Form 1040, line 37.

Do not use the Tax Table for taxpayers with taxable income of \$100,000 or more

Common errors include:

- ► Using the wrong standard deduction,
- ► Incorrectly figuring the exemption amount,
- ▶ Using an amount other than taxable income to find the tax,
- ▶ Picking up the wrong number from the Tax Table, and
- ▶ Transposing the numbers when entering the tax amount.

STUDENT NOTES	

STANDARD AND ITEMIZED DEDUCTIONS AND TAX COMPUTATION ANSWER

Answers to Exercises

Exercise 1

- (A) \$7,000
- (B) \$5,900
- (C) \$10,450
- (D) \$5,700
- (E) \$4,750
- (F) \$1,750

Exercise 2 Sam and Paula's Schedule A

SCHEDULES A&B		Schedule A—Itemized Deductions	-	OMB No. 1545-0074	
(Form 1040)		(Schedule B is on back)		2003	
Department of the T Internal Revenue Se		► Attach to Form 1040. ► See Instructions for Schedules A and B (Form 1040).		Attachment Sequence No. 07	
Name(s) shown of	Yor	Your social security number			
		Sam and Paula Fordham	0	00 00 8612	
Medical and	1	Caution. Do not include expenses reimbursed or paid by others. Medical and dental expenses (see page A-2)			
Dental	2	Enter amount from Form 1040, line 35 2 40,000			
Expenses	3	Multiply line 2 by 7.5% (.075)	<i>\\\\\\</i>		
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0	4	250	

Exercise 3 John and Shanon's Schedule A

	9	Add lines 5 tillough 6
Interest	10	Home mortgage interest and points reported to you on Form 1098 10 2,180
You Paid	11	Home mortgage interest not reported to you on Form 1098. If paid
(See		to the person from whom you bought the home, see page A-3
page A-3.)		and show that person's name, identifying no., and address
,		
Note.		
Personal	12	Points not reported to you on Form 1098. See page A-3
nterest is not		for special rules
deductible.	13	Investment interest. Attach Form 4952 if required. (See
		page A-3.)
	14	Add lines 10 through 13
		VIIIII VIIII

Lesson 4 **4-23**

STANDARD AND ITEMIZED DEDUCTIONS AND TAX COMPUTATION ANSWERS TO EXERCISES

Exercise 4

Line 15 \$632

Line 16 \$200

Line 18 \$832

Exercise 5 Robert's Schedule A

Job Expenses and Most Other Miscellaneous Deductions		Unreimbursed employee expenses—job travel, union dues, job education, etc. You must attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶	20				
	21	Tax preparation fees	21	100	_/////		
(See page A-5 for expenses to	22	Other expenses—investment, safe deposit box, etc. List type and amount ▶	22	595			
deduct here.)	23	Add lines 20 through 22	23	695			
	24	Enter amount from Form 1040, line 35 24 20,000					
	25	Multiply line 24 by 2% (.02)	25	400	_/////		
	26	Subtract line 25 from line 23. If line 25 is more than line	23, enter -	0	26	295	

STANDARD AND ITEMIZED DEDUCTIONS AND TAX COMPUTATION ANS

Answers to Exercises

Exercise 6 Schedule A

2 3 4 5 6 7 8 9	Seth and Karen Yale Caution. Do not include expenses reimbursed or paid by others. Medical and dental expenses (see page A-2)	320 100 300 780	Sequi Your social	chiment lence No. 07 security numb
1 2 3 4 5 6 7 8 9 110	Attach to Form 1040. ► See Instructions for Schedules A and B (Form 1040) Seth and Karen Yale Caution. Do not include expenses reimbursed or paid by others. Medical and dental expenses (see page A-2) Enter amount from Form 1040, line 35	320 100 300 780	Sequotour social	security numb
1 2 3 4 5 6 6 7 8 9 110	Seth and Karen Yale Caution. Do not include expenses reimbursed or paid by others. Medical and dental expenses (see page A-2) 1 2,5 Enter amount from Form 1040, line 35 2 28,000 3 Multiply line 2 by 7.5% (.075) 2,5 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0- State and local income taxes 5 1,6 Real estate taxes (see page A-2) 6 Personal property taxes 7 Other taxes. List type and amount 8 Add lines 5 through 8	320 100 300 780	Your social	security numb
2 3 4 5 6 7 8 9	Caution. Do not include expenses reimbursed or paid by others. Medical and dental expenses (see page A-2) 1 2,5 Enter amount from Form 1040, line 35	320 100 		
2 3 4 5 6 7 8 9	Medical and dental expenses (see page A-2)	300 780	1	220
2 3 4 5 6 7 8 9	Enter amount from Form 1040, line 35	300 780	1	220
3 4 5 6 7 8 9	Multiply line 2 by 7.5% (.075). Subtract line 3 from line 1. If line 3 is more than line 1, enter -0 State and local income taxes Real estate taxes (see page A-2) Personal property taxes Other taxes. List type and amount Add lines 5 through 8	300 780	1	220
5 6 7 8 9	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0 State and local income taxes Real estate taxes (see page A-2) Personal property taxes Other taxes. List type and amount Add lines 5 through 8	300 780	1	220
5 6 7 8 9	State and local income taxes 5 1,5 Real estate taxes (see page A-2) 6 7 Personal property taxes 7 Other taxes. List type and amount 8 Add lines 5 through 8	300 780		10100
6 7 8 9	Real estate taxes (see page A-2) Personal property taxes Other taxes. List type and amount ▶ Add lines 5 through 8	780		
7 8 9 10	Personal property taxes			
8 9 10	Other taxes. List type and amount ▶ 8 Add lines 5 through 8			
10	Add lines 5 through 8			
10	A 1.2			
			9	1,980
4.4	Home mortgage interest and points reported to you on Form 1098 $\frac{10}{100}$ $\frac{4}{50}$	500		
	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 ▶			
10				
	10 10 10			
	Tol openial rates			
. •				
14	Add lines 10 through 13	1	4	4,500
15	Gifts by cash or check. If you made any gift of \$250 or			
	more, see page A-4	980		
16		75		
47	see page 71 in rea mact anach term ezee in ever tees	10		
		1	8	1,055
		· · · · · ·		
19	Casualty or theft loss(es). Attach Form 4684. (See page A-5.)	1	9	
20	Unreimbursed employee expenses—job travel, union			
	dues, job education, etc. You must attach Form 2106			
	or 2106-EZ if required. (See page A-5.) ▶			
		90		
	Tax proparation root.			
22				
	21	30		
23	Add lines 20 through 22			
24				
25	Multiply line 24 by 2% (.02)	560		
26	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0	2	26	0
27	Other—from list on page A-6. List type and amount ▶			
			27	
28		3"		
			18	
		(777		
	- 165. Four deduction may be innited. See page A-0 for the afficult to ente	' J 🧌		
1 1 1 1 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	13 14 15 16 17 18 19 19 20 21 122 22 23 24 22 27	for special rules Investment interest. Attach Form 4952 if required. (See page A-3.) Add lines 10 through 13 Gifts by cash or check. If you made any gift of \$250 or more, see page A-4. Other than by cash or check. If any gift of \$250 or more, see page A-4. Carryover from prior year Add lines 15 through 17 Casualty or theft loss(es). Attach Form 4684. (See page A-5.) Unreimbursed employee expenses—job travel, union dues, job education, etc. You must attach Form 2106 or 2106-EZ if required. (See page A-5.) Other expenses—investment, safe deposit box, etc. List type and amount Casualty or theft loss(es). Attach Form 4684. (See page A-5.) Other expenses—investment, safe deposit box, etc. List type and amount Add lines 20 through 22 Enter amount from Form 1040, line 35 Multiply line 24 by 2% (.02) Subtract line 25 from line 23. If line 25 is more than line 23, enter -0- Other—from list on page A-6. List type and amount No. Your deduction is not limited. Add the amounts in the far right colur for lines 4 through 27. Also, enter this amount on Form 1040, line 35 Is Form 1040, line 35, over \$139,500 (over \$69,750 if married filling sepa	Points not reported to you on Form 1098. See page A-3 for special rules Investment interest. Attach Form 4952 if required. (See page A-3.) Add lines 10 through 13 Gifts by cash or check. If you made any gift of \$250 or more, see page A-4. Other than by cash or check. If any gift of \$250 or more, see page A-4. You must attach Form 8283 if over \$500 Carryover from prior year Add lines 15 through 17 Casualty or theft loss(es). Attach Form 4684. (See page A-5.) Unreimbursed employee expenses—job travel, union dues, job education, etc. You must attach Form 2106 or 2106-EZ if required. (See page A-5.) Tax preparation fees Other expenses—investment, safe deposit box, etc. List type and amount Add lines 20 through 22 Enter amount from Form 1040, line 35 Multiply line 24 by 2% (.02) Subtract line 25 from line 23. If line 25 is more than line 23, enter -0- Would be page A-6 for the amount to enter. Yes. Your deduction may be limited. See page A-6 for the amount to enter.	12 Points not reported to you on Form 1098. See page A-3 for special rules 13 Investment interest. Attach Form 4952 if required. (See page A-3.) 14 Add lines 10 through 13 15 Gifts by cash or check. If you made any gift of \$250 or more, see page A-4. 16 Other than by cash or check. If any gift of \$250 or more, see page A-4. You must attach Form 8283 if over \$500 17 Carryover from prior year 18 Add lines 15 through 17 18 19 Casualty or theft loss(es). Attach Form 4684. (See page A-5.) 19 Unreimbursed employee expenses—job travel, union dues, job education, etc. You must attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶ 19 Unreimbursed employee expenses—investment, safe deposit box, etc. List type and amount ▶ 20 90 21 Tax preparation fees 22 Other expenses—investment, safe deposit box, etc. List type and amount ▶ 22 30 23 120 24 Enter amount from Form 1040, line 35 24 30,000 25 560 36 Multiply line 24 by 2% (.02) 37 Other—from list on page A-6. List type and amount ▶ 27 Other—from list on page A-6. List type and amount ▶ 28 Is Form 1040, line 35, over \$139,500 (over \$69,750 if married filing separately)? □ No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 27. Also, enter this amount on Form 1040, line 37. □ Yes. Your deduction may be limited. See page A-6 for the amount to enter.

BASIC

		NOTES
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BASIC

Miscellaneous Tax Credits

Lesson 5

INTRODUCTION AND OBJECTIVES

In this lesson you will learn about three "miscellaneous credits". The mortgage interest credit, the foreign tax credit and the credit for qualified retirement savings are covered in this lesson.

After completing this lesson you should be able to:

- Calculate the credit for qualified retirement savings contributions by using Form 8880.
- Accurately report the foreign tax credit if Form 1116 is not required.
- Be aware of the mortgage interest credit.

CREDITS

A credit is a dollar-for-dollar reduction of the taxpayer's tax liability. A **refundable** credit can be greater than the tax. Taxpayers not only can have their tax reduced to zero; they can also receive a "refund" of excess credit. A **nonrefundable credit** can also be greater than the tax, but the nonrefundable credit can only reduce the tax to zero. Therefore, taxpayers will not receive a refund for any excess nonrefundable credit. All of the credits discussed in this lesson are non-refundable.

CREDIT FOR QUALIFIED RETIREMENT SAVINGS CONTRIBUTIONS

If the taxpayer contributed to a retirement plan or an IRA, he or she may be eligible for the credit for qualified retirement savings contributions credit. The amount of the saver's credit is determined by the taxpayer's filing status, adjusted gross income, and his or her qualified contributions.

The credit is reported on line 48 of Form 1040, or line 32 of Form 1040A.

To be eligible for the saver's credit, the taxpayer:

- Must be age 18 or older by the end of the tax year,
- Cannot be claimed on another person's tax return, and
- Cannot be a full-time student.

A **full-time student** is anyone who attends school full-time for some part of each of five calendar months of the year. The five months need not be consecutive. An individual is a full-time student if he or she is enrolled for the number of hours or courses the school considers as full-time attendance.

FIGURING THE CREDIT

The credit for qualified retirement savings contributions is figured by multiplying the **credit rate** by the lessor of the:

- Maximum allowable contribution (\$2,000) or
- Eligible contributions.

The credit rate is determined by using the following table.

IF your filing status is	AND your adjusted gross income is	THEN your credit rate is
	Less than \$30,001	50%
Manufad Clinariaintle	Between \$30,001 and \$32,500	20%
Married filing jointly	Between \$32,501 and \$50,000	10%
	Over \$50,000	0
	Less than \$22,501	50%
Head of Household	Between \$22,501 and \$24,375	20%
Tread of frousehold	Between \$24,376 and \$37,500	10%
	Over \$37,500	0

	Less than \$15,001	50%
Single, Married filing	1.010 7.00	20%
separately, or qualify- ing widow(er)	Between \$16,251 and \$25,000	10%
	Over \$25,000	0

Adjusted gross income is determined without regards to:

- The foreign income exclusion
- The foreign housing exclusion or deduction
- Income from sources within Guam, American Samoa, and the Northern Mariana Islands
- Income from Puerto Rico

Eligible contributions are determined by reducing the taxpayer's **qualified retirement savings contributions** by the following distributions that were received during the **testing period**.

- Any distribution, that is included in the taxpayer's gross income, from a qualified retirement plan, or from an eligible deferred compensation plan.
- Any distribution from a Roth IRA that is not a qualified rollover contribution.

If the distributions received by the taxpayer are for loans or for excess IRA contributions returned before the due date of the return, they are not used to reduce the taxpayer's qualified retirement savings contributions.

Qualified retirement savings contributions are contributions made to a traditional or Roth IRA and salary reduction contributions to a 401(k) plan (including a SIMPLE 401(k)), a tax-sheltered annuity (403(b)) plan, an eligible deferred compensation plan of a state or local government (457(b)) plan), a SIMPLE IRA plan, or a salary reduction SEP.

Qualified retirement savings contributions also include voluntary after-tax employee contributions to a tax-qualified retirement plan or a tax-sheltered annuity (403(b)) plan. For purposes of the credit, an employee contribution will be voluntary as long as it is not required as a condition of employment.

The *testing period* includes:

- The tax year,
- The two preceding tax years, and
- The period between the end of the tax year and the due date of the return (including extensions).

Example 1

Terry contributes \$3,000 to a 401(k) plan during 2003. In 2002, Terry withdrew \$500 from his IRA. In 2003, he withdrew \$900 from his IRA. Neither of these withdrawals were rolled over. In 2003, Terry's adjusted gross income was \$23,000 and his filing status was head of household. Based on these facts, Terry would figure his saver's credit as follows:

(Qualified retirement contributions – withdrawals) x credit rate (per table)

```
(\$3,000 - \$1,400) \times .20
\$1,600 \times .20 = \$320 saver's credit
```

The credit is figured on **Form 8880,** Credit for Qualified Retirement Savings Contributions.

Married filing jointly. If the taxpayer is married filing a joint return, he or she and his or her spouse may both use the credit. Both the taxpayer and spouse are eligible for a credit of the maximum annual contribution amount of \$2,000.

If the taxpayers file a joint return, the qualified contribution is reduced by the taxable distributions received by the taxpayer or the taxpayer's spouse if the taxpayers filed jointly for both:

- the year a distribution was made, and
- the year the credit is claimed.

Exercise 1

Jason is 22 and earned \$30,000 in 2003. He is single and contriuted \$3,000 to his 401(k) plan at work. Is Jason eligible for the credit for qualified retirement savings contributions?

Exercise 2

Martha Barnard (000-00-0088) is 32 and files as Head of Household. Her only income is wages of \$26,819. This year, she was able to contribute \$1,000 to her employer's 401(k) plan. She did not put any money in an IRA. Use Exhibit 1 to complete Sally's Form 8880 through line 10.

Credit for Qualified Retirement Savings Contributions

► Attach to Form 1040 or Form 1040A.

OMB No. 1545-1805 Attachment

Department of the Treasury Internal Revenue Service Name(s) shown on return

Sequence No. 129 Your social security number



You cannot claim this credit if either of the following applies.

- The amount on Form 1040, line 35, or Form 1040A, line 22, is more than \$25,000 (\$37,500 if head of household, \$50,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral (a) was born after January 1, 1986, (b) is claimed as a dependent on someone else's 2003 tax return, or (c) was a student in 2003 (see instructions).

			_		(a) You	(b) Your spouse
1		nd Roth IRA con	tributions for 2003.		1	
2		ontributions, an	or other qualified em d 501(c)(18) plan co			
3	Add lines 1 a				3	
4			ed after 2000 and l	hefore the due date		
•	(including ex married filing	ctensions) of yo	our 2003 tax return both spouses' amou	f . _		
5			f zero or less, enter	5		
6	In each colu	mn, enter the s	maller of line 5 or \$	2,000	6	
						\(\(\frac{\partial}{\partial}\)
7	Add the amo	ounts on line 6.	If zero, stop ; you ca	annot claim the cred	t	7
_					0	
8	Enter the am	ount from Forn	n 1040, line 35*, or F	Form 1040A, line 22	8	
_						
9	Enter the ap	plicable decima	al amount shown bel	ow:		
	If line	8 is—	Λ,	nd your filing status	· ie—	7
	11 11116	; 0 is—	Married	Head of		-
	Over—	But not	filing jointly	household	Single, Married filing separately, or	
	Ovei—	over—	0,	on line 9—	Qualifying widow(er)	
		\$15,000	.5	.5	.5	
	\$15,000	\$16,250	.5	.5	.2	
	\$16,250	\$22,500	.5	.5	.1	9 X.
	\$22,500	\$24,375	.5	.2	.1	
	\$24,375	\$25,000	.5	.1	.1	
	\$25,000	\$30,000	.5	.1	.0	
	\$30,000	\$32,500	.2	.1	.0	
	\$32,500	\$37,500	.1	.1	.0	
	\$32,500	\$50,000	.1	.0	.0	
	\$50,000	\$50,000	.1	.0	.0 .0	
	φ50,000		.0	.0	.0	
		Note: If	line 9 is zero, stop ; y	ou cannot claim the	credit.	
			, . , . , . , . , ,			
n	Multiply line	7 by line 9				10
		•	n 1040, line 43, or F		11	
			s from Form 1040, li			
	Form 1040A	, lines 29 throu	gh 31		12	
3	Subtract line	12 from line 1	1. If zero, stop ; you	cannot take the cred	lit	13
•						

Mortgage Interest Credit

Taxpayers who hold qualified mortgage credit certificates under a qualified state or local government program may claim a credit for mortgage interest paid. The certificate must be for the taxpayer's main home. If the interest is paid to certain related parties (such as relatives), the credit cannot be claimed.

The credit is figured on Form 8396, *Mortgage Interest Credit*. Include the amount of the credit on Form 1040, line 52. Also, check box a on line 52 for Form 8396.

Any mortgage interest credit that the taxpayer cannot use in 2003 can be carried forward for up to three tax years. Figure the carryforward credit in Part II of Form 8396.

Reduce the mortgage interest deduction claimed on Schedule A, Form 1040, by the amount shown on line 3 of Form 8396.

Caution: If the taxpayer was issued (and used) a qualified mortgage credit certificate after 1990 for a home, the taxpayer may have to recapture (repay) all or part of the benefit if the taxpayer sells that home within 9 years. The recapture is figured on Form 8828, *Recapture of Federal Mortgage Subsidy*.

FOREIGN TAX CREDIT

If the taxpayer paid income, war profits, or excess profits taxes to any:

- Foreign country,
- U.S. possession, or
- Any political subdivision, or agency or instrumentality of the country or possession, he or she may be able to take a **Foreign Tax Credit** (FTC) for taxes paid.

To determine if the tax paid is eligible for the foreign tax credit, the taxpayer **may** need to consult a paid professional preparer.

Generally, to claim the FTC, a taxpayer is required to file Form 1116, Foreign Tax Credit (Individual, Estate, Trust, or Nonresident Alien Individual); however, the taxpayer does not have to file Form 1116 to take the credit if he or she meets all of the following requirements.

- All of the taxpayer's gross foreign source income is from interest and dividends that are reported on Form 1099-INT, or Form 1099-DIV (or substitute statement)
- If the taxpayer has dividend income from shares of stock, he or she held those shares for at least 16 days.
- The taxpayer is not filing Form 4563, Exclusion of Income for Bona Fide Residents of American Samoa, or excluding income from sources within Puerto Rico.
- The total of the taxpayer's foreign taxes is less than or equal to \$300 (\$600 if married filing jointly).
- All of the taxpayer's foreign taxes were:
 - Legally owed and not eligible for a refund, and
 - Paid to countries that are recognized by the United States and do not support terrorism.

For additional information, see the Instructions for Form 1116.

If the taxpayer meets all of the requirements listed above, enter the foreign tax credit on line 45 of Form 1040. Form 1116 is not required.

Example 2

Tabitha received a 1099-DIV that shows \$219 of foreign taxes (box 6) in 2003. According to Tabitha she paid no other foreign taxes. She can claim the \$219 on line 44 of Form 1040.

Exercise 3

Clyde comes to your site seeking help with his foreign tax credit. He is single and his 1099-DIVs show a total of \$423 of foreign tax. Does Clyde need Form 1116 to claim his credit?

MISCELLANEOUS TAX CREDITS

Lesson 5 Answers to Exercises

Exercise 1

No; Jason is not eligible for the credit because his income exceeds the threshold limit.

Exercise 2

See the completed Form 8880 on the next page.

Exercise 3

Yes, Clyde needs to complete a Form 1116 since his foreign taxes exceed \$300. Clyde will need to seek the assistance of a paid professional preparer.

8880

Credit for Qualified Retirement Savings Contributions

► Attach to Form 1040 or Form 1040A.

OMB No. 1545-1805 Attachment Sequence No. **129**

Department of the Treasury Internal Revenue Service Name(s) shown on return

MARTHA BARNARD

Your social security number 000 00 0088



You cannot claim this credit if either of the following applies.

- The amount on Form 1040, line 35, or Form 1040A, line 22, is more than \$25,000 (\$37,500 if head of household, \$50,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral (a) was born after January 1, 1986, (b) is claimed as a dependent on someone else's 2003 tax return, or (c) was a student in 2003 (see instructions).

						(a) You		(b) Your spou	ıse
1		d Roth IRA co	ntributions for 2003.	Oo not include rollover					
	contributions								
2				ployer plan, voluntary					
			nd 501(c)(18) plan c	ontributions for 2003		1,000			
_	(see instruction	,			3	· ·			
3	Add lines 1 a	nd 2		·	3	1,000	<i>(////</i> //		
4	Certain distrib	outions receive	ved after 2000 and	before the due date					
	`			(see instructions). If					
				unts in both columns.					
	See instructio			4	4	1 000	<i>\\\\\\</i>		
5	Subtract line	4 from line 3.	If zero or less, enter	-0	5	1,000			
	6. In each column, enter the smaller of line 5 or \$2,000								
6 In each column, enter the smaller of line 5 or \$2,000 6 1,000									
_							7	1,000	
7	Add the amou	unts on line 6	. it zero, stop ; you c	annot claim the credit			111111	1,000	<u> </u>
0	Entar the eme	ount from For	m 1040 line 25* or l	Form 10404 line 00	8	26,819			
8	Enter the amo	Duni Ironi For	m 1040, line 35*, or	Form 1040A, line 22		-,			
^	Entar the ann	الممام مامماس	al amount about ha	la					
9	Enter the app	ilicable decim	al amount shown be	iow.					
	If line	8 is—	Α	nd your filing status i	s—				
		But not	Married	Head of	Single	, Married filing			
	Over—	over—	filing jointly	household		oarately, or			
		0.00	Enter	on line 9—	Qualif	ying widow(er)			
		\$15,000	.5	.5		.5			
	\$15,000	\$16,250	.5	.5		.2			
	\$16,250	\$22,500	.5	.5		.1	9	X .	10
	\$22,500	\$24,375	.5	.2		.1			
	\$24,375	\$25,000	.5	.1		.1			
	\$25,000	\$30,000	.5	.1		.0			
	\$30,000	\$32,500	.2	.1		.0			
	\$32,500	\$37,500	.1	.1		.0			
	\$37,500	\$50,000	.1	.0		.0			
	\$50,000	ψ50,000 	.0	.0		.0			
	ψου,σου						J ₩		
		Note: //	f line 9 is zero, stop ; j	you cannot claim the cr	redit.				
								100	
10 Multiply line 7 by line 9								100	<u> </u>
	1 Enter the amount from Form 1040, line 43, or Form 1040A, line 28								
12	2 Enter the total of your credits from Form 1040, lines 44 through 47, or								
	Form 1040A,		•		12				
				cannot take the credit			13		
14	-			outions. Enter the smal	ller of li	ne 10 or line 13			
	here and on F	orm 1040, lir	ne 48, or Form 1040A	A, line 32			14		<u> </u>
	*See Pub. 590	for the amount	to enter if you are filing	Form 2555, 2555-EZ, or	4563 or	you are excluding	g income fro	m Puerto Rico.	
or	Paperwork Re	eduction Act	Notice, see back of	f form.	Cat.	No. 33394D		Form 8880	(2003)

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	STUD	ENT NOTES	
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Finishing The Return

Lesson 6

INTRODUCTION AND OBJECTIVES

In this lesson you will learn how to report federal income tax payments and figure the overpayment or balance due. You will also learn how to determine if estimated taxes should be paid. Additionally, you will learn how to finish the return and have the taxpayer sign the return.

After completing this lesson you should be able to:

- Calculate and report federal income tax withheld from all sources.
- Calculate and report estimated tax payments.
- Calculate the refund or amount due.
- Determine if estimated taxes should be paid.
- Determine if changes to the taxpayer's W-4 or W-4P should be suggested.

Please pay close attention to the section about identifying the returns that you work on. It is critical for you to enter the correct site identification number in the preparer's signature section of the return. The number goes in the designated area on the forms with the preprinted "P" followed by 8 digits or in the PTIN/SSN field of the return.

This lesson will provide detailed information on how to finish the tax return. The following checklist is provided as a quick reference of the steps needed to finish the return.

CHECKLIST FOR FINISHING THE RETURN

Withholdings, Payments and Other Credits:

- Add all Federal Income Tax Withholding from Form W-2, box 2, and include on return.
- Add all Federal Income Tax Withholding from box 4 of Forms 1099R, 1099INT, 1099DIV and 1099G. Include in the payments section of the return.
- Include all estimated tax payments in the payment section.

POTENTIAL PITFALLS



Form W-2, box 4, shows social security tax withheld and box 6 shows Medicare tax withheld. These are not the same as federal income tax withheld. Do not report the amounts in box 4 and box 6 as federal income tax withheld.

POTENTIAL PITFALLS



When a taxpayer worked for more than one employer during the year, add up the amounts shown in box 4 of all Forms W-2. If the total in box 4 of all forms exceeds \$5,263.80 the taxpayers should claim a refund of excess social security tax withheld. Use the worksheet in Pub. 505, Tax Withholding and Estimated Tax to compute the refund.

- Include the amount of last year's refund that was applied to this year in the payment section. Note: If you need assistance with how to do this with TaxWise®, ask your site coordinator or computer specialist.
- Calculate all of the refundable credits (covered in later lessons) that the taxpayer is entitled to and include them in the payments section of the return. Using TaxWise® software will help you determine what credits that the taxpayer is entitled to.
- Add all payments together and enter them on the total payments line. TaxWise® will do this step for you.
- Subtract the total payments from the total tax. TaxWise® will also complete this step for you.
- Record the account number and the routing number for taxpayers who want their refund direct deposited. Note: TaxWise® will ask you for this information on the Main Information screen and on the tax form. This is to help ensure that you have keyed in the correct information. Complete the line to apply part of the refund to next year, if the taxpayer wishes to use this option.

Paying Taxes or Adjusting Withholding Taxes if Balance Due:

- Explain the payment option (check, credit card, direct debit and installment agreement) to a taxpayer who owes money.
- Inform the taxpayer about the identifying information to include on payments made by check.
- Explain that interest and penalties continue to accrue on the unpaid balance even if the taxpayer has a valid installment agreement.
- Explain estimated taxes to taxpayers who expect to owe tax in 2004.
- Assist the taxpayer with completing form 1040ES for 2004. TaxWise® can do this for you. It will even print the vouchers for the payments.
- Provide the taxpayer with the mailing address for the estimated payments. (Some sites provide unstamped envelopes for the taxpayers.)
- Encourage taxpayers to consider adjusting their withholding (on Form W-4 or W-4P) if they have a large refund or owe more than \$1,000 on the return.

Advance Earned Income Tax Credit (AEIC):

■ Inform taxpayers about the Advance Earned Income Credit, if they were eligible for EIC this year and have at least one qualifying child. Be prepared to give the taxpayer a Form W-5, if they request it.

Name, Address, and Taxpayer Identification Section of Return:

- Complete the name and address section of the tax return. Use the taxpayer's label (if available) on a return prepared by hand. For computer generated returns, this section will be completed based on the information you entered in the Main Information section of the TaxWise® software.
- Make sure that you include the Taxpayer Identification Number for all taxpayers and dependents listed on the return. Note: If you are using TaxWise®, you will get an error when you run diagnostics if you have not included the identifying number. TaxWise® also has a diagnostic feature that helps you check the accuracy of the identifying number by comparing it to a database of information from the Social Security Administration. This does not guarantee that the name and social security number match. You should always try to look at the actual Social Security cards if possible.
- Mark the Presidential Election Campaign Box for the taxpayer. Note: If the taxpayer has a total tax of zero, the presidential campaign box should be marked no.

Return Assembly and Copy:

- Assemble the return. If filing a paper return for the taxpayer, forms should be in the order of the sequence number in the upper right corner. Procedures on assembling electronic returns may vary from site to site. Please ask your site coordinator for this information.
- Retain a copy of all electronic returns. Remember that you are not allowed to retain copies of the tax returns at your site past the end of the filing season. The retained copies should be forwarded to your local IRS territory office, where they will be retained until the end of the calendar year (as prescribed by the electronic filing regulations).

Site Identification Number on Forms 1040, 1040A, & 1040EZ

Congress annually asks the IRS to provide the number of returns that were filed by volunteer tax assistance sites. For statistical purposes, the IRS requests that all Federal returns be identified with a Site Identification Number. The Site Identification Number is entered in the Paid Preparer's section of the tax return. The Internal Revenue Service Submission Processing Center will count each return processed using this data.

More about this topic is covered later in this lesson.

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On Site Quality Review:

■ Submit the completed return to the quality reviewer at your site. Note: Not all sites have enough volunteers to have a designated quality reviewer. In this case, ask another volunteer to review the form you prepared. Using TaxWise® is not a substitute for quality review.

Signing the Return and Third Party Designation:

- Mark the area where the taxpayer should sign the return and/or Form 8453. Publication 3189 will contain additional information on how to use the PIN program to sign electronic returns.
- Complete the third party designation section of the return if the taxpayer wishes to allow someone else to discuss the return with the IRS. (You can't designate yourself.)

Taxpayer Question:

■ Ask the taxpayer if they have any additional questions.

Where to Mail Paper Returns:

■ Tell the taxpayer where to mail the return (if filing by paper). Electronically filed returns are automatically transmitted to the correct IRS Processing Center. Paper tax returns must be mailed in by the taxpayer to the IRS processing Center for the area (state) where the taxpayer resides. Each tax package contains a pre-addressed envelope for a particular area based on the last address filed with the IRS. If the taxpayer has moved or does not have a pre-addressed envelope the address and other mailing information is located in the individual federal tax package and in your Quick Reference Guide, Publication 1977. On-site. Some sites provide unstamped pre-addressed envelope-for their taxpayers. (You might be able to get the envelopes donated from a local office supply store. Your site receptionist could address the envelopes or you could print computer labels to use on them.)

PAYMENTS

The federal government has a pay-as-you-earn tax system. The information for the payments section of the return has three sources: federal income tax withholdings, estimated tax payments, and refundable credits.

Income tax withheld can appear on:

- Form W-2, Wage and Tax Statement, in box 2
- Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., in box 4
- Form 1099-INT, *Interest Income*, in box 4

- Form 1099-DIV, *Dividends and Distributions*, in box 4
- Form W-2G, Certain Gambling Winnings, in box 2
- Form 1099-G, Certain Government and Qualified State Tuition Program Payments, box 4
- SSA-1099, Social Security Benefits
- RRB-1099, Railroad Retirement Benefits Tier 1
- RRB-1099R, Railroad Retirement Benefits Tier 2
- Form 1099B, Proceeds from Broker and Barter Exchange Transactions

Example 1

Kamica has one Form W-2 (Exhibit 1).

The entry on line 7, Form 1040EZ, line 39, Form 1040A, or line 62, Form 1040, is \$988.

Exhibit 1					Kamica's Form W-2		
a Control number		OMB No. 1545-0008	Safe, accurate, FAST! Use	e <i>≁ file</i>	Visit the IRS Web Site at www.irs.gov.		
b Employer identification number 10-0864213			1 Wages, tips, other compen 12,350.0		deral income tax withheld 988.00		
c Employer's name, address, and ZIP coo	le		3 Social security wages 12,350.0		cial security tax withheld 765.70		
2112 Third Stre Tampa, FL 3362			5 Medicare wages and tip 12,350.0	os 6 Med	dicare tax withheld		
d Employee's social security number			7 Social security tips 9 Advance EIC payment		peated tips		
	Last name						
e Employee's first name and initial Kamica A. Howa 134 Dawes Blvd Tampa, FL 3362	11 Nonqualified plans 13 Statutory employee plan plan ski	a instructions for box 12					
f Employee's address and ZIP code				d e			
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income ta:	x 18 Local wages, tips, et	tc. 19 Local inco	ome tax 20 Locality name		
Form W-2 Wage and Tax Statement Copy B To Be Filed with Employee's This information is being furnished to ti	FEDERAL Tax Return.	(Rev. February 2003	1	epartment of the Trea	asury—Internal Revenue Service		

Example 2

Lucas has a Form 1099-INT (Exhibit 2), a Form 1099-R (Exhibit 3), and a Form 1099-DIV (Exhibit 4). His total income tax withheld is entered on line 39, Form 1040A. It is \$1,247.

Exhibit 2 Lucas's Form 1099-INT

		1
	2003	Interest Income
	Form 1099-INT	
1 Interest income not included	l in box 3	Сору В
\$ 935.00		For Recipient
2 Early withdrawal penalty \$		oligations information and is being furnished to the Internal Revenue
4 Federal income tax withheld	· ·	es Service. If you are required to file a return
\$ 187.00	\$	a negligence penalty or
6 Foreign tax paid	7 Foreign country or possession	U.S. other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
	\$ 935.00 2 Early withdrawal penalty \$ 4 Federal income tax withheld \$ 187.00 6 Foreign tax paid	1 Interest income not included in box 3 \$ 935.00 2 Early withdrawal penalty 3 Interest on U.S. Savis Bonds and Treas. ob \$ \$ 4 Federal income tax withheld \$ 187.00 6 Foreign tax paid 7 Foreign country or possession

Exhibit 3 Lucas's Form 1099-R

PAYER'S name, street address, city, state, and ZIP code APEX Triangles 213 Hickory Meadows Denver, CO 86011		\$	Gross distribut 12,000.0 Taxable amoun	00	Pensions Re Pro F		Distributions From Insions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
Deliver, do doorr		21	Taxable amou			Total distribution	n 🗌	Copy B Report this
PAYER'S Federal identification number	RECIPIENT'S identification number	3	Capital gain (ir in box 2a)	ncluded	4	Federal income withheld	tax	income on you Federal tax return. If this
10-9753124	000-00-4213	\$			\$	960.00		form shows Federal income
RECIPIENT'S name Lucas B. George		5	Employee control or insurance pro		6	Net unrealized appreciation in employer's sec	urities	tax withheld ir box 4, attach this copy to your return
Street address (including apt. no 1360 Shannon Av	•	7	Distribution code	IRA/ SEP/ SIMPLE	8 \$	Other	%	This information is being furnished to the Interna
City, state, and ZIP code Denver, CO 86011		9a	Your percentage distribution	of total %	9b \$	Total employee con	tributions	Revenue Service
Account number (optional)		10 \$ \$	State tax withh	eld	11	State/Payer's s	tate no.	12 State distribution \$ \$
		13	Local tax withh	eld	14	Name of localit	у	15 Local distribution \$

Exhibit 4 Lucas's Form 1099-DIV

Account number (optional)		8	Cash liquidation distr.	Noncash liquidation distr. \$	the IRS determines that it has not been reported.
City, state, and ZIP code Denver, CO 86011		6 \$	Foreign tax paid	7 Foreign country or U.S. possessi	other sanction may be imposed on you if this income is taxable and
Street address (including apt. no.) 1360 Shannon Avenue		4 \$	Federal income tax withheld 100.00	5 Investment expenses \$	Service. If you are required to file a return, a negligence penalty or
Lucas B. George		\$	Section 1202 gain	\$	This is important tax information and is being furnished to the Internal Revenue
10-2846731 RECIPIENT'S name	000-00-4213	\$	Section 1202 gain	\$ 3 Nontaxable distributions	Copy B For Recipient
PAYER'S Federal identification number	RECIPIENT'S identification number	\$ 2c	Qualified 5-year gain	Form 1099-DIV 2d Unrecap. sec. 1250 gain	O D
Denver, CO 86013		Ι.	28% rate gain		
214 16th Street			Total daphai gam didir	2003	Distributions
Denver Sheet Metal			500.00 Total capital gain distr.		Dividends and
PAYER'S name, street address, city, state, ZIP code, and telephone no.			Ordinary dividends	OMB No. 1545-0110	

Estimated Tax Payments

Add all estimated tax payments made by the taxpayer for the year. Be sure to include:

- Payment made from last year's overpayment (see last year's tax return.)
- Quarterly payments made using the Form 1040ES, including the one made in January of the current tax year.

Record total estimated tax payments on Line 40 of Form 1040A or Line 63 of Form 1040.

Refundable Credits

Make sure that any refundable credits you have calculated are entered on the proper lines. The Earned Income Credit is reported on line 8 of the Form 1040 EZ, Line 41 of the Form 1040A, and Line 64 of the Form 1040. Any refundable Child Tax Credit is reported on Line 42 of the Form 1040A and Line 66 of the Form 1040. If excess Social Security deductions were made because of multiple employers, that amount is shown on Line 65 of the Form 1040.

Total Payments

Add the total of withholdings, estimated tax payments made, and refundable credits together. Enter this total on Line 9 of the Form 1040EZ, Line 43 of the Form 1040A, or Line 69 of the Form 1040.

FIGURING THE OVERPAYMENT OR THE TAX DUE

ALERT

You must reduce the 2003 child tax credit by any advance payment that the taxpayer received in 2003.

Overpayments

If there has been more tax payments made than the amount of tax liability (line 10, Form 1040EZ, line 38, Form 1040A, or line 61, Form 1040), this is considered an overpayment. A taxpayer may wish to have a portion of the overpayment applied to next year's taxes. If so, then enter the amount to be applied to the following year on line 46 of the Form 1040A or line 72 of the Form 1040. Subtract this amount from the total overpayment and enter the remainder on line 45a of the Form 1040A or line 71a of the Form 1040.

Only a total refund can be entered on the Form 1040EZ, line 12a. Any overpayment on Form 1040EZ must be refunded; It cannot be applied to next year's taxes.

Example 3

Exhibit 5 shows Form 1040A, lines 28 through 46, for Ron his tax due. His total tax is \$3,491. His total payments are \$5,000. Ron overpaid and wants \$900 to be applied to his 2004 estimated tax. Note that line 45a plus line 46 equals the amount on line 44.

Exhibit 5 Form 1040A, page 2 3 401 00

	<u> </u>		· ' ' ' ' ' ' ' ' ' ' ' ' ' ' ' ' ' ' '
28	Tax, including any alternative minimum tax (see page 35).	28	3,491.00
29	Credit for child and dependent care expenses.		
	Attach Schedule 2. 29		
30	Credit for the elderly or the disabled. Attach		
	Schedule 3. 30		
31	Education credits. Attach Form 8863.		
32	Retirement savings contributions credit. Attach		
	Form 8880. 32		
33	Child tax credit (see page 38).		
34	Adoption credit. Attach Form 8839. 34		-1
35	Add lines 29 through 34. These are your total credits.	35	0.00
36	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0	36	3,491.00
37	Advance earned income credit payments from Form(s) W-2.	37	
38	Add lines 36 and 37. This is your total tax.	▶ 38	3,491.00
39	Federal income tax withheld from Forms W-2		
	and 1099. 39 2,600.00)	
40	2003 estimated tax payments and amount	_	
<u> </u>	applied from 2002 return. 40 2,400.00)	
41	Earned income credit (EIC). 41		
42	Additional child tax credit. Attach Form 8812. 42	_ ,,	5 000 00
43	Add lines of through 42. These are your total payments:	► 43	5,000.00
44	If line 43 is more than line 38, subtract line 38 from line 43.	44	1 500 00
450	This is the amount you overpaid.		1,509.00
45a	Amount of line 44 you want refunded to you.	► 45a	609 .00
▶ b	Routing number		
▶ d	Account Account		
- u	number		
46	Amount of line 44 you want applied to your		
	2004 estimated tax. 46 900 .00	2_	
47	Amount you owe. Subtract line 43 from line 38. For details on how	-	
	to pay, see page 53.	4 7	0 .00
48	Estimated tax penalty (see page 53). 48		

Refunds

If the taxpayer wants an overpayment refunded, advise that a check should be mailed within 6-8 weeks after the return is filed. Remind the taxpayer of the availability to have the refund deposited directly into a financial account, such as a bank account.

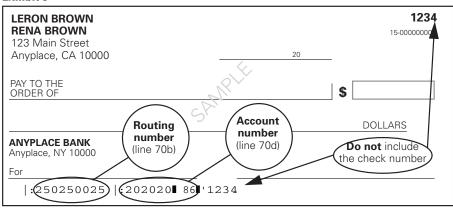
Direct Deposit

Instead of getting a paper check, taxpayers may choose to have their refund deposited directly into their account at a bank or other financial institution such as a mutual fund, brokerage firm, or credit union.

Note. Taxpayers should check with their financial institution to make sure their direct deposit will be accepted and to get the correct routing and account number.

Exhibit 6 shows the general location of the routing and account number on a sample check. The routing number must be nine digits (the first two digits must begin with 01 through 12 or 21 through 32, otherwise the direct deposit will be rejected and a check sent instead). The account number can be up to 17 characters (both numbers and letters). It can include hyphens but not spaces or special symbols. The number should be entered from left to right with any unused boxes left blank.

Exhibit 6



Tax Due

If there are less tax payments than the amount of tax liability, then there is tax due to be paid with the return. When this happens, remind the taxpayer to make the check or money order payable to the "United States Treasury." Taxpayers can also pay by credit card or by authorizing a direct debit from their checking or savings account on the date they choose (anytime up to April 15, 2004). Encourage a 1040 filer to voluntarily send Form 1040-V, *Payment Voucher*, with his or her payment. The instructions for completing the voucher appear on the 1040-V. The taxpayer should write his or her name, address, social security number, daytime telephone number, and "2003 Form 1040 (or 1040A or 1040EZ, whichever applies)"

on the check or money order. The payment and Form 1040-V should be enclosed, but not attached to the tax return. Taxpayers should not mail cash with their returns.

To help IRS process the payment, the taxpayer should enter the amount on the right side of the check like this: \$XXX.XX. Do not use dashes or lines (for example, do not enter "\$XXX—" or "\$XXX $^{xx}/_{100}$ ").

Electronic Payment Options

If the taxpayer owes an amount on his or her return, he/she can make the payment electronically. To pay by credit card, the taxpayer must use one of the service providers listed in the instructions for Forms 1040, 1040A, or 1040EZ. The taxpayer can also pay by authorizing a direct debit out of his/her checking or savings account by April 15, 2004.

If the taxpayer cannot pay the full amount owed shown on his/her return, the taxpayer may ask permission to make monthly installment payments. To ask for an installment agreement, the taxpayer should file Form 9465, *Installment Agreement Request*, with the tax return.

Estimated Tax Penalty. If line 10, Form 1040EZ, line 47, Form 1040A, or line 73, Form 1040, is \$1,000 or more and it is more than 10 percent of the tax shown on the return, or if the taxpayer underpaid his or her 2003 estimated tax liability, the taxpayer can owe a penalty for underpayment of estimated tax. If so, report the penalty on line 48 for Form 1040A or line 74 of Form 1040. Line 47 or line 73 should include the amount owed with the return plus the penalty reported on line 48 of Form 1040A or line 74 of Form 1040, respectively.

Because the Form 2210, *Underpayment of Estimated Tax by Individuals, Estates, and Trusts*, used to compute estimated tax penalty is complicated, the IRS encourages taxpayers to let the IRS figure the penalty for them. The IRS will figure the penalty for underpayment of estimated tax and, if a penalty is owed, the taxpayer will be sent a bill. If taxpayers want the IRS to figure the penalty for them, the taxpayers should leave the penalty line on their return blank and **should not** complete Form 2210. As long as the taxpayer files the return by April 15, 2004, the IRS will not charge interest on the penalty if the bill is paid by the date specified on the bill.

FIGURING ESTIMATED TAX FOR NEXT YEAR

Estimated tax is the amount a taxpayer expects to owe for the year after deducting any tax credits or federal income tax withheld. In other words, it is the amount the taxpayer anticipates will be owed on his or her 2004 federal income tax return.

If a taxpayer is an employee, the taxpayer's employer generally must withhold income, Medicare, and social security taxes on the wages paid. Also, most payers of taxable pensions withhold income tax and pay it to the government. However, a taxpayer may receive many types of taxable income that are not subject to having tax withheld.

A taxpayer who receives interest, dividends, alimony, unemployment compensation, rent, gains from the sale of assets, prizes, or awards, generally will have no income tax withheld on the payments. As a result, the taxpayer may find that he or she owes estimated tax. Most self-employed taxpayers will also find they are required to pay estimated tax.

Who Must Pay Estimated Tax

Estimated tax payments are required if certain conditions are met. Generally a taxpayer must make payments of estimated tax if:

1. He or she expects to owe \$1,000 or more in tax for 2004 after subtracting federal income tax withheld and credits from taxable income,

AND

- **2.** He or she expects the 2004 tax withheld and credits to be less than the smaller of:
 - **a)** 90 percent of the tax to be shown on his or her 2004 tax return, or
 - **b)** 100 percent of the tax shown on his or her 2003 tax return. The return must cover all 12 months.

POTENTIAL PITFALLS



When figuring estimated tax, be sure to include all taxes, such as tax on lump-sum distributions and self-employment tax.

Married taxpayers can pay estimated tax either separately or jointly. How they pay their estimated tax will not affect their choice of filing a joint return or separate returns for the year. Joint estimated tax payments may be divided between the spouses if they later choose to file separate returns.

Example 4

Jayne is single and retired. She works part time as an usher in a movie theater. She estimates her 2004 income will be \$16,421, which includes \$3,500 of interest income from which there will be no tax withheld. Jayne calculates that she expects to owe \$1,008 (after taking into account her expected tax withheld and credits). Jayne meets condition 1 (mentioned earlier) and may have to pay estimated tax. Further checking tells Jayne that her expected 2004 tax withheld will be less than 100 percent of the tax shown on her 2003 return and less than 90 percent of the tax she will show on her 2004 tax return. Since Jayne also meets condition 2 (mentioned earlier), she is required to pay estimated tax.

Limit on the use of prior year's tax. Married taxpayers with joint AGI exceeding \$150,000 or \$75,000 if married filing separately cannot use 100% of their 2003 tax to figure their 2004 estimated tax payments.

For more information, see Publication 505, *Tax Withholding and Estimated Tax*.

How to Figure Estimated Tax

Estimated tax is paid by using Form 1040-ES, *Estimated Tax For Individuals*. Form 1040-ES also contains a worksheet that can be used in figuring a taxpayer's estimated tax. The taxpayer should keep the worksheet for his or her records.

To figure the estimated tax, the taxpayer must first figure his or her expected adjusted gross income, taxable income, taxes, and credits for 2004. All available facts that will affect those items during the year must be taken into account. Use the 2003 tax return as a starting point for estimating 2004 income, deductions, and credits. However, be careful to make adjustments both for anticipated changes in the taxpayer's situation and for recent changes in the tax law.

Form 1040-ES contains both the 2004 Tax Rate Schedules and the 2004 standard deduction and exemption amounts. Be sure to use the 2004 figures when figuring the estimated tax.

When to Pay Estimated Tax

For estimated tax purposes, the year is divided into four payment periods. Each period has a specific due date.

Date taxpayer receives income	Due date of first installment	No. of payments
January 1– March 31	April 15, 2004	4
April – May 31	June 16, 2004	3
June 1 – August 31	September 15, 2004	2
September 1 – December 31	January 17, 2005	1

POTENTIAL PITFALLS



Advise the taxpayer to use the pre-addressed envelopes that came with his or her Form 1040-ES package, or mail payment vouchers to the address shown in the Form-ES instructions for the place where he or she lives. *Do not* use the address shown in the Form 1040 or Form 1040A instructions.

Most of the taxpayers that you assist will pay their estimated tax in four equal installments. However, a taxpayer does not have to make estimated tax payments until he or she has income on which tax is owed. If a taxpayer receives income after one or more of the payment periods have passed, he or she will begin making payments during the period when the income is received.

The minimum payment due during the period when the income is received is one-fourth of the total estimated tax for the year, generally, plus an additional fourth of the yearly total for each period which has already passed. The balance of the estimated tax will be paid during the remaining periods (one-fourth of the yearly total for each remaining period).

The taxpayer also has the option of paying all the estimated tax at once. Instead of paying by installments, he or she may choose to pay the entire amount by the due date of the period during which the income is received.

Some taxpayers choose to pay all of their estimated tax with the first payment, April 15, 2004. It alleviates the need for them to remember to make the remaining payments.

Also, a taxpayer can apply all or part of an overpayment from his or her 2003 Form 1040 or Form 1040A to the estimated tax for 2004. The overpayment amount to be credited is entered on Form 1040, line 72, or Form 1040A, line 46. All of the credit can be applied to the first payment or it can be spread out among any or all of the payments.

If any due date falls on a Saturday, Sunday, or legal holiday, the payment is due on the next business day.

If a taxpayer files his or her 2004 Form 1040 or Form 1040A by January 31, 2005, and pays the entire amount of tax owed at that time, he or she is not required to make the estimated tax payment that would be due on January 18, 2005.

How Much Estimated Tax to Pay

The computed estimated tax is based on expected income and deductions and should take into account all facts known at the time the estimate is made. If the taxpayer is unsure about the accuracy of the estimate, he or she may want to pay more than the required minimum 90 percent of the 2003 estimated tax. Taxpayers who do not pay enough tax by the due date of each payment period may be charged a penalty, even if the filed 2004 return shows a refund. Generally, the simplest and safest procedure is to make sure that the total of tax withheld plus the amount of estimated tax for each payment period during 2004 is at least one-fourth of the tax shown on the 2003 return. For more information, see Publication 505.

How to Pay Estimated Tax

Estimated tax payments can be sent electronically to the IRS by direct debit payment from the taxpayer's checking or savings account, by credit card, or can be sent along with a payment voucher from Form 1040-ES. Each voucher is inscribed with its due date. Be sure to use the correct voucher for each payment. For more information on electronic filing and payments, see Form 1040-ES instructions.

If the taxpayer paid estimated tax in 2003, he or she should have received a Form 1040-ES package containing preprinted vouchers. These vouchers show the taxpayer's preprinted name, address, and social security number. To use them, simply enter the amount of the payment on the appropriate line. If a taxpayer does not have the preprinted forms, use a set of blank vouchers from Form 1040-ES and enter the information on the appropriate lines. Advise the taxpayer to write his or her social security number and "2004 Form 1040-ES" on the check or money order (payable to the "United States Treasury") when paying estimated tax.

FORM W-4 AND W-4P

An employer withholds tax based on wages paid and information the employee provides on Form W-4, *Employee's Withholding Allowance Certificate*. The employee uses his or her expected income, deductions, adjustments to income, and credits to figure the total withholding allowances to claim on Form W-4. In addition, an employee can claim extra allowances in certain situations.

A taxpayer who receives distributions from a pension, an annuity, an IRA, a stock bonus plan, or certain deferred compensation plans should use Form W-4P, *Withholding Certificate for Pension or Annuity Payments*, to notify the payer whether, and how much, income tax should be withheld.

Income, deductions, and credits should be estimated carefully. Taxpayers who do not have enough federal income tax withheld can be subject to interest and penalties. Taxpayers who have a very large refund or who owe should consider adjusting their withholding.

Some taxpayers want their withholding to be high enough to ensure that they receive a tax refund. They do not want to pay an additional amount when filing their tax return. If a taxpayer wishes, it is legal to claim fewer allowances than he or she is allowed. More tax than required will be withheld each pay period and, at the end of the year, the taxpayer should be eligible for a refund of overpaid taxes.

Forms W-4 and W-4P also contain:

- Instructions
- Personal Allowances Worksheet
- Deductions and Adjustments Worksheet
- Two-Earner/Two-Job, Multiple Pension/More Than One Income Worksheets
- Tables

The worksheets incorporate the number of allowances, adjustments, deductions, and credits that the employee expects on his or her 2004 income tax return. Some or all of these additional worksheets will then be used by the employee in completing the allowance certificate.

If an employee has a working spouse or income from two jobs, only one set of Form W-4 Worksheets should be completed. Complete the Form W-4 Worksheets using the combined expected income (from all sources and for both spouses if filing a joint return), adjustments, deductions, and exemptions. The number of total allowances from this Form W-4 can then be divided among all jobs. Withholding will usually be the most accurate when an employee claims zero allowances on all jobs except for the highest paying one. Reminder: A separate Form W-4 is needed for each job.

Certain events can occur during the year that can change an employee's marital status, exemptions, allowances, deductions or credits. When this happens, the employee may have to change his or her withholding allowances by submitting a new Form W-4 to the employer. The original Form W-4 remains in effect until the employee changes it.

For more information on withholding, refer to Publication 919, *How Do I Adjust My Tax Withholding?*

W-5, Advance Earned Income Credit (AEIC)

At this time, you as the preparer have the opportunity and the means to assist the taxpayer with the Form W-5, *Earned Income Credit Advance Payment Certificate*. The amount of the AEIC pay-

ments are based on wages by payroll cycle. Only persons with at least one qualifying child can get AEIC payments. If the taxpayer qualifies for the Earned Income Credit for 2003 refer them to Publication 596, *Earned Income Credit* or Form W-5 for additional information.

Completing and Assembling the Return

After all the decisions have been made regarding payments, overpayments, and estimated taxes, you should complete the taxpayer identification section, assemble the return, and submit it for quality review. When the review is completed, have the taxpayer sign the return and provide instructions on where and when to send it to the IRS. These steps are provided below.

Taxpayer Identification Section

This section is completed after the rest of the return. Often, this saves time because after you begin preparing Form 1040A, you may discover that Form 1040EZ or Form 1040 is more appropriate. If this happens, you will not have to complete the taxpayer identification section twice.

Taxpayers who filed returns last year probably received a forms package by mail this year. The package includes a preaddressed label which shows the name and address of the taxpayer(s).

Peel the label off and place it in the address area of the return. Mark through any errors on the label, and print the correct information on the label. Be sure to enter the social security number(s) (or Taxpayer Identification Number (ITIN) to the right of the label area

If a taxpayer did not receive a forms package or does not have a pre-addressed label, PRINT the required information. Enter the taxpayer's name and social security number (or ITIN) on the first line. If married taxpayers are filing a joint return, enter one spouse's complete name and social security number (or ITIN) on the first line and the other spouse's complete name and social security number (or ITIN) on the second line. Be sure that each taxpayer's name and social security number (or ITIN) appear on one line, separate from the spouse's information. If you enter the husband's name and the wife's social security number (or ITIN) on the same line, there can be a considerable delay in processing the return.

Enter the address where any refund or notices should be sent. If the post office delivers mail to a post office box rather than to a street address, enter the P.O. box number on the line for the home address.

The Presidential Election Campaign Fund appears in the name and address area of Forms 1040EZ, 1040A, or 1040. Check *Yes* if the taxpayer wishes to have \$3 go to the Presidential Election

Campaign Fund. Otherwise, check *No*. Checking *Yes* will not change the tax or reduce the refund. On a joint return, each taxpayer chooses whether or not \$3 should go to the fund.

POTENTIAL PITFALLS



Using the pre-addressed lable reduces processing time. However, to protect the taxpaver's privacy, the peel-off label that he or she received in the mail with the tax return booklet does not have his or her SSN (or that of his or her spouse if filing a joint return) printed on it. Therefore, be sure the taxpayer's SSN (and spouse's, if applicable) is entered in the space provided on the tax form (1040, 1040A, or 1040EZ).

Further, if the taxpayer filed a joint return for 2002 and is filing a joint return for 2003 with the same spouse, be sure the taxpayer's and spouse's names and SSNs are entered in the same order as on the 2002 tax return.

Assembling the Return

Make sure that all forms, schedules, and attachments show the taxpayer's name and social security number. List the names in the same order that they appear on the front of the return and use the first social security (or ITIN) number that appears on the front of the return.

Attach forms and schedules behind Form 1040 according to the attachment sequence number shown in the upper right corner of the form or schedule. Items without an attachment sequence number should be placed at the end. For Form 1040A, attach any forms or schedules in order by number with Schedule EIC last.

Attach Form(s) W-2 to the left margin of the return. If any Form 1099 shows federal income tax withheld, include that amount in the payments section of the return.

When any Form 1099 shows federal income tax withheld, attach a copy to the return, along with any Form(s) W-2.

IDENTIFYING RETURNS

- If taxpayers ask about the site identification number designation at the bottom of the return in the paid preparer's section, explain that this is entered for statistical purposes. Inform the taxpayers that the site identification number does not affect the likelihood of an IRS examination (audit) of the return.
- If you prepare over 50 percent of the tax return and you are reasonably sure that the return will be filed as you prepared it, enter the site identification number at the bottom of the return in the Paid Preparer Section in the PTIN/SSN field.
- Most sites will have forms preprinted with the site identification number format entered in the Paid Preparer Section of the return. You must enter the number that has been assigned by the Territory Office for that site.
- If you do not have forms with the pre-printed site identification number format, print the appropriate site identification number for that site in the Paid Preparer Section of the return.

SITE IDENTIFICATION NUMBER

The Internal Revenue Service (IRS) will capture statistical information using the Individual Master File Report (IMF Report) and the Electronic Tax Administration (ETA) report. Based on this change, it is very important that **all returns** prepared by a volunteer tax preparation site be identified as VITA or TCE prepared.

The following procedures must be used when returns are prepared in a VITA or TCE site.

- The site identification number should be entered in the Preparer Section of the return. (See Exhibit 7).
- The following procedures must be followed when returns are prepared in a VITA or TCE site.

1. Paper Returns

- All sites will enter the letter P followed by an 8 digit site identification number that is provided by the territory office. Sites should use the overprint form with the bold P format indicated in the Paid Preparer Section. Each of the numbers represent a certain area determined by the territory office. For instance, the fifth digit of the number will be 1 for VITA, 2 for Military VITA, 3 for Co-located site, 4 for TCE and 5 for AARP.
- If you use a return without the bold P format for the number enter the assigned number in the space provided in the Paid Preparer section of the return. Forms 1040EZ, 1040A, and 1040 with the bold "P" format is available from IRS and will be ordered by each site coordinator.

2. Electronically Filed Returns

■ E-file administrators will set up computers to default to the proper location on the return where the number will already be entered. Ensure the default number has been entered for the site you are working.

Exhibit 7 illustrates a site identification number entered on three tax forms.

Refund	11a If line 0 is larger than line 10 subtract line	a 10 from line	0. This is your rofu	nd 🏲	11a
Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d. Third party designee		114			
				•	12
	Designee's	Phone	the IRS (see page 2	2)? Yes. (Personal identification number (PIN)	Complete the following. Notication
here Joint return?	accurately lists all amounts and sources of income I rece on all information of which the preparer has any knowled	ived during the ta dge.	x year. Declaration of pr		
for your	Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation		
		[Site	Identification	Preparer's SSN or PTIN P10-05-1234
	yours if self-employed),			EIN Phone no.	()
For Disclosure	, Privacy Act, and Paperwork Reduction Act	Notice, see p	oage 24. Ca	t. No. 11329W	Form 1040EZ (2003

Exhibit 7 Form 1040A

	44	If line 40 is mare than line 30 subtreet line 30 from line 40		
Refund	44	If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you overpaid.		44
Direct	45a			45a
deposit? See page 52 and fill in	▶ b	Routing number	vings	
45b, 45c, and 45d.	▶ d	Account number		_
	46	Amount of line 44 you want applied to your 2004 estimated tax. 46		_
Amount	47	Amount you owe. Subtract line 43 from line 38. For details on ho)W	
you owe		to pay, see page 53.		47
	48	Estimated tax penalty (see page 53). 48		
Third party	,	Do you want to allow another person to discuss this return with the IRS (see page 5	4)? 🗌 Yes.	Complete the following. No
designee	,	Designee's Phone name ▶ no. ▶ ()	Personal ide number (PII)	
Sign here		Under penalties of perjury, I declare that I have examined this return and accompanying schedule knowledge and belief, they are true, correct, and accurately list all amounts and sources of income of preparer (other than the taxpayer) is based on all information of which the preparer has any ki	I received durin	
Joint return? See page 22.		Your signature Date Your occupation	-	Daytime phone number
Keep a copy for your records.		Spouse's signature. If a joint return, both must sign. Date Spouse's occupation		
Paid			Identification	Preparer's SSN or PTIN P10-05-1234
preparer's use only	•	Firm's name (or yours if self-employed), address, and ZIP code	EIN Phone no.	()
		Printed on recycled paper		Form 1040A (2003)

Exhibit 7 Form 1040 69 Refund If line 68 is more than line 60, subtract line 60 from line 68. This is the amount you overpaid 70a 70a Amount of line 69 you want refunded to you Direct deposit? ▶ c Type: ☐ Checking ☐ Savings See page 56 ▶ **b** Routing number and fill in 70b, ▶ d Account number 70c. and 70d. 71 Amount of line 69 you want applied to your 2004 estimated tax > 71 72 Amount Amount you owe. Subtract line 68 from line 60. For details on how to pay, see page 57 ▶ You Owe Estimated tax penalty (see page 57) . 73 Do you want to allow another person to discuss this return with the IRS (see page 58)?

Yes. Complete the following.

No Third Party Designee's Phone Personal identification Designee ▶ number (PIN) 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. Sign Here Date Your occupation Daytime phone number Joint return? See page 21. Кеер а сору Spouse's signature. If a joint return, both must sign. Date Spouse's occupation for your records. Site Identification Preparer's signature Paid Number P10-05-1234 Preparer's Firm's name (or EIN Use Only yours if self-employed), address, and ZIP code Form **1040** (2003)

QUALITY SERVICE

The goal of the TCE and VITA Programs is to provide high quality service.

On-Site Quality Review Program

Every site should have a quality review program. Properly reviewed returns will help prevent taxpayers from receiving an error notice from the IRS. At larger sites, an experienced volunteer should be designated as the quality reviewer. At small sites, volunteers may review each other's work. A Quality Review Checklist, like the one shown below, may be used for this purpose.

Quality Review Checklist

Entity

- Are the name, address, and **social security number** correct for each taxpayer on the return?
- Is the social security number(s) or ITIN(s) entered to the right of the label area?
- Is the Presidential Election Campaign Fund box(es) checked?
- Is the filing status correct? Is the box checked?
- Are the exemptions and dependents checked, listed, and added correctly?
- Are dependents' social security numbers or ITINs entered?

Income

- Are income items correctly transferred from Form W-2, Form 1099-INT, Form 1099-DIV, Form 1099-G, Form 1099-R, and Form SSA-1099 (or RRB-1099), for example?
- Is tax-exempt interest income reported? Is "TEI" written to the left of line 2 on Form 1040EZ?
- Is the taxable portion of social security benefits, IRA distributions, pensions, and/or annuity income correctly figured?
- Are there IRA withdrawals to report?
- Is there any other income to report (lottery, fees, etc.)?
- If the taxpayer paid alimony, is the recipient's social security number entered?

Tax and Credits

- Are all appropriate boxes on line 37a, Form 1040 or line 23a, Form 1040A or line 5, Form 1040EZ checked?
- Is the standard deduction correct? Complete worksheet if tax-payer is someone else's dependent.
- Is the tax correct?
- Is the taxpayer eligible to claim the credit for child and dependent care expenses, child tax credit, education credits, adoption credit, or credit for the elderly or the disabled?

Payments

- Does the tax withheld agree with the total of amounts shown on all Forms W-2, 1099-INT, 1099-DIV, and 1099-R?
- Are the estimated tax payments correct?
- Is the taxpayer eligible to claim the earned income credit?
- Is the overpayment or the amount owed correct? Does the taxpayer want any part of the refund applied to next year's estimated tax? Does the taxpayer want the refund or any part directly deposited?

Quality Review Checklist (continued)

Other

- Did you use a calculator to check your math?
- Are all Forms W-2 and 1099 (showing tax withheld), as well as schedules and forms, attached to the return?
- Is the appropriate site identification number entered?
- Did the taxpayer(s) sign, date, and fill in his/her occupation on the return?
- Is the taxpayer eligible to claim the Earned income credit? Advanced earned income credit?

Signature Section

Make sure the taxpayer signs and dates the return before mailing. An unsigned return cannot be processed and may be sent back to the taxpayer. On a joint return, both spouses must sign, even if only one spouse had income. Also, make sure the occupation(s) of the taxpayer (or of both spouses, if married filing jointly) is entered.

If a taxpayer died before filing a return for 2003, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. A personal representative can be an executor, administrator, or anyone who is in charge of the deceased taxpayer's property. If the deceased taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund. The person who files the return should enter "DECEASED," the deceased taxpayer's name, and the date of death across the top of the return.

If the taxpayer's spouse died in 2003 and the taxpayer did not remarry in 2003, the taxpayer can file a joint return. (The taxpayer can also file a joint return if his or her spouse dies in 2004 before filing a 2003 return.) A joint return should show the taxpayer's spouse's 2003 income before death and the taxpayer's income for all of 2003. The taxpayer should enter "Filing as surviving spouse" in the area where the taxpayer signs the return. If someone else is the personal representative, he or she must also sign.

The surviving spouse or personal representative should promptly notify all payers of income, including financial institutions, of the taxpayer's death. This will ensure the proper reporting of income earned by the taxpayer's estate or heirs. A deceased taxpayer's social security number should not be used for tax years after the year of death, except for estate tax return purposes.

Third-Party Designee

If the taxpayer wants to allow a friend, family member, or any other person he or she chooses to discuss his or her 2003 tax return with the IRS, the taxpayer should check the "Yes" box in the "Third party designee" area of the return. Also, the taxpayer should enter the designee's name, phone number, and any five numbers the designee chooses as his or her personal identification number (PIN).

If the taxpayer checks the "Yes" box, he or she, and his or her spouse if filing a joint return, is authorizing the IRS to call the designee to answer any questions that may arise during the processing of the return. The taxpayer is also authorizing the designee to:

- Give the IRS any information that is missing from the return,
- Call the IRS for information about the processing of the return or the status of the taxpayer's refund or payment(s), and
- Respond to certain IRS notices that the taxpayer has shared with the designee about math errors, offsets, and return preparation. The notices will not be sent to the designee.

The taxpayer is not authorizing the designee to receive any refund check, bind the taxpayer to anything (including any additional tax liability), or otherwise represent the taxpayer before the IRS. If the taxpayer wants to expand the designee's authorization, he or she should see Publication 947, *Practice Before the IRS and Power of Attorney*.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing the taxpayer's 2004 tax return. This is April 15, 2005, for most people.

As a volunteer preparer you may not be designated as a "Third Party Designee."

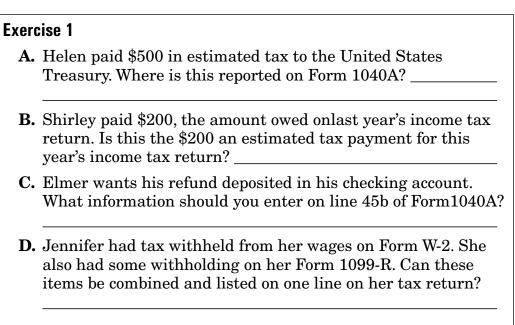
Ending the Interview

Make sure the taxpayer keeps a copy of all Forms W-2 and 1099 with a copy of the tax return. Advise the taxpayer to keep these copies for at least three years. As the volunteer assistor, you should not keep a copy of the return.

If an envelope has been provided for the taxpayer's records place the copies into it. Advise the taxpayer to bring the tax return and records back next year.

VOLUNTEER ASSISTANCE WORKSHEET

The Volunteer Assistance Worksheet is currently under revision and was not available at publication date. Your local Stakeholder Partnerships, Education and Communication (SPEC) office will provide you with the revised Volunteer Assistance Worksheet when you attend training along with the training module that explains the new worksheet and reporting requirements.



Exercise 2

Look at the completed Form 1040EZ shown in Exhibit 8 and identify at least 3 areas that have not been properly completed.

Label	Form 1040EZ		Department of the Treasury—Internal Rev Income Tax Return for Joint Filers With No Do	Single	and	2003		(OMB No. 1545	5-0675
See page 14, Use the IRS Intellection Chilewings For income Chilewings								Your social s	ecurity numb	oer
Use the IRS label. Otherwise, please part of the IRS label. Otherwise, progression is possible part of 1904. Otherwise, progression is progression and state that the IRS label. Otherwise, progression is processed part of 1904. Or 1904.	Label	L	Jorge	Mei	ndez			123 45	6789	
Income The promote of the purplex ard aroved, if you have a Pool, Doe, were page 14. Age, no.	` ' ' '			I						mber
Otherwise, please print or type. The present of type.		E L					A-4	į į		
Payments and tax Payments an	Otherwise,	н			see page 14.		Арт. по.	▲ Imp	ortant!	
Presidential Election Note. Checking "Yes" will not change your tax or reduce your refund.		R	City, town or post office, state, and ZIP code.	If you have a	foreign address, s	ee page 14.		-		
Note. Checking "Yes" will not change your tax or reduce your refund. You Spouse Note. Checking "Yes" will not change your tax or reduce your refund. You Spouse Note. Note. Yes Note Note. Note. Yes Note. Note. Yes Note. Note. Yes Yes Note. Yes Yes Note. Yes Yes Yes Note. Yes Y		_	Anywhere USA	99999				SSN	(s) above.	
Campaign (Note: Checking res with not campage your at Note return, want \$3 to go to this fund? ves No Yes No Income Attach Pform(s) W-2 Perc. It was salaries, and tips. This should be shown in box 1 of your Form(s) W-2. 1 14,900 00 Attach your Form(s) W-2 Perc. It was salaries, and tips. This should be shown in box 1 of your Form(s) W-2. 1 14,900 00 Attach your Form(s) W-2. 1 14,900 00 Attach your Form(s) W-2. 2 2 2 00 Income Attach your Form(s) W-2. 1 14,900 00 Attach your Form(s) W-2. 1 14,900 00 It was provided to the salaries of the salari	Election	_	N. 4. Cl. 1' (W. 2' '11 4 1		1	C 1		You	Spouse	
Attach your Form(s) W-2. Attach your Form(s) W-2. Enclose, but do not attach, any payment. 1 14,900 00 Attach your Form(s) W-2. Enclose, but do not attach, any payment. 4 Add lines 1, 2, and 3. This is your adjusted griss income. 5 Can your parents (or someone else) claim you on their return? Yes. Enter amount from No. If single, cate 57,800. If married filling jointly, enter \$15,600. See back for explanation. 5 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0. Because of the substantial income and tax withheld from box 2 of your Form(s) W-2. 7 Federal income tax withheld from box 2 of your Form(s) W-2. 7 Federal income credit (EIC). 8 Earned income credit (EIC). 8 Add lines 7 and 8. These are your total payments. 10 This. Use the amount on-line 6 above to find your tax in the tax table on pages 25-29 of the booklet Tien, enter the tax from the table on this line. 10 This Use the amount on the form line 9. Subtract line 9 from line 9. This is your refund. 11 If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 12 If line 10 is larger than line 10, subtract line 10 from line 9. This is your refund. 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 13 Independent of prepare (other than the tax payer) is based on all information of which the prepare has any knowledge during the tax year. Declaration of preparer (other than the tax payer) is based on all information of which the preparer has any knowledge and belief, it is true, correct, and accurately list	1 0		Do you, or your spouse if a joint re	eturn, want	\$3 to go to t	his fund?		□Yes □N	No Yes	□ No
Formiss W-2 Enclose, but do not attach, any payment. Note, You must check Yes or No. Note and tack the anound to the tack of some tack withheld from box 2 of your Form(s) W.2. Note and tack Yes or No. Note and tack the anound on time 4 anound your tack in the tax table on pages 2.2-29 of the booklet. Then, enter the tax from the table on this line. Note and tack Yes or No. Note and tack These are your fotal payments. Note the anound you will be anound you		_		ould be sh	own in box 1	of your Form(s) W	V-2.	1	14,900	00
See page 16). 3 3 3 3 3 3 3 3 3	Form(s) W-2 here.	_			•			2	2	00
Add lines 1, 2, and 3. This is your adjusted gross income. 4	do not attach,	_		d Alaska F	Permanent Fur	nd dividends		3		
Yes. Enter amount from must check Yes or No. Yes. Enter amount from must check Yes or No. See oback for explanation. 6 Subtract line 5 from line 4, If line 5 is larger than line 4, enter -0. This is your taxable income. 7 Federal income tax withheld from box 2 of your Form(s) W-2. 7 1,700 00 8 Earned income credit (EIC). 9 Add lines 7 and 8. These are your total payments. 9 1,700 00 10 Tax. Use the amound on line 6 above to find your tax in the tax table on pages 25-29 of the booklet. Then, enter the tax from the table on this line. 10 In the following of the follow	any payment.	_	4 Add lines 1, 2, and 3. This is yo	ur adjuste	d gross inco	ne.		4		
Yes Enter amount from No. If single, enter \$15,600.	Note. You)			1						
Payments and tax 7 Federal income tax withheld from box 2 of your Form(s) W-2. 7 1,700 00 8 Earned income credit (EIC). 8 Add lines 7 and 8. These are your total payments. 9 Add lines 7 and 8. These are your total payments. 10 Tax. Use the amount on line 6 above to find your tax in the tax table on pages 25–29 of the booklet. Then, enter the tax from the table on this line. 11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 11a If line 9 is larger than line 10, subtract line 9 from line 10. This is you want to allow another person to discuss this return with the IRS (see page 22). 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 13 If line 10 is larger than line 9, subtract line 9 from line 10. This is a course of line 10. This is the amount you owe. For details on how to pay, see page 22. 13 If line 10 is larger than line 9, subtract line 9 from line 10. This is your refund. 14 If line 10 is larger than line 9, subtract line 9 from line 10. This is your refund. 15 If line 10 is larger than line 9, subtract line 9 from line 10 this larger than line 10 line 1	must check }			No.	If married	filing jointly, enter	r \$15,600.	5		
### Amount You owe Third party designee Doy ou want to allow another person to discuss this return with the IRS (see page 22)? Yes. Complete the following. Note the amount of which the preparer has any knowledge and belief, it is true, correct, and cords. Spouse's signature Date Date Date Check if self-employed Preparer's signature Date Check if self-employed Preparer's signature Firm's name (or your si self-employed); South State Spouse's signature Firm's name (or your si self-employed); Satisfies Spouse's signature Firm's name (or your si self-employed); Satisfies Spouse's signature Firm's name (or your si self-employed); Satisfies Spouse's coccupation Self-employed; Satisfies Spouse's signature Signatur		_		ne 5 is larg	ger than line 4	, enter -0	>	6	14,900	00
8 Earned income credit (EIC). 9 Add lines 7 and 8. These are your total payments. 10 Tax. Use the amount on line 6 above to find your tax in the tax table on pages 25–29 of the booklet. Then, enter the tax from the table on this line. 10 1,490 00 Refund Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d. 11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund. 11a If line 9 is larger than line 10, subtract line 9 from line 9. This is your refund. 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22 and line 10 you want to allow another person to discuss this return with the IRS (see page 22)? 12 Do you want to allow another person to discuss this return with the IRS (see page 22)? 13 Do you want to allow another person to discuss this return with the IRS (see page 22)? 14 Yes. Complete the following. Not not pay, see page 13. Phone no. 15 Do you want to allow another person to discuss this return with the IRS (see page 22)? 16 Your occupation payments. 17 Your occupation payments. 18 Date Spouse's signature. If a joint return, both must sign. 18 Preparer's signature. If a joint return, both must sign. 19 Date Check if self-employed paddeses, and 2IP code phone no. 10 Date Preparer's SSN or PTIN self-employed, address, and 2IP code			7 Federal income tax withheld from	n box 2 of	your Form(s) W-2.		7	1,700	00
Tax. Use the amount on line 6 above to find your tax in the tax table on pages 25–29 of the booklet. Then, enter the tax from the table on this line.	and tax	_	8 Earned income credit (EIC).		1			8		
Refund Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d. Amount you owe Third party designee Sign here Joint return? See page 13 and over the surface of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge. Paid Preparer's luse only Preparer's signature		_	9 Add lines 7 and 8. These are you	ır total pa y	yments.		>	9	1,700	00
Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d. Amount you owe		10					ages	10	1,490	00
deposited See page 21 and fill in 11b, 11c, and 11d. Amount you owe		1	1a If line 9 is larger than line 10, so	ubtract line	e 10 from line	e 9. This is your re t	fund.	11a	2	00
Amount you owe 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. Third party designee Do you want to allow another person to discuss this return with the IRS (see page 22)? Designee's Phone Personal identification number (PIN) Designee's Proparer is an an ecurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge. Your signature Date Your occupation Daytime phone number Date Spouse's occupation Preparer's signature. If a joint return, both must sign. Date Spouse's occupation Preparer's signature Preparer's signature Firm's name (or yours if self-employed), address, and ZIP code Phone no. ()	deposited! See page 21 and fill	>	b Routing number		▶ c	Type: Checkin	g Savings			
Third party designee Do you want to allow another person to discuss this return with the IRS (see page 22)? Do you want to allow another person to discuss this return with the IRS (see page 22)? Do you want to allow another person to discuss this return with the IRS (see page 22)? Do you want to allow another person to discuss this return with the IRS (see page 22)? Personal identification number (PIN) Do you want to allow another person to discuss this return with the IRS (see page 22)? Personal identification number (PIN) Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge. Your occupation Daytime phone number Lucinda Mendez Spouse's signature. If a joint return, both must sign. Date Check if self-employed Preparer's SSN or PTIN Firm's name (or yours if self-employed), address, and ZIP code Phone no. ()	and 11d.	>	d Account number							
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Designee's name ► Personal identification number (PIN) ► Personal identification number is to record the personal identification number of the personal identification number is to record the personal identification number of the personal identifica	Third party	D	o you want to allow another person to	o discuss t	this return wit	h the IRS (see page	22)? Yes	Complete the	e following.	No
here Joint return? See page 13. Keep a copy for your records. Paid preparer's use only Preparer's use only Preparer's use only Preparer's		na	ame >	_	no. ▶ ()	number (PIN) ▶∟		
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For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 24. Cat. No. 11329W Form 1040EZ (2003		ac	ddress, and ZIP code					()	1010==	

► SUMMING UP THIS LESSON ◀ ◀

The information for the payment section of the return comes from these sources:

- ► Federal income tax withheld by the employer, and
- ➤ Forms 1099, and
- ➤ Estimated tax payments paid by the taxpayer (not reported on Form 1040EZ), and
- ➤ Refundable credits.

If the amount owed is \$1,000 or more, the taxpayer may have to pay an estimated tax penalty. If there is an overpayment, the taxpayer can take one of the following courses of action:

- ➤ Receive a complete refund,
- ► Apply the overpayment to the next year's estimated tax, or
- ➤ Receive a partial refund and apply the remainder of the overpayment to the next year's estimated tax.

Estimated tax payments must be made if a taxpayer:

➤ Expects to owe \$1,000 or more in tax for 2003 after subtracting income tax withheld and credits,

AND

➤ Expects his or her 2004 tax withheld and credits to be less than the smaller of: 90 percent of the tax to be shown on his or her 2004 tax return or, generally, 100 percent of the tax shown on his or her 2003 tax return.

Withholding allowances for employees are reported on Form W-4. Allowances for pension or annuity recipients are reported on Form W-4P. They are figured by taking into account:

- ► Expected income
- **▶** Deductions
- **▶** Credits
- ► Adjustments to income

► ► SUMMING UP THIS LESSON ◀ ◀ (continued)

To finish the return:

- Consider the taxpayer's possible eligibility for Advance Earned Income Credit.
- ➤ Complete the taxpayer's identification section after you have finished the rest of the return.
- ► Enter the site identification number in the paid preparer's section.
- ➤ Assemble the return correctly, attaching any Forms W-2 and Forms 1099 showing federal income tax withholding.
- ► Check each return for completeness and accuracy.
- ► Submit each return for on-site quality review.
- ► Have the taxpayer(s) sign and date the return.

FINISHING THE RETURN— FINAL STEPS



Answers to Exercises Lesson 6

Answers to Exercise 1

- (A) Line 40
- (B) No
- (C) The routing number for his bank account, and type of account.
- (D) Yes

Answers to Exercise 2

- Wife's SSN is missing
- Presidential Election Campaign is not marked
- Husband's signature is missing
- The Site Identification Number is missing in the preparer's SSN/PTIN section of the form.
- Line 4 is blank
- Line 5 is blank
- Line 6 is incorrect
- Line 11a is incorrect
- Occupations are missing
- Spouse's signature is missing

STUI	DENT NOTES
1	

CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

Lesson 7

INTRODUCTION AND OBJECTIVES

In this lesson you will learn about the credit for child and dependent care expenses. This nonrefundable credit is one of the most commonly used credits. The requirements for claiming the credit are the same regardless of the form used. In fact, Form 2441 (used with Form 1040) and Schedule 2 (used with Form 1040A) are virtually identical. In order to qualify for this credit, the taxpayer must satisfy all six tests of eligibility.

Some taxpayers receive employer provided dependent care benefits. Dependent care benefits include amounts the employer paid directly to the taxpayer or to the care provider. These benefits can also include the fair market value of care in a day care facility provided or sponsored by the employer. The taxpayer's salary may have been reduced to pay for these benefits. The employer provided benefits will be reported on Form W-2, Box 10.

After completing this lesson you should be able to:

- Determine who is eligible for the child and dependent care credit.
- Calculate the credit, the exclusion and report the expenses on the correct form.

QUALIFYING PERSON TEST

The child and dependent care expenses must be for at least one qualifying person.

A qualifying person is:

- A child who was under the age of 13 when the care was provided and for whom a dependency exemption can be claimed. Special rules apply, however, if the parents are divorced or separated. (See next page).
- A dependent who was physically or mentally not able to care for himself or herself and for whom a dependency exemption can be claimed (or could be claimed except the person had \$3,050 or more of gross income).
- A spouse who was physically or mentally not able to care for himself or herself.

Example 1

Jim paid someone to care for his wife, Janet. Janet is physically unable to care for herself. Jim also paid to have someone prepare meals for his 12-year-old daughter, Jill. Both Janet and Jill are qualifying persons for the credit.

Example 2

Bob and Rhonda paid child care expenses for their son, Ronnie. Ronnie turned 13 on July 15. Ronnie is a qualifying person until he reached the age of 13.

Children of Divorced or Separated Parents Exception

If the taxpayer is the custodial parent, he or she can treat the child as a qualifying person for the credit even if he or she cannot claim the child's dependency exemption. If the taxpayer **is not** the custodial parent, he or she cannot treat the child as a qualifying person for the credit even if he or she can claim the child's dependency exemption.

This exception applies only if **all** the following are true:

- One or both parents had custody of the child for more than half the year.
- One or both parents provided more than half of the child's support for the year.
- **■** Either
 - 1. The custodial parent signed Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents, or a similar statement, agreeing not to claim the child's exemption for the year, or
 - 2. The noncustodial parent provided at least \$600 for the child's support and can claim the child's exemption under a pre-1985 decree of divorce or separate maintenance, or written agreement.

Example 3

Amanda is divorced and has custody of her 8-year-old daughter, Carrie. Amanda signed Form 8332 to allow her ex-spouse to claim the dependency exemption for Carrie. In order to work, Amanda paid child care expenses for Carrie. Carrie is a qualifying person for the credit. Amanda can claim the credit for child and dependent care expenses. The ex-spouse cannot claim the credit.

KEEPING UP A HOME TEST

To claim the credit, the taxpayer must pay more than half the cost of keeping up a home for himself or herself and one or more qualifying persons. The cost of keeping up a home normally includes property taxes, mortgage interest, rent, utility charges, home repairs, insurance on the home, and food eaten in the home. Public assistance benefits are funds provided by the state not by the taxpayer.

EARNED INCOME TEST

The taxpayer (and spouse if married) must have earned income during the year. Earned income includes wages, salaries, tips, other taxable employee compensation, net earnings from self-employment, strike benefits, and disability pay reported as wages.

A spouse is treated as having earned income for any month he or she is a full-time student or physically or mentally not able to care for himself or herself. Only one spouse can be **treated** as having earned income in any one month.

A full-time student is defined as enrolled and attending a school for the number of hours or classes the school considers full-time. The taxpayer (or spouse) must be a student for some part of five calendar months during the year.

WORK-RELATED EXPENSE TEST

Child and dependent care expenses must be work related to qualify for the credit. Expenses are considered work related only if both of the following are true:

- 1. The expenses allow the taxpayer (and spouse if married) to work or look for work and
- 2. The expenses are for a qualifying person's care.

A spouse is treated as working during any month he or she is a full-time student or is physically or mentally not able to care for himself or herself.

To be work related, the expenses must be to provide care for a qualifying person. Expenses are for the care of a qualifying person only if their main purpose is the person's well being and protection.

Expenses for care do not include amounts paid for food, clothing, education, and entertainment. However, small amounts paid for these items can be included if they are incident to and cannot be separated from the cost of care.

Education. Expenses to attend first grade or a higher grade are not expenses for care.

Camp. The cost of sending a child to an overnight camp is not considered a work-related expense.

Payments to relatives. Do not count amounts paid to:

- 1. A dependent for whom the taxpayer (or spouse if married) can claim as an exemption, or
- 2. The taxpayer's child who is under age 19 at the end of the year, even if he or she is not the taxpayer's dependent

JOINT RETURN TEST

Generally, a married couple must file a joint retun to take the credit. However, if the taxpayer is legally separated or living apart from his or her spouse, the taxpayer may be able to file a separate return and still take the credit.

If the taxpayer's filing status is married filing separately and all of the following apply, the taxpayer is considered unmarried for purposes of figuring the credit:

- 1. The taxpayer lived apart from his or her spouse during the last six months of the year, and
- 2. The qualifying person lived in the taxpayer's home for more than half of the year, and
- 3. The taxpayer provided over half the cost of keeping up the home, and
- 4. The taxpayer met the other five tests for eligibility to take the credit.

Provider Identification Test

The taxpayer must provide the care provider's name, address, and taxpayer identification number. If the taxpayer is unable to provide this information or if the information is incorrect, he or she must show they used due diligence to obtain the information.

Due Diligence. The taxpayer can show due diligence by getting and keeping any of the following documents:

- 1. Form W-10, Dependent Care Provider's Identification and Certification.
- 2. Copy of the provider's social security card.
- 3. Copy of the provider's driver's license if it includes the social security number.
- 4. A copy of the provider's Form W-4 if the provider is the taxpayer's household employee.
- 5. A copy of the statement furnished by the taxpayer's employer if the provider is a dependent care plan.
- 6. A letter or invoice from the provider if it shows the name, address, and taxpayer identification number (EIN or SSN).

Provider Refusal. If the care provider refuses to give the taxpayer the identifying information, report whatever information is available, enter "see page 2" for the missing information, and provide a statement at the bottom of page 2 of Form 2441 or Schedule 2.

LIMIT ON EXPENSES

The amount of expenses eligible for the credit is limited to the lowest of the following amounts for the year.

- The lower paid spouse's earned income (in the case of married taxpayers).
- The single taxpayer's earned income.
- The actual expenses paid.
- The overall limit of \$3,000 for one qualifying person or \$6,000 for two or more qualifying persons.

Example 4

Mark earned \$14,000. His wife, Evelyn, earned \$5,600. Day care expenses for their three-year-old daughter were \$2,200. The maximum amount of qualifying child care expenses is \$2,200. This is the lowest of:

- The lower paid spouse's earnings (\$5,600),
- \blacksquare The amount actually paid (\$2,200), and
- The overall limit for one qualifying person (\$3,000).

Some taxpayers receive dependent care benefits from their employers. If so, the overall limit of \$3,000/\$6,000 is reduced, dollar for dollar, by any reimbursement excluded from the taxpayer's income. The amount of dependent care benefits received is shown in box 10 of Form W-2.

Example 5

Geraldine has one dependent child, Donald, who is 6 years old. She paid \$2,900 in qualified expenses. Box 10 of Geraldine's Form W-2 shows she received \$1,400 during the year from her employer's dependent care assistance program. Because she received dependent care benefits, Part III of Form 2441 must be completed before completing Part II.

Nonworking Spouse

Married taxpayers usually must both work in order to claim the credit. However, if a spouse is either a full-time student during any five months of the year, or is not capable of caring for himself or herself for some period during the year, a credit can still be claimed. To figure the credit, the earned income for each month the spouse is either a full-time student or disabled is considered to be at least:

ALERT



Beginning in 2003, the maximum expenses for the credit increased to \$3,000 for one qualifying person and \$6,000 for two or more qualifying persons.

ALERT



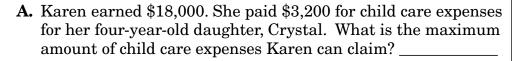
Beginning in 2003, the amount of earned income for the nonworking spouse increased to \$250 with one qualifying person and \$500 for two or more qualifying persons.

- \$250 with one qualifying person in the home, or
- \$500 with two or more qualifying persons in the home.

Example 6

Janice worked full time. Her husband, Ken, was a full-time student from January through May. Their son, Jason, was in daycare while Ken attended school. Ken's earned income for the time he attended school is considered to be \$1,250 (5 months × \$250).





- **B.** Andrea is married to Bill. They have a seven-year-old son, Charles. Charles lived with Andrea for the entire year. Andrea paid all the expenses of keeping up the home for herself and Charles. Andrea also paid for before-school and after-school child care. Her total child care expenses were \$1,800. Bill left the area 18 months ago. He did not live with Andrea at all during 2003, but he did send \$1,200 in child support. Andrea and Bill will file separate returns. Andrea signed Form 8332 to allow Bill to claim the dependency exemption for Charles. Who can claim the credit for child and dependent care expenses?
- C. Ellen is divorced. She has custody of her 12-year-old daughter, Terri. Terri takes care of herself after school. In the summer, Ellen spends \$2,000 to send Terri to a two week long overnight camp. Are the camp expenses qualified expenses for the credit for child and dependent care credit?

FIGURING THE CREDIT

The credit is a percentage of qualifying expenses. For taxpayers with adjusted gross incomes of \$15,000 or less, the credit is 35 percent of qualifying expenses. As adjusted gross income increases, the percentage decreases. The lowest percentage is 20 percent for an AGI equal to or greater than \$43,000. There is no upper limitation on income for this credit. The tables on Schedule 2 (Form 1040A) and on Form 2441 show the percentage for each adjusted gross income bracket. After the credit is figured using Form 2441 or Schedule 2, it is reported on Form 1040, line 45, or Form 1040A, line 29.

Example 7

David A. and Edith B. Fullerton are married and file a joint return. Last year, they paid \$3,500 for the care of their son, Jonathan. The payment was made to Karen's Kiddie Care, 456 Chapman Avenue, Wilmington, DE 19850 (EIN 00-0009101). The \$3,500 payment includes a \$1,000 dependent care benefit Edith received from her employer. Edith earned \$18,979 and David earned \$22,450 last year. Their adjusted gross income is \$39,429 and their tax liability is \$2,492.

Exhibits 1 and 2 show the completed Form 2441 (Form 1040) for David and Edith.

ALERT



Beginning in 2003, the credit percentages increased and the maximum AGI amount that qualifies for the highest percentage increased to \$15,000.

Child and Dependent Care Expenses

► Attach to Form 1040.

Attachment

OMB No. 1545-0068

Sequence No. 21

Department of the Treasury Internal Revenue Service

See separate instructions.

Before you begin: You need to understand the following terms. See Definitions on page 1 of the instructions.

Name(s) shown on Form 1040

David A. and Edith B. Fullerton

Your social security number 000 00 2935

Qualifying Person(s) Qualified Expenses • Dependent Care Benefits • Earned Income Persons or Organizations Who Provided the Care—You must complete this part

Par	(If you need mo	re space, use the bottom of page 2.)	Implete triis part.	
1	(a) Care provider's name	(b) Address (number, street, apt. no., city, state, and ZIP code)	(c) Identifying number (SSN or EIN)	(d) Amount paid (see instructions)
Kar	en's Kiddie Car	456 Chapman Ave Wilmington DE 19850	00-0009101	3,500

Complete only Part II below. Did you receive dependent care benefits? Yes Complete Part III on the back next.

Caution. If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040, line 59. Part II Credit for Child and Dependent Care Expenses

2	Information about your qualifying person(s)	. If you h	have more than	two qualifying persons, se	e the instructions.
	(a) Qualifying person's name		747	(b) Qualifying person's social	(c) Qualified expenses you incurred and paid in 2003 for th

	First		Last		number	incurred and paid in 2003 for person listed in column (
Jonathan		Fullerton	. 40	000 00	2194	2,500	
			eC.				
	,		enter more than \$3,0		, , , , , , , , , , , , , , , , , , , ,		

	from line 26	3	2,000	
4	Enter your earned income	4	22,450	
5	If married filing jointly, enter your spouse's earned income (if your spouse was a student			

- 18,979 5 or was disabled, see the instructions); all others, enter the amount from line 4
- 2,000 6 Enter the **smallest** of line 3, 4, or 5 . . . Enter the amount from Form 1040, line 35 . 7

r on line 8 the decimal amount shown below that applies to	the amount on line i	,
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If line 7	is:		If line 7 i	s:				
Over	But not over	Decimal amount is	Over	But not over	Decimal amount is			
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15,000-	— 17,000	.34	31,000-	-33,000	.26			
17,000-	-19,000	.33	33,000-	-35,000	.25	8	\times .	22
19,000-	-21,000	.32	35,000-	-37,000	.24			
21,000-	-23,000	.31	37,000-	-39,000	.23			
23,000-	-25,000	.30	39,000-	-41,000	.22			
25,000-	-27,000	.29	41,000-	-43,000	.21			
27,000-	-29,000	.28	43,000–	-No limit	.20			
ly line 6		cimal amount on line	8. If you paid 20			9	440	
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	Form 1040,	line AF				11	440	

For Paperwork Reduction Act Notice, see page 3 of the instructions. Form **2441** (2003) Cat. No. 11862M

10

Form	2441 (2003)		Page 2
Pa	rt III Dependent Care Benefits		
12	Enter the total amount of dependent care benefits you received for 2003. This amount should be shown in box 10 of your W-2 form(s). Do not include amounts that were reported to you as wages in box 1 of Form(s) W-2	12	1,000
13	Enter the amount forfeited, if any (see the instructions)	13	0
14	Subtract line 13 from line 12	14	1,000
15	Enter the total amount of qualified expenses incurred in 2003 for the care of the qualifying person(s)		
16	Enter the smaller of line 14 or 15		
17	Enter your earned income		
18	Enter the amount shown below that applies to you. • If married filing jointly, enter your \		
	spouse's earned income (if your spouse was a student or was disabled, see the instructions for line 5).		
	 If married filing separately, see the instructions for the amount to enter. All others, enter the amount from line 17. 		
19	Enter the smallest of line 16, 17, or 18		
20	Excluded benefits. Enter here the smaller of the following: • The amount from line 19 or		
	• \$5,000 (\$2,500 if married filing separately and you were required to enter your spouse's earned income on line 18).	20	1,000
21	Taxable benefits. Subtract line 20 from line 14. Also, include this amount on Form 1040, line 7. On the dotted line next to line 7, enter "DCB"	21	0
	To claim the child and dependent care credit, complete lines 22–26 below.		
22	Enter \$3,000 (\$6,000 if two or more qualifying persons)	22	3,000
23	Enter the amount from line 20	23	1,000
24	Subtract line 23 from line 22. If zero or less, stop. You cannot take the credit. Exception. If you paid 2002 expenses in 2003, see the instructions for line 9	24	2,000
25	Complete line 2 on the front of this form. Do not include in column (c) any benefits shown on line 20 above. Then, add the amounts in column (c) and enter the total here	25	2,500
26	Enter the smaller of line 24 or 25. Also, enter this amount on line 3 on the front of this form and complete lines 4–11	26	2,000
	Printed on recycled paper		Form 2441 (200

Lesson 7 7-9
WAGE EARNER

Exercise 2

Sam L. (000-00-9832) and Sue D. Windham are married and will file a joint return. They have two dependent children whom they send to day care to allow both parents to work. Sam's earned income is \$18,500 and Sue's earned income is \$19,350. Their AGI (Form 1040, line 35) is \$37,850 and their tax liability (Form 1040, line 43) is \$1,723.

During 2003, they paid The Learning Center day care (496 Irvine Road, Newark, NJ 07102, EIN 11-0007965) \$5,450 to care for their children. The Windhams paid \$2,950 of the total and Sue's employer paid \$2,500 under a dependent care benefits program. The \$2,500 is in Box 10 of Sue's Form W-2.

The children and the amounts paid for day care are as follows:

Doug SSN 000-00-2387 \$3,000 \$1,250 dependent care

benefit

Sally SSN 000-00-4923 \$2,450 \$1,250 dependent care

benefit

Complete their Form 1040, Form 2441 (Exhibits 3 and 4).

TAXWISE HINTS

Use the flow charts in Publication 4012, VITA/TCE Resource Guide, to determine credit eligibility. For each qualifying child, check the "DC" box on the Main Information Sheet, Dependents/ Non-dependents box. TaxWise will add a Form 2441 or Schedule 2 to the forms tree. Complete all entries annotated in red. TaxWise will then calculate any exclusion amounts, calculate the credit, complete the form and insert the credit amount on Form 1040 or Form 1040A.

► SUMMING UP THIS LESSON ◀ ◀

The Credit for Child and Dependent Care Expenses is a non-refundable credit which allows a taxpayer to reduce their tax liability for a portion of the expenses.

Beginning in 2003, the maximum expense amount increased to \$3,000 for one qualifying person and \$6,000 for two or more qualifying persons.

The maximum credit rate increased from 30% to 35%.

A taxpayer must satisfy the six tests to qualify for the credit. The tests are the qualifying person test; the keeping up a home test; the earned income test; the work-related expense test; the joint return test; and the provider identification test.

The credit is calculated and reported on Form 2441 (Form 1040) or Schedule 2 (Form 1040A).

m Z Z	141		Child and I	Dependen	t Care	Expens	es		OMB No. 15	45-00
	_			► Attach to Fo	orm 1040.				Attachment	15
	nent of the Treasury Revenue Service ► See separate instructions.									No. 2
ne(s) show	n on Form 1040							Your so	ocial security nur	nber
fore yo	ou begin: Yo	ou need to ur	derstand the	following terr	ns. See D	efinitions	on page	1 of the	e instruction	s.
Depend	dent Care B	enefits	Qualifying	g Person(s)	• (Qualified E	xpenses		• Earned I	nco
			ns Who Provi			ust comple	ete this pa	art.		
(a) C	are provider's name	(n	(b umber, street, apt. r) Address no., city, state, and	d ZIP code)	(c) l	dentifying nur (SSN or EIN)	nber	(d) Amount p	
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	<u> </u>			O.	0	O -				
			in your home, yo pendent Care		nployment	axes. See th	ne instructi	ons for	Form 1040, lir	ne 59
			person(s). If y		than two o	qualifying pe	rsons, see	the ins	structions.	
		(a) Qualifying per	son's name	7.347	(b) (Qualifying perso			ualified expensed and paid in 200	
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	oly line 6 by t		ount on line 8.							
the in	structions			s any amount			. 9			+
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Form	2441 (2003)	Page	e 2					
Pa	rt III Dependent Care Benefits							
12	Enter the total amount of dependent care benefits you received for 2003. This amount should be shown in box 10 of your W-2 form(s). Do not include amounts that were reported to you as wages in box 1 of Form(s) W-2	12	_					
13	Enter the amount forfeited, if any (see the instructions)	13	_					
14 15	Subtract line 13 from line 12	14	_					
16	Enter the smaller of line 14 or 15							
17	Enter your earned income							
18	Enter the amount shown below that applies to you. If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions for line 5). If married filing separately, see the instructions for the amount to enter. All others, enter the amount from line 17.							
19	Enter the smallest of line 16, 17, or 18							
20	Excluded benefits. Enter here the smaller of the following: ● The amount from line 19 or ● \$5,000 (\$2,500 if married filing separately and you were required to enter your spouse's earned income on line 18).	20						
21	Taxable benefits. Subtract line 20 from line 14. Also, include this amount on Form 1040, line 7. On the dotted line next to line 7, enter "DCB"	21						
	To claim the child and dependent care credit, complete lines 22–26 below.							
22	Enter \$3,000 (\$6,000 if two or more qualifying persons)	22	_					
23	Enter the amount from line 20	23	_					
24	Subtract line 23 from line 22. If zero or less, stop. You cannot take the credit. Exception. If you paid 2002 expenses in 2003, see the instructions for line 9	24						
25	Complete line 2 on the front of this form. Do not include in column (c) any benefits shown on line 20 above. Then, add the amounts in column (c) and enter the total here	25						
26	Enter the smaller of line 24 or 25. Also, enter this amount on line 3 on the front of this form and complete lines 4–11	26						
	Printed on recycled paper	Form 2441 (20)03)					

CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES Answers to Exercises



Lesson 7

Exercise 1

- (A) \$3,000, which is the lowest of: earned income (\$18,000); the amount actually paid (\$3,200); and the limit of one qualifying person (\$3,000).
- (B) Andrea. Even though she is filing a separate tax return, she is eligible for the credit because she signed a Form 8332 to allow her husband to claim the depenency exemption..
- (C) No.

CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES Answers to Exercises

Lesson 7

Exhibit 5 Exercise 2

The Windham's Form 2441, page 1

	2441		Jima an	орошионо о	•	enses		OMB No. 1545-	006	
enartm	ent of the Treasury	► Attach to Form 1040.						Attachment		
lepartment of the Treasury ternal Revenue Service ▶ See separate instructions.							1		Sequence No. 21	
Name(s) shown on Form 1040 Sam L. and Sue D. Windham							Your social security number			
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eto	re you begi	n: You n	eed to understand t	o .	See Definiti	ons on page	e 1 of th	ne instructions.		
De	pendent Ca	re Bene	fits • Qualify	ying Person(s)	 Qualifie 	ed Expense	s	• Earned Inc	on	
Part			ganizations Who Prore space, use the bo		ou must co	mplete this	part.			
1	(a) Care provid name	er's	(number, street, a	(b) Address apt. no., city, state, and ZIP	code)	(c) Identifying r (SSN or El		(d) Amount paid (see instructions		
'he	Learning	Cente	496 Irvine Rd Newark NJ 0710)2		11-0007	965	5,450		
	Γ		id you receive	No	Com	plete only Pa	rt II belo	DW.		
		depend	dent care benefits?	Yes	Com	plete Part III	on the b	ack next.		
_				* 000		S 11		. F 4040 "		
o art			s provided in your home d and Dependent C		ment taxes. S	See the instruc	tions for	r Form 1040, line	59.	
	_		qualifying person(s).		n two qualifyir	ng persons, s	ee the in	structions.		
			Qualifying person's name			person's social	(c)	Qualified expenses yed and paid in 2003 for	ou	
	Firs	st		Last	securit	y number		rson listed in column		
ouo	i		Windham	40	000 : 00	2387		1 750		
_	·		Windham	**************************************		2387		1,750		
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CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES Answers to Exercises

Lesson 7

Exhibit 6 Exercise 2

The Windham's Form 2441, page 2

Form	2441 (2003)		Page 2					
Pa	rt III Dependent Care Benefits							
12	Enter the total amount of dependent care benefits you received for 2003. This amount should be shown in box 10 of your W-2 form(s). Do not include amounts that were reported to you as wages in box 1 of Form(s) W-2	12	2,500					
13	Enter the amount forfeited, if any (see the instructions)	13	0					
14	Subtract line 13 from line 12	14	2,500					
15	Enter the total amount of qualified expenses incurred in 2003 for the care of the qualifying person(s)							
16	Enter the smaller of line 14 or 15							
17	Enter your earned income							
18	Enter the amount shown below that applies to you. If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions for line 5). If married filing separately, see the instructions for the amount to enter. All others, enter the amount from line 17.	_						
19	Enter the smallest of line 16, 17, or 18							
20	Excluded benefits. Enter here the smaller of the following: ● The amount from line 19 or ● \$5,000 (\$2,500 if married filing separately and you were required to enter your spouse's earned income on line 18).	20	2,500					
21	Taxable benefits. Subtract line 20 from line 14. Also, include this amount on Form 1040, line 7. On the dotted line next to line 7, enter "DCB"	21	0					
	To claim the child and dependent care credit, complete lines 22-26 below.							
22	Enter \$3,000 (\$6,000 if two or more qualifying persons)	22	6,000					
23	Enter the amount from line 20	23	2,500					
24	Subtract line 23 from line 22. If zero or less, stop. You cannot take the credit. Exception. If you paid 2002 expenses in 2003, see the instructions for line 9	24	3,500					
25	Complete line 2 on the front of this form. Do not include in column (c) any benefits shown on line 20 above. Then, add the amounts in column (c) and enter the total here	25	2,950					
26	Enter the smaller of line 24 or 25. Also, enter this amount on line 3 on the front of this form and complete lines 4–11	26	2,950					
	Printed on recycled paper		Form 2441 (2003)					

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Lesson 8

EDUCATION CREDITS

INTRODUCTION AND OBJECTIVES

For tax year 2003, there are nine different tax benefits for higher education. Some of these benefits are not taxed (i.e., Coverdell education savings account, qualified tuition program, early IRA withdrawals, employer provided educational assistance and educations savings bond program). The student loan interest deduction and tuition and fees deduction were covered in Lesson 3, Adjustments. In this lesson you will learn about the two education credits: Hope credit and the lifetime learning credit.

After completing this lesson, you should be able to:

- Calculate the Hope credit on Form 8863.
- Calculate the lifetime learning credit on Form 8863.

GENERAL REQUIREMENTS

Taxpayers can claim the **Hope Scholarship Credit** (Hope credit) and the **Lifetime Learning Credit** for higher education expenses paid in 2003 for an eligible student. Both credits are **nonrefundable** and can be claimed on either Form 1040 or Form 1040A. These two credits are also called *education credits*.

To claim either of the education credits the taxpayer must:

- File using any filing status other than married filing separately,
- Meet all of the general requirements,
- Meet all of the specific requirements for the individual credit, and
- Meet the income limits.

The general requirements provide that the taxpayer must have incurred *qualified expenses* for an *eligible student* to attend *an eligible educational institution* during the tax year.

Qualified Expenses

The Hope credit and the lifetime learning credit are based on qualified tuition and related expenses the taxpayer pays for himself or herself, the taxpayer's spouse, or dependents the taxpayer claims on his or her tax return.

Qualified tuition and related expenses are tuition and fees required for enrollment or attendance at an eligible educational institution and generally *include fees for:*

- Course-related books, supplies and equipment, and
- Student activities.

The fees must be paid *to the institution* as a condition of enrollment or attendance.

Qualified tuition and related expenses *do not include* the cost of:

- **■** Insurance,
- Medical expenses (including student health fees),
- Room and board,
- Transportation or similar personal, living, or family expenses, *even if* the fees must be paid to the institution as a condition of enrollment or attendance.

When considering qualified tuition and related expenses for the Hope credit, the cost of courses for athletics, sports, games, hobbies or noncredit courses are not used unless the course is part of the student's degree program. However, when computing the qualified tuition and related expenses for the lifetime learning credit, these types of expenses are includible if the course was taken to acquire or improve the job skills of the student.

If a taxpayer *prepaid* qualified tuition and related expenses for an academic period that begins in the first three months of the following year, he or she can use the prepaid amount in figuring the credit.

Example 1

Thomas pays \$1,500 in December 2003 for qualified tuition for the winter semester that begins in January 2004. He can use the \$1,500 paid in December of 2003 to compute his credit for 2003.

Payments with borrowed funds.

Taxpayers can claim the Hope credit and lifetime learning credit for qualified tuition and related expenses paid with the proceeds of a loan. Use the expenses to figure the credit for the year in which the expenses are paid, not the year in which the loan is repaid.

Eligible Student

The taxpayer, the taxpayer's spouse, or the taxpayer's dependent (for whom the taxpayer claims a dependency exemption) can be an eligible student.

In addition, for the Hope credit, the student must be:

- Enrolled in a program that leads to a degree, certificate or other recognized educational credential.
- Taking at least one-half of the normal full-time workload for his or her course of study for at least one academic period beginning during the calendar year.
- Enrolled for one of the first two years of his or her postsecondary education.
- Free of any felony conviction for possessing or distributing a controlled substance.

Who Can Claim Expenses?

The taxpayer must claim a dependent exemption for the eligible student in order to claim an education credit. Either the taxpayer or the dependent, but not both, can claim an education credit for that dependent's higher education expenses.

If the taxpayer	Then only
Claims an exemption on the tax return for a dependent who is an eligible student	The taxpayer can claim the Hope or lifetime learning credit based on that student's expenses. The student cannot claim the credit.
Does not claim an exemption for a dependent who is an eligible student (even if entitled to the exemption)	The student can claim the Hope or lifetime learning credit. The taxpayer cannot claim the student's expenses.

If someone other than the taxpayer, the taxpayer's spouse, or the dependent (such as a relative or former spouse) makes a payment directly to the eligible educational institution to pay for qualified tuition and related expenses, the student is treated as receiving the payment from the other person. The student is considered to have paid the qualified tuition and related expenses to the eligible institution. If the taxpayer claims an exemption for the student, the taxpayer is considered to have paid the expenses. If the taxpayer does not claim a dependent exemption for the student, the student may claim the credit.

Example 2

Mary Birch paid her grandson, Todd's, tuition for 2003 directly to the university. For purposes of claiming the Hope credit, her grandson is treated as receiving the money as a gift and in turn paying his qualified tuition and related expenses himself. Unless an exemption for Todd is claimed on someone else's return, only Todd can use the payment to claim the Hope credit. If Todd's parents claim his exemption, they may be able to use the expenses to claim the Hope credit. If anyone else claims an exemption for Todd, Todd cannot claim a Hope credit.

Eligible Educational Institution

An eligible educational institution is generally any accredited public, nonprofit, or proprietary (private) postsecondary institution eligible to participate in the student aid programs administered by the Department of Education. Most universities and colleges, including community colleges, meet these requirements.

Income Requirements

The Hope credit and the lifetime learning credit are phased out (gradually reduced) if the taxpayer's modified AGI is over \$41,000 (over \$83,000 if married filing jointly). If a taxpayer's modified AGI is \$51,000 or more (\$103,000 or more if married filing jointly), no credit is allowed. Education credits are not allowed to persons who are married filing separately.

Modified Adjusted Gross Income (MAGI)

For most taxpayers, modified adjusted gross income (MAGI) is adjusted gross income (AGI) as figured on their federal income tax return. MAGI when using Form 1040A is the AGI on line 22 of that form. MAGI when using Form 1040 is the AGI on line 35 of that form, modified by adding back any:

- 1) Foreign earned income exclusion
- 2) Foreign housing exclusion
- 3) Exclusion of income for bona fide residents of America Samoa, and
- 4) Exclusion of income from Puerto Rico.

HOPE CREDIT

A Hope credit can be claimed for *each* eligible student that is claimed on the taxpayer's return.

Credit Amounts

The Hope credit is figured on Form 8863, *Education Credits* (Hope and Lifetime Learning Credits). The maximum Hope credit is \$1,500 **per student** for each of the first two taxable years of his or her postsecondary education. For each eligible student who qualifies for the Hope credit:

- If the expenses are \$1,000 or less, the credit is the amount of the expenses,
- If the expenses are \$2,000 or more, the credit is \$1,500, and
- If the expenses are between \$1,000 and \$2,000, the credit is \$1,000 plus one-half of the expenses over \$1,000. For example, if the expenses are \$1,500, the credit is \$1,250 (\$1,000 plus one-half of \$500).

Example 3

Sue and Ted paid \$7,000 in qualified tuition and fees for their daughter to attend the local university. They determined it would be more beneficial for them to take the Hope Credit rather than the Tuition and Fees Deduction. Their Form 8863 is shown in Exhibit 1.

Exhibit 1 Sue and Ted's Form 8863

Department of the Treasury Internal Revenue Service

Education Credits (Hope and Lifetime Learning Credits)

► See instructions. ► Attach to Form 1040 or Form 1040A OMB No. 1545-1618 Attachment

1,500

8

Sequence No. 50 Name(s) shown on return Your social security number Sue and Ted Green 000 00 9876 Caution: You cannot take both an education credit and the tuition and fees deduction (Form 1040, line 26, or Form 1040A, line 19) for the same student in the same year. Part I Hope Credit. Caution: You cannot take the Hope credit for more than 2 tax years for the same student. 1 (a) Student's name (c) Qualified (b) Student's (d) Enter the expenses (see (as shown on page 1 smaller of the (e) Subtract (f) Enter one-half social security of your tax return) instructions). Do amount in column (d) from of the amount in number (as not enter more First name shown on page 1 column (c) or column (c) column (e) than \$2,000 for of your tax return) \$1,000 each student). Last name Mary 000 00 1234 1,000 2,000 1,000 500 Green Add the amounts in columns (d) and (f) 1,000 500 Add the amounts in columns (d) and (f) $2 \mid 1,000 \mid$ Tentative Hope credit. Add the amounts on line 2, columns (d) and (f). If you are claiming 2 the lifetime learning credit for another student, go to Part II; otherwise, go to Part III 1,500

Part II Lifetime Learning Credit							
4		(a) Student's name (as shown on page 1 of your tax return)	(b) Student's social s number (as shown or	page	(c) Qualified expenses (se	ee	
	Caution: You	First name Last name	1 of your tax retu	n)	instructions	s)	
	cannot take the		: :				
	Hope credit and						
the lifetime learning credit for the same		+ : :					
	student in the same						
	year.			1			
				_			
5	Add the amounts on	line 4, column (c), and enter the total		5			
6	Enter the smaller of	line 5 or \$10,000		6			
		. ,					
7	Tentative lifetime lear	ning credit. Multiply line 6 by 20% (.20) and	go to Part III ▶	7			

9	Enter: \$103,000 if married filing jointly; \$51,000 if single, head of household, or qualifying widow(er)	9	103,000				
10	Enter the amount from Form 1040, line 35 *, or Form 1040A, line 22 .	10	35,000				
11	Subtract line 10 from line 9. If zero or less, stop; you cannot take any education credits	11	68,000				
12	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)	12	20,000				
13	go to line 15. If line 11 is less than line 12, divide line 11 by line 12	13	× .				
44	a decimal (rounded to at least three places)	14	1,500	—			
14 15	Multiply line 8 by line 13	15	3,349	—			
16	Enter the amount from Form 1040, line 43, or Form 1040A, line 28 Enter the total, if any, of your credits from Form 1040, lines 4 Form 1040A, lines 29 and 30	16	0				
17	Subtract line 16 from line 15. If zero or less, stop ; you cannot credits	17	3,349				
18	line 47, or Form 1040A, line 31	18	1,500				
l —	*See Pub. 970 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.						
For Paperwork Reduction Act Notice, see page 3. Cat. No. 25379M					Form 8863 (20)	03)	

Part III

Allowable Education Credits

Tentative education credits. Add lines 3 and 7...

LIFETIME LEARNING CREDIT

The lifetime learning credit is based on the total qualified education expenses paid by the taxpayer and not on the number of eligible students. Education expenses are qualified for the lifetime learning credit if they are:

- For courses taken as part of a postsecondary degree program, or
- For courses that are not part of a postsecondary degree program, but that are taken to improve or acquire job skills.

Example 4

Samantha, a professional photographer, enrolls in an advanced photography course at a local community college. Although the course is not part of a degree program, she enrolls in it to improve her job skills. The course fee paid by Samantha is considered qualified tuition for the purpose of claiming the lifetime learning credit.

Example 5

Cleve, an engineer, plans to vacation in Europe next year. In preparation for the trip, he enrolls in a noncredit photography class at a local community college. Because Cleve is not taking the course as part of a degree program or to acquire or improve his job skills, the cost of the course is not a qualifying expense for claiming the lifetime learning credit.

Credit amounts

The lifetime learning credit is also figured on Form 8863. The maximum amount of the credit is \$2,000 per taxpayer for all eligible students. The credit amount is figured by multiplying total qualified educational expenses, up to \$10,000, by 20%.

Example 6

Judy Green is single and took a course at the local college to recertify her to teach in public schools. Her qualified tuition expenses were \$500. She chooses to take the lifetime learning credit rather than the Tuition and Fees Deduction. Her completed Form 8863 is shown in Exhibit 2.

ALERT



The maximum lifetime learning credit increased from \$1,000 to \$2,000 for 2003.

Exhibit 2 Judy's Form 8863

Education Credits (Hope and Lifetime Learning Credits)

See instructions. ▶ Attach to Form 1040 or Form 1040A. 2003

OMB No. 1545-1618

Attachment Sequence No. 50

Internal Revenue Service

Name(s) shown on return Your social security number Judy Green 000 00 2586 Caution: You cannot take both an education credit and the tuition and fees deduction (Form 1040, line 26, or Form 1040A, line 19) for the same student in the same year. Hope Credit. Caution: You cannot take the Hope credit for more than 2 tax years for the same student. (a) Student's name (c) Qualified (b) Student's (d) Enter the expenses (see (as shown on page 1 social security smaller of the (e) Subtract (f) Enter one-half of your tax return) instructions). Do of the amount in number (as amount in column (d) from not enter more First name shown on page 1 column (c) or column (c) column (e) than \$2,000 for of your tax return) \$1.000 each student). Last name 2 Add the amounts in columns (d) and (f) Tentative Hope credit, Add the amounts on line 2, columns (d) and (f). If you are claiming the lifetime learning credit for another student, go to Part II; otherwise, go to Part III > Part II Lifetime Learning Credit (a) Student's name (as shown on page 1 4 (b) Student's social security (c) Qualified number (as shown on page of your tax return) expenses (see Caution: You 1 of your tax return) instructions) First name Last name cannot take the 000 00 2586 500 Judy Green Hope credit and the lifetime learning credit for the same student in the same vear. 500 5 Add the amounts on line 4, column (c), and enter the total . . . 500 6 Enter the **smaller** of line 5 or \$10,000 Tentative lifetime learning credit. Multiply line 6 by 20% (.20) and go to Part III 100 7 Part III Allowable Education Credits 100 R Tentative education credits. Add lines 3 and 7 Enter: \$103,000 if married filing jointly; \$51,000 if single, head of 9 51,000 household, or qualifying widow(er) 29,524 Enter the amount from Form 1040, line 35 *, or Form 1040A, line 22 10 10 Subtract line 10 from line 9. If zero or less, stop; you cannot take 21,476 Enter: \$20,000 if married filing jointly; \$10,000 if single, head of 10,000 household, or qualifying widow(er) If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as 13 100 14 1,701 15 Enter the amount from Form 1040, line 43, or Form 1040A, line 28 Enter the total, if any, of your credits from Form 1040, lines 44 through 46, or 0 16 Subtract line 16 from line 15. If zero or less, stop; you cannot take any education 17 1,701 Education credits. Enter the smaller of line 14 or line 17 here and on Form 1040, *See Pub. 970 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico. For Paperwork Reduction Act Notice, see page 3. Cat. No. 25379M Form **8863** (2003)

No Double Benefits

A taxpayer cannot:

- Deduct higher education expenses and claim a credit based on those same expenses,
- Claim a Hope credit and a lifetime learning credit based on the same qualified education expenses, or
- Claim a credit based on expenses paid with tax-free scholarship, grant, employer-provided educational assistance or a distribution from a Coverdell ESA.

However, a taxpayer can claim a credit based on expenses paid with the eligible student's earnings, loans, gifts, inheritances, or personal savings.

An eligible student cannot claim an education credit if he or she is claimed as a dependent on another taxpayer's tax return. Any amounts paid by the student are considered paid by the taxpayer who claims the student as a dependent.

The following table summarizes the differences between the credits.

Table: Comparison of Education Credits

Lifetime Learning Credit	Hope Scholarship Credit
per taxpayer credit	per eligible student credit
\$2,000 limit per taxpayer	\$1,500 limit per eligible student
available for an unlimited number of years	available ONLY for the first two years of postsecondary education
credit available for courses taken as part of a postsecondary degree program or to acquire or improve job skills (including non-credit courses and graduate level work)	must be pursuing a degree or other educational credential
available for one or more courses	must take at least 1/2 of the nor- mal full-time workload for one academic period
no other restrictions	felony drug conviction restriction

Adjustments to Qualified Expenses

Tax-free educational assistance can include the following:

- Scholarships,
- Pell grants,
- Employer-provided educational assistance,
- Veteran's educational assistance, and

 Any other nontaxable payments (other than gifts, bequests, or inheritances) received for education expenses.

If the taxpayer paid qualified tuition expenses with these tax-free funds, a credit cannot be claimed for these amounts. Qualified expenses must be reduced by the amount of any tax-free educational assistance received.

Example 3

In 2003, Jackie paid \$3,000 for tuition and \$5,000 for room and board at her local university. To help pay these costs, she was awarded a \$2,000 scholarship and a \$4,000 student loan.

The scholarship is a qualified scholarship that is excludable from Jackie's income. For purposes of the education credit, she must first use the scholarship to reduce her tuition (her only qualified expense). The student loan is not considered tax-free educational assistance so she does not use it to reduce the qualified expenses. Therefore, Jackie is treated as having paid only \$1,000 in qualified expenses (\$3,000 tuition - \$2,000 scholarship).

Refunds. Qualified tuition and related expenses do not include expenses for which the taxpayer received a refund. If the refund or tax-free assistance is received in the same year in which the expenses were paid or in the following year before the tax return is filed, reduce the qualified expenses by the amount received and figure the education credits using the reduced amount of qualified expenses.

If the refund or tax-free assistance is received after the tax return is filed for the year in which the expenses were paid, figure the amount by which the education credits would have been reduced if the refund or tax-free assistance had been received in the year for which the education credits were claimed. Include that amount as an additional tax for the year the refund or tax-free assistance was received. Enter the amount and "ECR" on line 42.

Example 4

Sally paid \$2,250 tuition on December 26, 2002, for her daughter who began college on January 16, 2003. She filed her 2002 tax return on February 12, 2003, and claimed a Hope credit of \$1,500. After Sally filed her return, her daughter dropped two courses but maintained one-half of a full-time workload. Sally received a refund of \$750. She must refigure her 2002 Hope credit using \$1,500 of qualified expenses instead of \$2,250. The refigured credit is \$1,250. She must include the difference of \$250 on line 41 of her 2003 Form 1040 and annotate next to the line: \$250 ECR.

Exercise 1

Bruce (SSN 000-00-9541) and Toni Green are married and file a joint tax return. For 2003, their modified AGI (\$65,500) is the same as their AGI. They completed Form 1040 through line 44. Their tax amount on Line 43 is \$6,203. Toni is attending the local community college part time to earn credits toward an associate degree in nursing. She paid \$2,500 in tuition and fees. Their son, Ben, is a full time freshman at the state university. Bruce and Toni paid \$8,000 in tuition and fees for Ben in 2003. They choose to take the lifetime learning credit for Toni and the Hope credit for Ben. They will claim no other credits. Toni's SSN is 000-00-4651. Ben's SSN is 000-00-3945. Complete their Form 8863.

TAXWISE HINTS

To input qualified tuition expenses and prepare a Form 8863 using TaxWise, select Form 8863, enter the student's name in either the Hope credit section or the lifetime learning credit section and complete all the entries annotated in red. TaxWise will automatically complete the form and carry the mathematical calculations to the Form 1040.

► ► SUMMING UP THIS LESSON ◀

The maximum credit amount for the lifetime learning credit for tax year 2003 increased to \$2,000.

The Hope and lifetime learning credits are nonrefundable credits that allow a taxpayer to claim all or a portion of qualified tuition and related expenses paid for post-secondary education.

Generally, a taxpayer can claim the Hope or lifetime learning credit if they pay qualified tuition and related expenses of higher education for an eligible student who is either the taxpayer, the taxpayer's spouse, or a dependent whom the taxpayer can claim an exemption on his or her tax return.

A taxpayer cannot:

- ➤ Deduct higher education expenses on his or her tax return and also claim a Hope or lifetime learning credit based on those same expenses,
- ➤ Claim a Hope credit and a lifetime learning credit based on the same qualified education expenses, or
- ➤ Claim a credit based on expenses paid with tax-free scholarship, grant, or employer-provided educational assistance.

The Hope and lifetime learning credits are claimed on Form 8863 which can be filed with either Form 1040 or Form 1040A.

Exhibit 3 Bruce and Toni's Form 8863

Education Credits (Hope and Lifetime Learning Credits)

► See instructions.

► Attach to Form 1040 or Form 1040A.

OMB No. 1545-1618

Attachment Sequence No. **50**

Department of the Treasury Internal Revenue Service

Name	(s) shown on return					Your s	ocial security nu	mber
					10101 11 1010			
Par	on: You cannot take both an educ	ution: You cannot to	· · · · · · · · · · · · · · · · · · ·					e year.
	поре Gredit. Ca	ution: You Carinot ta	ike trie nope crear	Tor more mai	II Z lax years loi	trie Sa	Tile student.	
1	(a) Student's name (as shown on page 1 of your tax return) First name Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions). Do not enter more than \$2,000 for each student).	(d) Enter the smaller of the amount in column (c) \$1,000	the (e) Sub-	l) from	(f) Enter one of the amount column (e	nt in
		5			(1)			
		A Or						
	Add the amounts in co	olumns (d) and (f)	2					
3	Tentative Hope credit.	Add the amounts o	n line 2, columns (d) and (f). If y	ou are claiming			
Dev	the lifetime learning cr		dent, go to Part II	; otnerwise, (go to Part III 🕨	3		Ь
	t II Lifetime Learnii				#A Object 12		(-) 0 ""	
4	Caution: You		name (as shown on your tax return) Last name	page 1	(b) Student's social number (as shown 1 of your tax re	on pagé	(c) Qualified expenses (so	see
	cannot take the				<u> </u>	,		Ť
	Hope credit and				1 1			
	the lifetime learning credit for the same							
	student in the same							
	year.							
5	Add the amounts on li	ne 4, column (c), a	nd enter the total			5		
6	Enter the smaller of lin	ne 5 or \$10,000 .				6		
7	Tentative lifetime learn	ing credit. Multiply	line 6 by 20% (.20	0) and go to I	Part III ▶	7		
Par	t III Allowable Educ		,	,		'	1	
8	Tentative education cre					8		
9	Enter: \$103,000 if mar	ried filing jointly; \$	51,000 if single, h	ead of a				
40	household, or qualifyin					-\\\\\\		
10 11	Enter the amount from Subtract line 10 from I					- {/////		
11	any education credits							
12	Enter: \$20,000 if marr							
	household, or qualifying							
13	If line 11 is equal to o	• , ,			on line 14 and			
	go to line 15. If line 11							
	a decimal (rounded to						× .	_
14	Multiply line 8 by line					14		
15 16	Enter the amount from Enter the total, if any					13		+
10	Form 1040A, lines 29					16		
17	Subtract line 16 from		less, stop; you	cannot take	any education	17		
18	Education credits. En line 47, or Form 1040	nter the smaller of		7 here and	on Form 1040,	18		
	*See Pub. 970 for the amou						m Puerto Rico.	
For F	Paperwork Reduction Act N			Cat. No. 25			Form 8863	(2003)

Exercise 1 Bruce and Toni's Form 8863

OMB No. 1545-1618 **Education Credits** (Hope and Lifetime Learning Credits) ► See instructions. Department of the Treasury Attachment ► Attach to Form 1040 or Form 1040A. Sequence No. 50 Internal Revenue Service Name(s) shown on return Your social security number Bruce and Toni Green 000: 00 : 9541 Caution: You cannot take both an education credit and the tuition and fees deduction (Form 1040, line 26, or Form 1040A, line 19) for the same student in the same year. Hope Credit. Caution: You cannot take the Hope credit for more than 2 tax years for the same student. (a) Student's name (c) Qualified (b) Student's (d) Enter the (as shown on page 1 expenses (see smaller of the (e) Subtract social security (f) Enter one-half of your tax return) instructions). Do number (as amount in column (d) from of the amount in not enter more First name shown on page 1 column (c) or column (c) column (e) than \$2,000 for of your tax return) \$1,000 Last name each student). Ben 000 00 3945 2,000 1,000 1,000 500 Green 2 500 Add the amounts in columns (d) and (f) 1,000 Tentative Hope credit. Add the amounts on line 2, columns (d) and (f). If you are claiming the lifetime learning credit for another student, go to Part II; otherwise, go to Part III 1,500 Lifetime Learning Credit (a) Student's name (as shown on page 1 (b) Student's social security (c) Qualified number (as shown on page of your tax return) expenses (see Caution: You instructions) 1 of your tax return) First name Last name cannot take the 000:00:4651 2,500 Toni Green Hope credit and the lifetime learning credit for the same student in the same vear. 2,500 5 5 Add the amounts on line 4, column (c), and enter the total . . . 2,500 **6** Enter the **smaller** of line 5 or \$10,000 7 Tentative lifetime learning credit. Multiply line 6 by 20% (.20) and go to Part III 500 Part III Allowable Education Credits 2,000 8 8 Tentative education credits. Add lines 3 and 7 Enter: \$103,000 if married filing jointly; \$51,000 if single, head of 9 103,000 65,500 10 10 Enter the amount from Form 1040, line 35 *, or Form 1040A, line 22 . 11 Subtract line 10 from line 9. If zero or less, stop; you cannot take 37,500 11 Enter: \$20,000 if married filing jointly; \$10,000 if single, head of 20,000 household, or qualifying widow(er) If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as 13 2,000 14 Multiply line 8 by line 13 14 6,203 15 Enter the amount from Form 1040, line 43, or Form 1040A, line 28 Enter the total, if any, of your credits from Form 1040, lines 44 through 46, or 0 16 17 Subtract line 16 from line 15. If zero or less, stop; you cannot take any education 6,203 17 Education credits. Enter the smaller of line 14 or line 17 here and on Form 1040, 2,000 *See Pub. 970 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico. For Paperwork Reduction Act Notice, see page 3. Cat No. 25379M Form **8863** (2003)

	STUD	ENT NOTES		
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Lesson 9

INTRODUCTION AND OBJECTIVES

In this lesson you will learn about the earned income tax credit. This is a refundable credit, and taxpayers must file a tax return to receive the credit.

After completing this lesson you should be able to:

- Use the EITC rules to determine which taxpayers are eligible for the earned income tax credit.
- Calculate and report the credit using the EIC worksheet.
- Explain the benefits of the Advanced Earned Income Credit (AEIC).
- Report the AEIC on the tax return.

GENERAL REQUIREMENTS

Some taxpayers are able to claim the earned income credit. This is a refundable credit, and eligible taxpayers can receive a refund of this credit even if they owe no tax and had no income tax withheld.

All taxpayers (and spouses, if filing a joint return) must meet the general requirements to claim the credit. Other requirements apply depending on whether or not the taxpayer has a qualifying child (defined later). Generally, to claim the earned income tax credit, a taxpayer must:

- Have earned income during the year,
- Not have investment income of more than \$2,600. Investment income includes taxable interest and dividends, tax exempt interest, capital gain net income, net income from rents and royalties not derived from a trade or business, and net income from passive activities,
- Use any filing status except married filing a separate return,
- Have a tax return that covers a 12-month period. This does not apply if a short period return is filed because of an individual's death,
- Show on the tax return the SSN of the taxpayer (and spouse if filing a joint return). See identification numbers, later.
- Not be the qualifying child of another person,
- Not exclude from gross income any income earned in foreign countries, or deduct or exclude a foreign housing amount (File Form 2555 or Form 2555-EZ), and
- Not be a nonresident alien. Nonresident aliens may qualify for the credit only if they are married to a U.S. citizen or resident *and* their filing status is married filing jointly.

POTENTIAL PITFALLS



If the taxpayer's filing status is married filing separately, the taxpayer cannot claim the earned income credit.

Table 9-1. Earned Income Credit in a Nutshell

Part A Rules for Everyone	Part B Rules If You Have a Qualifying Child	Part C Rules If You Do Not Have a Qualifying Child			
Rule 1. You must have a valid social security number.	Rule 7. Your child must meet the relationship, age, and residency tests.	Rule 10. You must be at least age 25 but under age 65.			
Rule 2. Your filing status cannot be "Married filing separately."	Rule 8. Your qualifying child cannot be used by more than one person to claim the EIC.	Rule 11. You cannot be the dependent of another person.			
Rule 3. You must be a U.S. citizen or resident alien all year.	Rule 9. You cannot be a qualifying child of another person.	Rule 12. You cannot be a qualifying child of another person.			
Rule 4. You cannot file Form 2555 or Form 2555–EZ (relating to foreign earned income).		Rule 13. You must have lived in the United States more than half the year.			
Rule 5. Your investment income must be \$2,600 or less.					
Rule 6. You must have earned income.					
Part D Figuring and Claiming the EIC Rule 14. Your earned income must be less than: • \$33,692 (\$34,692 for married filing jointly) if you have more than one qualifying child, • \$29,666 (\$30,666 for married filing jointly) if you have one qualifying child, or • \$11,230 (\$12,230 for married filing jointly) if you do					
not have a qualifying child Rule 15. Your AGI must be less than: \$\\$33,692 (\\$34,692 \text{ for married filing jointly}) \text{ if you have more than one qualifying child,} \$\\$29,666 (\\$30,666 \text{ for married filing jointly}) \text{ if you have one qualifying child, or} \$\\$11,230 (\\$12,230 \text{ for married filing jointly}) \text{ if you do not have a qualifying child}					

Identification Numbers

To claim the EIC, the taxpayer (and spouse if filing a joint return) must have a valid Social Security number (SSN) issued by the Social Security Administration (SSA). Any qualifying child listed on Schedule EIC must also have a valid SSN. If a social security card has a legend that says "Not valid for employment" and the number was issued so that the taxpayer (or spouse or qualifying child) could receive a federally funded benefit, the taxpayer cannot claim the EIC. An example of a federally funded benefit is Medicaid.

Individual Taxpayer Identification Numbers (ITINs) and Adoption Taxpayer Identification Numbers (ATINs) cannot be used when claiming the EIC.

If a taxpayer has a social security card that contains the legend "valid for work only with INS authorization," the taxpayer may claim the credit, assuming he or she meets the other requirements.

Taxpayers With One or More Qualifying Children

If the taxpayer has a qualifying child (defined later), the following additional requirements apply.

- The taxpayer's earned income and adjusted gross income must each be less than:
 - a) \$29,666 (\$30,666 if married filing jointly) if he or she has one qualifying child, or
 - b) \$33,692 (\$34,692 if married filing jointly) if he or she has more than one qualifying child,
- The taxpayer must show on Schedule EIC the name, age, and SSN for each qualifying child listed (see *Identification Numbers*, earlier).

Taxpayers With No Qualifying Child

If the taxpayer does not have a qualifying child, the following additional requirements apply.

- The taxpayer's earned income and adjusted gross income must each be less than \$11,230 (\$12,230 if married filing jointly).
- The taxpayer (or the taxpayer's spouse, if filing a joint return) must be at least age 25 but under age 65 at the end of the year.
- Neither the taxpayer (nor the taxpayer's spouse if filing jointly) can be eligible to be claimed as a dependent on another person's return.
- The principal place of abode of the taxpayer (and the taxpayer's spouse, if filing jointly) must be in the United States for more than half the year.

Earned Income

Earned income is wages, salaries, tips and other employee compensation, but only if the amounts are includible in gross income; plus net earnings from self-employment. Table 1 provides examples of what to include and not to include as earned income in computing the earned income credit.

Amounts received for work performed while an inmate in a penal institution are not considered earned income for purposes of the earned income credit. Enter "PRI" and the amount of the income earned while an inmate next to line 7 (Form 1040 or 1040A) or line 1 (Form 1040 EZ). This income is still considered taxable for purposes of determining the taxpayer's federal income tax.

If the taxpayer was a household employee who did not receive a Form W-2 because he or she was paid less than \$1,300, the income must still be included on line 7 (Form 1040A or 1040) or line 1 (Form 1040EZ). Enter "HSH" and the amount not reported on Form W-2 next to line 7 (Form 1040A or 1040) or Line 1 (Form 1040EZ).

Table 9-2. Examples of Earned Income for the Earned Income Credit

Earned Income					
Includes	Does not include				
Taxable wages, salaries,	Interest and dividends				
and tips Union strike benefits	Social Security and railroad retirement benefits				
	Welfare benefits				
Taxable long-term disability benefits	Workfare payments				
received prior to	Pensions or annuities				
minimum retirement age	Veteran's benefits (including VA rehabilitation payments)				
Net earnings from self- employment	Workers' compensation benefits				
Gross income of a	Alimony				
statutory employee	Child Support				
	Nontaxable foster care payments				
	Unemployment compensation				
	Taxable scholarship or fellowship grants that are not reported on Form W-2				
	Earnings for work performed while an inmate at a penal institution				
	Salary deferrals (for example, under a 401(k) or 403(b) plan or the Federal Thrift Savings Plan)				
	Combat zone excluded pay (box 12, code Q of Form W-2)				
	Basic housing and subsistence allowances for the U.S. Military (box 12, code Q of Form W-2)				
	The value of meals or lodging provided by an employer for the convenience of the employer				
	Housing allowance or rental value of a parsonage for the clergy				
	Excludable dependent care benefits (line 18 of either Form 2441, Form 1040, or Schedule 2, Form 1040A)				
	Salary reductions such as under a cafeteria plan				
	Excludable employer provided educational assistance benefits (may be shown in box 13 of Form W-2)				
	Anything else of value received from someone for services performed, if it is not currently taxable				

QUALIFYING CHILD

For purposes of the earned income credit, a taxpayer has a qualifying child, if the child meets three tests.

- Relationship Test
- Residency Test, and
- Age Test

Relationship Test

To meet the relationship test, the qualifying child must be the taxpayer's:

- 1. Son, daughter, stepson, stepdaughter or a descendant of the taxpayer's son, daughter, stepson, or stepdaughter.
- 2. Brother, sister, stepbrother, stepsister or a descendant of the taxpayer's brother, sister, stepbrother or stepsister. The taxpayer must care for any of these children as his or her own child. A descendant must be lineal descendant.
- 3. Eligible foster child.

An *eligible foster child* is a child placed with the taxpayer by an authorized placement agency and whom the taxpayer cares for as his or her own child. An authorized placement agency is an agency of a state or political subdivision of a state, including a court, or tax-exempt organization licensed by the state.

An adopted child (and a child placed with the taxpayer for adoption) is treated as a child by blood.

Residency Test

To meet the residency test, the child must live with the taxpayer in the United States for more than half of the tax year. If a child fails to meet the residency test because the child was born or died during the year, the child is considered to meet the test if the child lived with the taxpayer while the child was alive. The taxpayer does not need to have a home. It is sufficient if the taxpayer and child live together in a series of homeless shelters.

Age Test

To meet the age test, the child must be:

- Under age 19 at the end of the year,
- A full-time student under age 24 at the end of year, or
- Permanently and totally disabled at any time during the tax year, regardless of age.

A *married taxpayer* can be a qualifying child of the taxpayer if he or she can be claimed as a dependent by the taxpayer.

Qualifying Child of More Than One Taxpayer

If a child is a qualifying child of more than one taxpayer, the taxpayers may choose which of them will claim the credit on the basis of that child. If two or more children are qualifying children of the same taxpayers (not filing a joint return together), the taxpayers may agree that one will claim the credit on the basis of one child and the other will claim the credit on the basis of the other child.

Example 1

Jane (age 30) is unmarried. In 2003, Jane lived with her four children and her mother, Linda. Provided they each meet the eligibility and income requirements, Jane may claim the EIC based on one or two of the children, and Linda may claim the EIC based on the other two children not claimed by Jane.

If two or more taxpayers actually claim the credit on the basis of the same qualifying child, the statute determines which of them is entitled to the credit on the basis of that child. This is the tiebreaker rule. The taxpayer who is entitled to the credit is —

- The parent, if one taxpayer is a parent of the child.
- The parent the child lived with longest during the tax year, if both taxpayers are parents of the child and they do not file a joint return together.
- The parent with the higher AGI, if both taxpayers are parents of the child, the child lived with both parents for the same length of time during the tax year, and they do not file a joint return together.
- The taxpayer with the higher AGI, if neither is a parent of the child.

Example 2

John (age 26) is unmarried. In 2003, John and his daughter, Lynn, lived with John's father, Paul. John's sole income was wages of \$19,000. Paul's sole income was wages of \$12,000.

Lynn is a qualifying child of both John and Paul. John and Paul agree that Paul will claim the EIC on the basis of Lynn, because Paul's credit would be more than John's. If John later decides to claim the credit, under the tie-breaker rule, Paul will lose the credit he claimed.

Example 3

Ralph is single and has two qualifying children. He earned \$23,247 in taxable wages and his adjusted gross income is \$26,928.

Ralph can claim the earned income credit because his earned income and adjusted gross income are each less than \$33,692.

Example 4

Maureen has \$23,050 in earned income; her adjusted gross income is \$23,175. Her filing status is single. Maureen's 20-year-old daughter, Angie, lived with her for eight months of the year. Angie is not married and is a full-time college student.

Maureen can claim the earned income credit because she has a qualifying child and her earned income and adjusted gross income are under \$29,666.

DISALLOWED EARNED INCOME CREDIT

If a taxpayer's earned income credit was disallowed in for any year after 1996 as a result of the deficiency procedures, he or she cannot claim the credit again unless *Form 8862*, *Information To Claim Earned Income Credit After Disallowance*, is attached to the return. If the credit is claimed without attaching Form 8862, it will be automatically denied, under the math error procedures.

A deficiency procedure occurs when the IRS questions the taxpayer's eligibility for the earned income credit for reasons other than a mathematical or clerical error. If the credit was disallowed in the earlier year because of a mathematical or clerical error, Form 8862 should not be completed. For more information on deficiency procedures, see Publication 596.

A taxpayer who is determined to have claimed the EIC due to reckless or intentional disregard of rules or regulations is ineligible to claim the EIC for a subsequent period of 2 years.

A taxpayer who is determined to have fraudulently claimed the EIC is ineligible to claim the EIC for a subsequent period of 10 years.

CERTIFICATION — EARNED INCOME CREDIT

The Internal Revenue Service will execute a pilot initiative during the 2004 Filing Season with the balanced goal of providing better service and improving the integrity of the administration of the Earned Income Tax Credit. A part of this initiative was an EITC certification component. The twin objectives of the certification process are to 1) reduce overpayments and 2) improve participation of eligible EITC customers

If a taxpayer has received correspondence regarding EITC certification, offer to review the information with the customer. If the taxpayer has received a determination letter, please complete the return, relative to the EITC, as directed. Please note if the customer's situation has altered since receiving a determination letter the qualifying rules still apply. The customer interview is a critical part of completing a correct return.

Exercise 1

Determine if the taxpayers in this exercise can claim the earned income credit. If they cannot, explain why.

- **A.** Sharon has an eligible foster child, Eric. Eric is 12 years old and began living with Sharon in August 2003. Sharon's earned income and her adjusted gross income are \$14,275. Can Sharon claim the earned income credit?
- **B.** Doug and Donna are married and live together. Their combined earned income is \$22,222. Doug reports adjusted gross income of \$10,728 on his separate tax return, and Donna reports adjusted gross income of \$11,514 on her separate return. Sam, their four-year-old son, lives with Doug and Donna. Can Doug and/or Donna claim the earned income credit?
- C. Randy and Cara were married and lived together until August when they divorced. Randy and Cara have two children, Jimmy, age seven, and Anna, age five. The children lived with both of their parents until August, then they lived with their mother. Randy's earned income and adjusted gross income are \$19,251. Cara's earned income is \$14,751, and her adjusted gross income is \$15,362. Can Randy and/or Cara claim the earned income credit?
- **D.** Benjamin, age 26, lives alone, is single, and earns \$8,250. His adjusted gross income is \$8,950. Can Benjamin claim the earned income credit?
- **E.** Melanie is 18 years old and married. Melanie's husband is overseas, and she lives with her mother, Susan. Susan's earned income is \$18,431, and her adjusted gross income is \$18,453. Susan cannot claim Melanie as a dependent. Can Susan claim the earned income credit?
- **F.** Circle the items that are considered earned income for earned income credit purposes.
 - 1. Wages
 - 2. Housing allowance for a member of the clergy
 - **3.** Social security benefits
 - 4. Interest income
 - 5. Unemployment compensation
 - **6.** Tip income
 - 7. Dividend income
 - 8. Military subsistence allowances

THE EARNED INCOME CREDIT WORKSHEET AND SCHEDULE EIC

The earned income credit is computed on the Earned Income Credit (EIC) Worksheet. Before completing the EIC Worksheet, *you must* complete the steps in the EIC instructions line 63 of Form 1040; line 41 of Form 1040A; or line 8 of Form 1040EZ.

Completing the steps will help you determine whether or not the taxpayer is eligible to take the credit. If the taxpayer can claim the earned income credit, complete the EIC Worksheet. If the taxpayer is not eligible to claim the credit but appears to be based on income limitations, write "No" next to line 8 of 1040EZ; line 41 of 1040A; or line 63 of 1040. The steps and the EIC Worksheets are included in the 1040, 1040A, and 1040EZ instructions.

There are two versions (A and B) of the EIC Worksheet for Form 1040 filers. If the taxpayer was self-employed or reported incomeand expenses on Schedule C or C-EZ as a statutory employee, he or she must use the EIC Worksheet B to figure his or her credit amount. Complete the EIC Worksheet to determine the amount of the earned income credit the taxpayer can claim. The EIC Worksheet should not be attached to the return; the taxpayer should keep it with his or her tax records.

Using the Earned Income Credit Table

The Earned Income Credit (EIC) Table is used to determine the amount of the credit. The tables are found in the instructions for Forms 1040EZ, 1040A, or 1040.

When using the earned income credit table to determine the credit, read down the columns labeled $At\ least\dots But\ less\ than$ and find the line that includes the amount you are instructed to look up from the EIC Worksheet. Read across to the column that includes the number of qualifying children of the taxpayer and filing status. Enter the earned income credit from that column on the EIC Worksheet.

Example 5

Roger's filing status is head of household and he has two qualifying children. The amount shown on lines 1 and 3 of his Form 1040A EIC Worksheet is \$19,300.

Roger's earned income credit from the EIC Table is \$3,026.

Exercise 2

A. Alex and Cheryl have two qualifying children. Their filing status is married filing jointly. The amount shown on lines 1 and 3 of their EIC Worksheet is \$19,866.

What is the earned income credit from the EIC Table?

B. Roxanne is divorced. She lives with her infant daughter. The amount shown on lines 1 and 3 of her EIC Worksheet is \$17,750.

What is the earned income credit from the EIC Table? _____

POTENTIAL PITFALLS



Errors are easily made when using the earned income credit table. To ensure that you have entered the correct amount on the tax form, look up the credit twice—once before you enter the credit on the form and once after you have entered it on the form.

Completing Schedule EIC

Qualifying Child Information

Schedule EIC, *Earned Income Credit*, contains only information about qualifying children. Only taxpayers who have a qualifying child must fill out the schedule and attach it to Form 1040A or Form 1040.

Example 6

Ronald Evans (SSN 000-00-9840) is single. His son, Harry (SSN 000-00-9849), was born in 1981. Harry lived with Ronald during all of 2003. Harry is a full-time student. Harry is not married and is a qualifying child of his father. He is not a qualifying child of his mother. However, Harry's mother claims him as a dependent on her tax return.

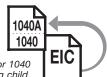
Exhibit 1 shows the Schedule EIC.

Exhibit 1 Ronald Evan's Schedule EIC

SCHEDULE EIC (Form 1040A or 1040)

Earned Income Credit

Qualifying Child Information



OMB No. 1545-0074

Department of the Treasury Internal Revenue Service

Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

Attachment Sequence No. 43

Your social security number 000 00 9840

Name(s) shown on return

RONALD EVANS

Before you begin:

(a) you can take the EIC and (b) you have a qualifying child.

If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up

See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that



- to 10 years. See back of schedule for details.
 It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213

Qı	ualifying Child Information		Child 1	C	hild 2
•	Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name	Last name EVANS	First name	Last name
	Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	000	chane 9849		
	Next, if the child was born after 1984, go	to line 4. Oth	erwise, continue.		
а	If the child was born before 1985— Was the child under age 24 at the end of 2003 and a student?	Yes. Go to line 4.	No.	Yes. Go to line 4.	No.
	Was the child permanently and totally disabled during any part of 2003?	Yes. Continue	No. The child is not a qualifying child.	Yes. Continue	No. The child is not a qualifying child.
	Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)		SON		
_	Number of months child lived with you in the United States during 2003				
	 If the child lived with you for more than half of 2003 but less than 7 months, enter "7". If the child was born or died in 2003 and your home was the child's home for the entire time he or she was alive during 2003, enter "12". 	Do not enter n	months more than 12 months.	Do not enter m	months ore than 12 months.
	You may also be able to take the additional claimed as your dependent on line 6c of details, see the instructions for line 42	of Form 1040A or	Form 1040, and (c) is a		
	Paperwork Reduction Act Notice, see Form 1040A 040 instructions.	Cat.	No. 13339M	Schedule EIC (For	m 1040A or 1040) 200

Exercise 3

Sam U. and Robin O. Bell are married and file a joint return. Sam's social security number is 000-00-4797 and Robin's is 000-00-4798. They have a child, Jennifer S. Bell (SSN 000-00-1987) who was born in 1996. Jennifer lived with her parents for the entire year. Form 1040A, line 7 shows that the Bells had wages of \$21,211, line 8a shows \$39 of taxable interest income, and line 21 shows the Bells' adjusted gross income of \$21,250.

Complete the EIC Worksheet and Schedule EIC.

POTENTIAL PITFALLS

Remember that the amount of the earned income credit depends on the taxpayer's income, number of qualifying children, and filing status. Be sure to use the correct column from the EIC Table.

Exhibit 2 **EIC Wooksheet**

Line 41— Earned Income Credit (EIC)

What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you or let the IRS figure the credit for you.
- · If you have a qualifying child, complete and attached Schedule EIC.



If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you

are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1

All Filers

- 1. If, in 2003:
 - 2 children lived with you, is the amount on Form 1040A, line 22, less than \$33,692 (\$34,692 if married filing jointly)?
 - 1 child lived with you, is the amount on Form 1040A, line 22, less than \$29,666 (\$30,666 if married filing jointly)?
 - No children live with you, is the amount on Form 1040A, line 22, less than \$11,230 (\$12,230 if married filing jointly)?

Yes.	Continue
------	----------





You cannot take the credit.

- Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?
 - ☐ Yes. Continue -



You cannot take the credit. Put "No" to the left of the entry space for line 41.

- 3. Is you filing status married filing separately?
 - Yes. STOP

☐ **No.** *Continue*



- 39 -

You cannot take the credit.

- Were you a nonresident alien for any part of 2003?
 - ☐ **Yes.** See Nonresident ☐ **No.** Go to Step 2. aliens on page 42.

Step 2 **Investment Income**

1. Add the amounts from Form 1040A:

Line 8a Line 8b Line 9a

Investment Income =

2. Is your investment income more than \$2,600?

☐ Yes. (STOP)

credit.

☐ No. Continue ■

Line 10a



3. Did a child live with you in 2003?

You cannot take the

 \square **Yes.** Go to Step 3 on \square **No.** Go to Step 4 on

page 40.

(Continued on page 40)

Need more information or forms? See page 7.

Exhibit 3

Step 3 **Qualifying Child** A qualifying child is a child who is your... Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild) Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child) was at the end of 2003. Under age 19 orUnder age 24 and a student (see page 42) orAny age and permanently and totally disabled (see page 42) who... Lived with you in the United States for more than half of 2003. If the child did not live with you for the required time, see Exception to "Time Lived With You" Condition on page 41. Note. If the child was married, see page 42. 1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003? Yes. (STOP) ■ No. Continue ■

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2003? ☐ **No.** This child is your ☐ **Yes.** See Qualifying Child of More Than qualifying child. The child One Person on page must have a valid social security number as defined on page 42 unless the child was born and died in 2003. Skip Step 4; go to Step 5 on page 41. Filers Without a Qualifying Child Step 4 1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003? ☐ No. Continue ¬ Yes. (STOP) You cannot take the credit. Put "No" to the left of the entry space for line 41. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return? Yes. (STOP) ☐ No. Continue
■ You cannot take the credit. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003? Yes. Continue ☐ No. (STOP) You cannot take the credit. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 42 before you answer. ☐ Yes. Go to Step 5 on ☐ No. (STOP) page 41. You cannot take the credit. Put "No" to the left of the entry space for line 41. (Continued on page 41)

Need more information or forms? See page 7.

Do you have at least one child who meets the above

 \square **Yes.** Go to question \square **No.** Skip question 3; go to

Step 4, question 2.

You cannot take the credit. Put "No" to the left of the entry space

conditions to be your qualifying child?

for line 41.

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Exhibit 4

Step 5 Earned Income

1. Figure earned income:

Form 1040, line 7

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Earned Income =



- 2. If you have:
 - 2 or more qualifying children, is your earned income less than \$33,692 (\$34,692 if married filing jointly)?
 - 1 qualifying child, is your earned income less than \$29,666 (\$30,666 if married filing jointly)?
 - No qualifying children, is your earned income less than \$11,230 (\$12,230 if married filing jointly)?

☐ **Yes.** Go to Step 6.



You cannot take the credit.

Step 6

How To Figure the Credit

- 1. Do you want the IRS to figure the credit for you?
 - ☐ **Yes.** See Credit Figured by the IRS below.

□ **No.** Go to the worksheet on page 43.

- 41 -

Definitions and Special Rules

(listed in alphabetical order)

Adopted Child. An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

Credit Figured by the IRS. To have the IRS figure the credit for you:

- 1. Put "EIC" to the left of the entry space for line 41 of Form 1040A.
- **2.** If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to "Time Lived With You" Condition. A child is considered to have lived with you for all of 2003 if the child was born or died in 2003 and your home was this child's home for the entire time he or she was alive in 2003. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military on page 42.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

(Continued on page 42)

Need more information or forms? See page 7.

Exhibit 5 Eligibility Questions, page 3

our earned income from Step 5 on the amount on line 1 above in the EIC Table on pages 46 the credit. Be sure you use the correct column for your filing the number of children you have. Enter the credit here. This zero, You cannot take the credit. To the left of the entry space for line 41. The amount from Form 1040A, line 22. The amount from Form 1040A in the same? The Skip line 5; enter the amount from line 2 on line 6. The Go to line 5.	
the credit. Be sure you use the correct column for your filing the number of children you have. Enter the credit here. It is zero, You cannot take the credit. You cannot take the credit. To the left of the entry space for line 41. The amount from Form 1040A, line 22. The amount from Form 1040A is a same? The same is a sure you use the correct column for your filing and the same? The same is a sure you use the correct column for your filing and the same?	
e amount from Form 1040A, line 22. amounts on lines 3 and 1 the same? Skip line 5; enter the amount from line 2 on line 6.	
amounts on lines 3 and 1 the same? Skip line 5; enter the amount from line 2 on line 6.	
Skip line 5; enter the amount from line 2 on line 6.	
ave: ualifying children, is the amount on line 3 less than \$6,250 ed filing jointly)?	0 (\$7,250
more qualifying children, is the amount on line 3 less than 0 if married filing jointly)? Leave line 5 blank; enter the amount from line 2 on line	
Look up the amount on line 3 in the EIC Table on pages 46–51 to find the credit. Be sure you use the corre column for your filing status and the number of children you have. Enter the credit here.	ct 5
Look at the amounts on lines 5 and 2. Then, enter the smaller amount on line 6.	
your earned income credit.	6
ave a qualifying child, complete and attach e EIC.	Enter this amount on Form 1040A, line 41.
fa:: 0000	
1	page 43 to find out if you must file Form 8862 to tale for 2003.

Lesson 9 9-17
WAGE EARNER

Form 1040A	`	,			Page 2
Tax,	22	Enter the amount from line 21 (adjusted gross income).		22	
credits,		o (□ v		1	
and	23a	Check			
payments	L	if:			
Standard	ı	deductions, see page 34 and check here	П		1
Deduction	24	Enter your standard deduction (see left margin).		24	
for— People who	25	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0		25	
checked any	26	Multiply \$3,050 by the total number of exemptions claimed on line 6d.		26	
box on line 23a or 23b or	27	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0			
who can be		This is your taxable income .	•	27	
claimed as a dependent,	28	Tax, including any alternative minimum tax (see page 35).		28	
see page 34.	29	Credit for child and dependent care expenses.			
All others:		Attach Schedule 2. 29		_	
Single or Married filing	30	Credit for the elderly or the disabled. Attach			
separately,		Schedule 3. 30		_	
\$4,750	31	Education credits. Attach Form 8863.		_	
Married filing jointly or	32	Retirement savings contributions credit. Attach Form 8880.			
Qualifying widow(er),	33	Form 8880. 32 Child tax credit (see page 38). 33		_	
\$9,500	34	Adoption credit. Attach Form 8839.		_	
Head of	35	Add lines 29 through 34. These are your total credits.		_ 35	
household, \$7,000	36	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0		36	
	37	Advance earned income credit payments from Form(s) W-2.		37	
	38	Add lines 36 and 37. This is your total tax.	•	38	
	39	Federal income tax withheld from Forms W-2			
		and 1099. 39		_	
	40	2003 estimated tax payments and amount			
If you have a qualifying		applied from 2002 return. 40		_	
child, attach	41 42	Earned income credit (EIC). 41 Additional child tax credit. Attach Form 8812. 42		_	
Schedule EIC.	43	Add lines 39 through 42. These are your total payments.		43	1
Refund	44	If line 43 is more than line 38, subtract line 38 from line 43.		-10	
Refund	•	This is the amount you overpaid.		44	
Direct	45a	Amount of line 44 you want refunded to you.		45a	
deposit? See page 52	▶ b	Routing Routin			
and fill in		number			
45b, 45c, and 45d.	▶ d				
una 40a.		number L	1	_	
	46	Amount of line 44 you want applied to your			
	47	2004 estimated tax. 46		_	1
Amount	47	Amount you owe. Subtract line 43 from line 38. For details on how to pay, see page 53.	•	47	
you owe	48	Estimated tax penalty (see page 53). 48		71	
		Do you want to allow another person to discuss this return with the IRS (see page 54)?	Yes.	Complete the following.	. 🗆 N
Third party				entification	
designee		· ·	er (PIN		
Sign		Under penalties of perjury, I declare that I have examined this return and accompanying schedules and st snowledge and belief, they are true, correct, and accurately list all amounts and sources of income I receive			
here	(of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge	a dami	,	
Joint return?	\ '	our signature Date Your occupation		Daytime phone numb	er
See page 22. Keep a copy					
for your	7	Spouse's signature. If a joint return, both must sign. Date Spouse's occupation			
records.	,	Date Date		Preparer's SSN or PTIN	<u>///////</u>
Paid		Check if	и П	Fiehalel 2 2011 OF FIIN	
	_	Sen employe	чЦ	1	
preparer's	F	IIII S Hallie (OI		i	
preparer's use only)	irm's name (or EIN ours if self-employed), iddress, and ZIP code	e no	: ()	

SCHEDULE EIC (Form 1040A or 1040)

Earned Income Credit

Qualifying Child Information

1040A 1040 EIC OMB No. 1545-0074

Attachment Sequence No. 43

Department of the Treasury Internal Revenue Service Name(s) shown on return Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

Your social security number

Before you begin:

See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that (a) you can take the EIC and (b) you have a qualifying child.





- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Q	ualifying Child Information	Child 1	Child 2
1	Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name Last name	First name Last name
2	Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	211 chang	
	Next, if the child was born after 1984, go	to line 4. Otherwise, continue.	
	If the child was born before 1985— Was the child under age 24 at the end of 2003 and a student?	Yes. No. Go to line 4. Continue	Yes. No. Go to line 4. Continue
b	Was the child permanently and totally disabled during any part of 2003?	Yes. No. Continue The child is not a qualifying child.	Yes. No. Continue The child is not a qualifying child.
4	Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)		
5	Number of months child lived with you in the United States during 2003		
	 If the child lived with you for more than half of 2003 but less than 7 months, enter "7". If the child was born or died in 2003 and your 	months	months
	home was the child's home for the entire time he or she was alive during 2003, enter "12".	Do not enter more than 12 months.	Do not enter more than 12 months.
	TIP claimed as your dependent on line 6c	ional child tax credit if your child (a) was of Form 1040A or Form 1040, and (c) is of Form 1040A or line 65 of Form 1040.	a U.S. citizen or resident alien. For more
	r Paperwork Reduction Act Notice, see Form 1040A 1040 instructions.	Cat. No. 13339M	Schedule EIC (Form 1040A or 1040) 20

Advance Earned Income Credit Payments

An employee who expects to qualify for the earned income credit (EIC) and to have at least one qualifying child for 2004 can choose to get a portion of the credit in advance throughout the year (based on one qualifying child) by giving a filled out Form W-5, *Earned Income Credit Advance Payment Certificate*, to his or her employer. Taxpayers receive only a portion of the credit through advance payments, so the eligibility questions and the EIC Worksheet must be completed when the tax return is prepared to determine the full amount of the credit the taxpayer is entitled to receive.

If the employee chooses to receive the EIC in advance, the employer will include advance payments of the credit in the employee's regular paychecks during the year. Employees who receive advance earned income credit payments *must* file a tax return even if they are not otherwise required to file.

Advance earned income credit payments are reported in box 9 of Form W-2. Enter this amount on Form 1040A, line 37, or Form 1040, line 58.

Exercise 4

Kyle B. Evans is a single parent. He claims his daughter, Julie, as a dependent on his tax return. Kyle's social security number is 000-00-2442. Julie was born in November 2001. Her social security number is 000-00-4104. Kyle's earned income was \$18,751, and his total income and adjusted gross income were \$19,223. He received \$550 in advance earned income credit payments.

- **A.** Complete Kyle's eligibility questions and EIC Worksheet.
- **B.** What entries would you make on Schedule EIC?

Exhibit 8

Line 41— Earned Income Credit (EIC)

What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- \bullet Complete the worksheet that applies to you or let the IRS figure the credit for you.
- If you have a qualifying child, complete and attached Schedule EIC.



If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you

are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1

All Filers

- 1. If, in 2003:
 - 2 children lived with you, is the amount on Form 1040A, line 22, less than \$33,692 (\$34,692 if married filing jointly)?
 - 1 child lived with you, is the amount on Form 1040A, line 22, less than \$29,666 (\$30,666 if married filing jointly)?
 - No children live with you, is the amount on Form 1040A, line 22, less than \$11,230 (\$12,230 if married filing jointly)?







You cannot take the credit.

- 2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?
 - ☐ Yes. Continue



You cannot take the credit. Put "No" to the left of the entry space for line 41.

- 3. Is you filing status married filing separately?
 - ☐ Yes. STOP

☐ **No.** Continue



- 39 -

You cannot take the credit.

Were you a nonresident alien for any part of 2003?

☐ **Yes.** See Nonresident ☐ **No.** Go to Step 2. aliens on page 42.

Step 2 Investment Income

. Add the amounts from Form 1040A:

Line 8a
Line 8b +
Line 9a +
Line 10a +

Investment Income =

2. Is your investment income more than \$2,600?

Yes.	STOP

credit.

☐ No. Continue



3. Did a child live with you in 2003?

You cannot take the

		•		
Yes.	Go to	Step 3	on on	Ν

No. Go to Step 4 on page 40.

(Continued on page 40)

Need more information or forms? See page 7.

Step 3 Qualifying Child

A qualifying child is a child who is your...

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)



was at the end of 2003..

Under age 19

or

Under age 24 and a student (see page 42)

Any age and permanently and totally disabled (see page 42)



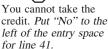
who...

Lived with you in the United States for more than half of 2003. If the child did not live with you for the required time, see Exception to "Time Lived With You" Condition on page 41.

Note. If the child was married, see page 42.

- Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?
 - Yes. STOP

No. Continue



- Do you have at least one child who meets the above conditions to be your qualifying child?
 - ☐ **Yes.** Go to question ☐ **No.** Skip question 3; go to

Step 4, question 2.

- 3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2003?
 - ☐ **Yes.** See Qualifying Child of More Than One Person on page

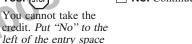
☐ **No.** This child is your qualifying child. The child must have a valid social security number as defined on page 42 unless the child was born and died in 2003. Skip Step 4; go to Step 5 on page 41.

Step 4 Filers Without a Qualifying Child

- Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?
 - Yes. (STOP)

for line 41.

☐ **No.** Continue ■



- Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return?
 - Yes. (STOP)

credit.

You cannot take the

☐ **No.** Continue



- Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?
 - ☐ Yes. Continue ■

☐ No. (STOP)

You cannot take the credit.

Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 42 before you answer.

☐ Yes. Go to Step 5 on ☐ No. (STOP) page 41.

You cannot take the credit. Put "No" to the left of the entry space for line 41.

(Continued on page 41)

Need more information or forms? See page 7.

- 40 -

Form 1040A—Line 41

Step 5 Earned Income

1. Figure earned income:

Form 1040, line 7

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Earned Income =



2. If you have:

- 2 or more qualifying children, is your earned income less than \$33,692 (\$34,692 if married filing jointly)?
- 1 qualifying child, is your earned income less than \$29,666 (\$30,666 if married filing jointly)?
- No qualifying children, is your earned income less than \$11,230 (\$12,230 if married filing jointly)?

 \square **Yes.** Go to Step 6.



You cannot take the credit.

Step 6 How To Figure the Credit

- 1. Do you want the IRS to figure the credit for you?
 - ☐ **Yes.** See Credit Figured by the IRS below.

No. Go to the worksheet on page 43.

- 41 -

Definitions and Special Rules

(listed in alphabetical order)

Adopted Child. An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

Credit Figured by the IRS. To have the IRS figure the credit for you:

- **1.** Put "EIC" to the left of the entry space for line 41 of Form 1040A.
- **2.** If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to "Time Lived With You" Condition. A child is considered to have lived with you for all of 2003 if the child was born or died in 2003 and your home was this child's home for the entire time he or she was alive in 2003. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military on page 42.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

(Continued on page 42)

Need more information or forms? See page 7.

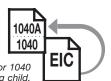
Exhibit 11 EIC Worksheet

arned Income (Credit (EIC) Worksheet—Line 41	Keep for Your Records
Part 1 All Filers	 Enter your earned income from Step 5 on page 43. Look up the amount on line 1 above in the EIC Table on pages 46 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. If line 2 is zero, You cannot take the credit. Put "No" to the left of the entry space for line 41. Enter the amount from Form 1040A, line 22. Are the amounts on lines 3 and 1 the same? Yes. Skip line 5; enter the amount from line 2 on line 6. No. Go to line 5. 	
Part 2 Filers Who Answered "No" on Line 4	 5. If you have: No qualifying children, is the amount on line 3 less than \$6,250 if married filing jointly)? 1 or more qualifying children, is the amount on line 3 less than (\$14,750 if married filing jointly)? Yes. Leave line 5 blank; enter the amount from line 2 on line No. Look up the amount on line 3 in the EIC Table on pages 46-51 to find the credit. Be sure you use the correcolumn for your filing status and the number of children you have. Enter the credit here. Look at the amounts on lines 5 and 2. Then, enter the smaller amount on line 6. 	\$13,750 6.
Part 3 Your Earned Income Credit	6. This is your earned income credit. Reminder— ✓ If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or dis page 43 to find out if you must file Form 8862 to ta for 2003.	
	- 43 - Need more	information or forms? See page

SCHEDULE EIC (Form 1040A or 1040)

Earned Income Credit

Qualifying Child Information



OMB No. 1545-0074

2003

Your social security number

Attachment Sequence No. 43

Department of the Treasury Internal Revenue Service Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

Name(s) shown on return

Before you begin: See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that (a) you can take the EIC and (b) you have a qualifying child.



• If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.

- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Q	ualifying Child Information	С	hild 1	С	hild 2
1	Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name	Last name	First name	Last name
2	Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	221	chang		
Next, if the child was born after 1984, go to line 4. Otherwise, continue.					
3 a	If the child was born before 1985— Was the child under age 24 at the end of 2003 and a student?	Yes. Go to line 4.	No. Continue	Yes. Go to line 4.	No. Continue
k	Was the child permanently and totally disabled during any part of 2003?	Yes. Continue	No. The child is not a qualifying child.	Yes. Continue	No. The child is not qualifying child.
	Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)				
5	Number of months child lived with you in the United States during 2003				
	• If the child lived with you for more than half of 2003 but less than 7 months, enter "7".				
	• If the child was born or died in 2003 and your home was the child's home for the entire time he or she was alive during 2003, enter "12".	Do not enter m	months ore than 12 months.	Do not enter m	months ore than 12 months.
	You may also be able to take the addit claimed as your dependent on line 6c details, see the instructions for line 42	of Form 1040A or I	Form 1040, and (c) is a		

► SUMMING UP THIS LESSON ◀ ◀

➤ The earned income credit can be claimed on Form 1040EZ, Form 1040A or Form 1040.

Answers to Exercises

Lesson 9

Exercise 1

- (A) No; to be a qualifying child, the child must live with the taxpayer more than half of the year.
- (B) Neither Donna nor Doug can claim the credit; in order to claim the earned income credit, married taxpayers living together must file a joint return.
- (C) Jimmy and Anna are qualifying children of both Randy and Cara. Randy and Cara can choose which of them will claim the credit based on each child. One can claim the credit on the basis of two children, or each can claim the credit on the basis of one child. If both claim the credit on the basis of the same child or both children, Cara will be entitled to the credit because each child lived with her for the longer period of time during the year.
- (D) Yes. He is between 25 and 65; his earned income is less than \$11,230; he cannot be claimed as a dependent and he is not a qualifying child of another person.
- (E) No; to be a qualifying child, a married child must generally be eligible to be claimed as a dependent by the taxpayer.
- (F) Numbers 1 and 6 should be circled.

Exercise 2

- (A) \$3,120
- (B) \$1,900

WAGE EARNER

Bell's EIC Worksheet

Lesson 9

Exercise 3

Answers to Exercises

Earned Income	Credit (EIC) Worksheet—Line 41 Keep for Your Records
Part 1 All Filers	1. Enter your earned income from Step 5 on page 43.
	2. Look up the amount on line 1 above in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.
	If line 2 is zero, You cannot take the credit. Put "No" to the left of the entry space for line 41.
	3. Enter the amount from Form 1040A, line 22. 3 21,250
	4. Are the amounts on lines 3 and 1 the same?
	☐ Yes. Skip line 5; enter the amount from line 2 on line 6. ■ No. Go to line 5.
Part 2 Filers Who Answered "No" on Line 4	 5. If you have: No qualifying children, is the amount on line 3 less than \$6,250 (\$7,250 if married filing jointly)? 1 or more qualifying children, is the amount on line 3 less than \$13,750 (\$14,750 if married filing jointly)? ☐ Yes. Leave line 5 blank; enter the amount from line 2 on line 6.
Lille 4	No. Look up the amount on line 3 in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. Look at the amounts on lines 5 and 2. Then, enter the smaller amount on line 6.
Part 3	6. This is your earned income credit. 6 \$1,501
Your Earned Income Credit	Reminder— Vifyou have a qualifying child, complete and attach Schedule EIC. The second of the se
	If your EIC for a year after 1996 was reduced or disallowed, see page 43 to find out if you must file Form 8862 to take the credit for 2003.

Answers to Exercises

Lesson 9

Exercise 3

Bell's Eligibility Questions, page 1

Line 41— Earned Income Credit (EIC)

What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you or let the IRS figure the credit for you.
- If you have a qualifying child, complete and attached Schedule EIC.



If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you

are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1

All Filers

- 1. If, in 2003:
 - 2 children lived with you, is the amount on Form 1040A, line 22, less than \$33,692 (\$34,692 if married filing
 - 1 child lived with you, is the amount on Form 1040A, line 22, less than \$29,666 (\$30,666 if married filing jointly)?
 - No children live with you, is the amount on Form 1040A, line 22, less than \$11,230 (\$12,230 if married filing jointly)?





You cannot take the credit.

- 2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?
 - X Yes. Continue



You cannot take the credit. Put "No" to the left of the entry space for line 41.

3. Is you filing status married filing separately?

Yes. (STOP

X No. Continue



You cannot take the

credit.

Were you a nonresident alien for any part of 2003?

☐ Yes. See Nonresident ☒ No. Go to Step 2. aliens on page 42.

Step 2

Investment Income

1. Add the amounts from Form 1040A:

\$39 Line 8a Line 8b Line 9a 0 Line 10a +

\$39

Investment Income =

2. Is your investment income more than \$2,600?



X No. Continue



credit. 3. Did a child live with you in 2003?

> X Yes. Go to Step 3 on \(\subseteq \text{No. Go to Step 4 on} \) page 40.

Lesson 9

Answers to Exercises

exercise 3		Bell's Eligibility Questions, page
Form 1040A—Line 41		
Step 3 Qualifying Child	3.	Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2003?
A qualifying child is a child who is your		☐ Yes. See Qualifying Child of More Than One Person on page 42. No. This child is your qualifying child. The child must have a valid social security number as defined
Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild) or		on page 42 unless the child was born and died in 2003. Skip Step 4; go to Step 5 on page 41.
Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child or	s	tep 4 Filers Without a Qualifying Child
Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)	1.	Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?
AND	1	You cannot take the credit. Put "No" to the left of the entry space for line 41.
was at the end of 2003 Under age 19	2.	Can you, or your spouse if filing a joint return, be claimed
or		as a dependent on someone else's 2003 tax return?
Under age 24 and a student (see page 42) or		You cannot take the credit.
Any age and permanently and totally disabled (see page 42)	3.	Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?
AND		☐ Yes. Continue ☐ No. (STOP)
		You cannot take the credit.
who Lived with you in the United States for more than half of 2003. If the child did not live with you for the		Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 42
required time, see Exception to "Time Lived With You"		before you answer. ☐ Yes. Go to Step 5 on ☐ No. STOP
Condition on page 41.		page 41. You cannot take the credit.
Note. If the child was married, see page 42.		Put "No" to the left of the entry space for line 41.
1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?		
☐ Yes. (STOP) ▼ No. Continue		
You cannot take the credit. Put "No" to the left of the entry space for line 41.		
2. Do you have at least one child who meets the above conditions to be your qualifying child?		
X Yes. Go to question		

Answers to Exercises

Lesson 9

Exercise 3

Bell's Eligibility Questions, page 3

Form 1040A—Line 41

Step 5 Earned Income

1. Figure earned income:

Form 1040, line 7

21.211

0

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Earned Income =

21,211

- 2. If you have:
 - 2 or more qualifying children, is your earned income less than \$33,692 (\$34,692 if married filing jointly)?
 - 1 qualifying child, is your earned income less than \$29,666 (\$30,666 if married filing jointly)?
 - No qualifying children, is your earned income less than \$11,230 (\$12,230 if married filing jointly)?

X Yes. Go to Step 6.

☐ No. (STOP

You cannot take the credit.

Step 6 How To Figure the Credit

- 1. Do you want the IRS to figure the credit for you?
 - ☐ **Yes.** See Credit Figured by the IRS below.

No. Go to the worksheet on page 43.

Definitions and Special Rules

(listed in alphabetical order)

Adopted Child. An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

Credit Figured by the IRS. To have the IRS figure the credit for you:

- 1. Put "EIC" to the left of the entry space for line 41 of Form 1040A.
- **2.** If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to "Time Lived With You" Condition. A child is considered to have lived with you for all of 2003 if the child was born or died in 2003 and your home was this child's home for the entire time he or she was alive in 2003. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military on page 42.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

(Continued on page 42)

Lesson 9

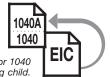
Answers to Exercises

Exercise 3 Bell's Schedule EIC, page 1

SCHEDULE EIC (Form 1040A or 1040)

Earned Income Credit

Qualifying Child Information



OMB No. 1545-0074

Attachment Sequence No. 43

Department of the Treasury Internal Revenue Service

Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

Name(s) shown on return

Sam U. and Robin O. Bell

Your social security number 000:00:4797

Schedule EIC (Form 1040A or 1040) 2003

Before you begin:

See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that (a) you can take the EIC and (b) you have a qualifying child.



- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Qualifying Child Information	Child 1	Child 2
1 Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name Last name Jennifer Bell	First name Last name
2 Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	000 00 1987	
Next, if the child was born after 1984, go	to line 4. Otherwise, continue.	
3 If the child was born before 1985— a Was the child under age 24 at the end of 2003 and a student?	Yes. No. Go to line 4. Continue	Yes. No. Go to line 4. Continue
b Was the child permanently and totally disabled during any part of 2003?	Yes. No. Continue The child is not a qualifying child.	Yes. No. Continue The child is not a qualifying child.
4 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)	Daughter	
5 Number of months child lived with you in the United States during 2003		
 If the child lived with you for more than half of 2003 but less than 7 months, enter "7". If the child was born or died in 2003 and your home was the child's home for the entire time he or she was alive during 2003, enter "12". 		months Do not enter more than 12 months.
TIP claimed as your dependent on line 6c of	ional child tax credit if your child (a) was of Form 1040A or Form 1040, and (c) is a of Form 1040A or line 65 of Form 1040.	

Cat. No. 13339M

For Paperwork Reduction Act Notice, see Form 1040A

WAGE EARNER

or 1040 instructions.

Answers to Exercises

Lesson 9

xercise 3				Bell's Schedule EIC, page
claimed as a dependent,	28	Tax, including any alternative minimum tax (see page 35).	2	28
see page 34.	29	Credit for child and dependent care expenses.		·
All others:		Attach Schedule 2. 29		
Single or Married filing separately,	30	Credit for the elderly or the disabled. Attach Schedule 3. 30		
\$4,750	31	Education credits. Attach Form 8863.		
Married filing	32	Retirement savings contributions credit. Attach		
jointly or Qualifying		Form 8880. 32		
widow(er),	33	Child tax credit (see page 38).		
\$9,500	34	Adoption credit. Attach Form 8839.		
Head of household.	35	Add lines 29 through 34. These are your total credits.	_ (35 0 00
\$7,000	36	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0	(36 0 00
	37	Advance earned income credit payments from Form(s) W-2.	(37
	38	Add lines 36 and 37. This is your total tax.	▶ (38 0 00
	39	Federal income tax withheld from Forms W-2 and 1099.		
	40	2003 estimated tax payments and amount		
If you have		applied from 2002 return. 40		
a qualifying child, attach	41	Earned income credit (EIC). 41 1,501	00	
Schedule	42	Additional child tax credit. Attach Form 8812. 42		
EIC.	43	Add lines 39 through 42. These are your total payments.	> 4	1,501 00

Exercise 4

- (A) See Kyle's completed steps and the EIC worksheet.
- (B) See Kyle's Schedule EIC.

Lesson 9

Answers to Exercises

Exercise 4(D)

Kyle's EIC Eligibility Questions, page 1

Form 1040A—Line 41

Line 41	_		
Earned	Income	Credit	(EIC)

What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you or let the IRS figure the credit for you.
- If you have a qualifying child, complete and attached Schedule EIC.



If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you

are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1

All Filers

- 1. If, in 2003:
 - 2 children lived with you, is the amount on Form 1040A, line 22, less than \$33,692 (\$34,692 if married filing jointly)?
 - 1 child lived with you, is the amount on Form 1040A, line 22, less than \$29,666 (\$30,666 if married filing jointly)?
 - No children live with you, is the amount on Form 1040A, line 22, less than \$11,230 (\$12,230 if married filing jointly)?
 - X Yes. Continue



You cannot take the credit.

- 2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?
 - X Yes. Continue



You cannot take the credit. Put "No" to the left of the entry space for line 41.

3. Is you filing status married filing separately?

☐ Yes. (STOP)

X No. Continue



- You cannot take the credit.
- Were you a nonresident alien for any part of 2003?
 - ☐ **Yes.** See Nonresident **X No.** Go to Step 2. aliens on page 42.

Step 2

Investment Income

1. Add the amounts from Form 1040A:

Line 8a Line 8b Line 9a Line 10a

Investment Income =

2. Is your investment income more than \$2,600?

Yes. (STOP)

X No. Continue



You cannot take the credit.

3. Did a child live with you in 2003? X Yes. Go to Step 3 on \(\subseteq \text{No. Go to Step 4 on} \) page 40.

page 40.

Answers to Exercises

Lesson 9

rcise	

Kyle's EIC Eligibility Questions, page 2

Form 1040A—Line 41		
Step 3 Qualifying Child	3.	Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2003?
A qualifying child is a child who is your		☐ Yes. See Qualifying Child of More Than One Person on page 42. No. This child is your qualifying child. The child must have a valid social security number as defined
Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild) or		on page 42 unless the child was born and died in 2003. Skip Step 4; go to Step 5 on page 41.
Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child or	s	tep 4 Filers Without a Qualifying Child
Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)	1.	Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?
AND	1	You cannot take the credit. Put "No" to the left of the entry space for line 41.
was at the end of 2003 Under age 19	2.	Can you, or your spouse if filing a joint return, be claimed
or		as a dependent on someone else's 2003 tax return? Yes. STOP No. Continue
Under age 24 and a student (see page 42) or		You cannot take the credit.
Any age and permanently and totally disabled (see page 42) AND	3.	Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003? No. STOP You cannot take the credit.
who	4.	Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of
Lived with you in the United States for more than half of 2003. If the child did not live with you for the		the military stationed outside the United States, see page 42 before you answer.
required time, see Exception to "Time Lived With You" Condition on page 41.		☐ Yes. Go to Step 5 on ☐ No. STOP page 41.
Note. If the child was married, see page 42.		Put "No" to the left of the
1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?		entry space for line 41.
☐ Yes. (STOP) ☑ No. Continue		
You cannot take the credit. Put "No" to the left of the entry space for line 41.		
2. Do you have at least one child who meets the above conditions to be your qualifying child?		
■ Yes. Go to question □ No. Skip question 3; go to Step 4, question 2.		

Lesson 9

Answers to Exercises

Exercise 4(D)

Kyle's EIC Eligibility Questions, page 3

Form 1040A—Line 41

Step 5

Earned Income

1. Figure earned income:

Form 1040, line 7

18,751

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Earned Income =

18,751

2. If you have:

- 2 or more qualifying children, is your earned income less than \$33,692 (\$34,692 if married filing jointly)?
- 1 qualifying child, is your earned income less than \$29,666 (\$30,666 if married filing jointly)?
- No qualifying children, is your earned income less than \$11,230 (\$12,230 if married filing jointly)?

X Yes. Go to Step 6.



You cannot take the credit.

Step 6

How To Figure the Credit

- 1. Do you want the IRS to figure the credit for you?
 - ☐ **Yes.** See Credit Figured by the IRS below.
- No. Go to the worksheet on page 43.

Definitions and Special Rules

(listed in alphabetical order)

Adopted Child. An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

 $\boldsymbol{Credit\ Figured\ by\ the\ IRS.}$ To have the IRS figure the credit for you:

- 1. Put "EIC" to the left of the entry space for line 41 of Form 1040A.
- **2.** If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to "Time Lived With You" Condition. A child is considered to have lived with you for all of 2003 if the child was born or died in 2003 and your home was this child's home for the entire time he or she was alive in 2003. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military on page 42.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

(Continued on page 42)

Answers to Exercises

Exercise 4(D)

Lesson 9

Kyle's EIC Worksheet

arned Income	Credit (EIC) Worksheet—Line 41 Keep	for Your Records
Part 1 All Filers	1. Enter your earned income from Step 5 on page 43.	
All Higis	2. Look up the amount on line 1 above in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.	2 1,740
	If line 2 is zero, You cannot take the credit. Put "No" to the left of the entry space for line 41.	_
	3. Enter the amount from Form 1040A, line 22.	
	4. Are the amounts on lines 3 and 1 the same?	
	Yes. Skip line 5; enter the amount from line 2 on line 6.X No. Go to line 5.	
Part 2 Filers Who	 5. If you have: No qualifying children, is the amount on line 3 less than \$6,250 (\$7,250 if married filing jointly)? 	
Answered	• 1 or more qualifying children, is the amount on line 3 less than \$13,750 (\$14,750 if married filing jointly)?	
"No" on Line 4	\square Yes. Leave line 5 blank; enter the amount from line 2 on line 6.	
Lille 4	No. Look up the amount on line 3 in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.	5 1,668
	Look at the amounts on lines 5 and 2. Then, enter the smaller amount on line 6.	
Part 3	6. This is your earned income credit.	6 1,668
Your Earned		Enter this amount on Form 1040A, line 41.
Income Credit	Reminder— √ If you have a qualifying child, complete and attach Schedule EIC. 1040A EIC	1040A
	If your EIC for a year after 1996 was reduced or disallowed, s page 43 to find out if you must file Form 8862 to take the cre for 2003.	

Lesson 9

Answers to Exercises

SCHEDULE EIC (Form 1040A or 1040)

Earned Income Credit

Qualifying Child Information



OMB No. 1545-0074

Attachment Sequence No. 43

Department of the Treasury Internal Revenue Service

Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

Name(s) shown on return

Kyle B. Evans

social security number 000 : 00 : 2442

Before you begin:

See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that (a) you can take the EIC and (b) you have a qualifying child.



- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Qualifying Child Information	CI	nild 1	Ch	nild 2
1 Child's name	First name	Last name	First name	Last name
If you have more than two qualifying children, you only have to list two to get the maximum credit.	Julie	Evans		
2 Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	000 0	chang d 4104		
Next, if the child was born after 1984, go	to line 4. Othe	rwise, continue.		
a Was the child under age 24 at the end of 2003 and a student?	Yes. Go to line 4.	No. Continue	Yes. Go to line 4.	No. Continue
b Was the child permanently and totally disabled during any part of 2003?	Yes. Continue	No. The child is not a qualifying child.	Yes. Continue	No. The child is not a qualifying child.
4 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)	Dau	ıghter		
Number of months child lived with you in the United States during 2003				
 If the child lived with you for more than half of 2003 but less than 7 months, enter "7". 				
If the child was born or died in 2003 and your home was the child's home for the entire time he or she was alive during 2003, enter "12".	Do not enter mo	12 months ore than 12 months.	Do not enter mo	months are than 12 months.
You may also be able to take the additiclaimed as your dependent on line 6c of details, see the instructions for line 42.	of Form 1040A or F	orm 1040, and (c) is a		
For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions.	Cat. N	o. 13339M	Schedule EIC (Form	n 1040A or 1040) 20

CHILD TAX CREDIT

Lesson 10

INTRODUCTION AND OBJECTIVES

In this lesson you will learn about the child tax credit. This credit is unique because it can be both nonrefundable and refundable. This lesson will discuss who qualifies for the credit and how to calculate the credit.

After completing this lesson you should be able to:

- Explain the advance child tax credit and determine who received the advance payment.
- Calculate the child tax credit using the child tax credit worksheet.
- Calculate the additional child tax credit by using form 8812.

Advance Child Tax Credit Payments

The Jobs and Growth Tax Relief Reconciliation Act of 2003 raised the Child Tax Credit to a maximum of \$1,000 per child from \$600 per child, beginning in 2003. The Act also provided for immediate tax relief by directing the Treasury to send this increase to taxpayers last summer. Eligible taxpayers could receive up to \$400 for each child claimed on their 2002 returns as an advance payment of their 2003 Child Tax Credit.

The IRS used 2002 tax year data to determine who was issued the advance payment. Generally:

- Taxpayers must have claimed the Child Tax Credit on the 2002 tax return.
- Taxpayers must have used Form 1040 or Form 1040A, or filed electronically.
- The child must have been born after 1986.

There were no actions required of the Taxpayers to receive the advance payment. The IRS automatically sent notices to eligible taxpayers. The IRS notice was followed a few days later by the advance payment check. Both the notice and the check were mailed to the address listed on the taxpayer's 2002 tax return. Anyone who had moved since the filing of the 2002 return should have notified the U.S. Postal Service of the new address, and the notice and check were forwarded.

ALERT



Beginning in 2003, the Child Tax Credit increased to \$1,000 per qualifying child.

WAGE EARNER

The advance payment checks were mailed July 25th, August 1st, and August 8th to taxpayers who filed their returns by April 15th. The checks were issued based on the last two digits of the Social Security number listed first on the 2002 tax return. Taxpayers whose last two digits are the lowest received their checks first.

Taxpayers who received filing extensions still got the advance payment checks if they were eligible. They were mailed between four to six weeks after the IRS received their 2002 tax return.

If the taxpayer received the advance Child Tax Credit payment, he or she must include the amount received on the Child Tax Credit Worksheet when calculating the 2003 Child Tax Credit.

The IRS established a new service at *www.irs.gov*: *Where's My Advance Child Tax Credit?* This new service provides on-line advance child tax credit payment information. The information includes the amount of a taxpayer's advance payment, the check mailing date, and any offsets to outstanding liabilities.

Since the taxpayers must figure their advance payments into their calculations for their 2003 child tax credit, *Where's My Advance Child Tax Credit?* information will be available through April 15, 2004.

ALERT



Beginning in 2003, the Child Tax Credit increased to \$1,000 per child.

CHILD TAX CREDIT

A taxpayer can claim a child tax credit for each of the taxpayer's qualifying children. The maximum child tax credit is \$1000 per child for 2003. The credit can be claimed on either Form 1040 or 1040A.

Qualifying child

To qualify, the child must be:

- Under age 17 at the end of 2003,
- A citizen or resident of the United States,
- The taxpayer's dependent, and
- The taxpayer's: Son or daughter, Stepson or stepdaughter, adopted child, Grandchild, or Eligible foster child

The taxpayer must provide the name and identification number (usually a social security number) of each qualifying child on his or her tax return.

Limits on credit

The amount of a taxpayer's child tax credit depends on the taxpayer's modified adjusted gross income (modified AGI) and the taxpayer's filing status.

Modified AGI

The credit begins to phase out if the taxpayer's modified AGI is above a certain amount (**Table 1**). For most taxpayers, modified AGI is generally the same as AGI. For 2003, AGI is shown on line 21 of Form 1040A and on line 34 of Form 1040.

Table 1: <i>Child Tax Credit</i> Threshold Modified AGI Amounts for Claiming Child Tax Credit				
Filing Status	Amount			
Married filing jointly	\$110,000			
Qualifying widow(er)	75,000			
Head of household	75,000			
Single	75,000			
Married filing separately	55,000			

Before you can figure a taxpayer's credit amount for the year, you must have the taxpayer answer certain questions (Exhibit 1) to see if you must use the worksheet in Publication 972, *Child Tax Credit*. These questions are in the tax form instructions. If you do not need to use Publication 972, you can use the shorter *Child Tax Credit Worksheet* in the form instructions.

Example 1

Bill and Mary Allen have two dependent children under age 17. The children are qualifying children for purposes of claiming the child tax credit. Bill and Mary have modified AGI of \$34,000. They received an \$800 advance child tax credit payment last summer. Their tax on line 43 for 2003 is \$4,503. Bill and Mary need to answer questions to determine if they must use Publication 972 (Exhibit 1). The completed Child Tax Credit Worksheet (Exhibit 2) shows that their credit is \$1,200, after considering the advance child tax credit payment. Their modified AGI is less than the phaseout amount for their filing status (\$110,000).

Form 1040-Line 49

Line 49—Child Tax Credit

What Is the Child Tax Credit?

This credit is for people who have a qualifying child as defined below. It is in addition to the credit for child and dependent care expenses on Form 1040, line 45, and the earned income credit on Form 1040, line 63.

Three Steps To Take the Child Tax Credit!

- Step 1. Make sure you have a qualifying child for the child tax credit. See Qualifying Child for Child Tax Credit below.
- **Step 2.** Make sure you checked the box in column (4) of line 6c on Form 1040 for each qualifying child.
- Step 3. Answer the questions on this page to see if you may use the worksheet on page 39 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 9.

Qualifying Child for Child Tax Credit

A qualifying child for purposes of the child tax credit is a child who:

- Is claimed as your dependent on line 6c, and
- Was under age 17 at the end of 2003, and
- Is your (a) son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild); (b) brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child; or (c) foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child), and
 - Is a U.S. citizen or resident alien.

Note. The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.

An **adopted child** is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

A **grandchild** is any descendant of your son, daughter, adopted child, or stepchild and includes your great-grandchild, great-great-grandchild, etc.

Questions

Who Must Use Pub. 972



- 1. Are you excluding income from Puerto Rico or are you filing any of the following forms?
 - Form 2555 or 2555-EZ (relating to foreign earned income)
 - Form 4563 (exclusion of income for residents of American Samoa)

X No. Continue



Yes.

You must use Pub. 972 to figure your credit.

- 2. Is the amount on Form 1040, line 35, more than the amount shown below for your filing status?
 - Married filing jointly \$110,000
 - Single, head of household, or qualifying widow(er) \$75,000
 - Married filing separately \$55,000

X No. Continue



Yes. STOP

You must use Pub. 972 to figure your credit.

- 3. Are you claiming any of the following credits?
 - Adoption credit, Form 8839 (see the instructions for Form 1040, line 50, on page 40)
 - Mortgage interest credit, Form 8396 (see the instructions for Form 1040, line 51, on page 40)
 - District of Columbia first-time homebuyer credit, Form 8859
 - worksheet on page 39 to figure your child tax credit.

☐ Yes. You must use Pub. 972 to figure your child tax credit. You will also need the form(s) listed above for any credit(s) you are claiming.

Need more information or forms? See page 7.

Form 1040—Line 49

Child Tax Credit Worksheet—Line 49

Keep for Your Records

Before you begin:

 \checkmark

If you received (before offset) an advance payment of the child tax credit and you filed a joint return for 2002, you and your spouse are each considered to have received one-half of the payment.





- To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2003 and meet the other requirements listed on page 38.
- Do not use this worksheet if you answered "Yes" to question 1, 2, or 3 on page 38. Instead, use Pub. 972.

	N. 1. 6. 155 131 2		4	\$2,000
1.	Number of qualifying children: X \$1,000. Enter the result.		1	Ψ&,000
2.	Enter the amount, if any, of your advance child tax credit (before offset).	2 \$800		
3.	Is line 1 less than or equal to line 2?			
	☐ Yes. Stop You cannot take this credit. If line 2 is more than line 1, you do not have difference.	have to pay back the		
	No. Subtract line 2 from line 1.		3	\$1,200
4.	Enter the amount from Form 1040, line 43.	4 \$4,503		
5.	Enter the total of the amounts from Form 1040, lines 44 through 48.	5 \$0		
6.	Are the amounts on lines 4 and 5 the same?			
	☐ Yes. STOP You cannot take this credit because there is no tax to reduce However, you may be able to take the additional child tax credit. So	ee the TIP below.		
	▼ No. Subtract line 5 from line 4.		6	\$4,503
7.	Is the amount on line 3 more than the amount on line 6?		_	
	☐ Yes. Enter the amount from line 6. Also, you may be able to take the additional child tax credit. See the TIP below.			
	▼ No. Enter the amount from line 3.	This is your child	7	\$1,200
		tax credit.		Enter this amount on Form 1040, line 49.



You may be able to take the **additional child tax credit** on Form 1040, line 65, if you answered "Yes" on line 6 **or** line 7 above.

- First, complete your Form 1040 through line 64.
- Then, use Form 8812 to figure any additional child tax credit.

10-5

ADDITIONAL CHILD TAX CREDIT

The child tax credit is a nonrefundable credit that gives eligible taxpayers \$1000 for each qualifying child. If a taxpayer's tax liability is less than the allowable nonrefundable child tax credit, the taxpayer may be eligible to claim the **refundable additional child tax credit.**

The additional child tax credit was expanded to include **all** taxpayers who have *earned income*, regardless of the number of qualifying children. This extended the refundable part of the child tax credit to families who have less than three qualified children.

Before figuring additional child tax credit, figure the taxpayer's:

- Unused nonrefundable child tax credit amount,
- Total Social Security and Medicare taxes withheld (Form W-2, *Wage and Tax Statement*, boxes 4 and 6),
- Earned income credit amount,
- Total taxable earned income (back of Form 8812), and
- For 1040 filers, one-half of self-employment tax paid, Form 1040, line 29.

The taxpayer will need to seek the assistance of a paid professional tax preparer if he or she has:

- Excess social security and RRTA tax withheld (more than one employer and gross income in excess of \$84,900) or
- Social Security and Medicare tax on *unreported* tip income.

Taxpayers must use **Form 8812**, *Additional Child Tax Credit*, to claim the additional child tax credit. This credit is based on 10% of the taxpayer's taxable earned income in excess of \$10,500.

Form 8812 explains step-by-step how to compute the additional child tax credit. The form allows a taxpayer who can use both rules to claim the larger additional child tax credit. That is, taxpayers with three or more children can continue to claim a refundable additional tax credit, under the rules that applied in prior years, if that amount is greater than the refundable credit based on the taxpayer's earned income in excess of \$10,500.

Example 2

Maureen Langston is filing Form 1040. Her filing status is head of household for 2003. She has five dependent children, all of whom are qualifying children for purposes of the child tax credit. Maureen received a \$2,000 advance child tax credit payment check in August 2003. Maureen's earned income (and adjusted gross income) is \$26,375, her tax is \$149, Social Security/Medicare taxes are \$2,018, and the earned income credit is \$1,433. Based on this information, Maureen's child tax credit is \$149 (Exhibit 4) and her additional child tax credit is \$1,588. Exhibits 5 and 6 illustrate how Maureen's additional child tax credit was figured.

POTENTIAL PITFALLS



When figuring the additional child tax credit, you must use the back of Form 8812 to determine taxable earned income (line 4).

Form 1040-Line 49

Line 49—Child Tax Credit

What Is the Child Tax Credit?

This credit is for people who have a qualifying child as defined below. It is in addition to the credit for child and dependent care expenses on Form 1040, line 45, and the earned income credit on Form 1040, line 63.

Three Steps To Take the Child Tax Credit!

- Step 1. Make sure you have a qualifying child for the child tax credit. See Qualifying Child for Child Tax Credit below.
- **Step 2.** Make sure you checked the box in column (4) of line 6c on Form 1040 for each qualifying child.
- Step 3. Answer the questions on this page to see if you may use the worksheet on page 39 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 9.

Qualifying Child for Child Tax Credit

A qualifying child for purposes of the child tax credit is a child who:

- Is claimed as your dependent on line 6c, and
- Was under age 17 at the end of 2003, and
- Is your (a) son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild); (b) brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child; or (c) foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child), and
 - Is a U.S. citizen or resident alien.

Note. The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.

An **adopted child** is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

A **grandchild** is any descendant of your son, daughter, adopted child, or stepchild and includes your great-grandchild, great-grandchild, etc.

Questions

Who Must Use Pub. 972



- 1. Are you excluding income from Puerto Rico or are you filing any of the following forms?
 - Form 2555 or 2555-EZ (relating to foreign earned income)
 - Form 4563 (exclusion of income for residents of American Samoa)

x No. Continue



Yes.

You must use Pub. 972 to figure your credit.

- **2.** Is the amount on Form 1040, line 35, more than the amount shown below for your filing status?
 - Married filing jointly \$110,000
 - Single, head of household, or qualifying widow(er) \$75,000
 - Married filing separately \$55,000

X No. Continue



Yes. (STO

You must use Pub. 972 to figure your credit.

- . Are you claiming any of the following credits?
 - Adoption credit, Form 8839 (see the instructions for Form 1040, line 50, on page 40)
 - Mortgage interest credit, Form 8396 (see the instructions for Form 1040, line 51, on page 40)
 - District of Columbia first-time homebuyer credit, Form 8859
 - worksheet on page 39 to figure your child tax credit.

☐ **Yes.** You must use Pub. 972 to figure your child tax credit. You will also need the form(s) listed above for any credit(s) you are claiming.

Need more information or forms? See page 7.

Form 1040—Line 49

Child Tax Credit Worksheet—Line 49

Keep for Your Records

Before you begin:

If you received (before offset) an advance payment of the child tax credit and you filed a joint return for 2002, you and your spouse are each considered to have received one-half of the payment.





- To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2003 and meet the other requirements listed on page 38.
- Do not use this worksheet if you answered "Yes" to question 1, 2, or 3 on page 38. Instead, use Pub. 972.

1.	Number of qualifying children: $\underline{}$ X \$1,000. Enter the result.		1 \$5,000
2.	Enter the amount, if any, of your advance child tax credit (before offset).	2 \$2,000	
3.	Is line 1 less than or equal to line 2? Yes. Stop You cannot take this credit. If line 2 is more than line 1, you do not had difference.	ave to pay back the	
	No. Subtract line 2 from line 1.		3 \$3,000
4.	Enter the amount from Form 1040, line 43.	\$149	
5.	Enter the total of the amounts from Form 1040, lines 44 through 48.	5 \$ O	
6.	Are the amounts on lines 4 and 5 the same? Yes. STOP You cannot take this credit because there is no tax to reduce		
	However, you may be able to take the additional child tax credit. See	e the TIP below.	
	№ No. Subtract line 5 from line 4.		6 \$149
7.	Is the amount on line 3 more than the amount on line 6?		_
	Yes. Enter the amount from line 6. Also, you may be able to take the additional child tax credit. See the TIP below.		
	□ No. Enter the amount from line 3.	This is your child	7 \$149
	J	tax credit.	Enter this amount on Form 1040, line 49.
4	You may be able to take the additional child tax credit on Form 1040, line line 6 or line 7 above.	65, if you answered "Yes" or	1
	• First, complete your Form 1040 through line 64.		

• Then, use Form 8812 to figure any additional child tax credit.

Additional Child Tax Credit

1040 1040A 8812

OMB No. 1545-1620

Attachment Sequence No. **47**

Department of the Treasury Internal Revenue Service

Complete and attach to Form 1040 or Form 1040A.

Nam	Maureen Langston		0 00 9999
Pa	art I All Filers		
1	Enter the amount from line 3 of your Child Tax Credit Worksheet on page 40 of the Form 1040 instructions or page 39 of the Form 1040A instructions. If you used Pub. 972, enter the amount from line 10 of the worksheet on page 3 of the publication	1	\$3,000
2	Enter the amount from Form 1040, line 49, or Form 1040A, line 33	2	\$149
3	Subtract line 2 from line 1. If zero, stop; you cannot take this credit	3	\$2,851
4 5	Enter your total taxable earned income. See the instructions on back Is the amount on line 4 more than \$10,500? No. Leave line 5 blank and enter -0- on line 6. Yes. Subtract \$10,500 from the amount on line 4. Enter the result \$15,875		
6	 Multiply the amount on line 5 by 10% (.10) and enter the result Next. Do you have three or more qualifying children? No. If line 6 is zero, stop; you cannot take this credit. Otherwise, skip Part II and enter the smaller of line 3 or line 6 on line 13. ▼ Yes. If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7. 	6	\$1,588
Pa	rt II Certain Filers Who Have Three or More Qualifying Children		
7	Enter the total of the withheld social security and Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If you worked for a railroad, see the instructions on back		
8	1040 filers: Enter the total of the amounts from Form 1040, lines 28 and 56, plus any uncollected social security and Medicare or tier 1 RRTA taxes included on line 60. 1040A filers: Enter -0	_	
9 10	Add lines 7 and 8		
	1040A filers: Enter the total of the amount from Form 1040A, line 41, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 43 (see the instructions on back).		
11	Subtract line 10 from line 9. If zero or less, enter -0	11	\$585
12	Enter the larger of line 6 or line 11 here	12	\$1,588
	Next, enter the smaller of line 3 or line 12 on line 13.		
Pa	rt III Your Additional Child Tax Credit		
13	This is your additional child tax credit	13	\$1,588
	1040 1040A	For	ter this amount on rm 1040, line 65, or rm 1040A, line 42.
For	Paperwork Reduction Act Notice, see back of form. Cat. No. 10644E		Form 8812 (2003

WAGE EARNER

Form 8812 (2003) Page **2**

Instructions

Purpose of Form

Use Form 8812 to figure your additional child tax credit.



The additional child tax credit may give you a refund even if you do not owe any tax.

Who Should Use Form 8812

First, complete the Child Tax Credit Worksheet that applies to you. See the instructions for Form 1040, line 49, or Form 1040A, line 33. If you meet the condition given in the **TIP** at the end of your Child Tax Credit Worksheet, use Form 8812 to see if you can take the additional child tax credit.

Effect of Credit on Welfare Benefits

Any refund you receive as a result of taking the additional child tax credit will not be used to determine if you are eligible for the following programs, or how much you can receive from them.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

Taxable Earned Income

1. Did you, or your spouse if filing a joint return, have net earnings from self-employment and use either optional method to figure those net earnings?

X No. Go to question 2.

Yes. Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

2. Are you claiming the earned income credit (EIC) on Form 1040, line 63, or Form 1040A, line 41?

Yes. Use the following chart to find the amount to enter on Form 8812, line 4.

IF you are filing Form	AND you completed	THEN enter on Form 8812, line 4, the amount from
	Worksheet B on page 48 of your 1040 instructions	Worksheet B, line 4b.*
1040	Step 5 on page 45 of your 1040 instructions (but not Worksheet B)	Step 5, Earned Income
1040A	Step 5 on page 43 of your 1040A instructions	Step 5, Earned Income

^{*} If you were a member of the clergy, subtract the following from the amount on line 4b: (a) the rental value of a home or the nontaxable portion of an allowance for a home furnished to you (including payments for utilities) and (b) the value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.

No. 1040 filers: Go to question 3. 1040A filers: Skip question 3 and go to question 4.

3. Were you, or your spouse if filing a joint return, self-employed, or are you filing Schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?

No. Go to question 4.

Yes. Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

- **4.** Does the amount on line 7 of Form 1040 or Form 1040A include any of the following amounts?
- Taxable scholarship or fellowship grants not reported on a W-2 form.
- Amounts paid to an inmate in a penal institution for work (put "PRI" and the amount paid in the space next to line 7 of Form 1040 or 1040A).
- Amounts received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount received in the space next to line 7 of Form 1040 or 1040A). This amount may be reported in box 11 of your W-2 form. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.
- Amounts from Form 2555, line 41, or Form 2555-EZ, line 18.

No. Enter the amount from line 7 of Form 1040 or Form 1040A on Form 8812, line 4.

Subtract the total of those amounts from the amount on line 7 of Form 1040 or Form 1040A. (If an amount is included in more than one of the above categories, include it only once in figuring the total amount to subtract.) Enter the result on Form 8812, line 4.

Railroad Employees

If you worked for a railroad, include the following taxes in the total on Form 8812, line 7.

- Tier 1 tax withheld from your pay. This tax should be shown in box 14 of your W-2 form(s) and identified as "Tier 1 tax."
- If you were an employee representative, 50% of the total tier 1 tax and tier 1 Medicare tax you paid for 2003.

1040A Filers

If you, or your spouse if filing a joint return, had more than one employer for 2003 and total wages of over \$87,000, figure any excess social security and tier 1 railroad retirement (RRTA) taxes withheld. See the instructions for Form 1040A, line 43. Include any excess on Form 8812, line 10.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 6 min.; **Learning about the law or the form**, 5 min.; **Preparing the form**, 28 min.; **Copying, assembling, and sending the form to the IRS**, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040 or Form 1040A.

Exercise 1

Emily and Victor (SSN-000-00-4410) Howard are married taxpayers with four children. They file married filing jointly for 2003 on Form 1040A. All of their children are qualifying for purposes of the child tax credit. The Howards received a \$1,600 advance child tax credit payment in August 2003. Their adjusted gross income is \$31,467, of which \$18,467 is taxable earned income and \$13,000 is unemployment compensation. The Howards' taxable income is \$3,667, Social Security/Medicare taxes are \$1,413, and the earned income credit is \$569. They have no other credits entered in lines 29-32. Based on the facts given, figure the Howards:

- A. Child tax credit
- B. Additional child tax credit.

Exhibit 7 Complete this Form.

Line 33—Child Tax Credit



What Is the Child Tax Credit?

This credit is for people who have a qualifying child as defined below. It is in addition to the credit for child and dependent care expenses on Form 1040A, line 29, and the earned income credit on Form 1040A, line 41.

Three Steps To Take the Child Tax Credit!

- Step 1. Make sure you have a qualifying child for the child tax credit. See Qualifying Child for Child Tax Credit below.
- **Step 2.** Make sure you checked the box in column (4) of line 6c on Form 1040A for each qualifying child.
- Step 3. Answer the questions on this page to see if you may use the worksheet on page 37 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 7.

Qualifying Child for Child Tax Credit. A qualifying child for purposes of the child tax credit is a child who:

- Is claimed as your dependent on line 6c, and
- Was under age 17 at the end of 2003, and
- Is your (a) son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild); (b) brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child; or (c) a foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child), and
 - Is a U.S. citizen or resident alien.

Note. The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.

An **adopted child** is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

A **grandchild** is any descendant of your son, daughter, adopted child, or stepchild and includes your great-grandchild, great-grandchild, etc.

Questions

Who Must Use Pub. 972



- 1. Is the amount on Form 1040A, line 22, more than the amount shown below for your filing status?
 - Married filing jointly \$110,000
 - Single, head of household, or qualifying widow(er) \$75,000
 - Married filing separately \$55,000



You must use Pub. 972 to figure your credit.

- 2. Are you claiming the adoption credit on Form 8839 (see the instructions for Form 1040A, line 34, on page 38)?
 - No. Use the worksheet on page 37 to figure your child tax credit.

☐ **Yes.** You must use Pub. 972 to figure your child tax credit. You will also need Form 8839.

Exhibit 8 Complete this Form.

Form 1040A—Line 33

Child Tax Credit Worksheet—Line 33

Keep for Your Records

Before you begin: $\sqrt{\ }$ If you received (before offset) an advance payment of the child tax credit and you filed a joint return for 2002, you and your spouse are each considered to have received one-half of the payment.





If you received Notice 1319, have it available. The notice shows the amount of your advance payment (before offset). If you do not have Notice 1319, you can check the amount of your advance payment (before offset) on the IRS website at www.irs.gov. You will need to enter your SSN, your 2002 filing status, and the total number of exemptions you claimed on line 6d of your 2002 Form 1040 or Form 1040A.



- To be a qualifying child for the child tax credit, the child must be under age 17 at the end of 2003 and meet the other requirements listed on page 38.
- Do not use this worksheet if you answered "Yes" to question 1 or 2 on page 38. Instead, use Pub. 972.

1. Number of qualifying children: × \$1,000. 1 Enter the result.
2. Enter the amount, if any, of your advance child tax credit (before offset).
3. Is line 1 less than or equal to line 2? Yes. STOP You cannot take this credit. If line 2 is more than line 1, you do not have to pay back the difference. No. Subtract line 2 from line 1.
No. Subtract line 2 from line 1.
4. Enter the amount from Form 1040A, line 28.
5. Add the amounts from Form 1040A, lines 29 through 32.
6. Are the amounts on lines 4 and 5 the same? Yes. STOP You cannot take this credit because there is no tax to reduce. However, you may be able to take the additional child tax credit. See the TIP below.
□ No. Subtract line 5 from line 4.
7. Is the amount on line 3 more than the amount on line 6? Yes. Enter the amount from line 6. Also, you may be able to take the additional child tax credit. See the TIP below. No. Enter the amount from line 3. This is your child tax credit. Enter this amount on Form 1040A, line 33.
You may be able to take the additional child tax credit on Form 1040A, line 42, if you answered "Yes" on line 6 or line 7 above.
 First, complete your Form 1040A through line 41.
 Then, use Form 8812 to figure any additional child tax credit.

- 37 -

Need more information or forms? See page 7.

Exhibit 9 Complete this Form.

8812

1040

OMB No. 1545-1620

Internal Revenue Service

Additional Child Tax Credit Complete and attach to Form 1040 or Form 1040A. Name(s) shown on return Your social security number Part I **All Filers** Enter the amount from line 3 of your Child Tax Credit Worksheet on page 40 of the Form 1040 instructions or page 39 of the Form 1040A instructions. If you used Pub. 972, enter the amount from line 10 of the worksheet on page 3 of the publication 2 Enter the amount from Form 1040, line 49, or Form 1040A, line 33 Subtract line 2 from line 1. If zero, stop; you cannot take this credit Enter your total taxable earned income. See the instructions on back Is the amount on line 4 more than \$10,500? **No.** Leave line 5 blank and enter -0- on line 6. Yes. Subtract \$10,500 from the amount on line 4. Enter the result Multiply the amount on line 5 by 10% (.10) and enter the result Next. Do you have three or more qualifying children? No. If line 6 is zero, stop; you cannot take this credit. Otherwise, skip Part II and enter the smaller of line 3 or line 6 on line 13. Yes. If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7. Part II Certain Filers Who Have Three or More Qualifying Children Enter the total of the withheld social security and Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts 7 with yours. If you worked for a railroad, see the instructions on back . . . Enter the total of the amounts from Form 1040, lines 28 and 56, plus any uncollected social security and Medicare or tier 1 RRTA taxes included on line 60. 8 1040A filers: Enter -0-. 10 1040 filers: Enter the total of the amounts from Form 1040, lines 1040A filers: Enter the total of the amount from Form 1040A, line 10 41, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 43 (see the instructions on back). 11 Subtract line 10 from line 9. If zero or less, enter -0- . 12 Enter the larger of line 6 or line 11 here . . . Next, enter the smaller of line 3 or line 12 on line 13. Part III Your Additional Child Tax Credit 13 This is your additional child tax credit Enter this amount on Form 1040, line 65, or Form 1040A, line 42.

For Paperwork Reduction Act Notice, see back of form.

Cat. No. 10644E

Form **8812** (2003)

Exhibit 10 Complete this Form.

Form 8812 (2003) Page **2**

Instructions

Purpose of Form

Use Form 8812 to figure your additional child tax credit.



The additional child tax credit may give you a refund even if you do not owe any tax.

Who Should Use Form 8812

First, complete the Child Tax Credit Worksheet that applies to you. See the instructions for Form 1040, line 49, or Form 1040A, line 33. If you meet the condition given in the **TIP** at the end of your Child Tax Credit Worksheet, use Form 8812 to see if you can take the additional child tax credit.

Effect of Credit on Welfare Benefits

Any refund you receive as a result of taking the additional child tax credit will not be used to determine if you are eligible for the following programs, or how much you can receive from them.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI)
- Food stamps and low-income housing.

Form 8812, line 4.

Taxable Earned Income

	ou, or your spouse if filing a joint return, have net
	e net earnings?
□ No.	Go to question 2.
☐ Yes.	Use Pub. 972 to figure the amount to enter on Form 8812, line 4.
	ou claiming the earned income credit (EIC) on Form 63, or Form 1040A, line 41?
☐ Yes.	Use the following chart to find the amount to enter o

IF you are filing Form	AND you completed	THEN enter on Form 8812, line 4, the amount from
	Worksheet B on page 48 of your 1040 instructions	Worksheet B, line 4b.*
1040	Step 5 on page 45 of your 1040 instructions (but not Worksheet B)	Step 5, Earned Income
1040A	Step 5 on page 43 of your 1040A instructions	Step 5, Earned Income

^{*} If you were a member of the clergy, subtract the following from the amount on line 4b: (a) the rental value of a home or the nontaxable portion of an allowance for a home furnished to you (including payments for utilities) and (b) the value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.

	lodging penience.	provided to you, you	r spouse, and your dependents for your employer's
	No.	1040 filers: 1040A filers:	Go to question 3. Skip question 3 and go to question 4.
self- mer	emplo	yed, or are you f the clergy or y	ouse if filing a joint return, filing Schedule SE because you were a ou had church employee income, or are C-EZ as a statutory employee?
	No.	Go to question	4.
	Yes.	Use Pub. 972 t Form 8812, lin	o figure the amount to enter on e 4.

- **4.** Does the amount on line 7 of Form 1040 or Form 1040A include any of the following amounts?
- Taxable scholarship or fellowship grants not reported on a W-2 form
- Amounts paid to an inmate in a penal institution for work (put "PRI" and the amount paid in the space next to line 7 of Form 1040 or 1040A).
- Amounts received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount received in the space next to line 7 of Form 1040 or 1040A). This amount may be reported in box 11 of your W-2 form. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

•	Amounts	from	Form	2555,	line 41,	or Fo	orm ?	2555-EZ,	
liı	ne 18.								

No.	Enter the amount from line 7 of Form 1040 or Form
	1040A on Form 8812, line 4.

Yes. Subtract the total of those amounts from the amount on line 7 of Form 1040 or Form 1040A. (If an amount is included in more than one of the above categories, include it only once in figuring the total amount to subtract.) Enter the result on Form 8812, line 4.

Railroad Employees

If you worked for a railroad, include the following taxes in the total on Form 8812, line 7.

- Tier 1 tax withheld from your pay. This tax should be shown in box 14 of your W-2 form(s) and identified as "Tier 1 tax."
- If you were an employee representative, 50% of the total tier 1 tax and tier 1 Medicare tax you paid for 2003.

1040A Filers

If you, or your spouse if filing a joint return, had more than one employer for 2003 and total wages of over \$87,000, figure any excess social security and tier 1 railroad retirement (RRTA) taxes withheld. See the instructions for Form 1040A, line 43. Include any excess on Form 8812, line 10.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 6 min.; **Learning about the law or the form**, 5 min.; **Preparing the form**, 28 min.; **Copying, assembling, and sending the form to the IRS**, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040 or Form 1040A.

Line 33—Child Tax Credit

What Is the Child Tax Credit?

This credit is for people who have a qualifying child as defined in the instructions for line 6c, column (4), that begin on page 25. It is in addition to the credit for child and dependent care expenses on Form 1040A, line 33, and the earned income credit on Form 1040A, line 50.

Three Steps To Take the Child Tax Credit!

- Make sure you have a qualifying child for the child tax credit. See the instructions for line 6c, column (4), that begin on page 25.
- Step 2. Make sure you checked the box in column (4) of line 6c on Form 1040A for each qualifying child.
- Answer the questions on this page to see if you may use the worksheet on page 39 to figure your credit of Step 3. if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 9.

Questions

Who Must Use Pub. 972



- 1. Is the amount on Form 1040A, line 22, more than the amount shown below for your fixing status?
 - Married filing jointly \$110,000
 - Single, head of household, or qualifying widow(er) -\$75,000
 - Married filing separately \$55,000

X No. Continue



You must use Pub. 972 to figure your credit.

- 2. Are you claiming the adoption credit on Form 8839 (see the instructions for Form 1040A, line 34, on page 40)?
 - X No. Use the worksheet on page 39 to figure your child tax credit.

Yes. You must use Pub. 972 to figure your child tax credit. You will also need Form 8839.

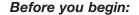
Exercise 1(A)

The Howard's Child Tax Worksheet.

Form 1040A—Line 33

Child Tax Credit Worksheet—Line 33

Keep for Your Records



Before you begin: √ If you received (before offset) an advance payment of the child tax credit and you filed a joint return for 2002, you and your spouse are each considered to have received one-half of the payment.





If you received Notice 1319, have it available. The notice shows the amount of your advance payment (before offset). If you do not have Notice 1319, you can check the amount of your advance payment (before offset) on the IRS website at www.irs.gov. You will need to enter your SSN, your 2002 filing status, and the total number of exemptions you claimed on line 6d of your 2002 Form 1040 or Form 1040A.



To be a qualifying child for the child tax credit, the child must be under age 17 at the end of 2003 and meet the other requirements listed on page 38.

• Do not use thi	s worksheet if you answered "Yes" to question 1 or 2 on page 38. Instead, use Pub. 972.
1.	Number of qualifying children: $4 \times \$1,000$. 1 $\$4,000$
2.	Enter the amount, if any, of your advance child tax credit (before offset).
3.	Is line 1 less than or equal to line 2? Yes. Stop You cannot take this credit. If line 2 is more than line 1, you do not have to pay back the difference. 3 \$2,400
	No. Subtract line 2 from line 1.
4.	Enter the amount from Form 1040A, line 28.
5.	Add the amounts from Form 1040A, lines 29 through 32.
6.	Are the amounts on lines 4 and 5 the same? Yes. STOP You cannot take this credit because there is no tax to reduce. However, you may be able to take the additional child tax credit. See the TIP below. **No. Subtract line 5 from line 4.*
7.	Is the amount on line 3 more than the amount on line 6? Yes. Enter the amount from line 6. Also, you may be able to take the additional child tax credit. See the TIP below. No. Enter the amount from line 3. This is your child tax credit. Finer this amount on Form 1040A, line 33.
	You may be able to take the additional child tax credit on Form 1040A, line 42, if you answered "Yes" on line 6 or line 7 above.
	• First, complete your Form 1040A through line 41.
	 Then, use Form 8812 to figure any additional child tax

credit.

Exercise 1(B)

The Howard's Additional Child Tax Credit

Form	8812	Additional Child Tax Cre		1040 1040A 8812		OMB No. 1545-1620 2003 Attachment
Interna	Revenue Service (s) shown on retur	Complete and attach to Form 1	1040 or F	form 1040A.	Your so	Sequence No. 47
		Emily and Victor Howard			000	0 00 4410
Pai	t I All Fil	ers				
1	or page 39 of	nt from line 3 of your Child Tax Credit Worksheet on page 40 the Form 1040A instructions. If you used Pub. 972, enter the age 3 of the publication			1	\$2,400
2	Enter the amor	nt from Form 1040, line 49, or Form 1040A, line 33			2	\$368
3	Subtract line 2	from line 1. If zero, stop; you cannot take this credit			3	\$2,032
4 5	Is the amount No. Le	I taxable earned income. See the instructions on back on line 4 more than \$10,500? ve line 5 blank and enter -0- on line 6. tract \$10,500 from the amount on line 4. Enter the result .	5	\$18,467 \$7,967		
6	Next. Do you No. If sm Yes. If	nount on line 5 by 10% (.10) and enter the result nave three or more qualifying children? ine 6 is zero, stop ; you cannot take this credit. Otherwise aller of line 3 or line 6 on line 13. ine 6 is equal to or more than line 3, skip Part II and enter 13. Otherwise, go to line 7.	•		6	\$797
Par	t II Certa	n Filers Who Have Three or More Qualifying Ch	ildren			
7	W-2, boxes 4 a	f the withheld social security and Medicare taxes from Form(s) and 6. If married filing jointly, include your spouse's amounts you worked for a railroad, see the instructions on back	7	\$1,413		
8	1040 filers: 1040A filers:	Enter the total of the amounts from Form 1040, lines 28 and 56, plus any uncollected social security and Medicare or tier 1 RRTA taxes included on line 60. Enter -0	8	\$0		
9 10	Add lines 7 an 1040 filers:	d 8	9	\$1,413		
	1040A filers:	Enter the total of the amount from Form 1040A, line 41, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 43 (see the instructions on back).	10	\$569		
11	Subtract line 1	0 from line 9. If zero or less, enter -0			11	\$844
12	Enter the large	r of line 6 or line 11 here			12	\$844
	Next, enter the	smaller of line 3 or line 12 on line 13.				
Par	t III Your	Additional Child Tax Credit				
13	This is your	additional child tax credit		1040	For	\$844 er this amount on : m 1040, line 65, or : m 1040A, line 42.
	Paparwork P	duction Act Notice see back of form	Cot	No. 10644E	• • • •	Form 8812 (2003)

	STUDENT NOT	ES
,		

INTRODUCTION

In this section, you will complete tax returns for several common wage earner scenarios often encountered at volunteer assistance sites. This will be valuable practice as you prepare to help taxpayers. Although answers to each of the problems are shown at the end of this section, you should try to complete the blank forms for each problem before referring to its answers.

After completing this section, you will be able to:

■ accurately complete a basic tax return.

PROBLEM 1

a Control number 3456781		OMB No. 1545-0008		Safe, accurate, FAST! Use	Visit the IRS Web Site at www.irs.gov.
b Employer identification number	xxx-xx-xxxx		1 V	Wages, tips, other compensation \$2,694.	
c Employer's name, address, and Zi Norfolk Trading Comp 819 Ferris St.	pany			Social security wages \$2,694.0 Medicare wages and tips \$2,694.0	6 Medicare tax withheld
Your City, State, Zip (Jode		7 8	Social security tips	8 Allocated tips
d Employee's social security number	r XXX-XX-XX	xx	9 /	Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial John Marshall 878 Hudson Ave Your City, State, Zip (13 Star em		12a See instructions for box 12
15 State Employer's state ID number	er 16 State wages, tips, et			18 Local wages, tips, etc.	19 Local income tax 20 Locality name
W-2 Wage and		2003		Depart	ment of the Treasury—Internal Revenue Ser

PAYER'S name, street address, city, s	state, ZIP code, and telephone no.	Payer's RTN (optional)	OMB No. 1545-0112		
First Bank 2940 N. Second St.			2003	Inte	rest Income
Your City, State, Zi	p Code		Form 1099-INT		
PAYER'S Federal identification number	RECIPIENT'S identification number	1 Interest income not included	d in box 3		Сору В
xx-xxxxxx	xxx-xx-xxx	\$ 50.00			For Recipient
RECIPIENT'S name		2 Early withdrawal penalty	3 Interest on U.S. Sav Bonds and Treas. of		This is important tax information and is
John Marshall		\$	 	being furnished to the Internal Revenue	
Street address (including apt. no.)		4 Federal income tax withheld	5 Investment expens	Service. If you are	
878 Hudson Ave.		\$	\$		required to file a return, a negligence penalty or
City, state, and ZIP code Your City, State, Zip Code		6 Foreign tax paid	7 Foreign country or U.S.		other sanction may be imposed on you if this income is taxable and
Account number (optional)		\$			the IRS determines that it has not been reported

Complete this form Form 1040EZ, front

Form 1040EZ		Department of the Treasury—Internal Revenue Service Income Tax Return for Single		3			
104062	_	Joint Filers With No Depender Your first name and initial Last na	165	<u> </u>		OMB No. 1545-0675 Your social security number	
Label	L	Total mot having and militar	me				
(See page 14.) Use the IRS	A B E L	If a joint return, spouse's first name and initial Last na	me			Spouse's social security number	
label. Otherwise, please print	H E	Home address (number and street). If you have a P.O. box,			Apt. no.	▲ Important! ▲	
or type. Presidential	R E City, town or post office, state, and ZIP code. If you have a foreign address, see page 14. You must e SSN(s) a						
Election Campaign (page 14)	_	Note. Checking "Yes" will not change your ta Do you, or your spouse if a joint return, want			•	You Spouse Yes No Yes N	
Income		Wages, salaries, and tips. This should be sh Attach your Form(s) W-2.	own in box 1 of you	ur Form(s) W	<i>I</i> -2.	1	
Attach Form(s) W-2 here.		2 Taxable interest. If the total is over \$1,500,	you cannot use Form	m 1040EZ.		2	
Enclose, but do not attach, any payment.	_	3 Unemployment compensation and Alaska F (see page 16).	ermanent Fund divi	dends		3	
a, paj	_	4 Add lines 1, 2, and 3. This is your adjuste		3		4	
Note. You must check Yes or No.		Yes. Enter amount from No. worksheet on back.	If single, enter \$7 If married filing See back for expla	jointly, enter	\$15,600.	5	
		Subtract line 5 from line 4. If line 5 is larger This is your taxable income .	er than line 4, enter	-0-	>	6	
Payments and tax	_	7 Federal income tax withheld from box 2 of	your Form(s) W-2.			7	
	_	8 Earned income credit (EIC).	1			8	
	-	Add lines 7 and 8. These are your total pa		. 11	>	9	
	1	Tax. Use the amount on line 6 above to fine 25–29 of the booklet. Then, enter the tax fine 15–25 of the booklet.			ages	10	
Refund Have it directly deposited! See	1	If line 9 is larger than line 10, subtract line	10 from line 9. Th	is is your ref	und.	11a	
page 21 and fill in 11b, 11c, and 11d.	>	b Routing number	▶ c Type:	Checking	g Savings		
Amount	1	d Account number 2 If line 10 is larger than line 9, subtract line	9 from line 10. This	is			
you owe		the amount you owe. For details on how to			<u> </u>	12	
Third party		o you want to allow another person to discuss t		RS (see page	22)? L Yes.	Complete the following. L	
designee		esignee's ume ▶	Phone no. ► ()		Personal ident number (PIN)	tification	
Sign here	o	nder penalties of perjury, I declare that I have examine curately lists all amounts and sources of income I recei all information of which the preparer has any knowled	ved during the tax year. Ige.	. Declaration of		an the taxpayer) is based	
Joint return? See page 13.	\ _	our signature		coccupation		Daytime phone number	
Keep a copy for your records.	S	pouse's signature. If a joint return, both must sign.		use's occupation	on		
Paid preparer's	S	eparer's pnature	Date		check if elf-employed	Preparer's SSN or PTIN	
use only	У	rm's name (or ours if self-employed), Idress, and ZIP code			Phone no.	()	
For Disclosure		ivacy Act, and Paperwork Reduction Act	Notice, see nage 5	24.	Cat. No. 11329W	Form 1040EZ (200	

Complete this form Form 1040EZ, page 2

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

Use this form if

- Your filing status is single or married filing jointly.
- You (and your spouse if married filing jointly) were born after January 1, 1939, and were not blind at the end of 2003.
- You do not claim any dependents.
- Your taxable income (line 6) is less than \$50,000.
- You do not claim a deduction for educator expenses, the student loan interest deduction, or the tuition and fees deduction.
- You do not claim an education credit, the retirement savings contributions credit, or the health insurance credit for eligible recipients.
- You had **only** wages, salaries, tips, taxable scholarship or fellowship grants, unemployment compensation, or Alaska Permanent Fund dividends, and your taxable interest was not over \$1,500. **But** if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ (see page 15). If you are planning to use Form 1040EZ for a child who received Alaska Permanent Fund dividends, see page 16.
- You did not receive any advance earned income credit payments.

If you are not sure about your filing status, see page 13. If you have questions about dependents, use TeleTax topic 354 (see page 8). If you **cannot use this form,** use TeleTax topic 352 (see page 8).

Filling in your return

For tips on how to avoid common mistakes, see page 23.

If you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds, see the booklet before filling in the form. Also, see the booklet if you received a Form 1099-INT showing Federal income tax withheld or if Federal income tax was withheld from your unemployment compensation or Alaska Permanent Fund dividends.

Remember, you must report all wages, salaries, and tips even if you do not get a Form W-2 from your employer. You must also report all your taxable interest, including interest from banks, savings and loans, credit unions, etc., even if you do not get a Form 1099-INT.

Worksheet for dependents who checked "Yes" on line 5

(keep a copy for your records)

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married filing jointly) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, use TeleTax topic 354 (see page 8).

A. Amount, if any, from line 1 on front	
+ 250.00 Enter total ►	
B. Minimum standard deduction	B. 750.00
C. Enter the larger of line A or line B here	
D. Maximum standard deduction. If single , enter \$4,750; if married filing jointly , enter \$9,500	D
E. Enter the smaller of line C or line D here. This is your standard deduction	E
F. Exemption amount.	
• If single, enter -0	
• If married filing jointly and—	F
—both you and your spouse can be claimed as dependents, enter -0	
—only one of you can be claimed as a dependent, enter \$3,050.	
G. Add lines E and F. Enter the total here and on line 5 on the front .	G
ou checked "No" on line 5 because no one can claim you (or your spouse i	f married filing

If you checked "No" on line 5 because no one can claim you (or your spouse if married filing jointly) as a dependent, enter on line 5 the amount shown below that applies to you.

- Single, enter \$7,800. This is the total of your standard deduction (\$4,750) and your exemption (\$3,050).
- Married filing jointly, enter \$15,600. This is the total of your standard deduction (\$9,500), your exemption (\$3,050), and your spouse's exemption (\$3,050).

Mailing return

Mail your return by **April 15, 2004.** Use the envelope that came with your booklet. If you do not have that envelope or if you moved during the year, see the back cover for the address to use.

Printed on recycled paper

Form **1040EZ** (2003)



Problem 2

Melody York is 34 years old (born August 31, 1969) and single. Melody was laid off from her job as a clerk in September and received unemployment compensation for the remainder of the year. She would like to contribute to the Presidential campaign fund. If she receives a refund, she would like it direct deposited into her savings account (account number xxxxxxxxxx; routing transit number xxxxxxxxxx). Melody does not want to name a third party designee. Her address and SSN are correct as shown on her Form W-2 and Form 1099-G.

a Control number 258963		OMB No. 1545	5-0008	Safe, accurate, FAST! Use	IRS P	TI E		Visit the If at www.ir	RS Web Site s.gov.
b Employer identification number	xxx-xx-x	xxx	1	Wages, tips, other of	compensation \$6,923.		? Fede	ral income	tax withheld \$261.00
c Employer's name, address, and ZIP code Miller Industries			3	3 Social security wages 4 Social security tax with \$6,923.12				ax withheld \$429.00	
975 Parks Blvd Your City, State, Zip	Code		5	5 Medicare wages and tips 6 Med \$6,923.12			6 Medi	care tax wi	thheld \$100.00
			7	Social security tip)S	8	Alloc:	ated tips	
d Employee's social security number			9	Advance EIC pay	ment	10	Depe	ndent care	benefits
	XXX-XX-X	XXX	L			_			
e Employee's first name and initial Melody York	Last name		11	Nonqualified plan	s	12	2a See i	nstructions	for box 12
17 North 9th Avenue Your City, State, Zip				Statutory Retirement plan	Third-party sick pay	12 C od e	?b		
			14	Other		12 C od e			
						12	?d		
f Employee's address and ZIP code									
15 State Employer's state ID number XXX-XX-XXX	40.00-		income tax \$68.3	18 Local wages,	tips, etc.	19 Loc	al incom	ne tax	20 Locality name
	ψο,ολο		Ψοσ.σ.	<u> </u>					
Form W-2 Wage and Statement	Гах	50	03		Departme	nt of th	e Treas	ury—Intern	al Revenue Servic
Copy B To Be Filed with Employ This information is being furnished		ce.							

PAYER'S name, street address, city, state, ZIP code, and telephone no.	1 Unemployment compensation	OMB No. 1545-0120		Certain
Department of Employment Security	\$ 3,240.00	2003		Government
4010 West Third St.	2 State or local income tax refunds, credits, or offsets		Payments	
Your City, State, Zipcode	\$	Form 1099-G		
PAYER'S Federal identification number RECIPIENT'S identification numb	er 3 Box 2 amount is for tax year	4 Federal income tax	withheld	Copy B
xx-xxxxxx xxxxxx		\$ 0.0	0	For Recipient
RECIPIENT'S name Melody York	5	6 Taxable grants		This is important tax information and is being furnished to the
Street address (including apt. no.)	7 Agriculture payments	8 Box 2 is trade or		Internal Revenue Service. If you are
17th North 9th Avenue	\$	business income	•	required to file a return, a negligence penalty or
City, state, and ZIP code	·	1		other sanction may be
Your City, State, Zip Code				imposed on you if this income is taxable and
Account number (optional)				the IRS determines that it has not been reported.

Complete this form Form 1040EZ, front

Form 1040EZ		Income Tax Re Joint Filers Wi	eturn for S	ingle a		2003		OMB No. 1545-0675
(Your first name and initial		Last name			,	Your social security number
	Ļ							
Use the IRS	A B E L	If a joint return, spouse's first		Last name				Spouse's social security number
Otherwise,	H E	Home address (number and st	reet). If you have a	P.O. box, see	page 14.		Apt. no.	▲ Important! ▲
or type	City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.							You must enter your SSN(s) above.
Election	Щ	Note. Checking "Yes" w	ill mot abomas	voum ton o		ove enformed		You Spouse
Campaign (page 14)		Do you, or your spouse						Yes No Yes N
Income	1	Wages, salaries, and tach your Form(s)		ld be show	vn in box 1	of your Form(s)	W-2.	1
Attach Form(s) W-2 here.	2	Taxable interest. If the	e total is over	\$1,500, yo	ou cannot us	se Form 1040EZ.		2
Enclose, but do not attach,	3	Unemployment comp (see page 16).	ensation and A	Alaska Per	manent Fui	nd dividends		3
any payment.	4	Add lines 1, 2, and 3	. This is your	adjusted ;	gross incor	ne.		4
Note. You)	5							
must check Yes or No.		Yes. Enter amount worksheet on				filing jointly, ent r explanation.	ter \$15,600.	5
	6	Subtract line 5 from This is your taxable		5 is larger	than line 4	, enter -0	>	6
Payments	7	Federal income tax w	ithhald from h	ov 2 of w	our Form(c) W 2		7
and tax		rederal income tax w	itilicia from c	0X 2 01 y	our Pormes) VV -2.		7
	_8	Earned income cred	lit (EIC).	SC.				8
	9					the toy table on	>	9
	10	Tax. Use the amount 25–29 of the booklet					pages	10
Refund Have it directly	11:	a If line 9 is larger tha	n line 10, subt	ract line 1	0 from line	e 9. This is your r	refund.	11a
deposited! See page 21 and fill in 11b, 11c,	▶ 1	b Routing number			□ > c	Type: Check	ing Savings	
and 11d.	▶ (d Account number						
Amount you owe	12	If line 10 is larger that the amount you owe	,				>	12
Third party	Do	you want to allow anoth	ner person to d	iscuss this	s return with	n the IRS (see pag	ge 22)? 🗌 Ye s	s. Complete the following.
designee	Des	signee's ne ▶			Phone lo. • ()	Personal ide number (PIN	
Sign	acc	der penalties of perjury, I de curately lists all amounts and	I sources of incor	ne I receive	d during the t			
here Joint return? See page 13.		all information of which the ur signature	preparer has any	-	e. Date	Your occupation		Daytime phone number
Keep a copy for your records.	Spo	ouse's signature. If a joint re	eturn, both must	sign.	Date	Spouse's occupa	ation	
Paid		parer's nature				Date	Check if self-employed	Preparer's SSN or PTIN
preparer's use only	you	m's name (or urs if self-employed),					EIN	
	ado	vacy Act, and Paperv					Phone no.	() W Form 1040EZ (200

Complete this form Form 1040EZ, page 2

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

Use this form if

- Your filing status is single or married filing jointly.
- You (and your spouse if married filing jointly) were born after January 1, 1939, and were not blind at the end of 2003.
- You do not claim any dependents.
- Your taxable income (line 6) is less than \$50,000.
- You do not claim a deduction for educator expenses, the student loan interest deduction, or the tuition and fees deduction.
- You do not claim an education credit, the retirement savings contributions credit, or the health insurance credit for eligible recipients.
- You had **only** wages, salaries, tips, taxable scholarship or fellowship grants, unemployment compensation, or Alaska Permanent Fund dividends, and your taxable interest was not over \$1,500. **But** if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ (see page 15). If you are planning to use Form 1040EZ for a child who received Alaska Permanent Fund dividends, see page 16.
- You did not receive any advance earned income credit payments.

If you are not sure about your filing status, see page 13. If you have questions about dependents, use TeleTax topic 354 (see page 8). If you **cannot use this form,** use TeleTax topic 352 (see page 8).

Filling in your return

For tips on how to avoid common mistakes, see page 23.

If you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds, see the booklet before filling in the form. Also, see the booklet if you received a Form 1099-INT showing Federal income tax withheld or if Federal income tax was withheld from your unemployment compensation or Alaska Permanent Fund dividends.

Remember, you must report all wages, salaries, and tips even if you do not get a Form W-2 from your employer. You must also report all your taxable interest, including interest from banks, savings and loans, credit unions, etc., even if you do not get a Form 1099-INT.

Worksheet for dependents who checked "Yes" on line 5

(keep a copy for your records)

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married filing jointly) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, use TeleTax topic 354 (see page 8).

A. Amount, if any, from line 1 on front				
+				
B. Minimum standard deduction			B	750.00
C. Enter the larger of line A or line B here			C	
D. Maximum standard deduction. If single , e filing jointly , enter \$9,500			D	
E. Enter the smaller of line C or line D here deduction	-		E	
F. Exemption amount.		١		
• If single, enter -0				
 If married filing jointly and— 			, F	
—both you and your spouse can be claim	ied as depend	lents, enter -0		

If you checked "No" on line 5 because no one can claim you (or your spouse if married filing jointly) as a dependent, enter on line 5 the amount shown below that applies to you.

• Single, enter \$7,800. This is the total of your standard deduction (\$4,750) and your exemption (\$3,050).

—only one of you can be claimed as a dependent, enter \$3,050. **G.** Add lines E and F. Enter the total here and on line 5 on the front .

• Married filing jointly, enter \$15,600. This is the total of your standard deduction (\$9,500), your exemption (\$3,050), and your spouse's exemption (\$3,050).

Mailing return

Mail your return by **April 15, 2004.** Use the envelope that came with your booklet. If you do not have that envelope or if you moved during the year, see the back cover for the address to use.

Printed on recycled paper

Form **1040EZ** (2003)

Form 1040EZ, Earned Income Credit Worksheet, page 1

Line 8 Earned Income Credit (EIC)

What Is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.



If you have a qualifying child (see the next column on this page), you may be able to take the credit, but you must use Schedule EIC and Form 1040A or 1040 to do so. For details, see Pub. 596.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet on page 19 or let the IRS figure the credit for you.



If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you

are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1

All Filers

- 1. Is the amount on Form 1040EZ, line 4, less than \$11,230 (\$12,230 if married filing jointly)?
 - ☐ **Yes.** Continue





You cannot take the credit.

- 2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 18)?
 - ☐ Yes. Continue ■





You cannot take the credit. Enter "No" in the space to the left of line 8.

- Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return?
 - Yes. (STOP) You cannot take the credit.

☐ **No.** *Continue*



- Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?
 - ☐ Yes. Go to question ☐ No. (STOP)



You cannot take the credit.

- 15 -

- Form 1040EZ-Line 8
- Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 18 before you answer.

☐ Yes. Continue ■



☐ No. (STOP)

You cannot take the credit. Enter "No" in the space to the left of line 8.

- 6. Look at the qualifying child conditions below. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?
 - Yes. (STOP

 \square **No.** Go to Step 2

You cannot take the credit. Enter "No" in the space to the left of line 8.

on page 18.



Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

Brother, sister, stepbrother, stepsister, or a descendent of any of them (for example, your niece or nephew) whom you cared for as your own child

Foster child (any child placed with you by an authorized placement agency whom you cared for as your own child)

was at the end of 2003...

Under age 19

under age 24 and a student

any age and permanently and totally disabled

who...

Either lived with you in the United States for more than half of 2003 or was born or died in 2003 and your home was the child's home for the entire time he or she was alive in 2003.

Note. Special rules apply if the child was married or also meets the conditions to be a qualifying child of another person (other than your spouse if filing a joint return). For details, use TeleTax topic 601 (see page 8) or see Pub. 596.

Need more information or forms? See page 7.

Form 1040EZ, Earned Income Credit Worksheet, page 2

F 4040F7 11 0	Torni To-ToLZ, Larrica medine dicart Worksheet, page 2			
Form 1040EZ—Line 8				
Step 2 Earned Income	Definitions and Special Rules			
	(listed in alphabetical order)			
1. Figure earned income:	Credit Figured by the IRS To have the IRS figure the credit for you:			
Form 1040EZ, line 1	1. Enter "EIC" in the space to the left of line 8 on Form			
Subtract, if included in line 1, any:	1040EZ. 2. If your EIC for a year after 1996 was reduced or			
Taxable scholarship or fellowship grant not reported on a Form W-2	disallowed, see Form 8862, Who Must File, below.			
Amount paid to an inmate in a penal institution for work (enter "PRI" in the space to the left of line 1 on Form 1040EZ)	Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies. • After your EIC was reduced or disallowed in an earlier year			
Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongoverntmental section 457 plan (enter "DFC" and the amount subtracted in the space to the left of line 1 on Form 1040EZ). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the	(a) you filed Form 8862 (or other documents) and your EIC then allowed and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error. • The only reason your EIC was reduced or disallowed in earlier year was because it was determined that a child listed Schedule EIC was not your qualifying child. Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.			
contact your employer for the amount received as a pension or annuity.	Members of the Military. If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of			
Earned Income =	more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.			
2. Is your earned income less than \$11,230 (\$12,230 if married filing jointly)? Yes. Go to Step 3. No. STOP You cannot take the credit. Step 3 How To Figure the Credit	Social Security Number (SSN). For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless "Not Valid for Employment" is printed on the social security card and the number was issued solely to apply for or receive a Federally funded benefit. To find out how to get an SSN, see page 14. If you will not have an SSN by April 15, 2004, see What if You Cannot File on Time? on page 11.			
1. Do you want the IRS to figure the credit for you? ☐ Yes. See Credit Figured by the IRS on this page. ☐ No. Go to the worksheet on page 19.	Welfare Benefits, Effect of Credit on. Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility. • Temporary Assistance for Needy Families (TANF). • Medicaid and supplemental security income (SSI). • Food stamps and low-income housing.			
	(Continued on page 19)			
Need more information or forms? See page 7	_			



Look up the amount on line 1 above in the EIC Table on page find the credit. Be sure you use the correct column for your fill status. Enter the credit here. If line 2 is zero, Stop You cannot take the credit. Enter "No" in the space to the left of line 8. Enter the amount from Form 1040EZ, line 4. 3 4. Are the amounts on lines 3 and 1 the same? Yes. Skip line 5; enter the amount from line 2 on line 6. No. Go to line 5. Is the amount on line 3 less than \$6,250 (\$7,250 if married filling the same) in the same in	2
Look up the amount on line 1 above in the EIC Table on page find the credit. Be sure you use the correct column for your file status. Enter the credit here. If line 2 is zero, You cannot take the credit. Enter "No" in the space to the left of line 8. B. Enter the amount from Form 1040EZ, line 4. Yes. Skip line 5; enter the amount from line 2 on line 6. No. Go to line 5. Is the amount on line 3 less than \$6,250 (\$7,250 if married file.)	2
find the credit. Be sure you use the correct column for your fill status. Enter the credit here. If line 2 is zero, STOP You cannot take the credit. Enter "No" in the space to the left of line 8. 3. Enter the amount from Form 1040EZ, line 4. 3. Are the amounts on lines 3 and 1 the same? Yes. Skip line 5; enter the amount from line 2 on line 6. No. Go to line 5. Is the amount on line 3 less than \$6,250 (\$7,250 if married filling the same).	2
Enter "No" in the space to the left of line 8. 3. Enter the amount from Form 1040EZ, line 4. 3. Are the amounts on lines 3 and 1 the same? Yes. Skip line 5; enter the amount from line 2 on line 6. No. Go to line 5. 5. Is the amount on line 3 less than \$6,250 (\$7,250 if married filitions).	ling jointly)?
 Yes. Skip line 5; enter the amount from line 2 on line 6. No. Go to line 5. S. Is the amount on line 3 less than \$6,250 (\$7,250 if married filition). 	ling jointly)?
_ 00	ling jointly)?
No. Look up the amount on line 3 in the EIC Table on pa to find the credit. Be sure you use the correct column your filing status. Enter the credit here. Look at the amounts on lines 5 and 2.	page 20
Then, enter the smaller amount on line 6. This is your earned income credit.	Enter this amount on Form 1040EZ, line 8.
If your EIC for a year after 1996 was reduced or d page 18 to find out if you must file Form 8862 to for 2003.	disallowed, see take the credit
	to find the credit. Be sure you use the correct column your filing status. Enter the credit here. Look at the amounts on lines 5 and 2. Then, enter the smaller amount on line 6. This is your earned income credit. If your EIC for a year after 1996 was reduced or page 18 to find out if you must file Form 8862 to

Problem 3

Marvin Simmons is 55 (born on December 4, 1948. His grandson, Eric (SSN xxx-xx-xxxx; born on March 10, 1993), has lived with him for the last two years. Marvin pays the total cost of keeping up a home for himself and his grandson and provides all the support for Eric. Eric is a qualifying child for EIC purposes.

Marvin paid \$978 in child care expenses to allow him to work. The provider information is as follows:

Joy Day Care 9192 East Huron St. Your City, State, Zip Code EIN: xx-xxxxxx

a Control number 3495127		OMB No. 1545-0008		Safe, accurate, FAST! Use	Visit the IRS Web Site at www.irs.gov.
b Employer identification number		7.11.2 1.01 1.0 1.0 0.00	1	Wages, tips, other compensation	2 Federal income tax withheld
xxx-xx-	xxxx			\$24,952.00	\$1,964.00
c Employer's name, address, and ZIP code			3	Social security wages \$24,952.00	4 Social security tax withheld \$1,547.00
Endicott Motors			5	Medicare wages and tips	6 Medicare tax withheld
473 Endicott Lane				\$24,952.00	\$362.00
Your City, State, Zip Cod	le		7	Social security tips	8 Allocated tips
d Employee's social security number			9	Advance EIC payment \$600.00	10 Dependent care benefits
e Employee's first name and initial La	st name		11	Nonqualified plans	12a See instructions for box 12
Marvin Simmons			13 8	Statutory Retirement Third-party sick pay	12b
9701 Austin Rd					o d e
Your City, State, Zip Code	е		14	Other	12c
					d e
f Employee's address and ZIP code					12d
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income ta	X	18 Local wages, tips, etc.	19 Local income tax 20 Locality name
xxx-xx-xxxx	\$24,952.00	\$875.0	0		
Wage and Tax Statement		}	Departme	ent of the Treasury—Internal Revenue Service	
Copy B To Be Filed with Employee's F This information is being furnished to the					

Complete this form Form 1040A, front

Form 1040A	Department of the Treasury—Internal Revenue Service U.S. Individual Income Tax Retu	rn 2003 IRS Use	Only De and with an abole in this area
10407	Your first name and initial Last name	III 2000 IRS Use	Only—Do not write or staple in this space. OMB No. 1545-0085
Label	Tour list name and initial		Your social security number
(See page 21.)			Tour social security number
AB			0
Use the	If a joint return, spouse's first name and initial Last name		Spouse's social security number
IDC label			
Otherwise E	Home address (number and street). If you have a P.O. box, see	page 22. Apt. no	[™]
please print R			
or type.	City, town or post office, state, and ZIP code. If you have a fore	gn address, see page 22.	You must enter your SSN(s) above.
			SSIN(s) above.
Presidential			You Spouse
Election Campaign	Note. Checking "Yes" will not change your ta		
(See page 22.)	Do you, or your spouse if filing a joint return,	vant \$3 to go to this fund?	Yes No Yes No
Filing	1 ☐ Single		old (with qualifying person). (See page 23.)
status	2 Married filing jointly (even if only one had		person is a child but not your dependent,
Check only	3 Married filing separately. Enter spouse's \$		· · · · · · —
one box.	full name here. ►	5 L Qualifying widow	/(er) with dependent child (See page 24.)
Exemptions	6a ☐ Yourself. If your parent (or sor	neone else) can claim you as a	No. of boxes
	dependent on his or	her tax return, do not check b	
	b Spouse	6 7 2 2	No. of children
	c Dependents:	andont's social (3) Dependent's	(4) $\sqrt{\text{if qualifying}}$ on 6c who:
	Seci	endent's social relationship to	child for child • lived with tax credit (see you
If more than six	(1) First name Last name	you	page 25) • did not live
dependents,		66	with you due to divorce or
see page 24.			separation
			(see page 26)
		C	Dependents
		40	on 6c not entered above
	d Total number of exemptions deline	d	Add numbers on lines
	d Total number of exemptions claime	ed.	above
Income	7 Wages colories tips etc. Attach F	orm(a) W 2	7
Attach	7 Wages, salaries, tips, etc. Attach F	Offin(S) VV-2.	
Form(s) W-2	On Tayable interest Attach Cahadula	1 if warmingd	90
here. Also	8a Taxable interest. Attach Schedule b Tax-exempt interest. Do not include		8a
attach Form(s)			
1099-R if tax	9a Ordinary dividends. Attach Scheduleb Qualified dividends (see page XX).	9b	9a
was withheld.	10a Capital gain distributions (see page XX).		10-
W P. L.	b Post-May 5 capital gain distributions (10a
If you did not get a W-2, see		Ti i i i i i i i i i i i i i i i i i i	
page 27.	11a IRA distributions. 11a	11b Taxable amo (see page 27	l l
Enclose, but do		` ' •	
not attach, any	12a Pensions and annuities. 12a	12b Taxable amo (see page 28	
payment.	armunies. 12a	(See page 20	3). 12b
	12 Unampleyment companding and	Alaska Darmanant Fund divid	anda 10
	13 Unemployment compensation and		
	14a Social security	14b Taxable amo	
	benefits. 14a	(see page 30)). <u>14b</u>
	15 Add lines 7 through 14b (far right co	umn) This is your total income	e. > 15
Aultonation	16 Educator expenses (see page 30).	16	9. ► 15
Adjusted		17	
gross			
income	18 Student loan interest deduction (se		
	Tuition and fees deduction (see pa		
	20 Add lines 16 through 19. These are	your total aujustments.	20
	21 Subtract line 20 from line 15. This	is your adjusted arose incom	ne. ▶ 21
			<u> </u>
For Disclosure, Pr	rivacy Act, and Paperwork Reduction Act N	lotice, see page 57. Cat. N	lo. 11327A Form 1040A (2003)

Complete this form Form 1040A, page 2

Form 1040A	(2003		Page 2
Tax,	22	Enter the amount from line 21 (adjusted gross income).	22
credits,			
and	23a	Check \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \	
		if:	
payments	b	If you are married filing separately and your spouse itemizes	_
Standard Deduction		deductions, see page 34 and check here ► 23b	<u> </u>
for—	₋ 24	Enter your standard deduction (see left margin).	24
People who	25	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0	25
checked any box on line	26	Multiply \$3,050 by the total number of exemptions claimed on line 6d.	26
23a or 23b or who can be	27	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0	.
claimed as a		This is your taxable income .	27
dependent, see page 34.	28 29	Tax, including any alternative minimum tax (see page 35).	28
All others:	29	Credit for child and dependent care expenses. Attach Schedule 2. 29	
Single or	30	Credit for the elderly or the disabled. Attach	
Married filing	30	Schedule 3. 30	
separately, \$4,750	31	Education credits. Attach Form 8863.	
Married filing	32	Retirement savings contributions credit. Attach	
jointly or		Form 8880.	
Qualifying widow(er),	33	Child tax credit (see page 38).	
\$9,500	34	Adoption credit. Attach Form 8839. 34	
Head of household,	35	Add lines 29 through 34. These are your total credits.	35
\$7,000	36	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0	36
	37	Advance earned income credit payments from Form(s) W-2.	37
	38	Add lines 36 and 37. This is your total tax.	▶ 38
	39	Federal income tax withheld from Forms W-2 and 1099.	
	40	2003 estimated tax payments and amount	
If you have)	applied from 2002 return. 40	
a qualifying child, attach	41	Earned income credit (EIC). 41	
Schedule	42	Additional child tax credit. Attach Form 8812. 42	
EIC.	43	Add lines 39 through 42. These are your total payments.	▶ 43
Refund	44	If line 43 is more than line 38, subtract line 38 from line 43.	4.4
Direct	450	This is the amount you overpaid.	44 ▶ 45a
deposit?		Amount of line 44 you want refunded to you.	▶ 45a
See page 52 and fill in	▶ b	Routing number	
45b, 45c, and 45d.	▶ d	Account	
	46	Amount of line 44 you want applied to your	
	-	2004 estimated tax. 46	
Amount	47	Amount you owe. Subtract line 43 from line 38. For details on how	
you owe	10	to pay, see page 53. Estimated tax penalty (see page 53). 48	▶ 47
	48	Estimated tax penalty (see page 53). 48 Do you want to allow another person to discuss this return with the IRS (see page 54)?	Yes. Complete the following. No
Third party		, , , =	
designee			onal identification er (PIN)
Sign	Ļ	Inder penalties of perjury, I declare that I have examined this return and accompanying schedules and standard and halfest they are true correct, and exquired list all amounts and accompanying schedules and standard and source of income I received	atements, and to the best of my
here	C	nowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received f preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge	э.
Joint return?	N Y	our signature Date Your occupation	Daytime phone number
See page 22. Keep a copy			
for your		spouse's signature. If a joint return, both must sign. Date Spouse's occupation	
records.	,	Date Date	Preparer's SSN or PTIN
Paid		Preparer's ignature Check if self-employer	— I .
preparer's	F	irm's name (or	<u>~ _ </u>
use only	У	ours if self-employed), ddress, and ZIP code	e no. ()
		Printed on recycled paper	Form 1040A (2003)
		Frinted on recycled paper	

Complete this form Schedule 2, page 1

Schedule 2		rtment of the Treasury—lild and Dependent							
(Form 1040A)		penses for For		rs 2	2003			OMB No. 15	45-0085
Name(s) shown on Form	1040	A					Your social	security number	
			and the fellowing		\ . . (! ! . !				
		You need to unders Benefits • Qual				on page 1 of ● Earned I		arate instruction	ons.
Part I	1	(a) Care provide name		s (number, street state, and ZIP co		(c) Identif number (SSN		(d) Amount p	
Persons or organizations who provided the care									
You must		(If you need more	e space, use the b	oottom of pag	ge 2.)				
complete this part.		Did you re dependent car	e benefits?	No	 (Complete only Complete Part	: III on the	e back next.	
		Caution. If the camust use Form 1						kes. If you do	, you
Part II	2	Information about the instructions.	t your qualifying	person(s). If	you have I	more than tv	vo qualif	ying persons,	see
Credit for child and dependent care expenses		(a) Qua	alifying person's name	Last 2		alifying person's security number		(c) Qualified expose in column (c) Qualified expose in column (c) Qualified in column (c) Qualified	id paid person
		21	00	<u> </u>	1911	9			
			N	*0					
	3	Add the amounts \$3,000 for one qualif you completed	ualifying person o	r \$6,000 for t	wo or mor	re than e persons.	3		
	4	Enter your earned income. 4							
	5	If married filing jo spouse was a stu others, enter the		bled, see the			5		
	6	Enter the smalles	6						
	7	Enter the amount	t from Form 1040.	A, line 22.	7				
	8	Enter on line 8 th amount on line 7.		t shown belo	w that app	olies to the			
		If line 7 is:		If line 7					
		But not Over over	Decimal amount is	Over	But not over	Decimal amount is	;		
		\$0—15,000 15,000—17,000 17,000—19,000 19,000—21,000 21,000—23,000 23,000—25,000	.35 .34 .33 .32 .31	33,000- 35,000- 37,000-	-31,000 -33,000 -35,000 -37,000 -39,000 -41,000	.27 .26 .25 .24 .23			
		25,000—25,000 25,000—27,000 27,000—29,000	.29 .28	41,000-	–43,000 –43,000 –No limit	.21 .20	8	×	
	9	Multiply line 6 by expenses in 2003			If you pa	id 2002	9		
		Enter the amount					10		
		Credit for child a							1

WAGE EARNER COMPREHENSIVE PROBLEMS

Form 1040A Child Tax Credit Worksheet

Child Tax Credit Worksheet—Line 33

Keep for Your Records

Before you begin: \(\text{If you received (before offset) an advance payment of the child tax credit and you filed a joint return for 2002, you and your spouse are each considered to have received one-half of the payment.





If you received Notice 1319, have it available. The notice shows the amount of your advance payment (before offset). If you do not have Notice 1319, you can check the amount of your advance payment (before offset) on the IRS website at www.irs.gov. You will need to enter your SSN, your 2002 filing status, and the total number of exemptions you claimed on line 6d of your 2002 Form 1040 or Form 1040A.



- To be a qualifying child for the child tax credit, the child must be under age 17 at the end of 2003 and meet the other requirements listed on page 38.
- Do not use this worksheet if you answered "Yes" to question 1 or 2 on page 38. Instead, use Pub. 972.

	, and the second	
1.	Number of qualifying children: × \$1,000. Enter the result.	
2.	Enter the amount, if any, of your advance child tax credit (before offset).	
3.	Is line 1 less than or equal to line 2? Yes. STOP You cannot take this credit. If line 2 is more than line 1, you do not have to pay back the difference.	
	□ No. Subtract line 2 from line 1.	3
4.	Enter the amount from Form 1040A, line 28.	
5.	Add the amounts from Form 1040A, lines 29 through 32.	
6.	Are the amounts on lines 4 and 5 the same? Yes. STOP You cannot take this credit because there is no tax to reduce. However, you may be able to take the additional child tax credit. See the TIP below. No. Subtract line 5 from line 4.	6
7.	Is the amount on line 3 more than the amount on line 6? ☐ Yes. Enter the amount from line 6. Also, you may be able to take the additional child tax credit. See the TIP below. ☐ No. Enter the amount from line 3.	Enter this amount on Form 1040A, line 33.
	You may be able to take the additional child tax credit on Form 1040A, line 42, if you answered "Yes" on line 6 or line 7 above.	1040A
	 First, complete your Form 1040A through line 41. 	
	 Then, use Form 8812 to figure any additional child tax credit. 	

Form 1040A EIC Worksheet, Page 1

Line 41	_		
Earned	Income	Credit	(EIC)

What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you **or** let the IRS figure the credit for you.
- If you have a qualifying child, complete and attached Schedule EIC.



If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not

be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1

All Filers

- **1.** If, in 2003:
 - 2 children lived with you, is the amount on Form 1040A, line 22, less than \$33,692 (\$34,692 if married filing jointly)?
 - 1 child lived with you, is the amount on Form 1040A, line 22, less than \$29,666 (\$30,666 if married filing jointly)?
 - No children live with you, is the amount on Form 1040A, line 22, less than \$11,230 (\$12,230 if married filing jointly)?
 - ☐ Yes. Continue ■



☐ No. (STOP)

You cannot take the credit.

- 2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?
 - Yes. Continue



You cannot take the credit. Put "No" to the left of the entry space for line 41.

3. Is you filing status married filing separately?

Yes. (STOP)

☐ **No.** *Continue*



- You cannot take the credit.
 - ☐ **Yes.** See Nonresident ☐ **No.** Go to Step 2. aliens on page 42.

4. Were you a nonresident alien for any part of 2003?

Step 2

Investment Income

Add the amounts from Form 1040A:

Line 8a Line 8b

Line 9a

Line 10a

Investment Income =

2. Is your investment income more than \$2,600?

Yes. (STOP

☐ **No.** Continue **¬**



You cannot take the credit. 3. Did a child live with you in 2003?

> ☐ Yes. Go to Step 3 on ☐ No. Go to Step 4 on page 40.

page 40.

Form 1040A EIC Worksheet, Page 2

S	Step 3 Qualifying Child	3.	Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2003?
	A qualifying child is a child who is your		☐ Yes. See Qualifying Child of More Than One Person on page 42. No. This child is your qualifying child. The child must have a valid social security number as defined
	Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild) or		on page 42 unless the child was born and died in 2003. Skip Step 4; go to Step 5 on page 41.
	Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child or	9	Step 4 Filers Without a Qualifying Child
	Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)	1.	Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?
	AND	7	You cannot take the credit. Put "No" to the left of the entry space for line 41.
	was at the end of 2003	2.	Can you, or your spouse if filing a joint return, be claimed
	Under age 19	2.	as a dependent on someone else's 2003 tax return?
	Or Under age 24 and a student (see page 42)		☐ Yes. STOP ☐ No. Continue
	or		You cannot take the credit. ▼
A	any age and permanently and totally disabled (see page 42)	3.	Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?
	AND		☐ Yes. Continue ☐ No. STOP
			You cannot take the credit.
	who	4.	Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of
	Lived with you in the United States for more than half of 2003. If the child did not live with you for the		the military stationed outside the United States, see page 42 before you answer.
	required time, see Exception to "Time Lived With You" Condition on page 41.		☐ Yes. Go to Step 5 on ☐ No. STOP page 41.
	Note. If the child was married, see page 42.		Put "No" to the left of the
1.	Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?		entry space for line 41.
	☐ Yes. (STOP) ☐ No. Continue		
	You cannot take the credit. Put "No" to the left of the entry space for line 41.		
2.	Do you have at least one child who meets the above conditions to be your qualifying child?		

Form 1040A EIC Worksheet, Page 3

Step 5 Earned Income
1. Figure earned income:
Form 1040, line 7
Subtract, if included on line 7, any:
Taxable scholarship or fellowship grant not reported on a Form W-2.
• Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
• Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.
Earned Income =
 2. If you have: 2 or more qualifying children, is your earned income less than \$33,692 (\$34,692 if married filing jointly)? 1 qualifying child, is your earned income less than \$29,666 (\$30,666 if married filing jointly)? No qualifying children, is your earned income less than \$11,230 (\$12,230 if married filing jointly)? Yes. Go to Step 6. No. stop You cannot take the credit.
Step 6 How To Figure the Credit
1. Do you want the IRS to figure the credit for you?
☐ Yes. See Credit Figured by the IRS below. ☐ No. Go to the worksheet on page 43.

Definitions and Special Rules

(listed in alphabetical order)

Adopted Child. An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

Credit Figured by the IRS. To have the IRS figure the credit for you:

- **1.** Put "EIC" to the left of the entry space for line 41 of Form 1040A.
- **2.** If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to "Time Lived With You" Condition. A child is considered to have lived with you for all of 2003 if the child was born or died in 2003 and your home was this child's home for the entire time he or she was alive in 2003. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military on page 42.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical
- You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

Form 1040A EIC Worksheet

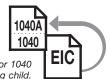
Earned Income	Credit (EIC) Worksheet—Line 41 Keep	for Your Records
Part 1 All Filers	1. Enter your earned income from Step 5 on page 43.	
	2. Look up the amount on line 1 above in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.	2
	If line 2 is zero, You cannot take the credit. Put "No" to the left of the entry space for line 41.	_
	3. Enter the amount from Form 1040A, line 22.	
	4. Are the amounts on lines 3 and 1 the same?	
	☐ Yes. Skip line 5; enter the amount from line 2 on line 6.	
	□ No. Go to line 5.	
Part 2 Filers Who	 5. If you have: No qualifying children, is the amount on line 3 less than \$6,250 (\$7,250 if married filing jointly)? 	
Answered	• 1 or more qualifying children, is the amount on line 3 less than \$13,750 (\$14,750 if married filing jointly)?	
"No" on Line 4	☐ Yes. Leave line 5 blank; enter the amount from line 2 on line 6.	
21110 47	□ No. Look up the amount on line 3 in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.	5
	Look at the amounts on lines 5 and 2. Then, enter the smaller amount on line 6.	
Part 3	6. This is your earned income credit.	6
Your Earned		Enter this amount on Form 1040A, line 41.
Income Credit	Reminder— √ If you have a qualifying child, complete and attach Schedule EIC. 1040A	1040A
	If your EIC for a year after 1996 was reduced or disallowed, s page 43 to find out if you must file Form 8862 to take the cre for 2003.	

Schedule EIC

SCHEDULE EIC (Form 1040A or 1040)

Earned Income Credit

Qualifying Child Information 1040



OMB No. 1545-0074

2003

Attachment Sequence No. 43

Your social security number

Department of the Treasury Internal Revenue Service Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

Name(s) shown on return

Before you begin:

See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that (a) you can take the EIC and (b) you have a qualifying child.



or 1040 instructions.

- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Qualifying Child Information	Child 1	Child 2
1 Child's name If you have more than two qualifying children, y only have to list two to get the maximum credit.	ou Eirst name Last name	First name Last name
2 Child's SSN The child must have an SSN as defined on page of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born died in 2003. If your child was born and died in and did not have an SSN, enter "Died" on this li and attach a copy of the child's birth certificate.	and 2003	
Next, if the child was born after 198	34, go to line 4. Otherwise, continue	
3 If the child was born before 1985- a Was the child under age 24 at the e of 2003 and a student?		Yes. No. Go to line 4. Continue
b Was the child permanently and total disabled during any part of 2003?	Yes. No. Continue The child is not qualifying child.	
4 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)		
5 Number of months child lived with you in the United States during 200	I	
• If the child lived with you for more than half a 2003 but less than 7 months, enter "7".	of	
 If the child was born or died in 2003 and your home was the child's home for the entire time or she was alive during 2003, enter "12". 		Do not enter more than 12 months.
TIP claimed as your dependent on lin	e additional child tax credit if your child (a) we not 6c of Form 1040A or Form 1040, and (c) in e 42 of Form 1040A or line 65 of Form 1040A	is a U.S. citizen or resident alien. For more
For Paperwork Reduction Act Notice, see Form	1040A Cat. No. 13339M	Schedule EIC (Form 1040A or 1040) 200

Comprehensive CW-21
WAGE EARNER

Comprehensive Problem 1

Form 1040EZ		Department of the Trea Income Tax Joint Filers V	Return for S	ingle		2003			OMB No. 1545	i-0675
		Your first name and initial		Last nar				Your social	security numb	er
Label	L	John		Mars	shall			xxx x	xxxx	
(See page 14.) Use the IRS	A B E L	If a joint return, spouse's fi	rst name and initial	Last nar	ne			Spouse's soc	ial security nui	mber
label. Otherwise,		Home address (number an	d street). If you have a	P.O. box, s	ee page 14.		Apt. no.	A Iman	ortontl	
please print	H E R	878 Hudson						-	ortant!	
or type.	Ê	City, town or post office, s	•		_	ee page 14.			st enter yo (s) above.	our
Presidential		Your City,	State, Zip	o Cod	е		J		(0) 400101	
Election Campaign (page 14)		Note. Checking "Yes' Do you, or your spou						You Yes X	Spouse No Yes	
Income		1 Wages, salaries, an Attach your Form(ld be she	own in box 1	of your Form(s)	W-2.	1	2,694	.00
Attach	_	·								
Form(s) W-2 here.		2 Taxable interest. If	the total is over	\$1,500,	you cannot us	e Form 1040EZ.		2	50	.00
Enclose, but do not attach,	_	3 Unemployment co (see page 16).	mpensation and A	Alaska P	ermanent Fur	d dividends		3		
any payment.		4 4111 1 2	10 771	. 11 4 . 3		0		4	2 7//	0.0
	_	4 Add lines 1, 2, and 5 Can your parents ()	4	2,744	00
Note. You must check Yes or No.	•	Yes. Enter amou	int from	No.	If single, er If married		ater \$15,600.	5	2,944	.00
	_	6 Subtract line 5 fro		5 is large	er than line 4	, enter -0	9			
		This is your taxab	le income.	<u>9 </u>		W.		6	0 .	00
Payments and tax	,	7 Federal income tax	withheld from b	oox 2 of	your Form(s)	W-2.		7	94	.00
allu tax	-	8 Earned income c			120			8		
	_	9 Add lines 7 and 8.	These are your	total pay	ments.		•	9	94	.00
	10		ant on line 6 abo	ve to fin	d your tax in		pages	10	0 .	00
Refund										
Have it directly deposited! See		If line 9 is larger to						11a	94	00
page 21 and fill in 11b, 11c, and 11d.	•	b Routing number	X X X X X			Type: X Check	king Savings			
Amount		d Account number 2 If line 10 is larger	then line 0 subtr							
you owe	12	the amount you o	we. For details or	how to	pay, see page	22.	•	12		
Third party	D	o you want to allow ar	other person to c	discuss th	nis return with	the IRS (see pa	-	s. Complete th	e following.	X No
designee	na	esignee's ame ▶			Phone no. ▶ ()	Personal ide number (PIN	J) ►		
Sign here	ac	nder penalties of perjury, ccurately lists all amounts an all information of which	and sources of incor	me I receiv	ed during the t					
Joint return?		our signature			Date	Your occupation	clerk	Daytime	phone number	r
See page 13. Keep a copy for your records.	Sp	pouse's signature. If a joir	t return, both must	sign.	Date	Spouse's occup				
Paid		reparer's gnature				Date	Check if		SSN or PTIN	<u> </u>
preparer's		rm's name (or					self-employed L	_ FAX-	^^-^A	
use only	yc	ours if self-employed),					Phone no.	. ()		
For Disclosure		rivacy Act, and Pape	erwork Reducti	on Act	Notice, see	page 24.	Cat. No. 11329		1040EZ	(2003)

Wage Earner Comprehensive

PROBLEMS

Answers To Problems

Comprehensive Problem 1

Form 1040EZ (2003)

Use this form if

- Your filing status is single or married filing jointly.
- You (and your spouse if married filing jointly) were born after January 1, 1939, and were not blind at the end of 2003.
- You do not claim any dependents.
- Your taxable income (line 6) is less than \$50,000.
- You do not claim a deduction for educator expenses, the student loan interest deduction, or the tuition and fees deduction.
- You do not claim an education credit, the retirement savings contributions credit, or the health insurance credit for eligible recipients.
- You had **only** wages, salaries, tips, taxable scholarship or fellowship grants, unemployment compensation, or Alaska Permanent Fund dividends, and your taxable interest was not over \$1,500. **But** if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ (see page 15). If you are planning to use Form 1040EZ for a child who received Alaska Permanent Fund dividends, see page 16.
- You did not receive any advance earned income credit payments.

If you are not sure about your filing status, see page 13. If you have questions about dependents, use TeleTax topic 354 (see page 8). If you cannot use this form, use TeleTax topic 352 (see page 8).

Filling in your return

For tips on how to avoid common mistakes, see page 23.

If you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds, see the booklet before filling in the form. Also, see the booklet if you received a Form 1099-INT showing Federal income tax withheld or if Federal income tax was withheld from your unemployment compensation or Alaska Permanent Fund dividends.

Remember, you must report all wages, salaries, and tips even if you do not get a Form W-2 from your employer. You must also report all your taxable interest, including interest from banks, savings and loans, credit unions, etc., even if you do not get a Form 1099-INT.

Worksheet for dependents who checked "Yes" on line 5

(keep a copy for your records)

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married filing jointly) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, use TeleTax topic 354 (see page 8).

A. Amount, if any, from line 1 on front 2694		
+ 250.00 Enter total ►	A	2944
B. Minimum standard deduction		750.00
C. Enter the larger of line A or line B here	C	2944
D. Maximum standard deduction. If single , enter \$4,750; if married filing jointly , enter \$9,500	D	4750
E. Enter the smaller of line C or line D here. This is your standard deduction	E	2944
F. Exemption amount.	1	
• If single, enter -0		_
 If married filing jointly and— 	F.	0
—both you and your spouse can be claimed as dependents, enter -0		
—only one of you can be claimed as a dependent, enter \$3,050.	J	
C. Add Park Front F. Enter the total hours and an Park Front the forest	, _C	2944

G. Add lines E and F. Enter the total here and on line 5 on the front. G. S94

If you checked "No" on line 5 because no one can claim you (or your spouse if married filing jointly) as a dependent, enter on line 5 the amount shown below that applies to you.

- Single, enter \$7,800. This is the total of your standard deduction (\$4,750) and your exemption (\$3,050).
- Married filing jointly, enter \$15,600. This is the total of your standard deduction (\$9,500), your exemption (\$3,050), and your spouse's exemption (\$3,050).

Mailing return

Mail your return by April 15, 2004. Use the envelope that came with your booklet. If you do not have that envelope or if you moved during the year, see the back cover for the address to use.

Printed on recycled paper

Form **1040EZ** (2003)

Answers To Problems

Comprehensive Problem 2

		Department of the Treasur	y—Internal Revenue Serv	ice					
1040EZ		Income Tax Ro			2003			OMB No. 1545	5-0675
		Your first name and initial		name			Your soci	al security numb	
Label	L L	Melody	Yo	rk			xxx	xx xxxx	
(See page 14.)	A B	If a joint return, spouse's first	name and initial Last	name			Spouse's	social security nu	ımber
Use the IRS label.	E	Hanna addina da farinali ar and a	base N. H			1 4-4	i	i	
Otherwise,	H	Home address (number and s 17 North 9th	· ·	ox, see page 14.		Apt. no.	▲ Im	portant!	! ▲
please print or type.	R	City, town or post office, state		a foreign address, s	ee page 14.			nust enter yo	
	E	Your City, S	tate. Zip Co	ode			SS	SN(s) above.	
Presidential Election	Ш						You	Spouse	e
Campaign (page 14)		Note. Checking "Yes" v Do you, or your spouse					Yes	□No □Yes	□No
Income	1	Wages, salaries, and Attach your Form(s)		shown in box 1	of your Form(s)	W-2.	1	6,923	.00
Attach Form(s) W-2		2 Taxable interest. If the	ne total is over \$1,50	0, you cannot u	se Form 1040EZ.		2		
here. Enclose, but	3	3 Unemployment comp	ensation and Alaska	a Permanent Fu	nd dividends				
do not attach, any payment.		(see page 16).			\sim		3	3,240	00
,	4	Add lines 1, 2, and 3	This is your adius	sted gross incor	ne.		4	10,163	00
	-5						•	,	
Note. You must check }		Yes. Enter amount	from No.	If single, e	nter \$7,800.	015 600			
Yes or No.		worksheet on	back.		filing jointly, enter r explanation.	er \$15,600.	5	7,800	
	-	Subtract line 5 from	line 4 If line 5 is la					7,000	100
	`	This is your taxable		arger than line	, cilier o	<u> </u>	6	2,363	.00
Payments	_				C,,		_	2.61	
and tax	_7	Federal income tax v	withheld from box 2	of your Form(s) W-2.		7	261	.00
	8	B Earned income cree	lit (EIC).				8	81	.00
	_	A 1111 7 10 T	Mic				9	342	.00
	10	Add lines 7 and 8. T Tax. Use the amoun		•	the tay table on t	nogos.	9	742	100
	10	25–29 of the booklet				Jages	10	236	00
Refund		****	1 10 1 1		0 577			106	.00
Have it directly deposited! See	11	a If line 9 is larger tha	n line 10, subtract li	ine 10 from line	9. This is your re	efund.	11a	100	100
page 21 and fill	>	b Routing number	$\mathbf{x} \mathbf{x} \mathbf{x} \mathbf{x} \mathbf{x} \mathbf{x}$	x x x ▶ c	Type: Checkin	ng 🗶 Savings			
in 11b, 11c, and 11d.		d Assayat ayaabaa	xxxxxx	xxxxx		1			
A		d Account number			0 TEL: :				
Amount you owe	12	If line 10 is larger the the amount you owe				<u> </u>	12		
Third party	Do	you want to allow anot	her person to discus	s this return wit	n the IRS (see page	e 22)? L Ye s	s. Complete	the following.	X No
designee		signee's me ▶		Phone no. ► ()	Personal ide number (PIN			
Sign	Un	der penalties of perjury, I de curately lists all amounts and		ined this return, ar		knowledge and be	elief, it is true,		
here	on	all information of which the	preparer has any know	rledge.	Your occupation	proparor (Utilet I		ne phone numbe	or
Joint return? See page 13.	10	ur signature		Date	Your occupation		Dayur	ne priorie numbe	er er
Keep a copy	\overline{Sp}	ouse's signature. If a joint r	eturn. both must sign.	Date	Spouse's occupat	ion			
for your records.	7	<u> </u>	,						
Paid		eparer's		·	Date	Check if	_ '	r's SSN or PTIN	
preparer's	_	nature				self-employed _	<u> </u>	Pxx-xx-xxx	X
use only	yo	m's name (or urs if self-employed),				Phone no.	<u> </u>		
	ad	dress, and ZIP code				rnone no.	()		

Wage Earner Comprehensive

PROBLEMS

Answers To Problems

Form 1040EZ, Earned Income Credit Worksheet, line 8, page 1

Form 1040EZ—Line 8

Line 8 Earned Income Credit (EIC)

What Is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.



If you have a qualifying child (see the next column on this page), you may be able to take the credit, but you must use Schedule EIC and Form 1040A or 1040 to do so. For details, see Pub. 596.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet on page 19 or let the IRS figure the credit for you.



If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you

are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1

All Filers

1. Is the amount on Form 1040EZ, line 4, less than \$11,230 (\$12,230 if married filing jointly)?





You cannot take the credit.

Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 18)?





You cannot take the credit. Enter "No" in the space to the left of line 8.

Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return?

☐ Yes. (STOP)

X No. Continue



You cannot take the credit.

Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?

X Yes. Go to question \(\subseteq \text{No. (STOP)} \)

You cannot take the credit.

Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2003? Members of the military stationed outside the United States, see page 18 before you answer.

X Yes. Continue



☐ No. (STOP)

You cannot take the credit. Enter "No" in the space to the left of line 8.

6. Look at the qualifying child conditions below. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2003?

☐ Yes. (STOP)

You cannot take the credit. Enter "No" in the space to the left of line 8.

X No. Go to Step 2 on page 18.



A qualifying child is a child who is your—

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendent of any of them (for example, your niece or nephew) whom you cared for as your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as your own child)



was at the end of 2003... Under age 19

under age 24 and a student

any age and permanently and totally disabled

who...

Either lived with you in the United States for more than half of 2003 or was born or died in 2003 and your home was the child's home for the entire time he or she was alive in 2003.

Note. Special rules apply if the child was married or also meets the conditions to be a qualifying child of another person (other than your spouse if filing a joint return). For details, use TeleTax topic 601 (see page 8) or see Pub. 596.

Answers To Problems

Form 1040EZ, Earned Income Credit Worksheet, line 8, page 2

Form 1040EZ—Line 8	
Step 2 Earned Income	Definitions and Special Rules
Otep 2	(listed in alphabetical order)
1. Figure earned income:	Credit Figured by the IRS To have the IRS figure the credit for you:
Form 1040EZ, line 1 6,923	1. Enter "EIC" in the space to the left of line 8 on Form
Subtract, if included in line 1, any:	1040EZ.
Taxable scholarship or fellowship grant not reported on a Form W-2	2. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.
Amount paid to an inmate in a penal institution for work (enter "PRI" in the space to the left of line 1 on Form 1040EZ)	Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.
Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongoverntmental section 457 plan (enter "DFC" and the amount subtracted in the space to the left of line 1 on Form 1040EZ). This	 After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error. The only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.
amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the	Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.
amount received as a pension or annuity. Earned Income = 6,923	Members of the Military. If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.
2. Is your earned income less than \$11,230 (\$12,230 if married filing jointly)? ☑ Yes. Go to Step 3. □ No. STOP You cannot take the credit.	Social Security Number (SSN). For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless "Not Valid for Employment" is printed on the social security card and the number was issued solely to apply for or receive a Federally funded benefit.
Step 3 How To Figure the Credit	To find out how to get an SSN, see page 14. If you will not have an SSN by April 15, 2004, see What if You Cannot File on Time? on page 11.
1. Do you want the IRS to figure the credit for you? Yes. See Credit Figured by the IRS on on page 19. this page.	Welfare Benefits, Effect of Credit on. Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility. • Temporary Assistance for Needy Families (TANF). • Medicaid and supplemental security income (SSI). • Food stamps and low-income housing.

WAGE EARNER COMPREHENSIVE PROBLEMS Answer



Form 1040EZ, Earned Income Credit Worksheet, line 8, page 3

	Form 1040EZ—Line 8
Earned Income	Credit (EIC) Worksheet—Line 8 Keep for Your Records
Part 1	1. Enter your earned income from Step 2 on page 18. 1 6,923
	2. Look up the amount on line 1 above in the EIC Table on page 20 to find the credit. Be sure you use the correct column for your filing status. Enter the credit here.
	If line 2 is zero, You cannot take the credit. Enter "No" in the space to the left of line 8.
	3. Enter the amount from Form 1040EZ, line 4. 3 10,163
	4. Are the amounts on lines 3 and 1 the same? \[\sum \text{Yes. Skip line 5; enter the amount from line 2 on line 6.}}\]
	■ No. Go to line 5.
Part 2 Filers Who	5. Is the amount on line 3 less than \$6,250 (\$7,250 if married filing jointly)? \[\textstyle \text{Yes. Leave line 5 blank; enter the amount from line 2 on line 6.} \]
Answered "No" on Line 4	No. Look up the amount on line 3 in the EIC Table on page 20 to find the credit. Be sure you use the correct column for your filing status. Enter the credit here.
	Look at the amounts on lines 5 and 2. Then, enter the smaller amount on line 6.
Part 3 Your Earned Income Credit	6. This is your earned income credit. Enter this amount on Form 1040EZ, line 8.
	If your EIC for a year after 1996 was reduced or disallowed, see page 18 to find out if you must file Form 8862 to take the credit for 2003.

Answers To Problems

Comprehensive Problem 3

·												
Form	Dep	partment of the Treasur	y—Internal Reven	ue Service								
1040A	U.	S. Individual	Income T	ax Ret	urn	(99)	200)3 IRS Us	e Only-	–Do not writ	e or staple in this s	space.
Label	Y	our first name and initial		Last name	Э				`\		MB No. 1545-008	
(See page 21.)	1									Your so	ocial security numb	ber
A B		arvin		Simmo					2	; —	xx xxxx	
Use the	If	a joint return, spouse's firs	t name and initial	Last name	9			,	36	Spouse'	s social security nu	ımber
IRS label.	-	ome address (number and	street) If you have a	P.O. box. sor	nage 3	22		Apt. r			<u> </u>	
Otherwise, E	97	01 Austin Rd		1 .O. DOX, See	page 2	.2.		Apt. 1	ю.	▲ lı	mportant!	! A
please print or type.		ity, town or post office, sta	te, and ZIP code. If y	ou have a for	eign add	dress, see pag	ge 22.				must enter yo	
	Yo	ur City, Sta	te, Zip Co	ode							SSN(s) above.	
Presidential										You	ı Spous	
Election Campaign		Note. Checking "Y										_
(See page 22.)		Do you, or your sp	ouse if filing a jo	oint return,	want	\$3 to go 1	_					
Filing	1	= - 3 -				``	4 X	Head of househ	old (wit	h qualifying	person). (See pag	je 23.)
status	2		ointly (even if or					enter this child's			out not your deper	ident,
Check only one box.	3	full name here	eparately. Enter	spouse s	SSIN	above and	5 🔲			_	ent child (See page	e 24.)
Exemptions	6	a 🗷 Yourself.		nt (or so	meoi	ne else)				<u> </u>	No. of boxes	
Exemptions								not check		Sa.	checked on 6a and 6b	_1_
	`	b Spouse							1. n. l.	<u> </u>	No. of children	
		c Dependents	1 24	(2) De	oender	nt's social		Dependent's		f qualifying I for child	on 6c who: Iived with	1
		(1) First name	Last name	sec	urity n	umber	rei	ationship to you		redit (see	you	
If more than six dependents,		ric s	Simmons	xxx	xx	xxxx	Gra	ndson	μc	age 25)	 did not live with you due 	
see page 24.	151		THINOIS	AAA		;	Gra	1105011			to divorce or separation	
	-	10)			:	1 1 1					(see page 26)	
						1					Dependents	
					}	! !					on 6c not entered above	
					1	!					A alal	
		d Total number	of evemption	ne claim	had						Add numbers on lines	2
Income		u lotal hambel	or exemptio	iis Ciaiii	eu.						above	一
	7	Wages, salar	es, tips, etc.	Attach	Form	n(s) W-2.				7	24,952	00
Attach Form(s) W-2		7 Wages, salaries, tips, etc. Attach Form(s) W-2. 7 24,952 00										
here. Also	8								8a			
attach	_	b Tax-exempt interest. Do not include on line 8a. 8b										
Form(s) 1099-R if tax	9	9a Ordinary dividends. Attach Schedule 1 if required.						9a		_		
was withheld.	10	b Qualified dividends (see page XX). 9b 10a Capital gain distributions (see page 27).						— 10a				
If you did not		b Post-May 5 ca					10b)		IUa		
get a W-2, see	11	a IRA	J					Taxable amo	ount			
page 27.		distributions.	11a					(see page 2	7).	11b		
Enclose, but do not attach, any	12	a Pensions and	i				12b	Taxable amo	ount			
payment.		annuities.	12a					(see page 2	8).	12b		
	10	Linomployma	nt compone	tion on	4 Ala	aka Darr	2000	at Eunal divis	londo	10		
	13	 Unemployme Social securi 	· ·	ation and	Ala			Taxable amo		. 13		
		benefits.	14a				טדו	(see page 3		14b		
	_							(-,-			
	15					n). This is	s your	total incom	е.	▶ 15	24,952	00
Adjusted	16				•		16					
gross	17				oc :-	200 00/	17					
income	18			•		· ,	18 19					
	19 20							stments		— 20	0	00
		7.66 111100 10	ougii 10.	a	. J y J	iJiai	Jujuc					
	21	Subtract line	20 from line	15. This	is y	our adju	sted	gross incon	ne.	▶ 21	24,952	00
For Disclosure,	Priva	cy Act, and Pape	rwork Reduc	tion Act	Notic	e, see p	age 5	7. Cat. 1	No. 113	27A	Form 1040A	(2003)

Wage Earner Comprehensive

PROBLEMS

Answers To Problems

Comprehensive Problem 3

Form 1040A	(2003			Pa	age 2
Tax,	22	Enter the amount from line 21 (adjusted gross income).	22	24,952	.00
credits,			7		
and	23a	Check			
payments	.	if:	╛		
Standard	b	deductions, see page 34 and check here	ı		I
Deduction for—	24	Enter your standard deduction (see left margin).	<u>-</u> 24	7,000	00
People who	25	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0	25	17,952	00
checked any box on line	26	Multiply \$3,050 by the total number of exemptions claimed on line 6d.	26	6,100	00
23a or 23b or	27	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0			
who can be claimed as a		This is your taxable income.	27	11,852	
dependent,	28_	Tax, including any alternative minimum tax (see page 35).	28	1,281	00
see page 34.All others:	29	Credit for child and dependent care expenses. Attach Schedule 2. 29 293 00	,		
Single or	30	Credit for the elderly or the disabled. Attach	_		
Married filing separately,		Schedule 3.			
\$4,750	31	Education credits. Attach Form 8863.	_		
Married filing	32	Retirement savings contributions credit. Attach			
jointly or Qualifying		Form 8880. 32	_		
widow(er), \$9,500	33	Child tax credit (see page 38). 33 600 00	_		
Head of	34 35	Adoption credit. Attach Form 8839. 34 Add lines 29 through 34. These are your total credits.	- 35	893	00
household, \$7,000	36	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0	36	388	00
\$7,000	37	Advance earned income credit payments from Form(s) W-2.	37	600	
	38	Add lines 36 and 37. This is your total tax.	38	988	00
	39	Federal income tax withheld from Forms W-2			
		and 1099. 39 1,964.00	_		
(K h	40	2003 estimated tax payments and amount			
If you have a qualifying	L	applied from 2002 return. 40 Earned income credit (EIC). 41 750 00	_		
child, attach Schedule	41 42	Earned income credit (EIC). 41 750 00 Additional child tax credit. Attach Form 8812. 42	_		
EIC.	43	Add lines 39 through 42. These are your total payments.	43	2,714	00
Refund	44	If line 43 is more than line 38, subtract line 38 from line 43.			
riciana		This is the amount you overpaid.	44	1,726	.00
Direct deposit?	45a	Amount of line 44 you want refunded to you.	45a	1,726.	00
See page 52 and fill in	▶ b	Routing number			
45b, 45c, and 45d.	▶ d	Account			
and 45u.	40	number L	_		
	46	Amount of line 44 you want applied to your 2004 estimated tax. 46	_		
Amount	47	Amount you owe. Subtract line 43 from line 38. For details on how			
you owe	10	1 7/ 1 8	47		
	48	Estimated tax penalty (see page 53). 48 Do you want to allow another person to discuss this return with the IRS (see page 54)? Yes.	Comr	loto the following	✓ No
Third party	'	, , , , –		•	M INO
designee		Designee's Phone Personal ide name ▶ () number (PIN		ion	
Sign	l I	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statemen Inowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received durin	nts, and	to the best of my	
here	(of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.	-	•	
Joint return?	\ '	/our signature Date Your occupation		Daytime phone number	r
See page 22. Keep a copy	D -	// mechanic Spouse's signature. If a joint return, both must sign. Date Spouse's occupation			
for your records.	/	Spouse's signature. If a joint return, both must sign. Date Spouse's occupation			
	r	Date Date	Pre	parer's SSN or PTIN	<u> </u>
Paid		Check if self-employed		Pxx-xx-xxxx	
preparer's		Firm's name (or ours if self-employed),			
use only		ours it seit-employed, iddress, and ZIP code Phone no.	()	
		❸		Form 1040A (2	2003)

WAGE EARNER COMPREHENSIVE PROBLEMS ANSWER

Answers To Problems

Schedule 2 Form 1040A)	Ch	rtment of the Treasury—Interrill and Depende benses for Form	nt Care	20	03			OMB No. 1548	5-008
lame(s) shown on Form	n 1040							security number	
Refore you be	ain: `	Marvin Simmo You need to understar		ms See De	finitions	on page 1 d		XX : XXXX	16
		Benefits • Qualifyi				• Earned			
Part I	1	(a) Care provider's name	-	e, and ZIP cod		(c) Ident number (SS		(d) Amount pa (see instruction	
Persons or organizations who provided he care	<u>Joy</u>	y Day Care	9192 East H Your City, St		de	xx-xxx	xxxx	978	
ou must		(If you need more sp	pace, use the bott	om of page	2.)				
omplete this art.		Did you recei dependent care b		- No		Complete onl Complete Pa	•		
		Caution. If the care must use Form 1040). See Schedule	H and its ins	struction	s for details			
Part II	2	Information about you the instructions.	our qualifying pe i	rson(s). If yo	ou have	more than t	wo qualif		
Credit for child and dependent care expenses		(a) Qualifyi First	ng person's name	2		alifying person security number		(c) Qualified expo you incurred and in 2003 for the po- listed in column	paid erso
		Eric	Simm	ons	x	xx xx x	xxx	978	
		Add the amounts in	column (c) of line	2 Do not 6	enter mo	ore than			
	_	\$3,000 for one quali If you completed Pa	fying person or \$6	6,000 for two	o or moi		3	978	
		Enter your earned in					4	24,952	
	5	If married filing jointl spouse was a stude others, enter the an	nt or was disable				5	24,952	
	6	Enter the smallest of	of line 3, 4, or 5.				6	978	
		Enter the amount from			7	24,952			
	8	Enter on line 8 the camount on line 7. If line 7 is:	ecimal amount st	own below		olies to the			
		But not Over over	Decimal amount is		But not over	Decimal amount i	s		
		\$0—15,000 15,000—17,000 17,000—19,000 19,000—21,000 21,000—23,000 23,000—25,000	.35 .34 .33 .32 .31 .30	\$29,000—31,000—33,000—35,000—37,000—39,000—4	33,000 35,000 37,000 39,000	.27 .26 .25 .24 .23 .22			
		25,000—27,000 27,000—29,000	.29 .28	41,000—4 43,000—1	No limit	.21	8	× .	30
	9	Multiply line 6 by the expenses in 2003, s			t you pa	id 2002	9	293	
		Enter the amount fro			Entor #4	o omeller	10	1,281	
	17	Credit for child and of line 9 or line 10 h				ie smaller	11	293	

Wage Earner Comprehensive Problems Answer



Form 1040A, Child Tax Credit Worksheet, line 33

Child Tax Credit Worksheet—Line 33

Keep for Your Records

Before you begin: √ If you received (before offset) an advance payment of the child tax credit and you filed a joint return for 2002, you and your spouse are each considered to have received one-half of the payment.





If you received Notice 1319, have it available. The notice shows the amount of your advance payment (before offset). If you do not have Notice 1319, you can check the amount of your advance payment (before offset) on the IRS website at www.irs.gov. You will need to enter your SSN, your 2002 filing status, and the total number of exemptions you claimed on line 6d of your 2002 Form 1040 or Form 1040A.



To be a qualifying child for the child tax credit, the child must be under age 17 at the end of 2003 and meet the other requirements listed on page 38.

• Do not use the	nis worksheet if you answered "Yes" to question 1 or 2 on page 38. Instead, use Pub. 972.
1.	Number of qualifying children: $1 \times 1,000$. I 1000
2.	Enter the amount, if any, of your advance child tax credit (before offset).
3.	Yes. STOP You cannot take this credit. If line 2 is more than
	line 1, you do not have to pay back the difference. No. Subtract line 2 from line 1.
4.	Enter the amount from Form 1040A, line 28.
5.	Add the amounts from Form 1040A, lines 29 through 32.
6.	Are the amounts on lines 4 and 5 the same? Yes. STOP You cannot take this credit because there is no tax to reduce. However, you may be able to take the additional child tax credit. See the TIP below.
	No. Subtract line 5 from line 4.
7.	☐ Yes. Enter the amount from line 6. Also, you may be able to take the
	additional child tax credit. See the TIP below. This is your child tax credit. Enter this amount on Form 1040A, line 33.
	You may be able to take the additional child tax credit on Form 1040A, line 42, if you answered "Yes" on line 6 or line 7 above.
	• First, complete your Form 1040A through line 41.
	 Then, use Form 8812 to figure any additional child tax credit.

Wage Earner Comprehensive

PROBLEMS

Answers To Problems

Form 1040A, Earned Income Credit Worksheet, line 41, page 1

Line 41— **Earned Income Credit (EIC)**

What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you **or** let the IRS figure the credit for you.
- If you have a qualifying child, complete and attached Schedule EIC.



If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you

are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

All Filers Step 1

- 1. If, in 2003:
 - 2 children lived with you, is the amount on Form 1040A, line 22, less than \$33,692 (\$34,692 if married filing jointly)?
 - 1 child lived with you, is the amount on Form 1040A, line 22, less than \$29,666 (\$30,666 if married filing jointly)?
 - No children live with you, is the amount on Form 1040A, line 22, less than \$11,230 (\$12,230 if married filing jointly)?





You cannot take the credit.

- Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?
 - 🔀 Yes. Continue 🦱



☐ No. (STOP)

You cannot take the credit. Put "No" to the left of the entry space for line 41.

3. Is you filing status married filing separately?

X No. Continue



You cannot take the credit.

- Were you a nonresident alien for any part of 2003?
 - ☐ Yes. See Nonresident ☒ No. Go to Step 2. aliens on page 42.

Step 2 **Investment Income**

1. Add the amounts from Form 1040A:

Line 8a Line 8b Line 9a Line 10a +

2. Is your investment income more than \$2,600?

Yes. (STOP)

X No. Continue

Investment Income =



0

You cannot take the credit.

- 3. Did a child live with you in 2003?
 - ▼ Yes. Go to Step 3 on □ No. Go to Step 4 on page 40.

Wage Earner Comprehensive Problems Answer

Answers To Problems

	Form 1040A, Earned Income Credit Worksheet, line 41, page
Form 1040A—Line 41	
Step 3 Qualifying Child	3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2003?
A qualifying child is a child who is your	☐ Yes. See Qualifying Child of More Than One Person on page 42. ■ No. This child is your qualifying child. The child must have a valid social security number as defined
Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild) or	on page 42 unless the child was born and died in 2003. Skip Step 4; go to Step 5 on page 41.
Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child	f
Foster child (any child placed with you by an authorized placement agency whom you cared for as you would you own child)	
AND	You cannot take the credit. Put "No" to the left of the entry space for line 41.
was at the end of 2003 Under age 19	2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2003 tax return?
or	☐ Yes. (STOP) ☐ No. Continue
Under age 24 and a student (see page 42) or	You cannot take the credit.
Any age and permanently and totally disabled (see page 4	Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2003?
AND	☐ Yes. Continue ☐ No. (STOP)
	You cannot take the credit.
who Lived with you in the United States for more than half of 2003. If the child did not live with you for the	before you answer.
required time, see Exception to "Time Lived With You" Condition on page 41.	Yes. Go to Step 5 on No. (STOP)
Note. If the child was married, see page 42.	page 41. You cannot take the credit. Put "No" to the left of the
1. Look at the qualifying child conditions above. Could you, your spouse if filing a joint return, be a qualifying child canother person in 2003?	
☐ Yes. STOP ☑ No. Continue 🔁	
You cannot take the credit. Put "No" to the	
left of the entry space for line 41.	
2. Do you have at least one child who meets the above conditions to be your qualifying child?	
■ Yes. Go to question □ No. Skip question 3; go Step 4, question 2.	o to

WAGE EARNER COMPREHENSIVE PROBLEMS ANSWE

Answers To Problems

Form 1040A, Earned Income Credit Worksheet, line 41, page 3

Step 5 Earned Income

1. Figure earned income:

Form 1040, line 7

24,952

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Earned Income =

24,952

- 2. If you have:
 - 2 or more qualifying children, is your earned income less than \$33,692 (\$34,692 if married filing jointly)?
 - 1 qualifying child, is your earned income less than \$29,666 (\$30,666 if married filing jointly)?
 - No qualifying children, is your earned income less than \$11,230 (\$12,230 if married filing jointly)?

X Yes. Go to Step 6.

You cannot take the credit.

Step 6 How To Figure the Credit

- 1. Do you want the IRS to figure the credit for you?
 - ☐ **Yes.** See Credit Figured by the IRS below.
- No. Go to the worksheet on page 43.

Definitions and Special Rules

(listed in alphabetical order)

Adopted Child. An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

Credit Figured by the IRS. To have the IRS figure the credit for you:

- 1. Put "EIC" to the left of the entry space for line 41 of Form 1040A.
- **2.** If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to "Time Lived With You" Condition. A child is considered to have lived with you for all of 2003 if the child was born or died in 2003 and your home was this child's home for the entire time he or she was alive in 2003. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military on page 42.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

- After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
- You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

Wage Earner Comprehensive

PROBLEMS

Answers To Problems

Form 1040A EIC Worksheet

Earned Income	Credit (EIC) Worksheet—Line 41 Keep for	Your Records
Part 1 All Filers	1. Enter your earned income from Step 5 on page 43.	
	2. Look up the amount on line 1 above in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.	2 750
	If line 2 is zero, You cannot take the credit. Put "No" to the left of the entry space for line 41.	
	3. Enter the amount from Form 1040A, line 22. 3 24,952	
	4. Are the amounts on lines 3 and 1 the same? X Yes. Skip line 5; enter the amount from line 2 on line 6.	
	□ No. Go to line 5.	
Part 2 Filers Who Answered "No" on	 5. If you have: No qualifying children, is the amount on line 3 less than \$6,250 (\$7,250 if married filing jointly)? 1 or more qualifying children, is the amount on line 3 less than \$13,750 (\$14,750 if married filing jointly)? ☐ Yes. Leave line 5 blank; enter the amount from line 2 on line 6. 	
Line 4	□ No. Look up the amount on line 3 in the EIC Table on pages 46–51 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.	5
	Look at the amounts on lines 5 and 2. Then, enter the smaller amount on line 6.	
Part 3	6. This is your earned income credit.	6 750
Your Earned Income Credit		Conter this amount on Form 1040A, line 41.
	If your EIC for a year after 1996 was reduced or disallowed, see page 43 to find out if you must file Form 8862 to take the credit for 2003.	

WAGE EARNER COMPREHENSIVE PROBLEMS ANSW.

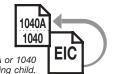
Answers To Problems

Schedule EIC

SCHEDULE EIC (Form 1040A or 1040)

Earned Income Credit

Qualifying Child Information



OMB No. 1545-0074

Department of the Treasury Internal Revenue Service Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

Attachment Sequence No. **43**

Name(s) shown on return

Marvin Simmons

Administration at 1-800-772-1213.

Your social security number XXX XXX XXXX

Schedule EIC (Form 1040A or 1040) 2003

Before you begin:

See the instructions for Form 1040A, line 41, or Form 1040, line 63, to make sure that (a) you can take the EIC and (b) you have a qualifying child.



- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
 It will take us longer to process your return and issue your refund if you do not fill in all lines that apply
- for each qualifying child.
 Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your

EIC. If the name or SSN on the child's social security card is not correct, call the Social Security

Q	ualifying Child Information	С	hild 1	Child 2		
1	Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name Eric	Simmons	First name	Last name	
2	Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2003. If your child was born and died in 2003 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	2 1 xxx x	chang			
	Next, if the child was born after 1984, go	to line 4. Othe	erwise, continue.			
_	If the child was born before 1985— Was the child under age 24 at the end of 2003 and a student?	Yes. Go to line 4.	No. Continue	Yes. Go to line 4.	No. Continue	
k	Was the child permanently and totally disabled during any part of 2003?	Yes. Continue	No. The child is not a qualifying child.	Yes. Continue	No. The child is not a qualifying child.	
4	Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)	Grai	ndchild			
5	Number of months child lived with you in the United States during 2003					
	• If the child lived with you for more than half of 2003 but less than 7 months, enter "7".		12 months			
	• If the child was born or died in 2003 and your home was the child's home for the entire time he or she was alive during 2003, enter "12".	Do not enter m	months ore than 12 months.	Do not enter n	months nore than 12 months.	

Cat. No. 13339M

or 1040 instructions.

For Paperwork Reduction Act Notice, see Form 1040A

SALE OF STOCK

OBJECTIVES

After completing this lesson you should be able to:

- Identify the items that affect the basis of a stock.
- Determine if a stock's holding period is long term or short term.
- Determine when and how to report commissions from sale of stock on Schedule D.
- Calculate the amount of the qualified 5-year gain (On transactions concluded before May 6, 2003.).
- Calculate the taxable gain or deductible loss using Schedule D.
- Calculate the tax liability using Part IV of Schedule D.
- Calculate the amount of capital loss carryover using the capital loss carryover worksheet.

What You Will Need

In order for you to complete Schedule D, the taxpayer will need to show you his or her records, including information returns he or she receives that are also forwarded to IRS.

- Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions*, which the broker gives the taxpayer to report the sale price of stock.
- The taxpayer's records of his or her basis in the stock sold. Basis is explained in this lesson.
- The taxpayer's records of the date he or she originally acquired the stock.
- Form 1099-DIV, *Dividends and Distributions*, if the taxpayer received capital gain distributions (for example, from a mutual fund).
- The taxpayer's *Capital Loss Carryover Worksheet* from last year's Schedule D instructions if the taxpayer is carrying over a loss to 2003.

The Internal Revenue Service (IRS) receives copies of Form 1099-B from the broker and copies of Form 1099-DIV from the payer. The taxpayer should not file these items with the return, but keep them with his or her records.

The Jobs and Growth Tax Relief Reconcilliation Act of 2003 reduced the 10% and 20% captial gains rates to 5% and 15% for capital gains realized on or after May 6, 2003. For tax year 2003 only the Schedule D will have a column (G) which requires an entry for capital gains transactions after May 5, 2003. The net effect of this law is that taxpayers may have two different tax rates for capital gains transactions in 2003. The key to successful completion of the form and calculation of the correct tax is to follow the Schedule D line requests for information very carefully.

Capital Asset

A **capital asset** is any asset held either for personal use or for investment. Thus, all your items of personal property, such as your home and car, are capital assets. Property held for investment includes stocks and bonds. Property used in a trade or business, such as inventory or machinery, is not a capital asset.

In this lesson, corporate stock is the only capital asset discussed. **Capital gain distributions** are also discussed. They are recognized when the entity (such as a mutual fund) that owned a capital asset disposes of it and passes gain through to its shareholders. The discussion of capital gain distributions in this lesson supplements what you previously learned in Lesson 2.

Capital Gains Distribution (Only)

The Schedule D generally is not needed for taxpayers who received capital gain distributions from mutual funds but did not sell any shares of stock and do not have any Forms 1099-B as explained in Lesson 2, Income. Instead, report the total capital gain distribution on Form 1040, line 13a, or on Form 1040A, line 10a. If the taxpayer must file Form 1040, remember to check the box next to line 13 of Form 1040 to indicate that Schedule D is not required. If the taxpayer sold stocks, he or she must file Form 1040 and cannot report capital gain distributions on Form 1040A.

Basis

The **basis** of property is usually its cost. Certain additional costs relating to its purchase are included in the basis of a capital asset. An example of an expense to include in the basis of stock is the commission or fee paid to a broker when stock is purchased.

If the taxpayer is not able to provide his or her basis in the property, the IRS will deem it to be zero. The taxpayer should make every effort to determine the basis. Refer taxpayers to their stockbroker or financial planner for assistance in determining basis. Once the taxpayer has the basis, volunteers may assist in preparing the tax return.

Adjusted Basis

Events after purchase can require adjustments to the basis of stock. The term **adjusted basis** refers to the basis after changes are made. For example, when a stock dividend or stock split is declared, the stockholder receives additional shares of stock. Some of the basis from the original stock is then allocated to the new stock. This change reduces the basis per share of the original shares.

Example 1

Fran paid \$1,100 for 100 shares of ABC, Inc. stock (including the broker's commission of \$25). Fran received 10 additional shares of ABC stock as a tax-free stock dividend. Her \$1,100 basis must be spread over 110 shares (100 original shares plus the 10-share stock dividend). Her basis per share decreases from \$11 to \$10 per share.

Holding Period

Long-term or short-term. Capital gains and losses are classified as either "long-term" or "short-term," depending on how long the taxpayer owned the stock. Stock held for more than one year (12 months) has a long-term holding period. Stock held for one year or less has a short-term holding period.

Example 2

Loretta bought stock on January 11, 2002 (trade date). Her holding period began the next day, January 12. If she sells that stock on January 11, 2003, she will not have owned them for more than a year. The holding period will be short-term. However, if she sells the stock on January 12, 2003, or later, the holding period will be long-term.

Blocks. Frequently, a taxpayer owns shares of stock that were bought on different dates or for different prices. That is, the individual owns more than one block of stock. Each block may differ from the others in its holding period (long-term or short-term), its basis (amount paid for the stock), or both.

In directing a broker to sell stock, the taxpayer may specify which block, or part of a block, to sell. Specification can make a difference in determining the holding period or basis of the stock sold, giving the taxpayer an element of control and versatility in handling an investment. To be valid, any such specification must be made before or at the time of sale. It cannot be made after the sale. If the taxpayer does not identify the specific block at the time of sale, shares sold are treated as coming from the earliest block purchased.

TAX TIPS

* * * * * * * * *

To find out how long the taxpayer has held the stocks, begin counting

on the day after the day he or she bought the shares of stock and include the day the shares were sold. This sale trade date is part of the holding period.

POTENTIAL PITFALLS

Stock splits and stock dividends do not occur often. However, do not assume that they never happen. Ask taxpayers if they received any additional shares from a stock split or stock dividend.

Example 3

In 1996, Tina bought 100 shares of Acme Corporation stock for \$2,000. In 1997 she bought another 100 shares of Acme for \$2,300. In 2003, Tina sold 100 shares of Acme for \$3,000.

The adjusted basis of the shares sold is \$2,000. However, if Tina had told her broker to sell the 100 shares bought in 1997, the adjusted basis of the shares sold would have been \$2,300, reducing her profit (and any taxable amount) on the sale.

Tax-free stock dividends and stock splits. Stock acquired in a tax-free stock dividend or stock split has the same holding period as the original stock owned. Thus, if the original stock has a long-term holding period, stock received in a tax-free stock dividend also has a long-term holding period. Similarly, if the original stock has a holding period of three months, the new stock immediately has a three-month holding period.

POTENTIAL PITEALS



Shares from a stock dividend may or may not have the same holding period as the original shares.

Example 4

On February 18, 1999, Wallace bought 500 shares of XYZ Corporation stock for \$1,500, including his broker's commission. XYZ distributed a two-percent stock dividend on April 6, 2003. On April 9, 2003, Wallace sold all his XYZ stock for \$2,030. He has a long-term capital gain of \$530 on the sale of his stock. Although he owned the 10 shares he received as a tax-free stock dividend for only three days, all the stock has a long-term holding period.

Taxable dividends. There are several types of taxable dividends, as discussed in Lesson 2. A taxpayer who participates in a dividend reinvestment plan (one type of taxable dividend) will use the dividends to purchase more shares of the stock. The stocks acquired (including fractional shares) through the dividend reinvestment plan are added to the taxpayer's basis at fair market value on the date of distribution. Thus, the new shares of stock do not always have the same holding period as the original stock. If the taxpayer does not know their basis refer them to their stockbroker or financial planner.

Demutualization

Some taxpayers have been informed by their insurance company that the company has been demutualized. When this happens the policy holder receives either a block of stock or the cash equivalent of company stock. The holding period for such stock is the length of time the policy has been in effect, usually many years. The basis for this stock is zero. The taxpayer must report all of the proceeds as a capital gain, usually long term.

Wash Sales

Generally, a **wash sale** occurs when stock is sold and, within 30 days before or after the sale, substantially identical stock is bought. A loss on a wash sale is not deductible, and special rules relate to the basis of the replacement stock. However, a gain on a wash sale must be reported. Any taxpayer with a wash sale should be referred to a paid professional tax preparer.

Sales Price, Form 1099-B, and Adjusted Basis

The stockbroker reports **sales price** to the Internal Revenue Service in box 2 of Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions* (see Exhibit 1). Some brokers do not subtract commissions and fees; they report the **gross proceeds** as the sales price. Other brokers do subtract commissions and fees, reporting the **gross proceeds less commissions** (referred to as *net proceeds* in this lesson) as the sales price. The broker checks the appropriate square at the right of box 2 to indicate whether the gross or net proceeds were reported to IRS.

If Form 1099-B reports gross proceeds, add the sales broker's commissions and fees to the basis. If Form 1099-B reports net proceeds, the broker already subtracted the commissions and fees the seller paid. Do not adjust the basis further.

Exhibit 1 Form 1099-B

PAYER'S name, street address, city, state, ZIP code, ar	ad telephone no. 1a Date o		
_	2 Stocks,	bonds, etc. Reported to IRS	Gross proceeds Gross proceeds less commissions and option premiums
PAYER'S Federal identification number RECIPIENT'S iden	tification number 3 Barterin	4 Federal i	income tax withheld
RECIPIENT'S name	5 Descrip	fon	Copy A For Internal Revenue Service Center
		Regulated Futures Con	firacts File with Form 1096.
Street address (including apt. no.)	6a Profit of in 2003		and Paperwork
City, state, and ZIP code	7 Unrealize	ed profit or (loss) on atracts—12/31/2002 8 Unrealized open co	zed profit or (loss) on ontracts—12/31/2003 Reduction Act Notice, see the 2003 General
	\$	\$	Instructions for
Account number (optional)	2nd TIN not.		Forms 1099, 1098, 5498, and W-2G.
W	9a Aggrega	ate profit or (loss) 9b Post-5/ profit or	/5/2003 aggregate r (loss)
	 \$	 \$	

Example 5

George sold stock for \$2,300. He paid his broker a commission of \$35 on the sale and received net proceeds of \$2,265. If his broker reported the gross proceeds, box 2 of Form 1099-B would show \$2,300, and the box next to gross proceeds would be checked. If his broker reported the net proceeds, box 2 of Form 1099-B would show \$2,265, and the box next to gross proceeds less commissions would be checked.

As a general rule, you will need the following information from Form 1099-B:

Information You Will Need From Form 1099-B						
IF Form 1099-B shows	THEN report it on:					
information in:						
Box 1a, Date of sale	Schedule D, column (c), of either Part I, line 1, or Part II, line 8					
Box 2, Sales price reported to Internal Revenue Service whether gross or net proceeds were reported	Schedule D, column (d), of either Part I, line 1, or Part II, (line 8					
Box 4, Federal income tax withheld	Form 1040, line 61					
Box 5, Description of the property sold	Schedule D, column (a) in either Part I, line 1, or Part II, line 8					

If there are entries in box 3 or in boxes 6 through 9 of Form 1099-B, refer the taxpayer to a paid professional tax preparer.

Form 1099-B does **not** include the date the taxpayer bought the stock or what he or she paid for it. The taxpayer will need to provide you with this information.

Some brokers do not issue standard Forms 1099-B. Instead they issue a statement, sometimes titled "A 1099 Consolidated Statement," which shows stock sales and other types of distributions such as dividends and interest. Exhibit 2 is an example of such a statement.

xhibit 2											A 1099 Co	onsolidated S	tatemen
	\$2,000	1099-R Distrib Gross distribution (Box 1)	Totals	145367 239863	1099-B Proceed Reference number	Box 35	Investment expenses	Box 1 \$559.00	1099-DIV Div Ordinary dividends	Box 1 \$378.00	1099-INT Interest Interest income not included in box 3	KING INVESTMENTS 555 CENTER STREET NEW YORK, NY 10022	Payer
	\$2,000	1099-R Distributions from IRAs 2003GrossTaxableTaxdistributionamountam(Box 1)(Box 2a)det		7/17/03 10/23/03	Is from Broker an Trade date (Box 1a)	Box 6 \$25.00	Foreign tax paid	Box 2a \$179.00	Dividends & Distributions 2003 Capital gain 28% rate distributions	Box 2	1099-INT Interest Income 2003 Interest income not Early withdrawal included in box 3 penalty	MENTS STREET NY 10022	
		2003 Taxable amount not determined		765298 927651	1099-B Proceeds from Broker and Barter Exchange Transactions 2003 Trade Reference date CUSIP number number (Box Ia) (Box Ib) Quantity Description	Box 7	Foreign country or US possession	Box 2b	utions 2003 28% rate gain	Box 3 \$100.00		Pau Suss 123 Clar	Acc
		(Box 2b) Total Distribution		200 shrs ABC Corp. 300 shrs XYZ Markets, Inc.	e Transactions 2003 Quantity Description (Box 5)	Во		Box 2c	Unrecaptured sec. 1250 gain	00.00 Box 4	3onds rest	Paul J. Birch Susan L. Birch 123 Green Street Claremont, VA 91711	Account Number 7764366
	\$0.00	Federal Income tax withheld (Box 4)		orp. 1arkets, Inc.	03 tion (Box 5)	Box 8	Liquidation distributions—cash	Box 2d	Section 1202 gain		tax withheld		
	7-Normal Distribution	Distribution Code (Box 7)		\$16.75 \$83.65	Price	Box 9	Liquidation distributions—	Box 3	Nontaxable distributions	Box 5	Foreign tax paid		SS# 000-00-7026
	ibution Yes	IRA/SEP/SIMPLE	\$28,300.10	\$3,299.90 \$25,000.20	Gross proceeds less commissions (Box 2)		-non-cash	Box 4	Federal income tax withheld	Box 6	Foreign country or US possession		
		IMPLE			Federal income tax withheld (Box 4)						ЭГ		

Qualified 5-Year Gain Applies to transactions prior to May 6, 2003

In 2001, the capital gains rate on qualified property held for more than five years was lowered to 18% (8% for lower income taxpayers). These reduced rates continue to apply to sales of qualified property before May 6, 2003. Sales after May 5, 2003, will be taxed using the reduced tax rates introduced earlier in this lesson. The schedule D has been redesigned to accommodate the multiple tax rates that could apply for 2003. You should exercise caution when completing the Schedule D.

Exhibit 3 2003 Qualified 5-year Worksheet

Qu	alified 5-Year Gain Worksheet—Line 35 Keep for	or Your Records
	Enter the total of all gains that you reported on line 8, column (f), of Schedules D and D-1 from property more than 5 years and disposed of before May 6, 2003. Do not reduce these gains by any losses Enter the total of all gains from property held more than 5 years and disposed of before May 6, 2003, from	1.
2.	Form 4797, Part I, but only if Form 4797, line 7, column (g), is more than zero. Do not reduce these gains any losses	
3.	Enter the total of all capital gains from property held more than 5 years and disposed of before May 6, 200 from Form 4684, line 4, but only if Form 4684, line 15, is more than zero. Do not reduce these gains by a losses	
4.	Enter the total of all capital gains from property held more than 5 years and disposed of before May 6, 200 from Form 6252; Form 6781, Part II; and Form 8824. Do not reduce these gains by any losses)3,
5.	Enter the total of any qualified 5-year gain reported to you on: • Form 1099-DIV, box 2c;	
	 Form 2439, box 1c; and Schedule K-1 from a partnership, S corporation, estate, or trust (do not include gains from section 1231 property; take them into account on line 2 above, but only if Form 4797, line 7, column (g), is more than zero). 	5.
6.	Add lines 1 through 5	6.
	Enter the part, if any, of the gain on line 6 that is: • Attributable to 28% rate gain or	
	• Included on line 6, 10, 11, or 12 of the Unrecaptured Section 1250 Gain Worksheet on page D-7.	
8.	Qualified 5-year gain. Subtract line 7 from line 6. Enter the result here and on Schedule D, line 35	8.

Exercise 1
For the following situations, determine the adjusted basis of the stock sold, whether the holding period is long-term or short-term and how the sales price is reported.
A. On May 11, 2000, Morris bought 1,000 shares of ZZZ Corporation stock for \$5,000, plus a \$100 commission. On February 14, 2003, he sold 500 shares for \$3,300 and paid a \$45 commission. The broker reported net proceeds on the sale
1. What is the adjusted basis of the stock sold?
2. Is the holding period long term or short term?
3. What amount is reported to the Internal Revenue Service box 2 of Form 1099-B?
B. In the case of Morris, above, assume that he bought 500 more shares of ZZZ stock on October 6, 2002, for \$3,500, plus a \$50 commission. At the time of the sale, he told the broker to sell the stock he had bought in 2002.
1. What is the adjusted basis of the stock sold?
2. Is the holding period long term or short term?
C. On November 30, 2000, Janice bought 100 shares of ABC Corporation stock for \$9,965, plus a \$35 commission. On January 5, 2003, the stock split two-for-one, and she then hel a total of 200 shares. On March 6, 2003, she sold 100 shares for \$6,470 and paid a \$30 commission. Her broker reported n proceeds.
1. What is the adjusted basis of the stock sold?
2. Is the holding period long term or short term?
3. What amount is reported to the Internal Revenue Service box 2 of Form 1099-B?

REPORTING GAIN OR LOSS ON SCHEDULE D

Use Schedule D (Form 1040), *Capital Gains and Losses*, to report gain or loss on the sale of stock. Figure gain or loss by subtracting the adjusted basis of stock sold from its sales price. If the sales price is greater, the taxpayer has gain on the sale. By contrast, if the adjusted basis is greater than the sales price, the taxpayer has a loss on the sale. To denote a loss, place the number in parentheses. The taxpayer should receive Form 1099-B, reporting each sale of stock.

Also use Schedule D to report capital gain distributions that the taxpayer has in addition to any sales of stock. Enter the capital gain distributions on Schedule D, Part II, line 13. They are reported to the taxpayer on Form 1099-DIV, *Dividends and Distributions*, box 2a.

Any distributions that are qualified 5-year gain will be reported to the taxpayer in box 2c and used to complete the Qualified 5-year gain Worksheet in the Schedule D instructions.

If the taxpayer had capital gain distributions, but did not sell stock, he or she may not have to use Schedule D. Instead, report the capital gain distributions as explained in Lesson 2, Income.

Schedule D is divided into four parts. They are:

- Part I, *Short-Term Capital Gains and Losses*. For assets held one year or less.
- Part II, *Long-Term Capital Gains and Losses*. For assets held more than one year. Part II shows all long-term gains and losses and identifies the part subject to the 28% tax rate. The 28% rate applies to section 1202 gain from the sale or exchange of qualified small business stock and to collectibles.
- Part III, Taxable Gain or Deductible Loss.
- Part IV, *Tax Computation Using Maximum Capital Gains Rates*. You should have no trouble with Part IV if you take your time and do as the form says for each line. Using Part IV, rather than the Tax Table or Tax Rate Schedules, may result in lower tax.

Parts I and II: Short-Term and Long-Term Capital Gains and Losses

Report transactions in Parts I and II as follows:

To Report Capital Gain or Loss in Part I or II, Schedule D								
	Short-Term	Long-Term						
Show the first four sales on:	Part I, Line 1, Schedule D	Part II, line 8, Schedule D						
For additional sales, use:	Part I, line 1, Schedule D-1	Part II, line 8, Schedule D-1						
And transfer the total sales amount:	From Part I, line 2, Schedule D-1	From Part II, line 9, Schedule D-1						
	Onto Part I, line 2, Schedule D	Onto Part II, line 9, Schedule D						

Add the sales price amounts in column (d), lines 1 and 2 of Part I. Enter the result on line 3. Then add the amounts in column (d), lines 8 and 9 of Part II. Enter the result on line 10. The total of line 3 plus line 10 must equal the total from box 2 of all the taxpayer's Forms 1099-B. If they do not agree, the taxpayer should attach a statement to the return to explain the difference.

The Internal Revenue Service will compare the amounts reported on all of a taxpayer's Forms 1099-B with the sum of the amounts reported on lines 3 and 10 of Schedule D. If the numbers do not agree and the taxpayer did not explain the difference, IRS will contact the taxpayer.

Example 6

On November 13, 2002, Mary Lou bought 500 shares of XEN, Inc. stock for \$20 a share (\$10,000 total), plus a \$50 commission. On February 26, 2003, she sold the stock for \$8,090 and paid selling expenses of \$40. The Form 1099-B from her broker reported a sales price of \$8,090 (gross proceeds). Part I of Mary Lou's completed Schedule D appears in Exhibit 3.

Mary Lou has a short-term capital loss. Notice that Mary Lou shows the loss in column (f) of line 1 with no entry in column (g) because the transaction was completed before May 6, 2003. She completes Part I by entering the net short-term loss on line 7. This example shows that:

- Her broker reported gross proceeds on Form 1099-B. The amount shown in column (d) is \$8,090 (because selling expenses have not been subtracted), and
- She works those expenses into the computation as an adjustment to basis, column (e)—and the result in column (f) reflects her true gain or loss.

Pa	rt I Short-Term Cap	oital Gains a	nd Loss	ses-	-Assets He	ld Oı	ne Year or	Less	i		
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date (Mo., day		(d) Sales pr (see page D- the instruction	5 of	(e) Cost or othe (see page D-5 instruction	of the	(f) Gain or (los the entire y Subtract (e) fr	ear .	(g) Post-May 5 gain or (loss)* (see below)
1	500 sh. XEN	11/13/02	2/26/	/03	8,090	00	10,090	00	(2,000	00)	
2	Enter your short-term totals, if any, from Schedule D-1, line 2										
3	Total short-term sale Add lines 1 and 2 in colu	es price am	ounts.	3 (8,090	00					
4	Short-term gain from For 6781, and 8824	rm 6252 and s	hort-tern		1			4			
5	Net short-term gain or (lo		erships, S	corp	orations, est	ates,	and trusts	5			
6	Short-term capital loss of 2002 Capital Loss Carryo	carryover. Ente	r the an	nount	, if any, from	line	8 of your	6	()	
7a	Combine lines 1 through Otherwise, enter -0 Do	5 in column (g). If the	resu				7a			()
b	Net short-term capital	gain or (loss).	Combine	e lines	s 1 through 6	in co	olumn (f) .	7b	(2,000	00)	

Example 7

Exhibit 4 shows the three long-term transactions that Tess is reporting on Schedule D, Part II, for 2003. On August 21, 1999, she bought 200 shares of XYZ Company for \$1,500. On October 1, 2000, she bought 500 shares of TUV, Inc., for \$8,000, and on November 18, 2000, she bought 2,000 shares of QRS, Inc., for \$5,000. Each amount includes the commission.

On January 10, 2003, Tess sold the stock in XYZ and TUV. The Form 1099-B from her broker reported gross proceeds of \$1,875 for the XYZ stock, and \$6,000 for TUV. Tess paid commissions of \$35 for selling the XYZ shares, and \$40 for selling TUV. On May 27, 2003, Tess sold the QRS stock for \$10,000. She paid a \$50 commission. Her broker reported net proceeds of \$9,950 on Form 1099-B.

This example shows how to:

- Report basis when Form 1099-B shows gross proceeds (XYZ and TUV—basis includes commissions on the sale, as well as prior adjusted basis), in contrast to when it shows net proceeds (QRS—basis does not include commissions on the sale, but only the prior adjusted basis).
- Net gains and losses in column (f).

Exhibit 5 Tess' Schedule D, Part II

Pa	rt II Long-Term Cap	ital Gains a	nd Losses—	Assets Hel	d M	ore Than O	ne Y	ear	:		<u> </u>
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales pri (see page D- the instruction	ice 5 of	(e) Cost or othe (see page D-5 instruction	r basis		ear	(g) Post-May s or (loss)* (see below	*
8	200 sh. XYZ	8/21/99	1/10/03	1,875	00	1,535	00	340	00		
	500 sh. TUV	10/1/00	1/10/03	6,000	00	8,040	00	(2,040	00)		
	2,000 sh. QRS	11/18/00	5/27/03	9,950	00	5,000	00	4,950	00	4,950	00
9	9 Enter your long-term totals, if any, from Schedule D-1, line 9										
10											
11	Gain from Form 4797, F long-term gain or (loss) f		-			6252; and	11				
12	Net long-term gain or (los from Schedule(s) K-1.						12				
13	Capital gain distributions						13		1		<u> </u>
14	Long-term capital loss of 2002 Capital Loss Carryo	•		•		•	14	()		
15							15			4,950	00
16	Net long-term capital g		Combine lines	8 through 1	4 in	column (f)	16	3,250	00		

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11338H

	•
Exercise	7
_/,0.0.00	

For each of the following situations, figure the gain or loss on the sale of stock and indicate whether the gain or loss will be long term or short term.

- **A.** On March 15, 2002, Bill bought 1,000 shares of stock for \$15,000, including commission. On March 15, 2003, he sold 600 shares of the stock for \$7,800, net proceeds on Form 1099-B.
 - 1. Will Bill report a gain or a loss?
 - 2. How much is the gain or loss?
 - **3.** Is the holding period long term or short term? _____
- **B.** On January 7, 2001, Margo bought stock for \$1,500, plus a \$25 commission. On July 15, 2003, she sold the stock for \$2,000 and paid a \$25 commission. Her Form 1099-B shows the gross proceeds of \$2,000 as the sales price.
 - 1. Will Margo report a gain or a loss? _____
 - 2. How much is the gain or loss?
 - **3.** Is the holding period long term or short term? _____

Reporting Capital Gain Distributions From Form 1099-DIV on Schedule D

If the taxpayer received Form 1099-DIV, *Dividends and Distributions*, see whether an amount is shown in box 2a and box 2c.

- If capital gain distributions from Form 1099-DIV are the only capital gains or losses the taxpayer had for the year, the taxpayer may be able to report them directly on Form 1040A or Form 1040, as explained in Lesson 2, *Income*.
- If the taxpayer also sold stock reported on Form 1099-B, report the total capital gain distributions from Form 1099-DIV on line 13, column (f), of Schedule D. For transactions completed after May 5, 2003, include the gain or loss in Column G also.

Example 8

Alec received a Form 1099-DIV. Box 2a which shows he received a total capital gain distribution of \$170. Alec also received a Form 1099-B that shows a net sales price of \$1,200 on the sale of 600 shares of ABC Group, Inc. He bought the stock on February 19, 2000, and sold it on August 25, 2003. His basis in ABC, including commission, is \$1,455. Alec's Form 1099-DIV, and Part II of his Schedule D, are shown in Exhibits 5 and 6. In this example, the capital gain distribution must be shown on Schedule D because Alec also sold stock in 2003 that must be reported on Schedule D.

Exhibit 6 Alec's Form 1099-DIV

9191	□ VOID □ CORRE			ı	
PAYER'S name, street address, city	state, ZIP code, and telephone no.	1a Total ordinary dividends	OMB No. 1545-0110		
MIG INC. 4321 Main Street		\$ 1b Qualified dividends	2003		Dividends and Distributions
Anytown, VA 00	01&	 	Form 1099-DIV		
		2a Total capital gain distr.	2b Post-May 5 capital (gain distr.	Copy A
PAYER'S Federal identification	RECIPIENT'S identification	2c Qualified 5-year gain	2d Unrecap. Sec. 12	250 gain	Internal Revenue Service Center
00-000123	number 000-00-0128	\$	\$		File with Form 1096.
RECIPIENT'S name	<u> </u>	2e Section 1202 gain	2f Collectibles (28%)) gain	
		\$	\$		For Privacy Act
Alec Green		3 Nontaxable distributions \$	4 Federal income tax	withheld	and Paperwork Reduction Act
Street address (including apt. no.) 1234 A Street			5 Investment expens	ses	Notice, see the 2003 General Instructions for
City, state, and ZIP code Anytown, VA 00	013	6 Foreign tax paid \$	7 Foreign country or U.S. p	oossession	Forms 1099, 1098, 5498,
Account number (optional)	2nd TIN not.	8 Cash liquidation distributions	Noncash liquidations	on	and W-2G.
		\$	\$		
Form 1099-DIV	Ca	at. No. 14415N	Department of the Tr	reasury - I	Internal Revenue Service
Do Not Cut or Separat	e Forms on This Page	— Do Not Cut	or Separate	Forms	on This Page

Exhibit 7 Alec's Schedule D, Part II

Pa	rt II Long-Term Ca	pital Gains aı	nd Losse	s-	Assets Hel	d M	ore Than O	ne Y	ear			
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date so (Mo., day,		(d) Sales pr (see page D- the instruction	5 of	(e) Cost or othe (see page D-5 instruction	of the	(f) Gain or (los the entire y Subtract (e) fro	ear	(g) Post-May s or (loss)* (see below	,
8	600 sh. ABC	2/19/00	8/25/C	3	1,200	00	1,455	00	(255	00)	(255	00)
		5						! ! ! !				
												1
												1
9	Enter your long-term totals, if any, from Schedule D-1, line 9 9											
10	Total long-term sales price amounts. Add lines 8 and 9 in column (d)											
11	Gain from Form 4797, long-term gain or (loss)	, ,	U				6252; and	11				1
12	Net long-term gain or (lo from Schedule(s) K-1.							12				1
13	Capital gain distributions	s. See page D-	1 of the in	stru	ctions .			13	170	00	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	<u> </u>
14	Long-term capital loss of 2002 Capital Loss Carry	,		,	3,		,	14	()		
15	Combine lines 8 through							15				
16	Net long-term capital Next: Go to Part III on t	gain or (loss).	(0)		,			16	(85	00)		
	lude in column (g) all gains a) after

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11338H

Schedule D (Form 1040) 2003

After Completing Parts I and II of Schedule D

Double-check your entries on Schedule D up to this point.

- Check that the sales price amount from each Form 1099-B agrees with the amount entered in column (d) of either line 1 or line 8.
- Check that all entries in column (d), lines 1 and 2, add up to the amount on line 3.
- Check that all entries in column (d), lines 8 and 9, add up to the amount on line 10.
- Check that line 3, added to line 10, agrees with the total sales price reported on all of the taxpayer's Forms 1099-B.
- Check that the amount on line 13, column (f), is the same as the total from all the taxpayer's Forms 1099-DIV, box 2a.
- Check Column G of both line 1 or 8 to detail sales, exchanges or conversions completed after May 5, 2003 have been recorded.

This exercise will give you practice with Schedule D. Use the following information to complete Parts I and II of Jane's Schedule D.

Jane sold five stocks during 2003. Her broker reported net proceeds as sales price.

Stock	Purchase Date	Date Sold	Net Sales Price	Adjusted Basis
500 sh LSR	1/21/02	1/4/03	\$ 4,000	\$9,000
$250~\mathrm{sh}~\mathrm{BGI}$	3/11/02	2/12/03	10,000	2,500
75 sh ABC	1/22/01	1/29/03	2,000	7,500
400 sh XYZ	12/3/99	3/6/03	15,000	10,000
100 sh DEF	4/2/99	10/16/03	1,200	2,000

Jane also owns shares in a mutual fund that sent her a Form 1099-DIV. It reported \$1,200 paid to her in total capital gain distributions for the year.

Exhibit 8 Complete Parts I and II of Jane's Schedule D.

_	rt I Short-Term Ca	pitai Gairis a	IIU LUSS	e5—A	199619 1161	a One	e Year or	Less	;		
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date (Mo., day		(d) Sales prio (see page D-5 the instruction	of (e) Cost or othe (see page D-5 instruction	of the	(f) Gain or (los the entire y Subtract (e) fro	eár	(g) Post-May 5 gain or (loss)* (see below)
1											
2	Enter your short-term Schedule D-1, line 2.			2							
3	Total short-term sale	es price an	ounts.	2							
	Add lines 1 and 2 in colu			3	(1>		4004		<i>(((((((((((((((((((((((((((((((((((((</i>	<i>\$//////</i>	
4						J.		4			
5	Net short-term gain or (lo from Schedule(s) K-1	oss) from partne 				tes, a 	nd trusts	5			:
6	Short-term capital loss	carryover. Ente	er the am			line 8	of your	6	()	
7a	2002 Capital Loss Carry Combine lines 1 through	over Workshee 1 5 in column (t (a). If the	result	is a loss, er	iter th	e result.	0			
	Otherwise, enter -0 Do	not enter mor	e than ze	ro .				7a			(
	Net short-term capital							7b			
Pa	rt II Long-Term Car	(b) Date			(d) Sales pric		re Inan O Oost or othe			e) for	(g) Post-May 5 gain
	(a) Description of property (Example: 100 sh. XYZ Co.)	acquired (Mo., day, yr.)	(c) Date (Mo., day		(see page D-5 the instruction	of ((see page D-5 instruction	of the	the entire y Subtract (e) from	ear	or (loss)* (see below)
8		1010									
	(8										
					1						
					1						
9	Enter your long-term	totale if any	from					,,,,,,,,,			
•		iorais ii anv			i	<i>V</i>					
	Schedule D-1, line 9.			9					,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		
10	Schedule D-1, line 9 Total long-term sale	 es price an									
	Schedule D-1, line 9. Total long-term sale Add lines 8 and 9 in colu	 es price am umn (d)	 nounts.	10	0.400						
10 11	Schedule D-1, line 9. Total long-term sale Add lines 8 and 9 in colu Gain from Form 4797, F	 e s price am umn (d) Part I; long-ter	 nounts. m gain fi	10 rom Fo				11			
	Schedule D-1, line 9. Total long-term sale Add lines 8 and 9 in colu Gain from Form 4797, F long-term gain or (loss) f Net long-term gain or (loss)	es price amumn (d) Part I; long-terfrom Forms 46 ss) from partne		10 rom Fo	824 rations, esta	 tes, a	nd trusts				
11 12	Schedule D-1, line 9. Total long-term sale Add lines 8 and 9 in cold Gain from Form 4797, Flong-term gain or (loss) flore Net long-term gain or (lost from Schedule(s) K-1.	es price and umn (d)	nounts m gain fr 84, 6781, erships, S	om For and 8 corpor	824 rations, esta	 tes, a	nd trusts	12			
11 12 13	Schedule D-1, line 9. Total long-term sale Add lines 8 and 9 in colu Gain from Form 4797, Flong-term gain or (loss) f Net long-term gain or (los from Schedule(s) K-1. Capital gain distributions	es price and umn (d)	nounts. mounts. m gain fi 84, 6781, erships, S modifies	nom Fo and 8 corpor	824 rations, esta	 tes, a	nd trusts				
11 12	Schedule D-1, line 9. Total long-term sale Add lines 8 and 9 in cold Gain from Form 4797, Flong-term gain or (loss) flore Net long-term gain or (lost from Schedule(s) K-1.	es price and umn (d) Part I; long-terfrom Forms 46 ss) from partners. See page Decarryover. Ente	nounts. m gain fi 84, 6781, erships, S n of the i r the amo	rom Fo and 8 corpor nstruct	824 rations, esta	 tes, a 	nd trusts 3 of your	12			
11 12 13	Schedule D-1, line 9. Total long-term sale Add lines 8 and 9 in colu Gain from Form 4797, Flong-term gain or (loss) f Net long-term gain or (los from Schedule(s) K-1. Capital gain distributions Long-term capital loss of 2002 Capital Loss Carry	es price amumn (d)	nounts. m gain fi 84, 6781, erships, S m gain fi the i	rom Fo and 8 corpor nstruct	824 rations, esta	 tes, a ine 13	nd trusts 3 of your	12)	
11 12 13 14	Schedule D-1, line 9. Total long-term sale Add lines 8 and 9 in colu Gain from Form 4797, Flong-term gain or (loss) fine Net long-term gain or (loss) from Schedule(s) K-1. Capital gain distributions Long-term capital loss of 2002 Capital Loss Carry Combine lines 8 through Net long-term capital gain distributions capital loss of 2004 Capital Loss Carry Combine lines 8 through Net long-term capital gain distributions capital gain distributions capital loss of 2004 Capital Loss Carry Combine lines 8 through Net long-term capital gain	es price amumn (d)	nounts. m gain freships, S m the amounts. r the amounts. (g). If zero	rom Fo and 8 corpor nstruct bunt, if	824 rations, esta		nd trusts of your	12 13 14	()	
11 12 13 14 15	Schedule D-1, line 9. Total long-term sale Add lines 8 and 9 in cold Gain from Form 4797, Flong-term gain or (loss) fl Net long-term gain or (los) from Schedule(s) K-1. Capital gain distributions Long-term capital loss of 2002 Capital Loss Carry Combine lines 8 through Net long-term capital g Next: Go to Part III on the	es price and umn (d)	nounts. m gain freships, S or the amounts t (g). If zero	nom For and 8 corpor	824 rations, esta	tes, all	nd trusts 3 of your olumn (f)	12 13 14 15)	
11 12 13 14 15 16 *Incl May	Schedule D-1, line 9. Total long-term sale Add lines 8 and 9 in colu Gain from Form 4797, Flong-term gain or (loss) fine Net long-term gain or (loss) from Schedule(s) K-1. Capital gain distributions Long-term capital loss of 2002 Capital Loss Carry Combine lines 8 through Net long-term capital gain distributions capital loss of 2004 Capital Loss Carry Combine lines 8 through Net long-term capital gain distributions capital gain distributions capital loss of 2004 Capital Loss Carry Combine lines 8 through Net long-term capital gain	es price and umn (d) . Part I; long-ter from Forms 46 ss) from partner	nounts	om Formand 8 corpor	824 rations, esta		nd trusts	12 13 14 15 16 /////////////////////////////////	gains and los		

Part III: Summary of Parts I and II

Combine the amounts from line 7b (net short-term capital gain or loss) and line 16 (net long-term capital gain or loss). Enter the result on line 17a in Part III. This combined number may be a gain or a loss.

- If the line 17a amount is a gain, also enter it on line 13a of Form 1040, and go to line 17b.
- If the line 17a amount is a loss, complete line 18 of Schedule D. Line 18 ensures that no more than the maximum allowable capital loss is deducted on Form 1040. The line 18 amount is limited to the smaller of:
- The loss from line 17a or
- \$3,000 (\$1,500 for a married taxpayer filing separately).

Also enter this amount on line 13a of Form 1040. Because it is a loss, be sure to put parentheses around the number when you enter it on Form 1040.

Part IV: Tax Computation Using the Maximum Capital Gains Rates

The law limits tax rates on net long-term capital gains. To obtain the lowest rate, taxpayers with long-term capital gains must go to Part IV of Schedule D to figure their tax. To determine whether you need Part IV, complete Form 1040 through line 40, Taxable Income. Then go to Part IV of Schedule D if:

- Both lines 16 and 17a of Schedule D are gains, and
- Form 1040, line 40, is more than zero.

Example 9

Edmund's tax return shows:

Filing status: Form 1040, line 1 box checked, single.

Amount from: Form 1040, line 40: \$65,001

 Schedule D, line 7b:
 (5,000)

 Schedule D, line 16:
 16,000

 Schedule D, line 17a:
 11,000

(Transferred to Form 1040, line 13a.)

There is capital gain on Schedule D, lines 16 and 17a, and Form 1040, line 40, is more than zero.

Exhibits 9 and 10 show Edmund's Schedule D, Parts III and IV, and his Form 1040, lines 13a and 41. His tax is \$12,516. Without Schedule D, his tax from the Tax Table would be \$13,066. Using Schedule D saved Edmund \$1,100.

Sched	dule D (Form 1040) 2003		Page 2
Par	t III Taxable Gain or Deductible Loss		
	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	17a 17b	11,000 00
D	Next: • If both lines 16 and 17a of Schedule D are gains or you have qualified dividends on Form 1040, line 9b, complete Part IV below (unless Form 1040, line 40, is zero). • Otherwise, skip the rest of Schedule D and complete Form 1040.		
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the smaller of (a) that loss or (b) (\$3,000) (or, if married filing separately, (\$1,500)) (see page D-6 of the instructions)	18	
	 Next: If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete Part IV below (but skip lines 19 and 20). Otherwise, skip Part IV below and complete the rest of Form 1040. 		
Par	t IV Tax Computation Using Maximum Capital Gains Rates		
	If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to	1	19.
19	Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6.	19	
20	Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions	20	
	If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 of	f the i	nstructions to figure
0.4	the amount to enter on lines 35 and 53 below, and skip all other lines below.	21	65,001 00
21	Enter your taxable income from Form 1040, line 40		05,001 00
22		\	
23 24	Enter your qualified dividends from Form 1040, line 9b		
25	Amount from line 4g of Form 4952 (investment interest expense)		
26	Subtract line 25 from line 24. If zero or less, enter -0	26	11,000 00
27	Subtract line 26 from line 21. If zero or less, enter -0-	27	54,001 00
28	Enter the smaller of line 21 or:		
	• \$56,800 if married filing jointly or qualifying widow(er);		X////////////X//////
	• \$28,400 if single or married filing separately; or 28 28,400 00		
	• \$38,050 if head of household		
	If line 27 is more than line 28, skip lines 29–39 and go to line 40.		X////////////X//////
29	Enter the amount from line 27		
30 31	Subtract line 29 from line 28. If zero or less, go to line 40		
32	Enter the smaller of line 30 or line 31		
33	Multiply line 32 by 5% (.05)	33	
	If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.		
34	Subtract line 32 from line 30		
35	Enter your qualified 5-year gain, if any, from		
	line 8 of the worksheet on page D-8 35		
36	Enter the smaller of line 34 or line 35	37	
37 38	Enter the smaller of line 34 or line 35		
39	Multiply line 38 by 10% (.10)	39	
-	If lines 26 and 30 are the same, skip lines 40–49 and go to line 50.		
40	Enter the smaller of line 21 or line 26		
41	Enter the amount from line 30 (if line 30 is blank, enter -0-) 41		
42	Subtract line 41 from line 40		
43	Add lines 17b and 23*		
44	Enter the amount from line 32 (if line 32 is blank, enter -0-)		
45 46	Subtract line 44 from line 43		
46 47	Enter the smaller of line 42 or line 45	47	1
48	Subtract line 46 from line 42		
49	Multiply line 48 by 20% (.20)	49	2,200 00
50	Figure the tax on the amount on line 27. Use the Tax Table or Tax Rate Schedules, whichever applies	50	10,316 00
51	Add lines 33, 37, 39, 47, 49, and 50	51	12,516 00
52	Figure the tax on the amount on line 21. Use the Tax Table or Tax Rate Schedules, whichever applies	52	13,066 00
53	Tax on all taxable income. Enter the smaller of line 51 or line 52 here and on Form 1040, line 41	53	12,516 00
*If line	e 25 is more than zero, see Lines 31 and 43 on page D-9 for the amount to enter. 🛛 😭 Printed on recycled paper 📑	Sched	ule D (Form 1040) 2003

Exhibit 10

	Business income or (loss). Attach Schedule C or C-EZ	12 13a	11,000	00
40 Ta	axable income. Subtract line 39 from line 38. If line 39 is more than line 38, enter -0-	40		
	ax (see page 36). Check if any tax is from: a Form(s) 8814 b Form 4972	41	12,516	00

Exercise 4

Melvin sold the following stocks during 2003. His broker reported net sales proceeds on Form 1099-B.

Stock	Purchase Date	Date Sold	Net Sales Price	Adjusted Basis
50 sh ABC	3/15/02	7/26/03	\$ 4,000	\$5,000
$200~{ m sh~MLG}$	5/10/02	6/7/03	1,200	1,000
$150~\mathrm{sh}~\mathrm{XYZ}$	4/17/02	3/8/03	5,500	6,000
$300~\mathrm{sh}~\mathrm{MLS}$	1/13/98	6/19/03	6,000	3,000

Melvin also had shares in a mutual fund. The fund sent him a Form 1099-DIV that showed he received \$1,500 in total capital gain distributions. His taxable income (line 40, Form 1040) was \$67,001. His filing status is single.

Use the information given to complete Melvin's Schedule D. What amounts would be shown on his:

(A)	1.	Form	1040.	line	13?
(<u> </u>		TOTIL	TO TO	11110	± 0.

2. Form 1040, line 41?		·	
2. 1 01111 10 10, 11110 11.	2. Form 1040	, line 41?	

(B) Complete this form.

SCHEDULE D (Form 1040)

Department of the Treasury

Capital Gains and Losses

► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040).

OMB No. 1545-0074

Attachment

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less (a) Description of property (Example: 100 sh. XYZ Co.) (b) Date acquired (Mo., day, yr.) (c) Date sold (Mo., day, yr.) (d) Sales price (see page D-5 of the instructions) (e) Cost or other basis (f) Gain or the entire subtract (e) the instructions (see page D-5 of the instructions) (a) Description of property (example: 100 sh. XYZ Co.) (b) Date sold (Mo., day, yr.) (c) Date sold (Mo., day, yr.) (d) Sales price (see page D-5 of the instructions) (f) Gain or the entire subtract (e) (g) Sales price (see page D-5 of the instructions) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Gain or the entire subtract (e) (g) Cast or other basis (f) Cast or other	re year or (loss)*
(a) Description of property (Example: 100 sh. XYZ Co.) (b) Date acquired (Mo., day, yr.) (c) Date sold (Mo., day, yr.) (d) Sales price (see page D-5 of the instructions)	(loss) for (g) Post-May 5 ga
(a) Description of property (Example: 100 sh. XYZ Co.) (b) Date acquired (Mo., day, yr.) (c) Date sold (Mo., day, yr.) (d) Sales price (see page D-5 of the instructions)	re year or (loss)*
2 Enter your short-term totals, if any, from Schedule D-1, line 2. 3 Total short-term sales price amounts. Add lines 1 and 2 in column (d). 4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824. 5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1. 6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet. 7a Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0 Do not enter more than zero	re year or (loss)*
2 Enter your short-term totals, if any, from Schedule D-1, line 2 3 Total short-term sales price amounts. Add lines 1 and 2 in column (d) 4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet 7a Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0 Do not enter more than zero	
Schedule D-1, line 2	
3 Total short-term sales price amounts. Add lines 1 and 2 in column (d) 4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet 7a Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0 Do not enter more than zero	
Add lines 1 and 2 in column (d)	
6781, and 8824	
Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	
from Schedule(s) K-1	
2002 Capital Loss Carryover Worksheet	
7a Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0 Do not enter more than zero	
to Nick about towns and tall a sixt on the way Constitute the safety of Circumstations (A	
b Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f) . 7b Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year	<u> </u>
(A) Color price (A) Cost or other bosis (6) Coin or	(loss) for (g) Post-May 5 ga
(a) Description of property (Example: 100 sh. XYZ Co.)	re year or (loss)*
8	
(90)	
9 Enter your long-term totals, if any, from	
Schedule D-1, line 9 9	
10 Total long-term sales price amounts. Add lines 8 and 9 in column (d)	
Add lines 8 and 9 in column (d)	
long-term gain or (loss) from Forms 4684, 6781, and 8824	
Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	
13 Capital gain distributions. See page D-1 of the instructions	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
Long-term capital loss carryover. Enter the amount, if any, from line 13 of your	
2002 Capital Loss Carryover Worksheet	
15 Combine lines 8 through 13 in column (g). If zero or less, enter -0	
(5)	
16 Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f)	

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11338H

 $(C) \ Complete \ this \ form.$

Sched	dule D (Form 1040) 2003	Page 2
Par	t III Taxable Gain or Deductible Loss	
	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	17a
b	Combine lines 7a and 15. If zero or less, enter -0 Then complete Form 1040 through line 40.	170
	Next: • If both lines 16 and 17a of Schedule D are gains or you have qualified dividends on Form 1040, line 9b, complete Part IV below (unless Form 1040, line 40, is zero).	
4.0	Otherwise, skip the rest of Schedule D and complete Form 1040. The state of the s	
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the smaller of (a) that loss or (b) (\$3,000) (or, if married filing separately, (\$1,500)) (see page D-6 of the instructions)	18 ()
	 Next: If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete Part IV below (but skip lines 19 and 20). Otherwise, skip Part IV below and complete the rest of Form 1040. 	
Par	Tax Computation Using Maximum Capital Gains Rates	<u> </u>
	If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to	o line 19.
19	Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6.	19
20	Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions	20
	If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 of	of the instructions to figure
	the amount to enter on lines 35 and 53 below, and skip all other lines below.	
21	Enter your taxable income from Form 1040, line 40	21
22	Enter the smaller of line 16 or line 17a, but not less than zero 22	
23	Enter your qualified dividends from Form 1040, line 9b	
24	Add lines 22 and 23	
25	Amount from line 4g of Form 4952 (investment interest expense) . 25	
26	Subtract line 25 from line 24. If zero or less, enter -0	26
27	Subtract line 26 from line 21. If zero or less, enter -0	27
28	Enter the smaller of line 21 or:	
	• \$56,800 if married filing jointly or qualifying widow(er);	
	• \$28,400 if single or married filing separately; or	-{/////////////////////////////////////
	• \$38,050 if head of household	
	If line 27 is more than line 28, skip lines 29–39 and go to line 40.	
29	Effect the difficult from the 27 · · · · · · · · · · · ·	
30	Subtract line 29 from line 20. if Zero of less, go to line 40	
31	The state of the s	
32 33	Enter the strate of the cool micor.	
33	Multiply line 32 by 5% (.05) If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.	
34	Subtract line 32 from line 30	
35	Enter your qualified 5-year gain, if any, from	
00	line 8 of the worksheet on page D-8 35	
36	Enter the smaller of line 34 or line 35	
37	Multiply line 36 by 8% (.08)	37
38	Subtract line 36 from line 34	
39	Multiply line 38 by 10% (.10)	39
	If lines 26 and 30 are the same, skip lines 40-49 and go to line 50.	
40	Enter the smaller of line 21 or line 26	
41	Enter the amount from line 30 (if line 30 is blank, enter -0-) 41	
42	Subtract line 41 from line 40	
43		
44	Enter the amount from line 32 (if line 32 is blank, enter -0-)	
45	Subtract line 44 from line 43	
46	Enter the smaller of line 42 or line 45	
47	Multiply line 46 by 15% (.15)	47
48	Subtract line 46 from line 42	40
49	Multiply line 48 by 20% (.20)	49
50	Figure the tax on the amount on line 27. Use the Tax Table or Tax Rate Schedules, whichever applies	50 51
51 52	Add lines 33, 37, 39, 47, 49, and 50	52
52 53	Tax on all taxable income. Enter the smaller of line 51 or line 52 here and on Form 1040, line 41	53
	e 25 is more than zero, see Lines 31 and 43 on page D-9 for the amount to enter	

TAX TIPS

* * * * * * * * * *
It is easy to double check the carryover from 2003 to 2004.
Take as much as possible of the \$3,000 (or \$1,500) deduction from short-term capital losses first. Then take any remaining amount of the \$3,000 (or \$1,500) from long-term capital losses. What is left is the carryover to 2004.

Capital Loss Carryovers

Use the *Capital Loss Carryover Worksheet* in the Schedule D instructions to figure how much capital loss the taxpayer can carry from 2003 to 2004. As you learned earlier, a taxpayer cannot take net losses of more than \$3,000 (\$1,500 for married taxpayers filing separately) in figuring taxable income. The allowable loss for the year is also referred to as the deduction limit.

Unused losses are not gone forever. Rather, they are carried over to the next year. The carryover losses are combined with the gains and losses that actually occur in that next year. Unused losses are recycled this way, year after year, until they are all deducted. There is no limit on how many times a loss can be carried over during the taxpayer's life.

Unused losses keep their short-term or long-term classification when they are carried over. If the taxpayer has a short-term capital loss carryover from 2002, enter it on line 6, Part I, Schedule D. Enter it on line 14, Part II, if it is long-term.

NOTE: If a capital loss is limited and the remainder must be carried forward to 2004, remind the Taxpayer to bring a copy of the 2003 return for 2004 return preparation.

Example 10

Andrew sold two stocks in 2003, as summarized here.

Stock	Purchase Date	Date Sold	Net Sales Price	Adjusted Basis
200 sh FFF	5/8/02	1/6/03	\$ 4,000	\$ 3,025
$50 \mathrm{~sh} \mathrm{~WWW}$	11/6/00	3/12/03	8,700	11,000

Andrew's 2002 return showed the following capital loss carryovers to 2003: a \$4,200 short-term loss (line 8 of the 2002 *Capital Loss Carryover Worksheet*) and a \$240 long-term loss (line 13 of the 2002 worksheet). His 2003 Form 1040, line 40, shows \$55,825.

Andrew's Schedule D, Parts I through III, his 2003 Form 1040, line 13a, and his 2002 *Capital Loss Carryover Worksheet* appear below as Exhibits 13 through 16. This example shows how to:

■ Report a capital loss carryover from 2002 and work it into the computation on Schedule D as if it had resulted from a 2003 sale. This example shows both a short-term loss (reported on Schedule D, Part I, line 6) and a long-term loss (reported on Schedule D, Part II, line 14).

- Combine a short-term capital loss and a long-term capital loss and apply the deduction limit (\$3,000 for Andrew). Andrew reports the combined long-term and short-term loss on Schedule D, Part III, line 17. Line 18 applies Andrew's deduction limit, his allowable loss for the year.
- Show the allowable loss for the year (\$3,000 for Andrew) in the Income section of Form 1040.
- Use the *Capital Loss Carryover Worksheet* to apply the \$3,000 deduction limit against the short-term loss first and figure the capital loss carryover to 2004. In this case, the carryover is a short-term loss of \$225 (line 8 of the worksheet) and a long-term loss of \$2,540 (line 13 of the worksheet).

SCHEDULE D (Form 1040)

Department of the Treasury Internal Revenue Service **Capital Gains and Losses**

► Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074

2003

Attachment Sequence No. 12

Nam	e(s) shown on Form 1040								Your so	cial securi	ly number
									XXX	XX	XXXX
Pa	rt I Short-Term Cap	pital Gains a	nd Loss	es-	-Assets Held O	ne Year or	Less	}		_	
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date s (Mo., day		(d) Sales price (see page D-5 of the instructions)	(e) Cost or othe (see page D-5 instruction	of the	(f) Gain or (the entire Subtract (e)	e year	or (May 5 gain loss)* below)
1	200 sh. FFF	5/8/02	1/6/0)3	4,000 00	3,025	00	97	5 00		
2	Enter your short-term										
3	Schedule D-1, line 2. Total short-term sale Add lines 1 and 2 in colu	es price an	nounts.	3	4,000 00						
4	Short-term gain from For 6781, and 8824	rm 6252 and s			or (loss) from Fo	orms 4684,	4				
5	()						5				
6	Short-term capital loss 2002 Capital Loss Carry Combine lines 1 through	over Workshee	et			2	6	(4,20	0 00)		
	Otherwise, enter -0 Do Net short-term capital	not enter mo	re than ze	ro			7a 7b	(3.22	5 00)	() ////////////////////////////////////
	rt II Long-Term Cap								- ; >	<u> </u>	<u> </u>
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, vr.)	(c) Date :	sold	(d) Sales price (see page D-5 of the instructions)	(e) Cost or othe (see page D-5 instruction	er basis of the		e year	or (l	May 5 gain loss)* below)
8	50 sh. WWW	11/6/00	3/12/	03	8,700 00	11,000	ĺ	,	0 00)	(2.2.2	
	(3							,			
9	Enter your long-term Schedule D-1, line 9.	totals, if any	, from	9							
10	Total long-term sale Add lines 8 and 9 in colu	umn (d)	l	10	8,700 00						
11	Gain from Form 4797, Flong-term gain or (loss) f	rom Forms 46	84, 6781,	and	8824		11				
12							12 13				
13	Capital gain distributions	. •					13		-		
14	Long-term capital loss of 2002 Capital Loss Carryo						14	(24	00)		
15	Combine lines 8 through	13 in column	(g). If zero	o or l	ess, enter -0		15		<i> } </i>		
16	Net long-term capital g Next: Go to Part III on the	ne back.					16		(00 00) (///////////////////////////////////		
*Inc	lude in column (a) all gains ar	nd losses from d	column (f) f	rom s	sales, exchanges, or	conversions (includi	ing installme	ent pavn	nents rece	ived) after

May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11338H

Exhibit 14 Andrew's Schedule D, Part III

Sche	edule D (Form 1040) 2003		P	age 2
Pa	rt III Taxable Gain or Deductible Loss			
17a	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	17a	(5,765	00)
b	Combine lines 7a and 15. If zero or less, enter -0 Then complete Form 1040 through line 40.	17b		
	 Next: • If both lines 16 and 17a of Schedule D are gains or you have qualified dividends on Form 1040, line 9b, complete Part IV below (unless Form 1040, line 40, is zero). • Otherwise, skip the rest of Schedule D and complete Form 1040. 			
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the smaller of (a) that loss or (b) (\$3,000) (or, if married filing separately, (\$1,500)) (see page D-6 of the instructions)	18	(<u>3,000</u>	00)
	 Next: If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete Part IV below (but skip lines 19 and 20). Otherwise, skip Part IV below and complete the rest of Form 1040. 			

Exhibit 15 Andrew's Form 1040, line 13a

13a	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶	13a	(3,000 00)
	1 1 2 1	V//////	•

Exhibit 16

Andrew's Capital Loss Carryover Worksheet

	Capital Loss Carryover Worksheet—Line 18	naucoess in
	nis worksheet to figure your capital loss carryovers from 2003 to 2004 if Schedule D, line 18, is a loss and er loss than the loss on Schedule D, line 17a, or (b) Form 1040, line 38, is a loss. Otherwise, you do not h	
1.	Enter the amount from Form 1040, line 38. If a loss, enclose the amount in parentheses	1.
2.	Enter the loss from Schedule D, line 18, as a positive amount	2.
3.	Combine lines 1 and 2. If zero or less, enter -0-	3.
4.	Enter the smaller of line 2 or line 3	
	If line 7b of Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.	1,000,000
5.	Enter the loss from Schedule D, line 7b, as a positive amount	5.
6.	Enter any gain from Schedule D, line 16	
7.	Add lines 4 and 6	7.
8.	Short-term capital loss carryover to 2004. Subtract line 7 from line 5. If zero or less, enter -0	8.
9.	Enter the loss from Schedule D, line 16, as a positive amount.	9.
10.	Enter any gain from Schedule D, line 7b	71202
11.	Subtract line 5 from line 4. If zero or less, enter -0	
12.	Add lines 10 and 11	12.
13.	Long-term capital loss carryover to 2004. Subtract line 12 from line 9. If zero or less, enter -0-	13.

This exercise and the next one review the concepts covered in this lesson. They will measure your ability to apply what you have learned.

Matthew has a Form 1099-B from Broker One, who reported gross proceeds:

Stock	Date Sold	Sales Price
100 sh MNO	2/8/03	\$5,050
500 sh ZYX	8/7/03	5,250

Broker One reported sales commissions to Matthew separately. They were:

MNO: \$50 ZYX; \$200

Matthew also has a Form 1099-B from Broker Two, who reported net proceeds:

Stock	Date Sold	Sales Price
200 sh BCA	8/7/03	\$4,000
300 sh JKL	8/7/03	5,910

Matthew gave you the following information about the stocks he sold:

- He paid \$6,940, plus a \$60 commission, to buy the MNO stock on February 9, 2002.
- He bought the ZYX on March 11, 2000, for \$5,200, plus a \$100 commission.
- He paid \$3,900, plus a \$50 commission, to buy the BCA stock on January 29, 2003.
- He bought the JKL on June 26, 2001, for \$6,300, plus a \$30 commission.

Matthew's filing status is head of household. His Form 1040, line 40, shows \$55,282. When you look at Matthew's Form 1040 and Capital Loss Carryover Worksheet from 2002, you see that he has a \$450 short-term loss and a \$325 long-term loss that he can carry over to his 2003 return.

Use this information to complete Matthew's Schedule D, Parts I, II, and III, and his Form 1040, line 13a, for 2003. Also complete the *Capital Loss Carryover Worksheet* to figure how much capital loss he can carry over to 2004.

SCHEDULE D (Form 1040)

Capital Gains and Losses

OMB No. 1545-0074 Attachment

► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040). Department of the Treasury ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8. Sequence No. 12 Internal Revenue Service Name(s) shown on Form 1040 Your social security number xx xxxx Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less (d) Sales price (see page D-5 of (e) Cost or other basis (see page D-5 of the instructions) (f) Gain or (loss) for the entire year Subtract (e) from (d) (b) Date (g) Post-May 5 gain (a) Description of property (c) Date sold acquired (Mo., day, yr. or (loss) (Example: 100 sh. XYZ Co.) (Mo., day, yr.) the instructions) (see below) 2 Enter your short-term totals, if any, from Schedule D-1, line 2 Total short-term sales price amounts. Add lines 1 and 2 in column (d) 3 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts 5 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 6 2002 Capital Loss Carryover Worksheet . . . 7a Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. Do not enter more than zero 7a b Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f) . 7b Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year (e) Cost or other basis (see page D-5 of the instructions) (f) Gain or (loss) for the entire year Subtract (e) from (d) (d) Sales price (see page D-5 of (g) Post-May 5 gain or (loss)* (a) Description of property (Example: 100 sh. XYZ Co.) (c) Date sold acquired (Mo., day, yr.) (Mo., day, yr.) the instructions) (see below) 8 Enter your long-term totals, if any, from 9 Schedule D-1, line 9 Total long-term sales price amounts. Add lines 8 and 9 in column (d) Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and 11 long-term gain or (loss) from Forms 4684, 6781, and 8824 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts 12 13 Capital gain distributions. See page D-1 of the instructions Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 14 15 Combine lines 8 through 13 in column (g). If zero or less, enter -0-

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) after May 5, 2003. However, do not include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

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Next: Go to Part III on the back.

Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f)

Cat. No. 11338H

Exhibit 18

(B) Complete this form.

Schedule D, Part III

Sche	dule D (Form 1040) 2003		Page 2
Pa	rt III Taxable Gain or Deductible Loss		
17a	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	17a	
b	Combine lines 7a and 15. If zero or less, enter -0 Then complete Form 1040 through line 40.	17b	
	 Next: • If both lines 16 and 17a of Schedule D are gains or you have qualified dividends on Form 1040, line 9b, complete Part IV below (unless Form 1040, line 40, is zero). • Otherwise, skip the rest of Schedule D and complete Form 1040. 		
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the smaller of (a) that loss or (b) (\$3,000) (or, if married filing separately, (\$1,500)) (see page D-6 of the instructions)	18)
	 Next: • If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete Part IV below (but skip lines 19 and 20). • Otherwise, skip Part IV below and complete the rest of Form 1040. 		

Exhibit 19

(C) Complete this line on Matthew's Form 1040.

Form 1040, line 13a

13a	Capital gain or (loss). Attach Schedule D if required. If not required, check here	<u> </u>	13a	
		. —		

Exhibit 20

 $(D) \ Complete \ this \ worksheet.$

Capital Loss Carryover Worksheet

Capital Loss Carryover Worksheet—Line 18	₽'
se this worksheet to figure your capital loss carryovers from 2003 to 2004 if Schedule D, line 18, is a loss and naller loss than the loss on Schedule D, line 17a, or (b) Form 1040, line 38, is a loss. Otherwise, you do not t	
1. Enter the amount from Form 1040, line 38. If a loss, enclose the amount in parentheses	1.
2. Enter the loss from Schedule D, line 18, as a positive amount	2.
3. Combine lines 1 and 2. If zero or less, enter-0-	
4. Enter the smaller of line 2 or line 3	4.
If line 7b of Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.	
5. Enter the loss from Schedule D, line 7b, as a positive amount	5.
6. Enter any gain from Schedule D, line 16	
7. Add lines 4 and 6	7.
8. Short-term capital loss carryover to 2004. Subtract line 7 from line 5. If zero or less, enter -0	8.
If line 16 of Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.	90.
9. Enter the loss from Schedule D, line 16, as a positive amount	9.
10. Enter any gain from Schedule D, line 7b	
11. Subtract line 5 from line 4. If zero or less, enter -0	*
12. Add lines 10 and 11	
13. Long-term capital loss carryover to 2004. Subtract line 12 from line 9. If zero or less, enter -0	

Katherine has two Forms 1099-B. They show:

From Broker No. 1 (gross proceeds reported):

Stock	Date Sold	Sales Price
100 sh LMN	4/20/03	\$3,000
50 sh PQR	4/17/03	2,600
500 OLE	6/17/03	7,800

Expenses for selling the stock through Broker No. 1 (reported to Katherine separately from Form 1099-B) were:

On the sale of: LMN stock: \$175 PQR stock: \$105 OLE: \$590 From Broker No. 2 (net proceeds reported):

Stock	Date Sold	Sales Price
75 sh ABC	1/24/03	\$2,500
125 sh XYZ	3/22/03	6,000

Katherine gave you the following information about these stocks:

- She bought 100 shares of LMN stock on March 6, 2000, for \$12.50 a share (\$1,250), plus a 10% broker's commission (\$125).
- She bought 200 shares of PQR stock on January 8, 2003, for \$14 a share (\$2,800), plus a 10% broker's commission (\$280).
- Katherine bought OLE stock on two dates. On November 27, 2000, she bought 800 shares for \$10 a share (\$8,000), plus 10% broker's commission (\$800). On March 6, 2002, she bought 600 more shares for \$18 a share (\$10,800), plus a 10% broker's commission (\$1,080). When Katherine sold 500 shares of OLE in 2002, she did not specify which block they came from.
- Katherine bought 100 shares of ABC on October 15, 1999, for \$72 a share (\$7,200), plus a 5% broker's commission (\$360). On May 8, 2000, the stock split two-for-one, so Katherine owned 200 shares after the split.
- She bought 125 shares of XYZ stock on October 26, 2002, for \$74 a share (\$9,250), plus a broker's commission of \$250.

Katherine also gave you a Form 1099-DIV from the Acme Mutual Fund. It showed \$1,050 in total capital gain distributions. From Katherine's tax return and worksheets for last year (2002), you found she has a \$150 long-term capital loss carryover from 2002 to 2003.

Complete Katherine's Schedule D, Parts I through IV, and her Form 1040, lines 13 and 42. She is single, and her taxable income shown on line 40 of her Form 1040 is \$61,221.

(A) Complete this form.

Pa	rt I Short-Term Car	oital Gains a	nd Los	ses-	-Assets He	ld O	ne Year or	Less	i	
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired	(c) Date (Mo., da	sold	(d) Sales pr (see page D-	ice 5 of	(e) Cost or othe (see page D-5	r basis of the	(f) Gain or (loss) for the entire year	or (loss)*
1	(2.44.11.51.11.12.11.11.12.11.11.11.11.11.11.11.11	(Mo., day, yr.)	(11101) da	,, ,,	the instruction	ons)	instruction	s)	Subtract (e) from (d)	(see below)
_										
				1						
2	Enter your short-term Schedule D-1, line 2.			2						
3	Total short-term sale Add lines 1 and 2 in colu			3	10					
4	Short-term gain from For							4		
5	6781, and 8824	es) from partne						-		
3	,					ац е 5,		5		
6	Short-term capital loss			-	, if any, from	line	8 of your			
7-	2002 Capital Loss Carry Combine lines 1 through) Man wan da	6	(///////////////////////////////////	
/a	Otherwise, enter -0 Do						ine resuit.	7a		()
	Net short-term capital	gain or (loss).	Combin	e line	s 1 through 6	in c	olumn (f) .	7b		
Pa	rt II Long-Term Cap		nd Loss	es-						I() 5 . 14 . 5 .
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date (Mo., da		(d) Sales processes (see page D- the instruction	5 of	(see page D-5 instruction	of the	(f) Gain or (loss) for the entire year Subtract (e) from (d)	(g) Post-May 5 gain or (loss)* (see below)
8		.dolo								
	19									
9	Enter your long-term	totals, if any	, from							
	Schedule D-1, line 9			9						
10	Total long-term sale	-		10						
11	Add lines 8 and 9 in colu Gain from Form 4797, F	` '			L Forms 2/39	and	<i>y////////////////////////////////////</i>	<i>(///////</i>		
•••	long-term gain or (loss) f	. 0	•					11		
12	Net long-term gain or (los							40		
10	from Schedule(s) K-1. Capital gain distributions							12		
13 14	Long-term capital loss of					 line	 13 of your			
	2002 Capital Loss Carryo							14	()	
								45		
15	Combine lines 8 through	13 in column	(g). If zei	o or	less, enter -C			15	<u> </u>	
16	Net long-term capital g Next: Go to Part III on the	gain or (loss). ne back.	Combine	e line	s 8 through	I4 in	column (f)	16		
	lude in column (g) all gains ar	nd losses from c								
Mav	5, 2003. However, do not in									(as defined on page
	of the instructions) or eligible	dain on dualitied	g small bi	ısınes	s stock (see na	ade D	-4 of the instru	CHOIS	1.	

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Cat. No. 11338I

(B) Complete this form.

Sched	dule D (Form 1040) 2003	Page 2
Par	t III Taxable Gain or Deductible Loss	
17a	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	17a
b	Combine lines 7a and 15. If zero or less, enter -0 Then complete Form 1040 through line 40 .	17b
	Next: ● If both lines 16 and 17a of Schedule D are gains or you have qualified dividends on	
	Form 1040, line 9b, complete Part IV below (unless Form 1040, line 40, is zero).	
	Otherwise, skip the rest of Schedule D and complete Form 1040.	
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the smaller of (a) that loss or (b) (62,000) (or, if married filling consentable (61,500)) (or, page D. 6 of the instructions)	18 (
	(b) (\$3,000) (or, if married filing separately, (\$1,500)) (see page D-6 of the instructions) Next: • If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through	
	line 40, and then complete Part IV below (but skip lines 19 and 20).	
	Otherwise, skip Part IV below and complete the rest of Form 1040.	
Par	t IV Tax Computation Using Maximum Capital Gains Rates	
	If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to	
19	Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6 . $$.	19
20	Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions	20
	If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 of	of the instructions to figure
21	the amount to enter on lines 35 and 53 below, and skip all other lines below. Enter your taxable income from Form 1040, line 40	21
22	Enter the smaller of line 16 or line 17a, but not less than zero	
23	Enter your qualified dividends from Form 1040, line 9b	
24	Add lines 22 and 23	
25	Amount from line 4g of Form 4952 (investment interest expense) 25	
26	Subtract line 25 from line 24. If zero or less, enter -0	26
27	Subtract line 26 from line 21. If zero or less, enter -0	27
28	Enter the smaller of line 21 or:	<i>\(\(\)</i> \\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\
	 \$56,800 if married filing jointly or qualifying widow(er); \$28,400 if single or married filing separately; or 	<i>\(\(\)\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\</i>
	• \$38,050 if head of household	<i></i>
	If line 27 is more than line 28, skip lines 29–39 and go to line 40.	<i>\(\(\(\)</i>
29	Enter the amount from line 27	
30	Subtract line 29 from line 28. If zero or less, go to line 40	_\(\)\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\
31	Add lines 17b and 23*	<i>\(\(\(\)</i>
32	Enter the smaller of line 30 or line 31	
33	Multiply line 32 by 5% (.05)	
34	Subtract line 32 from line 30	
35	Enter your qualified 5-year gain, if any, from	
	line 8 of the worksheet on page D-8 35	
36	Enter the smaller of line 34 or line 35	
37	Multiply line 36 by 8% (.08)	37
38	Cubitact into Content into Cont	39
39	Multiply line 38 by 10% (.10)	
40	Enter the smaller of line 21 or line 26	
41	Enter the amount from line 30 (if line 30 is blank, enter -0-) 41	
42	Subtract line 41 from line 40	
43	Add lines 17b and 23*	
44	Enter the amount from line 32 (if line 32 is blank, enter -0-)	
45	Subtract line 44 from line 43	
46 47	Enter the smaller of line 42 or line 45	47
47 48	Subtract line 46 from line 42	
49	Multiply line 48 by 20% (.20)	49
50	Figure the tax on the amount on line 27. Use the Tax Table or Tax Rate Schedules, whichever applies	50
51	Add lines 33, 37, 39, 47, 49, and 50	51
52	Figure the tax on the amount on line 21 . Use the Tax Table or Tax Rate Schedules, whichever applies	52
53	Tax on all taxable income. Enter the smaller of line 51 or line 52 here and on Form 1040, line 41	53
*If line	e 25 is more than zero, see Lines 31 and 43 on page D-9 for the amount to enter. R	Schedule D (Form 1040) 2003

13a		13a	
40	Taxable income. Subtract line 39 from line 38. If line 39 is more than line 38. enter -0-	40	
41	Tax (see page 36). Check if any tax is from: a ☐ Form(s) 8814 b ☐ Form 4972	41	
1		40	

▶ ► Summing Up This Lesson **◄**

To figure and properly report a taxpayer's gain or loss on a sale of stock, you need to know:

- 1. Sales price (reported to the taxpayer and to the IRS on Form 1099-B),
- 2. Adjusted basis, and
- 3. Holding period.

To determine gain or loss, subtract adjusted basis from sales price. The holding period determines whether the gain or loss is long-term or short-term. Long-term capital gains are generally taxed at lower rates than short-term capital gains. In 2003, capital gains will be subject to different tax rates depending on the date of the sale. Transactions completed after May 5, 2003 will be taxed at a different rate than transactions completed before May 6, 2003.

Use Schedule D, Parts I though IV, to figure capital gain or loss and the correct tax. Be sure the total sales price you report on line 3 plus line 10 of Schedule D is the same as the total sales price from all the taxpayer's Forms 1099-B, box 2.

Include capital gain distributions (reported to the taxpayer and to IRS on Form 1099-DIV) in the computation of longterm capital gains. Show them on Schedule D, Part II, line 13. Report capital gains distributions directly on Form 1040, line 13a (or on Form 1040A, line 10), if a Schedule D is not required to be completed for the gain or loss on a sale of stock.

A taxpayer can deduct up to \$3,000 (\$1,500 for a married taxpayer filing separately) in net capital loss for the year. The taxpayer can carry over any remaining loss to the next year. If the taxpayer has a carryover loss from 2002, include it on Schedule D, Part I, line 6, or Part II, line 14. The *Capital Loss Carryover Worksheet*, in the Schedule D instructions, can help you figure the carryover amount for 2004.

Report capital gain or loss on Form 1040, line 13a.

- A. 1. \$2,550. [(\$5,000 + \$100) $\div 1,000$] x 500 = \$2,550
 - 2. Long-term.
 - 3. \$3,255. \$3,300 \$45 = \$3,255
- B. 1. \$3,550. \$3,500 + \$50 = \$3,550
 - 2. Short-term.
- C. 1. \$5,000. $[(\$9,965 + \$35) \div 200] \times 100 = \$5,000$
 - 2. Long-term.
 - 3. \$6,440. \$6,470 \$30 = \$6,440

Exercise 2

- A. 1. Loss.
 - 2. $\$1,200.\ \$7,800 [(\$15,000 \div 1,000) \times 600] = (\$1,200)$
 - 3. Short-term.
- B. 1. Gain.
 - 2. \$450. \$2,000 (\$1,500 + \$25 + \$25) = \$450
 - 3. Long-term.

Exercise 3 Jane's Schedule D, Parts I and II

		(h) Data			-Assets Hel					(a) Doot May 5 main
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date (Mo., day		(d) Sales pri (see page D-s the instructio	of	(e) Cost or othe (see page D-5 instruction	of the	(f) Gain or (loss) for the entire year Subtract (e) from (d)	or (loss)*
1	500 sh. LSR	1/12/02	1/4/	03	4,000.	00	9,000	00	(5,000.00)	
	250 sh. BGI	3/11/02	2/12/	03	10,000	00	2,500	00	7,500.00	
2	Enter your short-term Schedule D-1, line 2.		,	2						
3	Total short-term sale Add lines 1 and 2 in colu			3	14,000	00				
4	Short-term gain from Fo 6781, and 8824		hort-tern		or (loss) from	n Fo	rms 4684,	4		
5	Net short-term gain or (lo		erships, S	corp		ates,	and trusts	5		
6	Short-term capital loss 2002 Capital Loss Carry	carryover. Ente	er the an	nount	, if any, from	line	8 of your	6	(
7a	Combine lines 1 through Otherwise, enter -0 Do	5 in column	(g). If the	resu		nter	the result.	7a		(
	Net short-term capital	gain or (loss).	Combin	e line:				7b	2,500.00	
Pai	rt II Long-Term Car	bital Gains and (b) Date					ore Than O			(g) Post-May 5 gair
	(a) Description of property (Example: 100 sh. XYZ Co.)	acquired (Mo., day, yr.)	(c) Date (Mo., day		(d) Sales pri (see page D-5 the instructio	of ns)	(see page D-5 instruction	of the	the entire year Subtract (e) from (d)	or (loss)*
8	75 sh. ABC	1/22/01	1/29/0	03	2,000	00	7,500	00	(5,500,00)	
	400 sh. XYZ	12/3/99	3/6/0	3	15,000	00	10,000	00	5,000.00	
	100 sh. DEF	4/2/99	1/16/	03	1,200	00	2,000	00	(800.00)	,
							\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \	(//////		
9	Enter your long-term Schedule D-1, line 9.			9						
0	Total long-term sale Add lines 8 and 9 in colu	•		10	18,200.	00				
1	Gain from Form 4797, Flong-term gain or (loss)							11		
2	Net long-term gain or (lo from Schedule(s) K-1.		erships, S	corp	orations, esta	ites,	and trusts	12		
3	Capital gain distributions							13	1,200,00	
4	Long-term capital loss of 2002 Capital Loss Carry			ount,	if any, from	ine	13 of your	14		
5	Combine lines 8 through	13 in column	(g). If zer	o or l	ess, enter -0-	٠.		15		
6	Net long-term capital g		Combine	e lines	s 8 through 1	4 in	column (f)	16	(100.00)	

For Paperwork Reduction Act Notice, see Form 1040 instructions.

(A) 1. Form 1040, line 13: \$3,200

For Paperwork Reduction Act Notice, see Form 1040 instructions.

2. Form 1040, line 41: \$12,766

(B) Melvin's Schedule D, Page 1

Pai	rt I Short-Term Ca	pital Gains a	nd Loss	ses-	-Assets He	d O	ne Year or	Less	<u> </u>			
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date (Mo., day		(d) Sales pri (see page D- the instruction	5 of	(e) Cost or othe (see page D-5 instruction	of the	(f) Gain or (los the entire y Subtract (e) fro	ear	(g) Post-May s or (loss)' (see below	
1	50 sh. ABC	3/15/03	7/26	/03	4,000	00	5,000	00	(1,000	.00)	(1,000	.00)
	200 sh. MLG	5/10/03	6/7/0	3	1,200.	00	1,000	00	200	00	200	.00
2	Enter your short-term Schedule D-1, line 2.			2								
3	Total short-term sale Add lines 1 and 2 in colu	es price an	nounts.	3 (5,200.	00						
4	Short-term gain from Fo 6781, and 8824	rm 6252 and s	hort-tern			n Fo	orms 4684,	4				
5	Net short-term gain or (lo		erships, S	corp	orations, esta	ates,	and trusts	5			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
6	Short-term capital loss 2002 Capital Loss Carry	carryover. Ente	er the an	nount 	, if any, from		2	6	()		
	Combine lines 1 through Otherwise, enter -0 Do	not enter mor	e than ze	ero				7a			()
	Net short-term capital rt II Long-Term Cap							7b ne Y	(800 ear	(00)		
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date (Mo., day		(d) Sales pri (see page D- the instruction	5 of	(e) Cost or othe (see page D-5 instruction	of the	(f) Gain or (los the entire y Subtract (e) fro	ear	(g) Post-May s or (loss)' (see below	, •
8	150 sh. XYZ	4/17/00	3/8/0	3	5,500.	00	6,000	.00	(500	00)	(500	00)
	300 sh. MLS	1/13/98	6/19/0	03	6,000.	00	3,000	00	3,000	00	3,000	00
9	Enter your long-term Schedule D-1, line 9.			9								
10	Total long-term sale Add lines 8 and 9 in colu	s price am	nounts.	10	11,500.	00						
11	Gain from Form 4797, Flong-term gain or (loss) f							11				
12	Net long-term gain or (lo from Schedule(s) K-1.		erships, S		orations, esta	ates,	and trusts	12				
13	Capital gain distributions	s. See page D-	1 of the	instru	ctions .			13	1,500	.00		7/////
14	Long-term capital loss of 2002 Capital Loss Carry						13 of your 	14	 /////////////////////////////////)		
15	Combine lines 8 through	13 in column	(g). If zer	o or l	less, enter -0			15			3,000	00
16	Net long-term capital on the Next: Go to Part III on the		Combine	lines	s 8 through 1	4 in	column (f)	16	4,000	.00		
May	ude in column (g) all gains at 5, 2003. However, do not in of the instructions) or eligible	clude gain attrib	outable to	unrec	aptured section	n 12	50 gain, "colle	ctibles	gains and lo			

Cat. No. 11338H

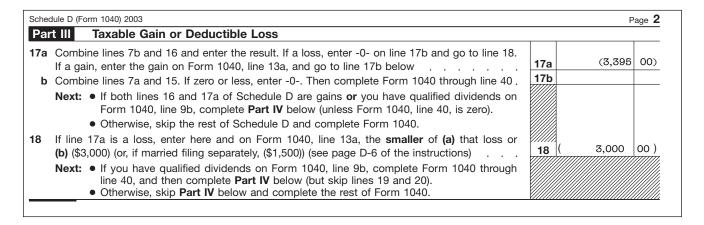
(C) Melvin's Schedule D, Page 2

Sche	dule D (Form 1040) 2003		Р	age 2
Pai	t III Taxable Gain or Deductible Loss			
17a	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18.			
	If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	17a	3,200	00
b	Combine lines 7a and 15. If zero or less, enter -0 Then complete Form 1040 through line 40.	17b		
_	Next: • If both lines 16 and 17a of Schedule D are gains or you have qualified dividends on			
	Form 1040, line 9b, complete Part IV below (unless Form 1040, line 40, is zero).			
	 Otherwise, skip the rest of Schedule D and complete Form 1040. 			
40				
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the smaller of (a) that loss or	18	()
	(b) (\$3,000) (or, if married filing separately, (\$1,500)) (see page D-6 of the instructions)			
	Next: • If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through			
	line 40, and then complete Part IV below (but skip lines 19 and 20). • Otherwise, skip Part IV below and complete the rest of Form 1040.			
Por		<u> </u>		
Га	·	D	10	
	If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to	1	19.	
19	Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6	19		-
20	Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions	20		
	If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 o	f the i	instructions to f	igure
	the amount to enter on lines 35 and 53 below, and skip all other lines below.		02.001	00
21	Enter your taxable income from Form 1040, line 40	21	67,001	00
22	Enter the smaller of line 16 or line 17a, but not less than zero 22 3,200 00	<i>\\\\\\</i>		
23	Enter your qualified dividends from Form 1040, line 9b			
24	Add lines 22 and 23			
25	Amount from line 4g of Form 4952 (investment interest expense) 25 0 00			
26	Subtract line 25 from line 24. If zero or less, enter -0	26	3,200	00
27	Subtract line 26 from line 21. If zero or less, enter -0-	27	63,801	00
28	Enter the smaller of line 21 or:			
	• \$56,800 if married filing jointly or qualifying widow(er);			
	• \$28,400 if single or married filing separately; or			
	• \$38,050 if head of household			
	If line 27 is more than line 28, skip lines 29–39 and go to line 40.		X/////////////////////////////////////	
29	63,801 00			
30	Subtract line 29 from line 28. If zero or less, go to line 40			
31	Add lines 17b and 23*			
32	Enter the smaller of line 30 or line 31			
33	Multiply line 32 by 5% (.05)	33		
33	If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.			
34	Outstand the CO frame time CO			
	oubtract line of home line of the home services and the home services are the home services and the home services and the home services and the home services are the home services and the home services and the home services are the home services are the home services are the home services and the home services are the home servi			
35	Enter your qualified 5-year gain, if any, from line 8 of the worksheet on page D-8			
26	and a strain training to the page 2 a straining to the page 2 a strain			
36	Enter the smaller of time of a limb oo	37		
37	Multiply line 36 by 8% (.08)			
38		39		
39	Multiply line 38 by 10% (.10)	//////		
40	If lines 26 and 30 are the same, skip lines 40–49 and go to line 50. Enter the smaller of line 21 or line 26			
40	Effect the smaller of line 21 of line 20	<i>\\\\\\</i>		
41	Effet the amount from the 50 kg blank, effet -0-)			
42	Subtract line 41 from line 40			
43	7 dd iirios 17 b drid 20			
44	Enter the different first line of the first of the first of the different first line of the different first line of the			
45	Subtract line 44 from line 43			
46	Enter the smaller of line 42 or line 45	//////	1	
47	Multiply line 46 by 15% (.15)	47		
48	Subtract line 46 from line 42		640	00
49	Multiply line 48 by 20% (.20)	49	040	
50	Figure the tax on the amount on line 27. Use the Tax Table or Tax Rate Schedules, whichever applies	50	12,766	00
51	Add lines 33, 37, 39, 47, 49, and 50	51	13,406	
52	Figure the tax on the amount on line 21. Use the Tax Table or Tax Rate Schedules, whichever applies	52		00
53	Tax on all taxable income. Enter the smaller of line 51 or line 52 here and on Form 1040, line 41	53	12,766	00
*If lin	e 25 is more than zero, see Lines 31 and 43 on page D-9 for the amount to enter. 😝 Printed on recycled paper	Sched	ule D (Form 1040)	2003

(A) Matthew's Schedule D, Parts I and II

	rt I Short-Term Cap			(d) Calaa mi					o) fo:	(g) Post-May 5	. aal
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sol (Mo., day, y		5 of	(e) Cost or other (see page D-5 instructions	of the	(f) Gain or (los the entire y Subtract (e) fro	ear	or (loss)*	
1		(IVIO., day, yr.)		r the instruction)(15)	Instructions	>)	Subtract (e) ire	iii (u)	(see below	')
•	100 sh. MNO	2/9/02	2/8/03	5,050	00	7,050	00	(2000	00)		
		, .,	,,	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		.,		Ç			
	200 sh. BCA	1/29/03	8/7/03	4,000	00	3,950	00	50	00		
						·/////////////////////////////////////	,,,,,,,				
2	Enter your short-term Schedule D-1, line 2			2					·		V////
3	Total short-term sale	es price an									
	Add lines 1 and 2 in colu		–	9,050					<i>\\\\\\\</i>		
4	Short-term gain from For			gain or (loss) from	m Fo	rms 4684,	4				
_							4				
5	Net short-term gain or (lo				ates,	and trusts	5				
6	from Schedule(s) K-1 Short-term capital loss of				 Llind	of your					
0	2002 Capital Loss Carry			unt, ir ariy, iroin	IIIIIe	o or your	6	(450	00)		
7a	Combine lines 1 through			sult is a loss, e	nter	the result.					,,,,,
	Otherwise, enter -0 Do	not enter mor	e than zero				7a			(
	Net short-term capital						7b	(2,400	00)		
Pa:	rt II Long-Term Cap		nd Losses							les a constant	
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sol (Mo., day, y		ice 5 of ons)	(e) Cost or other (see page D-5 instructions	of the	(f) Gain or (los the entire y Subtract (e) fro	eár	(g) Post-May 5 or (loss)* (see below	
8		1012	0 /51 /05					(0.00	00		
	500 sh. ZYX	3/11/00	8/7/03	5,250	00	5,500	00	(250	00)	(250	00
	300 sh. JKL	6/26/01	8/7/03	5,910	00	6.330	00	(420	00)	(420	00
	000 511. 0121	0/80/01	0/1/00	0,510	- 00	0.000	- 00	(180	- 00)	OAF)	- 00
9	Enter your long-term	totals, if any	, from								
	Schedule D-1, line 9			9					· · · · · · · · · · · · · · · · · · ·		
0	Total long-term sale Add lines 8 and 9 in colu	•		11,160	00						
1	Gain from Form 4797, Flong-term gain or (loss) f		•			·	11				
2	Net long-term gain or (los from Schedule(s) K-1.						12				
3	Capital gain distributions	. See page D-	1 of the ins	tructions			13			///////////////////////////////////////	7777
4	Long-term capital loss of	arryover. Ente	r the amou	nt, if any, from	line 1	13 of your		,			
	2002 Capital Loss Carryo	over Workshee	t				14	(325 ////////////////////////////////////	00)		
5	Combine lines 8 through	13 in column	(g). If zero	or less, enter -0			15			(660	00
	Not long torm conital a	ain or (loss)	Combine li	nes 8 through 1	4 in	column (f)	16	(995	00)		
6				3							/////
nc	Next: Go to Part III on the lude in column (g) all gains ar 5, 2003. However, do not in	ne back. nd losses from c	column (f) from	m sales, exchange	es, or		ncludi				

(B) Matthew's Schedule D, Part III



(C) Matthew's Form 1040, Line 13a

Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶	_	13a	(3,000	00)

(D) Matthew's Capital Loss Carryover Worksheet

Capital Loss Carryover Worksheet—Line 18	
se this worksheet to figure your capital loss carryovers from 2003 to 2004 if Schedule D, line 18, is a loss and maller loss than the loss on Schedule D, line 17a, or (b) Form 1040, line 38, is a loss. Otherwise, you do not t	
1. Enter the amount from Form 1040, line 38. If a loss, enclose the amount in parentheses	1.
2. Enter the loss from Schedule D, line 18, as a positive amount	2.
3. Combine lines 1 and 2. It zero or less, enter -0-	3.
4. Enter the smaller of line 2 or line 3	4.
If line 7b of Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.	
5. Enter the loss from Schedule D, line 7b, as a positive amount	5.
Enter any gain from Schedule D, line 16	
7. Add lines 4 and 6	
8. Short-term capital loss carryover to 2004, Subtract line 7 from line 5. If zero or less, enter -0	
If line 16 of Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.	
Enter the loss from Schedule D, line 16, as a positive amount	9.
10. Enter any gain from Schedule D, line 7b	
11. Subtract line 5 from line 4. If zero or less, enter -0	
12. Add lines 10 and 11	12.
13. Long-term capital loss carryover to 2004. Subtract line 12 from line 9. If zero or less, enter -0	

Basis Computations:

•	TB /		_
	IV		
ப	TAT	TTA	

LIVIIV.		
100 shares bought at \$12.50	=	\$1,250
Commission on purchase	=	125
Commission on sale	=	<u>+ 175</u>
Adjusted basis, LMN sold	=	\$1,550
PQR:		
200 shares bought at \$14	=	\$2,800
Commission on purchase	=	<u>+ 280</u>
Total paid for purchase	=	3,080
Divided by number of shares bought		<u>÷ 200</u>
Per share basis after purchase	=	15.40
Times number of shares sold		x 50
	=	770
Commission on sale	=	<u>+ 105</u>
Adjusted basis, PQR sold		\$ 875

OLE: Katherine did not specify which block of stock to sell; the stocks sold are assumed to be from the block purchased first.

800 shares bought at \$10	=	\$8,000
Commission on purchase	=	<u>+ 800</u>
Total paid for purchase	=	8,800
Divided by number of shares bought		<u>÷ 800</u>
Per share basis after purchase	=	11
Times number of shares sold		<u>x 500</u>
	=	5,500
Commission on sale	=	<u>+ 590</u>
Adjusted basis, OLE sold		\$6,090

ABC:		
100 shares bought at \$72	=	\$7,200
Commission on purchase	=	<u>+ 360</u>
Total paid for purchase	=	7,560
Divided by number of shares Katherine held after the two-for-one split		<u>÷ 200</u>
Per share basis after the split	=	37.80
Times number of sheres sold	=	<u>x 75</u>
Adjusted basis, ABC sold	=	\$2,835
XYZ:		
125 shares bought at \$74	=	\$9,250
Commission on purchase	=	<u>+ 250</u>
Adjusted basis, XYZ sold	=	\$9,500

(A) Katherine's Schedule D, Parts I and II

a	Tt Short-Term Ca	(b) Date			(d) Sales pri		(e) Cost or othe			e) for	(g) Post-May 5 g	nair
1	(a) Description of property (Example: 100 sh. XYZ Co.)	acquired (Mo., day, yr.)	(c) Date (Mo., da		(see page D-5 the instruction	of	(see page D-5 instruction	of the	the entire y Subtract (e) from	ear	or (loss)* (see below)	Jan
ı	50 sh. PQR	1/8/03	4/17/	03	2,600.	00	875	.00	1,725	.00		
	125 sh. XYZ	10/26/02	3/22/	′03	6,000.	00	9,500	.00	(3,500	.00)		
2	Enter your short-term Schedule D-1, line 2.			2								_
3	Total short-term sale Add lines 1 and 2 in colu	es price an	nounts.	3	8,600.	00						
4	Short-term gain from Fo. 6781, and 8824	rm 6252 and s	short-terr					4				
5	Net short-term gain or (lo from Schedule(s) K-1	oss) from partne	erships, S	S corp	oorations, esta	ites,	and trusts	5				777.
6	Short-term capital loss 2002 Capital Loss Carry	over Workshee	et				2 · · ·	6	()		
	Otherwise, enter -0 Do Net short-term capital	not enter mo	re than z	ero				7a 7b	1.775	· 00	(mi.
	rt II Long-Term Cap	_ , ,								,00	<u> </u>	<i>Ш</i>
	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date (Mo., da	sold	(d) Sales prid (see page D-5 the instruction	ce of	(e) Cost or othe (see page D-5 instruction	r basis of the		ear	(g) Post-May 5 g or (loss)* (see below)	gai
8	100 sh. LMN	3/6/00	4/20/	03	3,000		1,550		1,450			
	500 sh. OLE	11/27/00	6/17/	03	7,800.	00	6,090	.00	1,710	00		
	75 sh. ABC	10/15/99	1/24/	03	2,500	00	2,835	.00	(335	00)		
9	Enter your long-term			9								
0	Schedule D-1, line 9. Total long-term sale Add lines 8 and 9 in colu	es price an	nounts.	10	13,300.	00						
1	Gain from Form 4797, F	Form 4797, Part I; long-term gain from Forms 2439 and 6252; and					11					
2	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.											
3	Capital gain distributions	s. See page D-	1 of the	instru	ctions			13	1,050	.00		777
4		apital loss carryover. Enter the amount, if any, from line 13 of your Loss Carryover Worksheet										
	Combine lines 8 through	13 in column	(g). If zei	ro or l	ess, enter -0-			15			(150,0	00
5	9				Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f) Next: Go to Part III on the back.							

D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions.

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$(B) \ \ Katherine's \ Schedule \ D, \ Parts \ III \ and \ IV$

Par	ule D (Form 1040) 2003 Taxable Gain or Deductible Loss		Page
			Т
/a	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	17a 1,950	0
h	If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	17b	+
Ь	•		
	Next: • If both lines 16 and 17a of Schedule D are gains or you have qualified dividends on Form 1040, line 9b, complete Part IV below (unless Form 1040, line 40, is zero).		
	 Otherwise, skip the rest of Schedule D and complete Form 1040. 		
0	·		
8	If line 17a is a loss, enter here and on Form 1040, line 13a, the smaller of (a) that loss or (b) (\$3,000) (or, if married filing separately, (\$1,500)) (see page D-6 of the instructions)	18	
	Next: • If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete Part IV below (but skip lines 19 and 20).		
	 Otherwise, skip Part IV below and complete the rest of Form 1040. 		
Par	t IV Tax Computation Using Maximum Capital Gains Rates		,,,,,
	If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to	line 19.	
9	Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6.	19	
0	Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions	20	
•	If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 of		ficu
	the amount to enter on lines 35 and 53 below, and skip all other lines below.	the mondetions to	ngu
1	Enter your taxable income from Form 1040, line 40	21 61,221	. C
2	Enter the smaller of line 16 or line 17a, but not less than zero		
3	Enter your qualified dividends from Form 1040, line 9b		
4	Add lines 22 and 23		
5	Amount from line 4g of Form 4952 (investment interest expense) 25 0 00		
6	Subtract line 25 from line 24. If zero or less, enter -0-	26 1,950) C
7	Subtract line 26 from line 21. If zero or less, enter -0	27 59,271	. C
8	Enter the smaller of line 21 or:		
	• \$56.800 if married filing jointly or qualifying widow(er);		<i>X//</i>
	• \$28,400 if single or married filing separately; or }		
	• \$38,050 if head of household		X//
	If line 27 is more than line 28, skip lines 29-39 and go to line 40.		
9	Enter the amount from line 27		X//
0	Subtract line 29 from line 28. If zero or less, go to line 40		<i>X///</i>
1	Add lines 17b and 23*		<i>X//</i>
2	Enter the smaller of line 30 or line 31		X///
3	Multiply line 32 by 5% (.05)	33	_
	If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.		
4	Subtract line 32 from line 30		
5	Enter your qualified 5-year gain, if any, from		
	line 8 of the worksheet on page D-8 35		
6	Enter the smaller of line 34 or line 35		
7	Multiply line 36 by 8% (.08)	37	+
8	Subtract line 36 from line 34		
9	Multiply line 38 by 10% (.10)	39	+
	If lines 26 and 30 are the same, skip lines 40–49 and go to line 50.		
0	Enter the smaller of line 21 or line 26		
1	Enter the amount from line 30 (if line 30 is blank, enter -0-) 41 0 00		
2	Subtract line 41 from line 40		
3	Add lines 17b and 23*		
4	Enter the amount from line 32 (if line 32 is blank, enter -0-)		
5	Subtract line 44 from line 43		
6	Enter the smaller of line 42 or line 45	//////	
7	Multiply line 46 by 15% (.15)	47	+
8			
9	Multiply line 48 by 20% (.20)	49 390	_
0	Figure the tax on the amount on line 27. Use the Tax Table or Tax Rate Schedules, whichever applies	50 11,629	
1	Add lines 33, 37, 39, 47, 49, and 50	51 12,019	_
2	Figure the tax on the amount on line 21. Use the Tax Table or Tax Rate Schedules, whichever applies	52 12,116	
3	Tax on all taxable income. Enter the smaller of line 51 or line 52 here and on Form 1040, line 41	53 12,019) L

SALE OF STOCK

Answers To Exercises Lesson 11

(C) Katherine's Form 1040, lines 13 and 42

13a	Capital gain or (loss). Attach Schedule D if required. If ne	ot required, check here		13a	1,98	50	00_
44	T	I		41	12.019	00	
41	Tax (see page 36). Check if any tax is from: a Form(s) 8814	b □ Form 4972	· F		-10,0 - 0		-

C.	TUDENT NOTES	

SALE OF HOME

INTRODUCTION AND OBJECTIVES

Introduction

This lesson generally discusses the tax rules that apply when a taxpayer sells his or her **main home** in 2003. The taxpayer's **main home** is the one in which he or she lives most of the time.

A taxpayer does not need to report the sale of his or her main home on his or her tax return if the gain on the sale is less than or equal to an **exclusion amount** (discussed later). Generally, if the taxpayer meets the **ownership and use tests** (discussed later), he or she can exclude any gain from income up to \$250,000 (\$500,000, if married filing jointly).

This lesson does not cover the sale of a main home used as rental property or partially for business.

Objective

At the end of this lesson you will be able to determine the amount of gain a taxpayer may exclude if a primary residence is sold.

MAIN HOME

Only the gain from the sale of the taxpayer's main home is eligible for the rules discussed in this lesson. If a home that is not the taxpayer's main home is sold during the year, the gain generally will have to be reported as income. Any gain that must be reported as income is taxable gain and is reported on Schedule D (Form 1040), *Capital Gains and Losses*. Therefore, a clear understanding of what is, and what is not, an individual's main home is very important.

A **main home** is where the taxpayer lives most of the time. The home does not necessarily have to be a house. A houseboat, a mobile home, a cooperative apartment, or a condominium (house or apartment) may also qualify as a main home. Taxpayers cannot choose which home to designate as their main home. Facts and circumstances determine which home is the main home.

POTENTIAL PITFALLS



A taxpayer's main home is not necessarily a home that is owned by the taxpayer. A rental home may be a main home..

If a taxpayer has more than one home, it is necessary to determine which home he or she lives in most of the time. In many, if not most cases, the taxpayer owns a single home in which he or she lives all the time.

It may seem easy to evaluate this situation, since it is not necessary to determine which home is the main home. However, you must be sure that the owner of a single home also meets the requirement of living in the home most of the time. If not, it cannot be considered the main home.

Never assume that the house sold during the year was the taxpayer's main home, even if the house was the only one owned by the taxpayer. Be sure to check that the house was, in fact, the individual's main home.

Example 1

Lucille owns a home in a Colorado ski area (the ski home). She stays at the ski home most weekends and spends the entire months of December, January, and February there. When she is not at the ski home, she lives in a four-room apartment that she rents in Denver. For over half the year, she lives in Denver. Lucille's main home is her rental apartment in Denver, because she lives there most of the time. This is so even though she does not own the apartment in Denver.

POTENTIAL PITFALLS



If there is a loss on the sale of a taxpayer's main home, the taxpayer cannot deduct it on his or her tax return.

GAIN ON SALE OF MAIN HOME

To figure the gain (or loss) on the sale of the taxpayer's main home, you must know the **selling price**, the **amount realized**, and the **adjusted basis**.

Selling price

The selling price is the total amount the taxpayer (seller) received for his or her main home. It includes money, all notes, mortgages, or other debts taken over by the buyer as part of the sale, and the fair market value of any other property or services that the seller received.

Form 1099-S

If the taxpayer received Form 1099-S, *Proceeds From Real Estate Transactions*, box 1 shows the date of sale (closing) and box 2 shows the **gross proceeds** received from the sale of his or her main home. (Exhibit 1 shows a blank Form 1099-S.) If the taxpayer can exclude the entire gain from a sale in 2003, the person responsible for closing the sale (for example, a real estate broker or settlement agent) generally will not have to report it on Form 1099-S.

Exhibit 1 Form 1099-S

	COR	RECT	ED (if checked)			
FILER'S name, street address, city, s	tate, ZIP code, and telephone no.	1	Date of closing	OMB No. 1545-0997		
		2	Gross proceeds	2003		oceeds From Real state Transactions
		\$	i	Form 1099-S		
FILER'S Federal identification number	TRANSFEROR'S identification number	er 3	Address or legal description			Copy B
TRANSFEROR'S name Street address (including apt. no.)						For Transferor This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be
City, state, and ZIP code		4	Transferor received or will re as part of the consideration		1 1	imposed on you if this item is required to be
Account number (optional)		5 \$	Buyer's part of real estate t	tax		reported and the IRS determines that it has not been reported.
Form 1099-S	(keep	p for y	our records)	Department of the Ti	reasury -	Internal Revenue Service

Amount realized

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

Selling expenses

Selling expenses include commissions, advertising fees, legal fees, and loan charges paid by the seller, such as points (points were discussed in lesson 4).

Adjusted basis

While the taxpayer owned his or her main home, he or she may have made adjustments (increases or decreases) to the **basis**. This adjusted basis is used to figure gain or loss on the sale of the taxpayer's main home. For information on how to figure the home's adjusted basis, see *Basis* in Publication 523.

Amount of gain (or loss)

When you know the amount realized and the home's adjusted basis, you can figure the taxpayer's **gain or loss.** If the amount realized is more than the adjusted basis, the difference is a gain and the taxpayer may be able to exclude all or part of it. If the amount realized is less than the adjusted basis, the difference is a loss. A loss on the sale of the taxpayer's main home cannot be deducted.



A taxpayer cannot exclude the part of any depreciation allowed or allowable for the business use of his or her home.

Refer a taxpaver who used his or her main home for business to a paid professional tax preparer.

AMOUNT OF EXCLUSION

A single homeowner can generally exclude up to \$250,000 of gain from the sale of a main home. A married couple can exclude up to \$500,000 if they meet all of the following conditions.

- 1. They filed a joint return.
- 2. Either spouse or both meet the ownership test.
- 3. Both individuals meet the use test.
- 4. Neither individual excluded gain in the 2 years before the current sale of the home (not counting any sales before May 7, 1997).

For married individuals filing jointly who do not qualify for the \$500,000 exclusion of gain on the sale of a home because they do not satisfy the two-year ownership test, two-year use test, and the prohibition on any other sale or exchange of a residence within the last two years, the limit on the amount of excludable gain should be calculated separately for each spouse. In that case, the maximum exclusion for the couple is equal to the sum of the exclusions to which the spouses would otherwise be entitled if they had not been married.

OWNERSHIP AND USE TESTS

The **exclusion** is allowed each time a taxpayer sells or exchanges his or her main home, but generally no more than once every 2 years. To be eligible, the property must have been:

- 1. Owned by the taxpayer for a combined period of at least 2 years out of a 5-year period ending on the date of sale (the ownership test).
- 2. Lived in as the taxpayer's main home for at least 2 years of that 5-year period (the use test).

Period of ownership and use

The required 2 years of ownership and use do not have to be continuous. The taxpayer meets the tests if the taxpayer can show that he or she owned and lived in the property as his or her main home for either 24 full months or 730 days during the 5-year period. Short temporary absences, even if the property is rented during those absences, are counted as periods of use.

Ownership and use tests can be met during different 2-year periods. However, a taxpayer must meet both tests during the 5year period ending on the date of the sale.

Example 2

In 1995, Helen Jones lived in a rented apartment. The apartment building was later changed to a condominium, and she bought her apartment on December 1, 2000. In 2001, Helen became ill and on April 14 of that year she moved in to her daughter's home. On July 10, 2003, while still living in her daughter's home, she sold her apartment.

Helen can exclude all the gain on the sale of her apartment because she met the ownership and use tests. Her 5-year period is from July 11, 1998, to July 10, 2003, the date she sold the apartment. She owned her apartment from December 1, 2000, to July 10, 2003 (over 2 years). She lived in the apartment from July 11, 1998 (the beginning of the 5-year period), to April 14, 2001 (over 2 years).

Reduced Exclusion

If the property was owned and used as a main home for less than 2 years, a taxpayer may be able to claim a reduced exclusion. If this situation applies to a taxpayer, use the worksheet in Publication 523 to figure how to claim the reduced exclusion.

Example 3

Amanda, who is single, bought her first home in August 2001. In December 2002, the company she worked for notified her that she would be transferred to another town by the end of 2003. She continued to live in the home until June 2003, when she sold it at a gain and moved to the new town. Amanda owned and lived in the home less than 2 years, so she does not meet the ownership and use tests. However, she qualifies to exclude the gain because she sold the home due to a change in place of employment.

PENSION EARNER

Exercise 1

John is single and sold his home in July 2003, for \$300,000. The amount he realized from the sale was \$297,500. His adjusted basis in the home was \$255,500. Assuming he meets the ownership and use tests,

- a. What is the amount of the gain?
- b. What is his exclusion amount?

Exercise 2

Tim owns two homes. One residence is located in St. Louis where he works and the other is located in a resort area approximately 100 miles away. Tim lives in his St. Louis home during the week (Monday through Friday) and travels to his weekend home for Saturday and Sunday. His office allows him to work from home so approximately 5 months of the year he works from his weekend home. Which home is his main home?

TAXWISE HINTS

If a gain on the sale of a main home must be reported on the taxpayer's Form 1040. Link to a Schedule D, enter the description of property, and complete the remaining entries annotated in red. The software will calculate the gain and carry the calculation to the Form 1040.

► SUMMING UP THIS LESSON ◀ ◀

In this lesson you have learned about the simplified rules that apply to homeowners who sell or exchange their principal residence. For more information on the tax rules that apply on the sale of a main home, see Publication 523.

SALE OF HOME

Answers to Exercises

Lesson 12

Exercise 1a. \$42,000 (\$297,500 minus \$255,500)

1b. \$42,000

Exercise 2. His main home is the St. Louis residence.

	STUDENT I	NOTES
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-		

PENSIONS Lesson 13

INTRODUCTION

In this lesson, you will learn about *Pensions and Annuities*.

Pensions and annuities provide cash payments, usually after a person has retired. The payments may be for life or for a fixed period of time. They may begin at retirement or at a specific age.

OBJECTIVES

After completing this lesson, you should be able to:

- Identify different types of Retirement Income
- Determine the taxable portion of the Retirement Income
- Report Retirement Income on the Tax Return
- Explain when a Minimum Distribution is required
- Determine when an adjustment to withholding should be made

DEFINITIONS

A **pension** is generally a series of definitely determinable payments made to an employee or survivor (the beneficiary of a deceased employee's pension) after the employee retires from work. Payments are made regularly and are for past services with an employer. A pension is fully or partially taxable depending on whether the employee contributed to the pension plan. The total amount of the pension will usually depend on how long the taxpayer worked for the company and how much the taxpayer earned over the years.

Employee contributions that are "after-tax" contributions are amounts that the employer usually deducts from wages and deposits them into the pension fund on behalf of the employee. Each year, the employee pays tax on the amount that he or she contributed that year. The employee's contributions are included in his or her Form W-2. Employee contributions are often referred to as the cost of the pension or as the investment in the annuity contract.

Employee contributions that are "before-tax" include amounts deposited to a 401(K) or 403(b) program. Each year, the employee pays income tax on the salary after the "before-tax" contributions have been deducted.

A **disability pension** is generally paid to a taxpayer who retires because of a disability before the minimum retirement age (set by the employer). The disability pension is considered regular pension income when the taxpayer reaches the minimum retirement age.

An **annuity** is a series of payments under a contract from an insurance company, a trust company, or an individual. Annuity payments are made at regular intervals over a period of more than one full year.

An **Individual Retirement Arrangement (IRA)** is a personal savings plan that provides tax advantages for setting money aside for retirement.

Social Security Benefits are payments made under Title II of the Social Security Act. They include old-age, survivors, disability insurance, and some workers' compensation benefits. Social security benefits are reported to the taxpayer on Form SSA-1099, *Social Security Benefit Statement*.

Railroad Retirement Benefits (RRB) are based on the number of months that the taxpayer was working in a job that was covered by the Railroad Retirement Act. The RRA has two components. Tier 1 is the equivalent of Social Security Benefits and Tier 2 is like an employer's pension plan.

There are several other types of pension plans, including 403(b), Keogh, SEP and SIMPLE. Payments from any of these types of plans should be reported to the taxpayer on Form 1099R. You will use this form to prepare the tax return. It is not necessary for you to understand all of the contribution rules associated with the many types of pension plans.

TAKING A LOOK AT THE FORMS

Retirement income may be reported on Form 1099R, Form SSA-1099, Form RRB-1099 or Form RRB-1099-R. Disability income may be reported on Form W-2 or Form 1099R. It is very important to enter all of the required information from these forms when using tax preparation software. This allows the software to do its job and help you with the calculations.

Form 1099-R

The **Form 1099-R** (as seen in Exhibit 1) is used by payers to report distributions from Pensions, Annuities, Retirement or Profit Sharing plans, IRAs, Insurance Contracts etc. While it is important to review all of the boxes on the form, you will be most concerned about the entries in Boxes 1, 2a, 2b, 4, 5, 7 and the little box that indicates whether this is an IRA/SEP/SIMPLE payment.

Exhibit 1

		RECT	ED (if checke	d)					
PAYER'S name, street address,	city, state, and ZIP code	\$	Gross distribut a Taxable amour			IB No. 1545-0119 2003 Form 1099-R		Distributions From nsions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
		\perp	b Taxable amour not determined	i 🗌		Total distribution	n 🔲	Copy B Report this	
PAYER'S Federal identification number	RECIPIENT'S identification number	\$	Capital gain (in in box 2a)	cluded	\$	Federal income withheld	tax	income on you Federal ta return. If thi form show Federal incom	
RECIPIENT'S name		5	or insurance pre		6 \$	Net unrealized appreciation in employer's sec	urities	tax withheld in box 4, attach this copy to your return	
Street address (including apt. no	o.)	7	Distribution code(s)	IRA/ SEP/ SIMPLE	8	Other	%	This information is being furnished to the Interna	
City, state, and ZIP code		9a	Your percentage distribution	of total %	9b \$	Total employee con	tributions	Revenue Service	
Account number (optional)		10 \$		eld	11	State/Payer's s	tate no.	12 State distribution \$	
		13	Local tax withhe	eld	14	Name of localit	у	15 Local distribution \$	
Form 1099-R		\$						\$	

Some 1099-R forms may not look like the one above. Some payer's receive permission to customize the form. In all cases, the box numbers will remain the same.

Exhibit 2 is the instructions for the recipient of the Form 1099-R. While these instructions can be found on the back of copies B and C of the Form 1099-R, the print is small and may be difficult to read. Therefore, we are duplicating the information here in a larger print.

Instructions for Recipient

Generally, distributions from pensions, annuities, profit-sharing and retirement plans (including section 457 state and local government plans), IRAs, insurance contracts, etc., are reported to recipients on Form 1099-R.

Qualified plans. If your annuity starting date is after 1997, you must use the simplified method to figure your taxable amount if your payer did not show the taxable amount in box 2a. See **Pub. 575**, Pension and Annuity Income.

IRAs. For distributions from a traditional individual retirement arrangement (IRA), simplified employee pension (SEP), or savings incentive match plan for employees (SIMPLE), generally the payer is not required to compute the taxable amount. Therefore, the amounts in boxes 1 and 2a will be the same most of the time. See the Form 1040 or 1040A instructions to determine the taxable amount. If you are at least age 70½, you must take minimum distributions from your IRA (other than a Roth IRA). If you do not, you may be subject to a 50% excise tax on the amount that should have been distributed. See Pub. 590, Individual Retirement Arrangements (IRAs), and Pub. 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans), for more information on IRAs.

Roth IRAs. For distributions from a Roth IRA, generally the payer is not required to compute the taxable amount. You must compute any taxable amount on **Form 8606**, Nondeductible IRAs. An amount shown in box 2a may be taxable earnings on an excess contribution.

Loans treated as distributions. If you borrow money from a qualified plan, tax-sheltered annuity, or government plan, you may have to treat the loan as a distribution and include all or part of the amount borrowed in your income. There are exceptions to this rule. If your loan is taxable, Code L will be shown in box 7. See Pub. 575.

Box 1. Shows the total amount you received this year. The amount may have been a direct rollover, a transfer or conversion to a Roth IRA, a recharacterized IRA contribution; or you may have received it as periodic payments, as nonperiodic payments, or as a total distribution. Report the amount on Form 1040 or 1040A on the line for "IRA distributions" or "Pensions and annunities" (or the line for "Taxable amount"), and on Form 8606, whichever applies. However, if this is a lump-sum distribution, report it on Form 4972, Tax on

Lump-Sum Distribution. If you have not reached minimum retirement age, report your disability payments on the line for "Wages, salaries, tips, etc." Also report on that line corrective distributions of excess deferrals, excess contributions, or excess aggregate contributions.

If a life insurance, annuity, or endowment contract was transferred tax free to another trustee or contract issuer, an amount will be shown in this box and Code 6 will be shown in box 7. You need not report this on your tax return.

Box 2a. This part of the distribution is generally taxable. If there is no entry in this box, the payer may not have all the facts needed to figure the taxable amount. In that case, the first box in box 2b should be checked. You may want to get one of the following publications from the IRS to help you figure the taxable amount: Pub. 560, Pub. 571, Tax-Sheltered Annuity Plans (403(b) Plans) for Employees of Public Schools and Certain Tax-Exempt Organizations, Pub. 575, Pub. 590, Pub. 721, Tax Guide to U.S. Civil Service Retirement Benefits, or Pub. 939, General Rule for Pensions and Annuities. For an IRA distribution, see IRAs and Roth IRAs above. For a direct rollover, zero should be shown, and you must enter zero (-0-) on the "Taxable amount" line of your tax return.

If this is a total distribution from a qualified plan (other than an IRA or tax-sheltered annuity) and you were born before January 2, 1936 (or you are the beneficiary of someone born before January 2, 1936), you may be eligible for the 10-year tax option. See the **Instructions** for Form 4972 for more information.

Box 2b. If the first box is checked, the payer was unable to determine the taxable amount, and box 2a should be blank. However, if this is a traditional IRA, SEP, or SIMPLE distribution, then see **IRAs** above. If the second box is checked, the distribution was a total distribution that closed out your account.

Box 3. If you received a lump-sum distribution from a qualified plan and were born before January 2, 1936 (or you are the beneficiary of someone born before January 2, 1936), you may be able to elect to treat this amount as a capital gain on Form 4972 (not on Schedule D (Form 1040)). See the Instructions for Form 4972. For a charitable gift annuity, report as a long-term capital gain on Schedule D (Form 1040).

(Continued on the back of Copy C.)

Instructions for Recipient (Continued)

Box 4. This is the amount of Federal income tax withheld. Include this on your income tax return as tax withheld, and if box 4 shows an amount (other than zero), attach Copy B to your return. Generally, if you will receive payments next year that are not eligible rollover distributions, you can change your withholding or elect not to have income tax withheld by giving the payer Form W-4P, Withholding Certificate for Pension or Annuity Payments.

Box 5. Generally, this shows the employee's investment in the contract (after-tax contributions), if any, recovered tax free this year; the part of premiums paid on commercial annuities or insurance contracts recovered tax free; or the nontaxable part of a charitable gift annuity. This box does not show any IRA contributions.

Box 6. If you received a lump-sum distribution from a qualified plan that includes securities of the employer's company, the net unrealized appreciation (NUA) (any increase in value of such securities while in the trust) is taxed only when you sell the securities unless you choose to include it in your gross income this year. See Pub. 575 and the Instructions for Form 4972. If you did not receive a lump-sum distribution, the amount shown is the NUA attributable to employee contributions, which is not taxed until you sell the securities.

contributions, which is not taxed until you sell the securities. Box 7. The following codes identify the distribution you received. 1-Early distribution, no known exception (in most cases, under age 591/2). See Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts. For a rollover to a traditional IRA of the entire taxable part of the distribution, do not file Form 5329. See the Form 1040/1040A instructions. 2—Early distribution, exception applies (under age 59½)*. 3—Disability*. 4—Death*. 5—Prohibited transaction. 6—Section 1035 exchange (a tax-free exchange of life insurance, annuity, or endowment contracts). 7—Normal distribution. 8—Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in 2003. 9-Cost of current life insurance protection (premiums paid by a trustee or custodian for current insurance protection, taxable to you currently). A-May be eligible for 10-year tax option. See Form 4972. D-Excess contributions plus earnings/excess deferrals taxable in 2001. E—Excess annual additions under section 415 and certain excess amounts under section 403(b) plans. Report on Form 1040/1040A on the line for taxable pension or annuity income*. F-Charitable gift

annuity. G-Direct rollover to a qualified plan, a tax-sheltered annuity, a governmental 457(b) plan, or an IRA. May also include a transfer from a conduit IRA to a qualified plan*. J-Early distribution from a Roth IRA, no known exception (in most cases, under age 591/2). Report on Forms 1040 and 8606 and see Form 5329. I Loans treated as distributions. N-Recharacterized IRA contribution made for 2003 and recharacterized in 2003. Report on 2003 Form 1040/1040A and Form 8606, if applicable. P-Excess contributions plus earnings/excess deferrals taxable in 2002. Q-Roth IRA qualified distribution. You are age 59½ or over and meet the 5-year holding period for a Roth IRA. See the Form 1040/1040A instructions*. R—Recharacterized IRA contribution made for 2002 and recharacterized in 2003. Report on 2002 Form 1040/1040A and Form 8606, if applicable. **S**—Early distribution from a SIMPLE IRA in first 2 years, no known exception (under age 59½). May be subject to an additional 25% tax. See Form 5329. **T**—Roth IRA distribution, exception applies. You are either age 59½ or over or an exception (code 3 or 4) applies. See the Form 1040/1040A instructions.

If the IRA/SEP/SIMPLE box is checked, you have received a traditional IRA, SEP, or SIMPLE distribution.

Box 8. If you received an annuity contract as part of a distribution, the value of the contract is shown. It is not taxable when you receive it and should not be included in boxes 1 and 2a. When you receive periodic payments from the annuity contract, they are taxable at that time. If the distribution is made to more than one person, the percentage of the annuity contract distributed to you is also shown. You will need this information if you use the 10-year tax option (Form 4972).

Box 9a. If a total distribution was made to more than one person, the percentage you received is shown.

Box 9b. For a life annuity from a qualified plan or from a tax-sheltered annuity (with after-tax contributions), an amount may be shown for the employee's total investment in the contract. It is used to compute the taxable part of the distribution. See Pub. 575.

Boxes 10–15. If state or local income tax was withheld from the distribution, these boxes may be completed. Boxes 12 and 15 may show the part of the distribution subject to state and/or local tax.

*You are not required to file Form 5329.

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Alisha received a Form 1099R for 200	03. In box 7 of the form there
is a number 7. What does this mean?	

PENSION EARNER

Form SSA-1099

Every person who received Social Security Benefits will receive a Form SSA-1099. Sometimes the taxpayer does not bring this form with them because they didn't think that their Social Security is taxable. You need to know how much is in box 5 of the Form SSA-1099 to correctly calculate the taxpayers return. You may need to ask the taxpayer to go home and get the form. If the taxpayer did not receive the form or has misplaced it, they can get a printout of benefits from the local Social Security office. The amount in box 5 should be entered in the tax software program, even if the benefits aren't taxable (we will explain later how to determine if the benefits are taxable). This is a critical step to calculating the correct tax.

Exhibit 3

2003 : PART OF	YOUR SOCIAL SECURITY E REVERSE FOR MORE INFO	BENEFITS S RMATION.	SHOWN IN BOX 5 MAY BE TAXABLE INCOME.	
Box 1. Name		Box 2. Beneficiary's Social Security Number		
Box 3. Benefits Paid in 2001	Box 4. Benefits Repaid to SS/	A in 2001	Box 5. Net Benefits for 2001 (Box 3 minus Box 4	
DESCRIPTION OF	AMOUNT IN BOX 3		DESCRIPTION OF AMOUNT IN BOX 4	
		Box 6. Vo	oluntary Federal Income Tax Withholding	
		Box 7. Ac	ddress	
		Box 8. Cla	aim Number (Use this number if you need to contact SSA	

_	A0.0.00 =
	Ralph comes to your site to get help with his taxes. You ask him if he received Social Security benefits. He tells you that he gets the benefits but that they have never been taxable so he didn't bring that information with him. Can you accurately complete his return without the information?

Forms RRB-1099 and Form RRB-1099R

Exercise 2

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

The first category is the amount of tier 1 railroad retirement benefits that equals the social security benefit that a railroad employee or beneficiary would have been entitled to receive under the social security system. This part of the tier 1 benefit is called the "social security equivalent benefit" and is treated for tax purposes like social security benefits. It is shown on the **BLUE** part of the Form RRB-1099, *Payments by the Railroad Retirement Board*. (An example of this form is contained in Publication 915, *Social Security and Tier 1 Railroad Retirement Benefits*.) Use the amount from box 5 of Form RRB-1099 to complete the Social Security worksheet.

The second category contains the rest of the tier 1 benefits, called the "non-social security equivalent benefit," any tier 2 benefits, vested dual benefits, and supplemental annuity benefits. This category of benefits, shown on the **GREEN** part of the Form RRB-1099-R, *Annuities or Pensions by the Railroad Retirement Board*, is treated as an amount received from a qualified employer plan. Vested dual benefits and supplemental annuity benefits are fully taxable pensions. Publication 575, *Pension and Annuity Income* shows an example of this form and explains the items shown on the form.

Exercise 3
Jacob is a retired railroad switchyard operator. He receives Railroad Retirement Benefits. What Railroad Retirement forms does he need to bring with him when he gets his taxes done?

DETERMINING THE TAXABLE PORTION OF THE RETIREMENT INCOME

To make the correct determinations about the taxability of the taxpayer's retirement income, you may need to ask the taxpayer several questions. Be considerate when probing for the information you need to complete the return.

If the taxpayer cannot provide the required information, suggest that the former employer or annuity administrator be contacted. You may want to give the taxpayer a written list of questions that should be answered by the employer.

Pensions In General

Generally, if the taxpayer did not pay any part of the cost of his or her employee pension or annuity and his or her employer did not withhold part of the cost from his or her pay while he or she worked, the amounts received each year are fully taxable.

Example 1

Delilah worked for a software development company for 20 years. She retired in 2003 and she receives a monthly pension of \$1,348. She never contributed to the pension plan while she was working, her employer made all of the contributions. Her pension is fully taxable.

Exercise 4

Dotty worked for the local tire plant for 32 years. She retired in June of 2003 and she receives a monthly pension of \$1,679 (she received 6 payments in 2003). Dotty never contributed to the pension plan. Her employer made all of the contributions. How much of her pension is taxable?

If the taxpayer made contributions to a pension plan with "before tax" dollars, then the entire distribution will be taxable. The contribution that the taxpayer made was with money that had not been taxed. This is common in 401(K) and Thrift Savings plans.

If the taxpayer paid part of the cost of the annuity or pension with "after tax" dollars, he or she is not taxed on the part of the annuity or pension he or she receives that represents a return of his or her cost. Generally, this amount will be clearly stated on the Form 1099R. See the next section for more information on determining the taxable portion of an annuity or pension.

Example 2

Joseph retired in 2003 after working 30 years for a construction company. Each week, he contributed to the Carpenter's Pension Plan. Every year, he paid tax on the gross amount of his salary. His pension contributions were made with dollars that had already been taxed. Joseph's pension payments will be partially taxable.

Partially Taxable Pensions and Annuities Other Than IRAs

General Rule

The General Rule is one of the two methods used to figure the taxfree part of each pension/annuity payment. It is based on the ratio of the investment in the contract to the total expected return.

Most taxpayers who retire after 1996 can no longer use the General Rule. Unless the exception applies, retirees must use the Simplified Method for annuity payments from a qualified plan.

The General Rule must be used if the pension or annuity payment is from a nonqualified plan (for example, a private annuity, a purchased commercial annuity, or a nonqualified employee plan).

The calculation of the taxable portion of a payment under the General Rule is outside of the scope of the volunteer program. However, if the exclusion percentage has already been computed, you can assist the taxpayer with the return.

If you need more information, please see Publication 939, *General Rule for Pensions and Annuities*.

Simplified Method

Under the Simplified Method, the tax-free portion of each pension/ annuity payment is figured by dividing the taxpayer's cost in the contract by the total number of expected monthly payments. For a pension/annuity that is payable for the life of the taxpayer (and his or her beneficiary), the number of expected months is based on the age of the taxpayer and is determined from a table.

Example 3

James retired from a manufacturing plant in 2003. While he was working at the plant, his employer withheld money from each paycheck and sent it to the Engineer's Pension Fund. James will receive a monthly pension payment for the rest of his life. James will use the table at the bottom of the Simplified Method worksheet to determine the number of expected monthly payments.

To determine the taxable portion of a pension or annuity, you will use the Simplified General Rule Worksheet (see Exhibit 4). Once figured, the monthly exclusion amount remains the same even when the pension income increases.

PENSION EARNER

21, 1996, se	be beneficiary of a deceased employee or forme e Pub. 939 to find out if you are entitled to a do you are, include the exclusion in the amount enter	eath benefit exclusion of up to
Note. If you had more than one partially taxable parts on Form 1040, line 16b. Enter the total per		
 Enter your cost in the plan at the annuity: Enter the appropriate number from Table after 1997 and the payments are for your appropriate number from Table 2 below. Divide line 2 by the number on line 3 Multiply line 4 by the number of months your annuity starting date was before 198 line 8. Otherwise, go to line 6 Enter the amount, if any, recovered tax from 1000 to 1000	ts received in 2003. Also, enter this amount on starting date. 1 below. But if your annuity starting date was life and that of your beneficiary, enter the for which this year's payments were made. If 7, skip lines 6 and 7 and enter this amount on the in years after 1986. 1 Enter the result, but not less than zero. Als 8 shows a larger amount, use the amount on this table 1 for Line 3 Above	2 3 4 5 6 7 8. o, enter this amount on s line instead of the
		y starting date was—
IF the age at annuity starting date (see page 26) was	before November 19, 1996, enter on line 3	after November 18, 1996, enter on line 3
55 or under 56–60 61–65 66–70 71 or older	300 260 240 170 120	360 310 260 210 160
	Table 2 for Line 3 Above	
IF the combined ages at annuity starting date (see page 26) were	THEN ento	er on line 3
110 or under 111–120 121–130 131–140		410 360 310

For pensions starting after December 31, 1986, the taxpayer will exclude the nontaxable pension amount until the pension cost is recovered. Once the pension cost is recovered, the entire pension income is taxable.

Example 4

Peter, age 65, receives retirement benefits under a joint and survivor annuity, to be paid over the joint lives of Peter and his wife, Mary, age 62. Peter's annuity starting date is January 1, 2003.

He contributed \$31,000 to a qualified plan and did not receive any distributions before the annuity starting date. Peter receives monthly payments of \$1,200 and his tax-free monthly amount is \$100. Mary will receive monthly survivor benefits of \$600 upon her husband's death.

Exhibit 5

Simplified Method Worksheet from Peter and Mary

 Enter the total pension or annuity paymen Enter the total pension or annuity paymen Enter your cost in the plan at the annuity Enter the appropriate number from Table after 1997 and the payments are for you 	e pension or annuity, figure the taxable part of ension or annuity payments received in 2003 on the received in 2003. Also, enter this amount on starting date.	Form 1040, line 16a.
2. Enter your cost in the plan at the annuity3. Enter the appropriate number from Table after 1997 and the payments are for you	nts received in 2003. Also, enter this amount on	Form 1040, line 16a 1. 14,400
2. Enter your cost in the plan at the annuity3. Enter the appropriate number from Table after 1997 and the payments are for you	starting date	
3. Enter the appropriate number from Table after 1997 and the payments are for you		2. 31,000
after 1997 and the payments are for you	1 below. But if your annuity starting date was	
	r life and that of your beneficiary, enter the	
		4100_
	for which this year's payments were made. If	
line 8 Otherwise go to line 6	87, skip lines 6 and 7 and enter this amount on	5 1 200
	ee in years after 1986	
7. Subtract line 6 from line 2	· · · · · · · · · · · · · · · · · · ·	7. 1.200
9. Taxable amount. Subtract line 8 from lin	ne 1. Enter the result, but not less than zero. Als	o, enter this amount on
	Table 1 for Line 3 Above	
	A NTD	de d'en 1de en
TE the case of amountain stanting data		y starting date was—
IF the age at annuity starting date (see page 26) was	AND your annuit before November 19, 1996, enter on line 3	y starting date was— after November 18, 1996, enter on line 3
	before November 19, 1996,	after November 18, 1996,
(see page 26) was	before November 19, 1996, enter on line 3	after November 18, 1996, enter on line 3
55 or under 56-60 61-65	before November 19, 1996, enter on line 3	after November 18, 1996, enter on line 3
55 or under 56-60 61-65 66-70	before November 19, 1996, enter on line 3	after November 18, 1996, enter on line 3
(see page 26) was 55 or under 56-60 61-65	before November 19, 1996, enter on line 3 300 260 240 170 120	after November 18, 1996, enter on line 3
(see page 26) was 55 or under 56-60 61-65 66-70	before November 19, 1996, enter on line 3	after November 18, 1996, enter on line 3 360 310 260 210
(see page 26) was	before November 19, 1996, enter on line 3 300 260 240 170 120 Table 2 for Line 3 Above	after November 18, 1996, enter on line 3 360 310 260 210 160
(see page 26) was 55 or under 56-60 61-65 66-70 71 or older	before November 19, 1996, enter on line 3 300 260 240 170 120 Table 2 for Line 3 Above	after November 18, 1996, enter on line 3
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(see page 26) was 55 or under 56-60 61-65 66-70 71 or older IF the combined ages at annuity starting date (see page 26) were 110 or under	before November 19, 1996, enter on line 3 300 260 240 170 120 Table 2 for Line 3 Above	after November 18, 1996, enter on line 3 360 310 260 210 160 er on line 3 410
(see page 26) was 55 or under 56-60 61-65 66-70 71 or older IF the combined ages at annuity starting date (see page 26) were 110 or under 111-120	before November 19, 1996, enter on line 3 300 260 240 170 120 Table 2 for Line 3 Above	after November 18, 1996, enter on line 3 360 310 260 210 160 er on line 3 410 360

We use the Simplified Method for Peter because his annuity starting date is after November 18, 1986, and the payments are from a qualified plan. In addition, because his annuity starting date is after December 31, 1997, and his annuity is payable over the lives of more than one annuitant, you must combine his age with his wife's age in completing line 3 of the worksheet.

After Peter has excluded a total of \$31,000 the rest of his retirement benefits will be fully taxable.

Because this is a joint and survivor annuity, if Peter dies before recovering all of the pension cost, his wife will also exclude \$100 from her \$600 monthly payment until the pension cost is fully recovered. If she dies before recovering all of the pension cost, the remaining unrecovered cost will be deducted on her final income tax return as a miscellaneous itemized deduction on Schedule A (Form 1040) (not subject to the 2-percent of adjusted-gross-income limitation).

Exercise 5

George, age 65, began receiving pension income under a joint and survivor annuity. George's annuity starting date is January 1, 2003. George had contributed \$26,000 to a qualified plan and had received no distribution before 2003. George is to receive a monthly retirement benefit of \$1,000 and his wife, age 66, is to receive a monthly survivor benefit of \$500 upon George's death.

Complete the Simplified Method Worksheet for George.

	ee Pub. 939 to find out if you are entitled to a decou are, include the exclusion in the amount ente	
	e pension or annuity, figure the taxable part of eansion or annuity payments received in 2003 on I	
 Enter your cost in the plan at the annuity Enter the appropriate number from Table after 1997 and the payments are for your appropriate number from Table 2 below. Divide line 2 by the number on line 3. Multiply line 4 by the number of months your annuity starting date was before 198 line 8. Otherwise, go to line 6 Enter the amount, if any, recovered tax from 198 subtract line 6 from line 2 Enter the smaller of line 5 or line 7 Taxable amount. Subtract line 8 from line 199 line 2	ats received in 2003. Also, enter this amount on starting date	. 2
	Table 1 for Line 3 Above	9
amount from Form 1099-R	Table 1 for Line 3 Above AND your annuity	starting date was—
amount from Form 1099-R	Table 1 for Line 3 Above	9
amount from Form 1099-R	Table 1 for Line 3 Above AND your annuity before November 19, 1996,	starting date was— after November 18, 1996,
amount from Form 1099-R	Table 1 for Line 3 Above AND your annuity before November 19, 1996, enter on line 3	y starting date was— after November 18, 1996, enter on line 3
amount from Form 1099-R	Table 1 for Line 3 Above AND your annuity before November 19, 1996, enter on line 3 300	y starting date was— after November 18, 1996, enter on line 3 360
amount from Form 1099-R	Table 1 for Line 3 Above AND your annuity before November 19, 1996, enter on line 3 300 260	y starting date was— after November 18, 1996, enter on line 3 360 310
amount from Form 1099-R	Table 1 for Line 3 Above AND your annuity before November 19, 1996, enter on line 3 300 260 240	y starting date was— after November 18, 1996, enter on line 3 360 310 260
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amount from Form 1099-R	Table 1 for Line 3 Above AND your annuity before November 19, 1996, enter on line 3 300 260 240 170 120 Table 2 for Line 3 Above	7 starting date was— after November 18, 1996, enter on line 3 360 310 260 210 160 er on line 3 410
amount from Form 1099-R	Table 1 for Line 3 Above AND your annuity before November 19, 1996, enter on line 3 300 260 240 170 120 Table 2 for Line 3 Above	7 starting date was— after November 18, 1996, enter on line 3 360 310 260 210 160 er on line 3 410 360
amount from Form 1099-R	Table 1 for Line 3 Above AND your annuity before November 19, 1996, enter on line 3 300 260 240 170 120 Table 2 for Line 3 Above	7 starting date was— after November 18, 1996, enter on line 3 360 310 260 210 160 er on line 3 410

Exercise 6

Gustav retired in 2003 at the age of 63. He has never been married. He paid in to his pension with after tax dollars, so part of his pension payments will not be taxable. How many months of life expectancy will you use when you determine the taxable portion of his pension?

13-13

Individual Retirement Arrangement

A taxpayer establishes an **individual retirement arrangement** (**IRA**) and makes *contributions* to it through a bank, credit union, brokerage, or other entity approved by the IRS. Earnings and gains generally accumulate tax free until they are withdrawn as taxable, non-taxable or partly taxable *distributions*.

There are four kinds of IRAs, each of which offer tax advantages.

Traditional IRA

If the taxpayer made **nondeductible** contributions into the IRA, he or she need not pay income tax on those contributions again when receiving them later as part of a distribution from the traditional IRA.

If the taxpayer made nondeductible contributions to a traditional IRA he or she has a cost basis (investment in the contract) equal to the amount of those contributions. The nondeductible contributions are not taxed when they are distributed. They are a return of investment.

Form 8606, *Nondeductible IRAs*, must be completed and attached to the return if the taxpayer received a distribution from a traditional IRA and he or she has ever made a nondeductible contribution to any traditional IRAs.

The taxpayer cannot withdraw only nondeductible contributions from a traditional IRA; if there have been any earnings or gains on contributions or deductible contributions have been made to any traditional IRA, part of each distribution will be taxable.

Example 5

Tyrone contributed \$500 a year to a traditional IRA. Each year he deducted his traditional IRA contribution from his income. This year he received his first distribution from the traditional IRA. It is fully taxable. Tyrone will pay income tax on the distributions he receives which represent the contributions he made and deducted as well as the money the contributions have earned over the years.

Example 6

Dorothy contributed \$750 a year to a traditional IRA. She did not qualify to deduct her contributions from her income. This year she received her first distribution from the traditional IRA. She will pay income tax only on the part of the distribution from the traditional IRA that represents earnings on the contributions. She will use Form 8606, Nondeductible IRAs to determine the taxable portion of her distribution.

Savings Incentive Match Plans for Employees (SIMPLE) IRA

Some employers offer their employees, including a self employed individual, the chance to contribute part of their pay to an IRA as part of a SIMPLE plan. The employer is also generally required to make contributions on behalf of eligible employees. The employee is not currently taxed on his or her contributions when they are paid into the IRA. Distributions from a SIMPLE IRA are generally fully taxable.

Simplified Employee Pension (SEP) IRA

Some employers offer their employees the chance to take part in a SEP. Self employed people also can establish a SEP-IRA for themselves. Generally, SEP-IRA contributions are not included in an employee's income when paid into the IRA. Distributions are generally fully taxable when the employee receives them in later years.

Roth IRA

Contributions to a Roth IRA are not deductible. Distributions from a Roth IRA are tax free if they meet certain conditions, even if they represent earnings that accumulated in the Roth IRA. For the distribution of earnings to be excluded from income, the following requirements must be met:

- 1. The distribution is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for the taxpayer's benefit, and
- 2. The distribution is:
 - a) Made on or after age $59 \frac{1}{2}$,
 - b) made becasue the taxpayer was disabled,
 - c) made to a beneficiary or to an estate, or
 - d) to pay certain qualified first-time homebuyer amounts.

Social Security Benefits

Social security benefits are reported to the taxpayer on Form SSA-1099, Social Security Benefit Statement. Part of the social security benefits or Part of the social security equivalent portion of tier 1 railroad retirement benefits a taxpayer receives may be taxable. The taxable amount, if any, depends upon the rest of the taxpayer's income and filing status.

Generally, if Social Security benefits were the taxpayers only source of income, the benefits are not taxable and the taxpayer probably does not need to file a federal income tax return. If the taxpayer received Social Security benefits plus other income, the answer to how much, if any, is taxable can be found by completing the Social Security Benefits Worksheet.

The *Social Security Benefits Worksheet* is found in the instruction booklets for Forms 1040 and 1040A. The worksheet is also available on tax software packages. If you are using Taxwise you will not

need to complete the worksheet. The software will calculate the taxable portion of the benefits. The worksheet is used to figure the taxable portion of benefits received. Some of the benefits received are taxable if total income, plus one-half of the benefits received, is more than certain **base amounts**. The current base income amounts are:

- \$32,000 if married and filing a joint return
- \$25,000 if taxpayer is filing as single, head of household, or qualifying widow(er) with dependent child
- \$25,000 if married but filing separately, and the taxpayer **did not** live with his or her spouse at any time during 2003
- \$0 if married filing separately, and the taxpayer **did** live with his or her spouse at any time during 2003

The taxable amount of benefits received is figured using the worksheet provided in the instruction booklets for Forms 1040and 1040A. The amount in box 5, Net benefits for 2003, is entered on a worksheet to figure if any of the benefits are taxable. Net benefits are the gross benefits less any repayments made by the taxpayer in the tax year. Make sure you enter only the amount from box 5 of Form SSA-1099 on line 1 of the worksheet or on the tax preparation software.

Example 7

Ray and Susan are married and file a joint Form 1040. Ray is retired and receives a fully taxable pension of \$12,000 (Form 1040, line 16b). Ray received a \$3,000 short-term capital gain from the sale of stock.

Ray also receives social security benefits. His Form SSA-1099 is shown in Exhibit 7. Susan worked and earned wages of \$21,000 (Form 1040, line 7) in 2003. She also contributed \$560 to her traditional IRA (Form 1040, line 23). Susan is not covered at work by a pension plan.

Ray and Susan's completed *Social Security Benefits Worksheet* is shown in Exhibit 8.

Exhibit 7 Ray's Form SSA-1099

	YOUR SOCIAL SECURITY E REVERSE FOR MORE INFO		HOWN IN BOX 5 MAY BE TAXABLE INCOME.
Box 1. Name		Box 2. Be	neficiary's Social Security Number
Ray Maple		х	xx-xx-xxxx
Box 3. Benefits Paid in 2003	Box 4. Benefits Repaid to SSA	A in 2003	Box 5. Net Benefits for 2003 (Box 3 minus Box 4)
\$7,056.00			\$7,056.00
DESCRIPTION OF I	AMOUNT IN BOX 3	5	DESCRIPTION OF AMOUNT IN BOX 4
	Draire		untary Federal Income Tax Withholding
	09	Box 7. Ad	
	09	123	Ash Street Town, IL 00000

Ве	Complete Form 1040, lines 21, 23, 24, and 27 through 32a, if they a Figure any amount to be entered on the dotted line next to line 33 (so the figure any amount to be entered on the dotted line next to line 33 (so the figure any amount to be entered on the dotted line next to line 33 (so the figure any amount to be entered on the dotted line next to line 33 (so the figure any amount to be entered on the dotted line next to line 33 (so the figure any amount to be entered on the dotted line next to line 33 (so the figure any amount to be entered on the dotted line next to line 33 (so the figure any amount to be entered on the dotted line next to line 33 (so the figure any amount to be entered on the dotted line next to line 33 (so the figure any amount to be entered on the dotted line next to line 33 (so the figure any amount to be entered on the dotted line next to line 33 (so the figure any amount to be entered on the dotted line next to line 33 (so the figure any amount to be entered on the dotted line next to line 34 (so the figure any amount to be entered on the dotted line next to line 34 (so the figure any amount to be entered on the dotted line next to line 34 (so the figure any amount to be entered on the dotted line next to line 34 (so the figure any amount to be entered on the dotted line next to line 34 (so the figure any amount to be entered on the dotted line next to line 34 (so the figure any amount to be entered on the dotted line next to line 34 (so the figure any amount to be entered on the dotted line next to line 34 (so the figure any amount to be entered on the dotted line next to line 34 (so the figure any amount to line 34 (so	see page 33 spouse for use this wo	2.) all of
1.	Enter the total amount from box 5 of all your Forms SSA-1099 and Forms		
	RRB-1099		
	Enter one-half of line 1	2	3,528
3.	Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 12, 13a, 14, 15b, 16b, 17 through 19, and 21. Do not include amounts from box 5 of Forms SSA-1099 or		
	RRB-1099	3.	36,000
4.	Enter the amount, if any, from Form 1040, line 8b	4.	
	Add lines 2, 3, and 4	5.	39,528
6.	Enter the total of the amounts from Form 1040, lines 23, 24, and 27 through 32a, plus any		
_	amount you entered on the dotted line next to line 33	6	560
7.	Is the amount on line 6 less than the amount on line 5?		
	No. (STOP) None of your social security benefits are taxable.		
	Yes. Subtract line 6 from line 5	7.	38,968
8.	If you are:		
	Married filing jointly, enter \$32,000		
	• Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2003, enter		
	\$25,000 lived apart from your spouse for all of 2003, enter	8.	32,000
	• Married filing separately and you lived with your spouse at any time in 2003, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17		
9.	Is the amount on line 8 less than the amount on line 7? No. No. None of your social security benefits are taxable. You do not have to enter any amounts on lines 20a or 20b of Form 1040. But if you are married filing separately and you lived apart from your spouse for all of 2003, enter -0- on line 20b. Be sure you entered "D" to the right of the word "benefits" on line 20a.		
	Yes. Subtract line 8 from line 7	9.	6,968
10	Enter: \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying		
	widow(er), or married filing separately and you lived apart from your spouse for all of 2003	10.	12,000
	Subtract line 10 from line 9. If zero or less, enter -0-	11	0
	Enter the smaller of line 9 or line 10	12 13.	
	Enter one-half of line 12	13	3,484
	Enter the smaller of line 2 or line 13	15.	0
	Add lines 14 and 15	16.	3,484
	Multiply line 1 by 85% (.85)	17.	5,998
	Taxable social security benefits. Enter the smaller of line 16 or line 17	18.	3,484
10			
10	• Enter the amount from line 1 above on Form 1040, line 20a.		



earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

Figure 7 Jules and Olga are both over 65 and they both received Social Security benefits. They will file a joint return. They had \$2,093 of tax-exempt interest income. Do you need to include this amount on the Social Security benefits worksheet?

Example 8

Anne and her son, Tony, both receive survivor social security benefits. Anne receives a benefit check for \$400 each month.

A portion of these benefits belongs to Tony. He was sent a Form SSA-1099, which showed \$1,800 of net benefits received. Tony also had \$4,000 income from a summer job and some interest income. When you prepare his tax return, you would complete a *Social Security Benefits Worksheet* for Tony to figure if any of his social security benefits are taxable.

When you complete Anne's tax return, you would include only the \$3,000 of her social security benefits on her worksheet to figure if any of her benefits are taxable.

Exercise 8

Antoinette's husband was killed by a drunk driver. He was only 34 and he left behind three young children in addition to his wife. Each of the three kids will receive Social Security benefits until they turn 18. Antoinette does not receive a survivor's benefit for herself. Since Antoinette will claim the children on her return, should she include the children's Social Security benefits on her return?

If the taxpayer files a joint return, you must combine the income and benefits of both spouses when completing the worksheet. Even if the spouse received no social security benefits, include the spouse's other income when completing the worksheet. If both spouses received benefits, combine both their benefits and income, and complete only one worksheet.

Example 9

Wanda and Dan are both retired and they file a joint return. Wanda received a Form SSA-1099 with an amount of \$4,300 appearing in box 5. Dan retired from the railroad, and box 5 of his Form RRB-1099 shows an amount of \$6,800. Wanda and Dan will use benefits of \$11,100 and only one worksheet to figure if any of their benefits are taxable.

Disability Pension Income

Generally, a taxpayer who retires on disability must include all of his or her disability payments in income. Disability payments are taxed as wages until the taxpayer reaches the minimum retirement age set by the employer. After the taxpayer reaches the minimum retirement age, disability payments are treated as pension income. Minimum retirement age is generally the earliest age at which the taxpayer may receive a pension whether or not disabled.

(Some taxpayers with retirement income may be eligible for the credit for the elderly or the disabled. See Lesson 14 for more information.)

REPORTING THE RETIREMENT INCOME

Reporting Pension Income

Total pension income is entered on Form 1040, line 16a, or Form 1040A, line 12a. The taxable part is entered on Form 1040, line 16b, or on Form 1040A, line 12b. If the pension is fully taxable, enter it on Form 1040, line 16b, or Form 1040A, line 12b and leave Form 1040, line 16a, or Form 1040A, line 12a, blank. Social Security benefits and IRA distributions are not reported on the pension line of the tax return. Later in this lesson, you will learn where to report these payments. If the taxpayer has more than one pension or annuity that is not fully taxable, figure the taxable part of each separately. Enter only totals on the proper lines of Form 1040 and Form 1040A. If you are using tax preparation software, the totals will be computed for you and placed on the appropriate lines, if you correctly enter all of the information from the 1099 forms.

When the taxpayer has more than one pension or annuity, and you are preparing the return by hand, use a separate piece of paper as a worksheet to group together detailed information. Only the summary information is entered on Form 1040 or Form 1040A. The worksheet should be kept for future reference.

Be sure to add the amounts shown on all Forms 1099-R as federal income tax withheld and enter the total on Form 1040, line 62, or on Form 1040A, line 39. The omission of pension withholding is a frequent error that results in an incorrect amount owed or refunded (and an unhappy taxpayer).

Exercise 9

Verna comes to you for help with her tax return. She tells you that she worked for 17 years in a factory and then she worked for 22 years in a state job. She opens up a big brown envelope and takes out many pieces of paper. After you help her sort through the papers, you determine that she had the follwing income:

- Form 1099INT for Interest on her savings \$3,951
- Form 1099INT for Interest on her checking \$504
- Form 1099INT for Interest on her CDs \$1,832
- Form 1099R for Pension from her Factory employer \$2,637 (fully taxable)
- Form 1099R for IRA distribution \$1,030 (fully taxable)
- Form 1099R for Pension from her state employer \$17,044 (she has been getting this for several years and she shows you the simplified general rule worksheet that indicates that \$219 of each monthly payment is non-taxable).
- Form SSA1099 with an amount of \$3,692 in box 5.

She also had receipts for medical bills, prescriptions, real estate taxes and contributions. They totaled \$3,904.

What amount should you enter	on lines 12 a	and 12b of	Verna's
form 1040A?			

DISABILITY REPORTING

An employer may report disability income on Form W-2, Wage and Tax Statement. However, an employer may also report disability income on Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. Enter disability income reported on Form W-2 on line 7 of either Form 1040 or Form 1040A.

If the employer reports disability income on Form 1099-R, Box 2a shows the taxable amount. Check to see if Box 7 (Distribution Code) shows the code number 3 (Disability). If Box 7 indicates that the taxpayer is receiving disability payments, then determine if the taxpayer has reached the minimum retirement age.

1. Until the taxpayer reaches the minimum retirement age, report the disability income as wages on line 7 of Form 1040 or Form 1040A.

2. After the taxpayer has reached the minimum retirement age, report the disability income as a taxable pension. If the disability payments are partially taxable, use lines 16a and 16b (Form 1040) or lines 12a and 12b (Form 1040A). If the payments are fully taxable, enter the taxable amount on line 16b or line 12b; do not make an entry on line 16a or line 12a.

Exercise 10

Annie Jo is 47 years old and she tells you that she has retired on disability from her job. She used to load cargo for a tractor-trailer company, but a large box fell on her and left her paralyzed. She receives a monthly payment from her former employer's pension plan. She has not reached the minimum retirement age set by her company's pension plan. Where should you report her disability income?

Reporting Social Security Benefits

Report taxable social security benefits on Form 1040, line 20b, or Form 1040A, line 14b. Complete the other income and adjustment items on page 1 of Form 1040 or Form 1040A before you use the *Social Security Benefits Worksheet*. Then complete the other lines of the worksheet to figure if any of the benefits are taxable.

If the worksheet shows that no benefits are taxable, leave the line blank for social security benefits on Form 1040 or Form 1040A. Then total page 1 and complete the remainder of the tax return. If you determine that any benefits are taxable, complete line 20 of Form 1040 or line 14 of Form 1040A.

Enter the social security benefits received on Form 1040, line 20a, and enter the taxable portion (from line 18 of the worksheet) on line 20b. On Form 1040A, enter the benefits received on line 14a, and enter the taxable portion of benefits on line 14b.

The taxable portion of social security benefits is never more than 85 percent of the net benefits the taxpayer has received. In many cases, the taxable portion is less than 50 percent.

Exercise 11

Hank comes to your site for some help with his tax return. He is really upset because his neighbor told him that he would have to pay tax on all of his Social Security benefits this year. After talking to Hank, you learn that his wife died in 2002 and that he decided to sell his farm and move into senior housing in 2003. The sale of the farm created \$31,896 of taxable income for Hank. His neighbor told him that with that much income, the entire \$11,724 of his Social Security benefits would be taxable. What is the maximum taxable amount of Hank's benefits?

Reporting IRA Distributions

IRA distributions are reported on Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

Traditional IRA, SIMPLE IRA, or SEP-IRA: Box 7 of Form 1099-R shows "7" as the distribution code for a normal distribution, and the box "IRA/SEP/SIMPLE" is checked. Ask the taxpayer whether he or she deducted all traditional IRA contributions from income in the year they were made. If so, the entire distribution is taxable. Report it on Form 1040A, lines 11a and 11b, or on Form 1040, lines 15a and 15b. Distributions from a SIMPLE IRA and from a SEP-IRA are generally fully taxable.

Exercise 12

Steve and Sally need you to help them with their taxes. They have done most of the work, but they are not sure what to put on lines 11a, 11b, 12a and 12b of their Form 1040A. You look at the 1099R forms that they have brought with them and you make the following observations:

- ABC Pension fully taxable \$4,382
- XYZ Pension partially taxable Gross amount = \$9,202, Taxable portion = \$7,834
- Sally's IRA withdrawal fully taxable \$3,809
- Steve's IRA withdrawal partially taxable Gross amount = \$4,800, Taxable mount \$4,193

What amount should Steve and Sally put on:

Line 11a	
Line 11b	
Line 12a	
Line 12b	

OTHER ISSUES

Premature Distributions

Most distributions (both periodic and lump-sum) from qualified retirement plans made before the taxpayer has reached age 59 1/2 are subject to an additional tax of 10%. The tax applies to the taxable portion of the distribution or payment. Certain early distributions are excepted for the early distribution tax. If the distribution code in box 7 of Form 1099R is 2, 3, or 4, the taxpayer does not have to pay the additional tax. If the Form 1099R shows a code 1 in box 7 you may need to complete Form 5329 to determine the additional tax on the distribution. However, if the taxpayer does not meet one of the exceptions to the additional tax (as noted on Form 5329), you can just enter 10% of the distribution on line 57 of Form 1040.

Lump-sum Distributions

A **lump-sum distribution** is the distribution or payment within one tax year of an employee's entire balance (less deductible voluntary employee contributions and certain amounts forfeited or subject to forfeiture) from all qualified pension, stock bonus, or profit-sharing plans that the employer maintains. To qualify as a lump-sum distribution, the payment must have been made:

- Because the plan participant died, or
- After the participant reached age 59 1/2, or
- Because the participant (not including a self-employed individual) separated from service with the employer, or
- After the participant, if a self-employed individual, becomes totally and permanently disabled.

Lump-sum distributions are reported on Form 1099-R like any other pension distribution. Some lump-sum distributions qualify for special tax treatments. Code A in box 7 of the 1099-R indicates that it is a lump-sum distribution and it qualifies for special tax treatments such as:

- Distributions allocable to pre-1974 participation being taxed at a special rate (there will be an amount in box 3 of Form 1099-R) (The part after 1973 is ordinary income)
- Ten-year tax option of the distributions
- Tax-free rollover of the distribution into an Individual Retirement Arrangement (IRA).

Minimum Distributions

Taxpayers are required to receive **minimum distributions** from qualified employee retirement plans, qualified annuity plans, deferred compensation plans, tax-sheltered annuity plans and Individual Retirement Arrangements (IRAs) other than Roth IRAs.

Distributions must begin by April 1 of the calendar year that follows the calendar year in which the taxpayer reaches age 70 1/2 or retires, if later. (For IRAs, it does not matter whether the taxpayer is employed. Distributions must begin by April 1 of the year following the calendar year in which the taxpayer reaches age 70 1/2.) Required distributions for later years must be made by December 31 of that year.

IMPORTANT! If the taxpayer does not receive the minimum distribution, an excise tax may be imposed. The tax is 50 percent of the difference between the minimum distribution and the amount actually distributed for the tax year.

Exercise 13

Helen turned 71 on March 17, 2004. She retired in 1998. She has never taken any distribution from her traditional IRA accounts. She is asking for your help, because she knows that she will have to take a distribution from the IRA this year. The bank where she has her IRA told her that she needs to take a minimum distribution of \$1,479 per year. What does Helen need to do?

- a) Helen only needs to take a distribution of \$1,479 by 12-31-04.
- b) Helen needs to take a distribution of at least \$1,479 by 4-1-04 and at least another \$1,479 by 12-31-04.
- c) Helen needs to take a distribution of \$2,958 by 12-31-04.
- d) Helen does not need to take any distributions until 2005.

Lump-Sum Benefit Payments

Some taxpayers may have received a **lump-sum benefit payment** in 2003. This payment could be for both the current tax year and the prior tax year. The lump-sum payment will be included in box 3 of the Form SSA-1099 or Form RRB-1099 that the taxpayer receives.

The form will also show the year, or years, of the payment. When figuring the taxable portion of social security benefits, two options are available for lump-sum benefit payments. The first option allows the taxpayer to report the whole payment in 2003, the year it was received. When the taxpayer chooses this option, complete the *Social Security Benefits Worksheet* as usual by including the entire lump-sum payment on line 1.

The taxpayer also has the option of treating the payment as received in the earlier year or years. This is done by figuring whether any part of these benefits is taxable, based on the earlier year's income. Any part that is taxable is then added to any taxable benefits for the current year (2003) and included on Form 1040, line 20b.

If the taxpayer chooses to spread the payments back to earlier years, only 2003 income will be adjusted. The taxpayer does not file amended returns for the earlier years. However, a special procedure *must* be used to figure the taxable portion of the benefits assigned to the earlier years. If the taxpayer wants to use this option, refer him or her to a paid professional tax preparer or to IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*.

IRAs Withdrawal of Excess Contributions

If the taxpayer withdraws excess contributions and any earnings by the due date of the return, he or she will not be subject to an additional 6% tax on the excess contribution. The withdrawal must be completed by the due date of the tax return for that year, including extensions.

The withdrawn excess contribution is not included in the taxpayer's gross income if both of the following conditions are met.1) No deduction was allowed for the excess contribution. 2) All interest or other income earned on the excess contribution is withdrawn. However, the taxpayer must include in his or her gross income the interest or other income that was earned on the excess contribution. Report it on the return for the year in which the excess contribution was made.

The withdrawal of interest or other income may be subject to an additional 10% tax on early withdrawals. Taxpayers will receive Form 1099-R indicating the amount of the withdrawal. If the excess contribution was made in a previous tax year, the form will indicate the year in which the earnings are taxable.

In general, a taxpayer must include all withdrawals from his or her traditional IRA in gross income. However, if the total contributions to an IRA (other than rollover contributions for the year) are \$3,000 or less (\$3,500 or less if taxpayer is age 50 or older), and there are no employer contributions for the year, the taxpayer can withdraw any excess contribution after the due date for filing the tax return for that year, including extensions, and not include the amount withdrawn in his or her gross income.

This applies only to the part of the excess for which the taxpayer did not take a deduction. For more information on excess contributions, see Publication 590.

Pension Withholding and Estimated Tax Payments

Income tax is normally withheld from the taxable part of a pension or annuity. At the taxpayer's request, the payer of the pension or annuity can adjust the withholding amount or stop the withholding completely. Generally, Form W-4P is used to request a change in withholding on a pension. The taxpayer should complete the form

and send it to the payer of the pension. The taxpayer can request withholding from their Social Security benefits by completing Form W-4V, Voluntary Wihholding Request, and filing it with the Social Security Administration.

A taxpayer who chooses not to have tax withheld may have to pay estimated tax. For more information about estimated tax or withholding, see Lesson 7 and Publication 505, *Tax Withholding and Estimated Tax*. Failure to have enough federal income tax paid in throughout the year can result in an estimated tax penalty. Also, it can result in a large amount of tax due when the return is filed. If the taxpayer owes more than \$1,000 on the tax return, you should discuss their withholding and estimated tax options with them.

Exercise 14

FaithMae comes to your site to get her 2003 tax return done. When you finish her return, you explain to her that she owes \$985. You tell her that she needs to pay this amount by April 15, 2004. She says that she will pay the amount, but she wants to know if there is some way to have more tax withheld from her pension so that she doesn't owe so much at the end of the year. What form should she complete to increase the withholding from her pension? Who does she give the form to? _____

Health Coverage Tax Credit

The following information is provided for awareness only. You are not expected to calculate this new credit.

The Health Coverage Tax Credit (HCTC) is a federal tax credit that was established to assist the following groups of people:

- 1. Workers who lose their jobs due to the effects of international trade. The worker must be eligible for either certain Trade Adjustment Assistance benefits or Alternative Trade Adjustment Assistance.
- 2. People who receive benefits from the Pension Benefit Guaranty Corporation (PBGC) and are at least 55 years old.

Taxpayers who are potentially eligible for this credit will be notified by mail. Shortly after the mailing, the HCTC Customer Contact Center will mail the taxpayer a packet describing the program and eligibility requirements.

For additional information on this topic, you can visit the IRS website at: www.irs.gov.

► SUMMING UP THIS LESSON ◀ ◀

Pensions or annuities may have a tax-free portion if the taxpayer made after-tax contributions to the plan.

To determine the taxable portion of the annuity payments of a taxpayer, use:

- **a.** The Simplified Method if the taxpayer's annuity starting date is after November 18, 1996, and annuity payments are from a qualified plan. For annuity starting dates after 1997, use the annuitant's age (or combined ages if more than one annuitant) at the annuity starting date of the taxpayer(s).
- **b.** The General Rule for annuity payments from a nonqualified plan and for certain retirees age 75 or older.
- ➤ Total pension or annuity income and taxable pension or annuity income are entered on Form 1040, lines 16a and 16b, or Form 1040A, lines 12a and 12b.
- ➤ Social security Nontaxable or taxable To determine taxable portion of social security payments received by a taxpayer, use: Social Security Benefits Worksheet.
- ➤ Total social security income and taxable portion are entered on Form 1040, lines 20a and 20b, or Form 1040A, lines 14a and 14b.
- ➤ Federal income tax on pension, annuity and social security income can be withheld by the payer, or the taxpayer may choose to pay estimated tax.





Lesson 13

Answers to Exercises

Exercise 1

The distribution was a "normal distribution".

Exercise 2

No

Exercise 3

Form RRB-1099 and Form RRB 1099-R.

Exercise 4

All of it. \$10,074

Lesson 13 Answers to Exercises

Exercise 5

Before you begin:

If you are the beneficiary of a deceased employee or former employee who died **before** August 21, 1996, see Pub. 939 to find out if you are entitled to a death benefit exclusion of up to \$5,000. If you are, include the exclusion in the amount entered on line 2 below.



Note. If you had more than one partially taxable pension or annuity, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 16b. Enter the total pension or annuity payments received in 2003 on Form 1040, line 16a.

1.	Enter the total pension or annuity payments received in 2003. Also, enter this amount on Form	1040, line 16a	1.	12,000
2.	Enter your cost in the plan at the annuity starting date	226,000		
3.	Enter the appropriate number from Table 1 below. But if your annuity starting date was after 1997 and the payments are for your life and that of your beneficiary, enter the			
	appropriate number from Table 2 below	3260		
4.	Divide line 2 by the number on line 3	4100		
5.	Multiply line 4 by the number of months for which this year's payments were made. If your annuity starting date was before 1987, skip lines 6 and 7 and enter this amount on			
	line 8. Otherwise, go to line 6	5. 1,200		
6.	Enter the amount, if any, recovered tax free in years after 1986	6.		
		7. 1,200		
8.	Enter the smaller of line 5 or line 7		8.	1,200
9.	Taxable amount. Subtract line 8 from line 1. Enter the result, but not less than zero. Also, ent Form 1040, line 16b. If your Form 1099-R shows a larger amount, use the amount on this line			
	amount from Form 1099-R		9.	10,800

Table 1 for Line 3 Above

	AND your annuity starting date was—					
IF the age at annuity starting date (see page 26) was	before November 19, 1996, enter on line 3	after November 18, 1996, enter on line 3				
55 or under	300	360				
56-60	260	310				
61-65	240	260				
66-70	170	210				
71 or older	120	160				

Table 2 for Line 3 Above

IF the combined ages at annuity starting date (see page 26) were	THEN enter on line 3
110 or under	410
111-120	360
121-130	310
131-140	260
141 or older	210

PENSIONS

Answers to Exercises

Lesson 13

Exercise 6

260 months

Exercise 7

Yes

Exercise 8

No

Exercise 9

Line 12a \$19,681

Line 12b \$17,053

Exercise 10

Line 7 - Wages

Exercise 11

\$9,965.40 85%

Exercise 12

Line 11a \$8,609

Line 11b \$8,002

Line 12a \$13,584

Line 12b \$12,216

Exercise 13

В

Exercise 14

Form W-4P

Give to the payer of the pension.

	STUDE	NT NOTES
1		
-		
-		
1		
ŀ		

CREDIT FOR THE ELDERLY OR DISABLED

Lesson 14

INTRODUCTION AND OBJECTIVES

Although few taxpayers will qualify for this credit, we still get questions about who qualifies for the credit. Even if a taxpayer meets the basic qualifications, he or she may not have a credit due to the income limits on their nontaxable social security, veterans benefits, or other excludable pension, annuity, or disability benefit.

In this lesson, you will learn about the credit for the elderly or the disabled. After completing this lesson you should be able to:

- Determine who is a qualified individual for the "credit for the elderly or disabled"
- Apply the income limits to the qualified individual
- Calculate the credit

Who Is a Qualified Individual for the "Credit for the Elderly or the Disabled"?

Elderly individuals and individuals who are permanently and totally disabled may be able to claim a special credit on their tax returns if they are a U.S. citizen or resident.

To be eligible for the credit, an individual must be:

- At least 65 years old by the end of the year, or
- Under age 65, retired on permanent and total disability by the end of the year and did not reach mandatory retirement age before this year. They must also have received taxable disability income for this year.

Although physician statements are no longer required to be attached to the return, they must be completed and kept with the taxpayer's records.

Certain work offered at qualified locations to persons with disabilities or with mental retardation is considered sheltered employment. Because a person has accepted sheltered employment is not proof of the person's ability to engage in substantial gainful activity.

Exhibit 1 helps to determine if the taxpayer is a qualified individual for this credit.

Income Limits

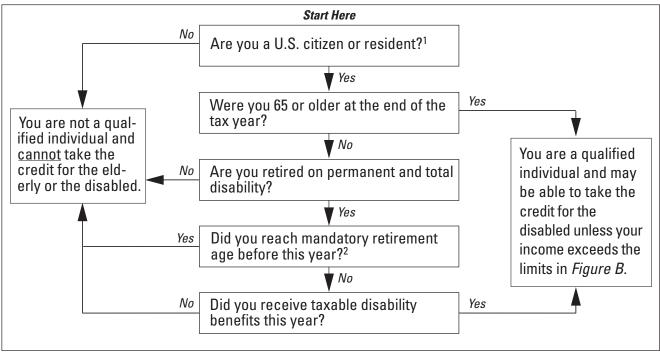
Taxpayers cannot exceed the income limits for their filing status (see **Exhibit 2**).

CALCULATE THE CREDIT

If the taxpayer is a qualified individual and meets the income limits, complete a Schedule 3 for 1040A filers or a Schedule R for 1040 filers. Schedule R (Form 1040) and Schedule 3 (Form 1040A) are nearly identical.

Example 1

John (000-00-9850) and Sarah Hillsdale are married and file a joint return. Their respective ages are 66 and 68. They received nontaxable social security benefits of \$4,500 in 2003. They had adjusted gross income (line 35, Form 1040) of \$13,000. Parts I and III of the Schedule R will be completed and the schedule attached to their Form 1040 for 2003. (Part II need not be completed since both are age 65 or older.) See Exhibits 3 and 4.



¹ If you were a nonresident alien at any time during the tax year and were married to a U.S. citizen or resident at the end of the tax year, see U.S. citizen or resident under *Qualified individual*. If you and your spouse both choose to be treated as U.S. residents, answer yes to this question.

Exhibit 2 Income Limits

Even if you qual	ify (see Figure A), you CANNOT ta	ıke the credit if:
Your filing status is	AND your adjusted gross income (AGI)* is equal to or more than	OR your nontaxable social security or other nontaxable pension(s) is equal to or more than
Single, Head of household, or Qualifying widow(er) with dependent child	\$17,500	\$5,000
Married filing a joint return and both spouses qualify in <i>Figure A</i>	\$25,000	\$7,500
Married filing a joint return and only one spouse qualifies in <i>Figure A</i>	\$20,000	\$5,000
Married filing a separate return and you did not live with your spouse at any time during the year	\$12,500	\$3,750

^{*}AGI is the amount on Form 1040A, line 21, or Form 1040, line 35.

² Mandatory retirement age is the age set by your employer at which you would have been required to retire, had you not become disabled.

Schedule R (Form 1040)

Credit for the Elderly or the Disabled

2003 Attachment 5eauroce No. 16

Department of the Treesury Internal Revenue Service (99)	► Attach to Form 1040. ► See Instructions	for Schedule R (Form 1040).	Attachment Sequence No. 16
Nameja) shown on Form 1040 John and Sar	h Hilladolo	The second secon	0 00 9850
	this credit and reduce your tax if by the en	7500) 00 9850
You were age 65 or	der or • You were under age 65, you neceived taxable disability		al disability, and
	ary 1, 1939, you are considered to be age 65 at t other tests. See page R-1.	CONTROL OF LANGUAGE CONTROL OF THE PARTY OF	
In most cases, the	IRS can figure the credit for you. See page	RT.	
	ox for Your Filing Status and Age	N	
f your filing status is	And by the end of 2003:	Ch	eck only one box:
Single, Head of household, or	1 You were 65 or older	.	1
Qualifying widow(er)	2 You were under 65 and you retire	ed on permanent and total dis	sability 2
	3 Both spouses were 65 or older.		3 X
	Both spouses were under 65, permanent and total disability .		
Married filing pintly	5 Both spouses were under 65, and disability		
	6 One spouse was 65 or older, and retired on permanent and total d		
	7 One spouse was 65 or older, and not retired on permanent and to		
Married filing	8 You were 65 or older and you liv		
separately	9 You were under 65, you retired or you lived apart from your spouse		
Did you check box 1, 3, 7,	- Yes	Part III on back.	
or 8?	No Complete Parts II and III.		
Part II Statement	Permanent and Total Disability (Complete	only if you checked box 2, 4	, 5, 6, or 9 above.)
	an's statement for this disability for 1983 of ears after 1983 and your physician signed li		d or got a
	ued disabled condition, you were unable to box		
If you checked	nis box, you do not have to get another stat	ement for 2003.	
	eck this box, have your physician complete ent for your records.	the statement on page R-4.	You must
For Paperwork Reduction	t Notice, see Form 1040 instructions.	Cat. No. 11350K Schedu	ule R (Form 1040) 2003

<u>14-4</u>

Sched	dule R (Fo	m 1040) 2003		Page 2
Par	t III	Figure Your Credit		
10	Box 1 Box 3 Box 8	checked (in Part I): Enter: 2, 4, or 7 \$5,000 5, or 6 \$7,500 or 9 \$3,750 You must complete line 11. Enter the amount from line 10 on line 12 and go to line 13. On line 12 and go to line 13. On line 12 and go to line 13. Enter: \$2,4,5,6,6,6,7,500 On line 12 and go to line 13. Enter: \$2,4,5,6,7,500 On line 12 and go to line 13. Enter: \$3,750 You must complete line 11. Enter the amount from line 10 on line 12 and go to line 13. Enter:	10 7,500	0 00
11	Box spotBoxBox taxa	checked (in Part I): 6, add \$5,000 to the taxable disability income of the use who was under age 65. Enter the total. 2, 4, or 9, enter your taxable disability income. 5, add your taxable disability income to your spouse's ble disability income. Enter the total. ore details on what to include on line 11, see page R-3.	11	
12		completed line 11, enter the smaller of line 10 or line 11; all others, enter the at from line 10	7,500	00
a b	Enter that y 2003. Nonta Nonta treated Nonta Any of is exclored flaw Add liin not ta. If you listed Enter line 35 If you Box 1 Box 3 Box 8 Subtra less, 6	the following pensions, annuities, or disability income bu (and your spouse if filing a joint return) received in scable part of social security benefits and scable part of railroad retirement benefits as social security (see page R-3). It is a social security benefits and scale in social security (see page R-3). It is a		
18	Add li	nes 13c and 17	18 6,000	00
19 20 21 22	Subtra go to Multip Enter Add th	ct line 18 from line 12. If zero or less, stop; you cannot take the credit. Otherwise, ine 20	19 1,500	
23	the to	al	23	00
24	Credit	for the elderly or the disabled. Enter the smaller of line 20 or line 23 here and m 1040, line 46	24	5 00
		Printed on recycled paper	Schedule R (Form 104	u) 2003

14-5 PENSION EARNER

TAXWISE HINTS

The credit for the elderly will be calculated automatically. The software will check age, income, and filing status to determine eligibility. However, it is extremely important to input Social Security Benefit income even if you know it is not taxable. Without this information the software may incorrectly calculate the credit.

► SUMMING UP THIS LESSON ◀ ◀

- ➤ The credit for the elderly or disabled is a nonrefundable credit which allows a taxpayer to reduce their liability.
- ▶ Due to the income limitations, very few taxpayers are eligible to receive this credit.
- ➤ The credit is based on filing status, age, and income.
- ➤ The credit is calculated and reported on Form 1040, Schedule R, or Form 1040A, Schedule 3.

INTRODUCTION

In this section, you will complete tax returns for several common pension earner scenarios often encountered at volunteer assistance sites. This will be valuable practice as you prepare to help taxpayers. Although answers to each of the problems are shown at the end of this section, you should try to complete the blank forms for each problem before referring to its answers.

After completing this section, you will be able to:

■ accurately complete a basic tax return with some advanced topics.

Problem 1

Stuart Morehouse (born July 2, 1935) and Donna Morehouse (born December 28, 1950) are married and will file a joint tax return. Neither one wishes to contribute to the presidential campaign fund.

Stuart is retired and received a pension from his former employer as well as social security benefits.

Donna is a secretary and received a Form W-2. She made a \$900 payment to her 2003 traditional IRA on January 15, 2004. Stuart and Donna do not want to name a third party designee.

If they are entitled to a refund they would like the check mailed to them. Their address and social security numbers are correct on their income statements.

2003 Form W-2, First Bank of Hillsdale

a Control number				Safe, accurate, FAST! Use	Visit the IRS Web Site at www.irs.gov.
8162834	0	MB No. 1545-0008			<u> </u>
b Employer identification number			1	Wages, tips, other compensation	2 Federal income tax withheld
	XXXXX		Ļ	\$18,526.00	•
c Employer's name, address, and ZIP code			3	Social security wages	4 Social security tax withheld
First Bank of Hillsdale				\$18,526.0	
1000 Main St.			5	Medicare wages and tips	6 Medicare tax withheld
Your City, State, Zip Co	ndo			\$18,526.0	0 \$269.00
Tour Oily, State, Zip of	Jue		7	Social security tips	8 Allocated tips
d Employee's social security number			9	Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial L	ast name		11	Nonqualified plans	12a See instructions for box 12
Donna Morehouse			12 5	tatutory Retirement Third-party mployee plan sick pay	12b
10923 Fullerton			10 e	mployée plan sick pây 🍎	
Your City, State, Zip C	ode		1/	Other	12c
0, , 1			17	Other	
					12d
6.5.1.1.1.1.1.710.1.					"
f Employee's address and ZIP code 15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax		18 Local wages, tips, etc.	19 Local income tax 20 Locality name
1				16 Local wages, tips, etc.	20 Locality Hame
XX-XXXXXX	\$18,526.00	\$984.0	<u>U</u>		
Wage and Tax		2003)	Departme	ent of the Treasury—Internal Revenue Serv
Form W-2 Wage and Tax Statement			J		
Copy B To Be Filed with Employee's I					

PENSION EARNER COMPREHENSIVE PROBLEMS



Form 1099, Social Security Benefit Statement

	REVERSE FOR MORE INFORM	IEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. ATION.
Box 1. Name	E	ox 2. Beneficiary's Social Security Number
Stuart Morehou	ıse	xxx-xx-xxxx
30x 3. Benefits Paid in 2003 10,499	Box 4. Benefits Repaid to SSA in	2003 Box 5. Net Benefits for 2003 (Box 3 minus Box 4, 10, 499
DESCRIPTION OF A	09/03	ox 6. Voluntary Federal Income Tax Withholding ox 7. Address 10923 Fullerton Your City, State, Zip Code

2003 Form 1099-R, AB Industries

		СТ	ED (if checke	d)				
PAYER'S name, street address,	city, state, and ZIP code	1	Gross distribut	ion	ON	IB No. 1545-0119	Distributions Fro	
AB Industries 346 North 3rd Terrac	e	\$ 13,567.00 2a Taxable amount			20 03 Ref		nsions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance	
Your City, State, Zi	p Code	\$	13,567.	00	F	orm 1099-R		Contracts, etc.
		21	b Taxable amour not determined			Total distribution	n 🔲	Copy B Report this
PAYER'S Federal identification number	RECIPIENT'S identification number	3	Capital gain (in in box 2a)	cluded	4	Federal income withheld	tax	income on your Federal tax
xx-xxxxxx	xxx-xx-xxxx	\$			\$	1,357.	00	return. If this form shows
RECIPIENT'S name		5	Employee contr or insurance pre		6	Net unrealized appreciation in employer's sec	urities	tax withheld in box 4, attach this copy to
Stuart Morehouse		\$			\$			your return.
Street address (including apt. no	p.)	7	Distribution code(s)	IRA/ SEP/ SIMPLE	8	Other		This information is
10923 Fullerton			7	SIIVIPLE	\$		%	being furnished to the Internal
City, state, and ZIP code Your City, State,	7in Code	9a	Your percentage distribution	of total %	9b \$	Total employee con	tributions	Revenue Service.
Account number (optional)	ZIP Code	10		eld	11	State/Payer's s	tate no.	12 State distribution
		\$						\$
		13	Local tax withhe	eld	14	Name of localit	v	15 Local distribution
		\$,	\$
		\$						\$
Form 1099-R					De	epartment of the T	reasury -	Internal Revenue Service

PENSION EARNER COMPREHENSIVE PROBLEMS



2003 Form 1099-INT, Fisk Bank

		CTED (if checked)			
PAYER'S name, street address, city,	state, ZIP code, and telephone no.	Payer's RTN (optional)	OMB No. 1545-0112]	
Fisk Bank 4010 North Second St	5 .		2003	Inte	rest Income
Your City, State, Z	ip Code		Form 1099-INT		
PAYER'S Federal identification number	RECIPIENT'S identification number	1 Interest income not included	l in box 3		Copy B
xx-xxxxxx	xxx-xx-xxx	\$ 235.00			For Recipient
RECIPIENT'S name		2 Early withdrawal penalty	3 Interest on U.S. Sav Bonds and Treas. of		This is important tax information and is
Stuart Morehouse		 \$	\$		being furnished to the Internal Revenue
Street address (including apt. no.) 10923 Fullerton		4 Federal income tax withheld \$	5 Investment expens	es	Service. If you are required to file a return, a negligence penalty or
City, state, and ZIP code Your City, State,	Zip Code	6 Foreign tax paid	7 Foreign country or possession	U.S.	other sanction may be imposed on you if this income is taxable and
Account number (optional)		\$			the IRS determines that it has not been reported.
Form 1099-INT	(keen f	or your records)	Department of the T	reasury -	Internal Revenue Service

2003 Form 1040A, page 1

Form		Department of the Treasury—Internal Revenue		200	12			
1040A	_	U.S. Individual Income To		200	IRS Use Only		e or staple in this s	
Label (Your first name and initial	Last name			` <u></u>	MB No. 1545-0085	5
(See page 21.)	L					Your so	cial security numb	oer
(occ page 21.)	Α							
	B E	If a joint return, spouse's first name and initial	Last name			Spouse'	s social security nu	mber
Use the	L						1 1	
IRS label.	н	Home address (number and street). If you have a	P.O. box. see page 22.		Apt. no.	 	1 1	
Otherwise,	E		· · · · · · · · · · · · · · · · · · ·		1	l ▲ Ir	mportant!	! ▲
please print	R E	City, town or post office, state, and ZIP code. If y	ou have a faraign address ass	2000 00			must enter yo	
or type.		Oity, town or post office, state, and zir code. If y	ou nave a loreign address, see	page 22.			SSN(s) above.	,ui
Presidential	_						- (-)	
Election Campa	ian	Note. Checking "Yes" will not char	nge vour tax or reduce v	our refun	nd	You	Spous	e
(See page 22.)	ıyıı	Do you, or your spouse if filing a jo				Yes	□No □Yes	□Nc
Gee page 22.)			The rotain, want 40 to 9					
Filing		1			Head of household (v			
status		2 Married filing jointly (even if on	ly one had income)		If the qualifying person		out not your depen	ndent,
Check only		3 Married filing separately. Enter	spouse's SSN above a	iiu	enter this child's nan			
one box.		full name here. ►	<u> </u>	5 🗆	Qualifying widow(er)	with depende	nt child (See page	e 24.)
Exemption	ıs	6a ☐ Yourself. If your pare	nt (or someone else	e) can c	laim you as a)	No. of boxes	
			on his or her tax re			6a. }	checked on 6a and 6b	
		b 🗌 Spouse				, ,	No. of children	
		c Dependents:		(3)	Dependent's (4)	if qualifying	on 6c who:	
			(2) Dependent's soci		ationship to ch	ild for child	lived with	
		(1) First name Last name	security number		vou · lax	credit (see page 25)	you	
If more than six dependents,					101	page 23)	 did not live with you due 	
see page 24.					4000		to divorce or	
							separation (see page 26)	
				100		<u> </u>	(occ page 20)	
				6 / Jr			Dependents	
			1 40				on 6c not entered above	
			C	<u> </u>			Add numbers	
		d Total number of exemption	ns claimed.				on lines above	
Income								
		7 Wages, salaries, tips, etc.	Attach Form(s) W-	2.		7		
Attach								
Form(s) W-2		8a Taxable interest. Attach S	chodulo 1 if roquir	a d		8a		
here. Also						- oa		-
attach		b Tax-exempt interest. Do i						
Form(s) 1099-R if tax		9a Ordinary dividends. Attach				9a		-
was withheld.		b Qualified dividends (see p		9b				
was withincia.		10a Capital gain distributions				10a		
If you did not		b Post-May 5 capital gain distr	ributions (see page 2°	7). 10b				
get a W-2, see page 27.		11a IRA		11b	Taxable amount			
page 27.		distributions. 11a			(see page 27).	11b		
Enclose, but do		12a Pensions and			Taxable amount			t
not attach, any payment.		annuities. 12a			(see page 28).	12b		
paymont.		120			,	120		
		13 Unemployment compensa	ation and Alaska Da	rmanas	t Fund dividend	s. 13		
			ILIOIT ATIO AIASKA PE					-
		14a Social security			Taxable amount			
		benefits. 14a			(see page 30).	14b		
		4E Add lines 7 through 441 (f	www.miadatacalumes\ T''	la verr	total income			
		15 Add lines 7 through 14b (fa			total income.	▶ 15		
Adjusted		16 Educator expenses (see p		16				
gross		17 IRA deduction (see page 3		17				
income		18 Student loan interest dedu	uction (see page 33). 18				
		19 Tuition and fees deduction	n (see page 33).	19				
		20 Add lines 16 through 19.			tments.	20		1
			,	.,				
								1
		21 Subtract line 20 from line	15. This is your ad	iusted (gross income	▶ 21		



2003 Form 1040A, page 2

Form 1040A	(2003)		Pa	age 2
Tax,	22	Enter the amount from line 21 (adjusted gross income).	22	
credits,				
and	23a	Check You were born before January 2, 1939, Blind Total boxes		
_		if:	a _	
payments	b	If you are married filing separately and your spouse itemizes		
Standard Deduction		deductions, see page 34 and check here 23		
for—	24	Enter your standard deduction (see left margin).	24	
People who	25	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0		
checked any box on line	26	Multiply \$3,050 by the total number of exemptions claimed on line 6d		
23a or 23b or	27	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0		
who can be claimed as a		This is your taxable income.	▶ 27	
dependent,	28	Tax, including any alternative minimum tax (see page 35).	28	
see page 34.	29	Credit for child and dependent care expenses.		
All others:		Attach Schedule 2. 29		
Single or Married filing	30	Credit for the elderly or the disabled. Attach		
separately,		Schedule 3. 30		
\$4,750	31	Education credits. Attach Form 8863.		
Married filing	32	Retirement savings contributions credit. Attach		
jointly or Qualifying		Form 8880. 32		
widow(er),	33	Child tax credit (see page 38).		
\$9,500	34	Adoption credit. Attach Form 8839. 34		
Head of household.	35	Add lines 29 through 34. These are your total credits.	35	
\$7,000	36	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0	36	
	37	Advance earned income credit payments from Form(s) W-2.	37	
	38	Add lines 36 and 37. This is your total tax.	▶ 38	
	39	Federal income tax withheld from Forms W-2		
		and 1099. 39		
	40	2003 estimated tax payments and amount		
If you have a qualifying		applied from 2002 return. 40		
child, attach	41	Earned income credit (EIC). 41		
Schedule	42	Additional child tax credit. Attach Form 8812. 42		
EIC.	43	Add lines 39 through 42. These are your total payments.	▶ 43	
Refund	44	If line 43 is more than line 38, subtract line 38 from line 43.	4.4	
D: .	4=	This is the amount you overpaid.	44	
Direct deposit?	45a	Amount of line 44 you want refunded to you.	► 45a	
See page 52	▶ b	Routing number		
and fill in				
45b, 45c, and 45d.	▶ d	Account number		
	40			
	46	Amount of line 44 you want applied to your		
	47	2004 estimated tax. 46		
Amount	47	Amount you owe. Subtract line 43 from line 38. For details on how	▶ 47	
you owe	48	to pay, see page 53. Estimated tax penalty (see page 53). 48	47	
		Do you want to allow another person to discuss this return with the IRS (see page 54)?	Yes. Complete the following.	No
Third party		, , , , , , , , , , , , , , , , , , , ,		140
designee			rsonal identification mber (PIN)	
Sign	L	Inder penalties of perjury, I declare that I have examined this return and accompanying schedules and	statements, and to the best of my	
here		nowledge and belief, they are true, correct, and accurately list all amounts and sources of income I recei if preparer (other than the taxpayer) is based on all information of which the preparer has any knowle		
Joint return?		our signature Date Your occupation	Daytime phone number	r
See page 22.			()	
Keep a copy	5	Spouse's signature. If a joint return, both must sign. Date Spouse's occupation	<u> </u>	
for your records.				
-		Preparer's Date Check if	Preparer's SSN or PTIN	<u> </u>
Paid		Check if self-emplo	— I ·	
preparer's		irm's name (or EIN		
use only		ours if self-employed),	one no. ()	
		Printed on recycled paper	Form 1040A (2	2003)
		A	,	,

Form 1040A, Social Security Benefits Worksheet

	<u> </u>	
Bei	Fore you begin: V Complete Form 1040A, lines 16 and 17, if they apply to you.	
	√ If you are married filing separately and you lived apart from your spouse for all of 2 "D" to the right of the word "benefits" on line 14a.	003, enter
	√ Be sure you have read the Exception on page 27 to see if you can use this worksheet a publication to find out if any of your benefits are taxable.	instead of
1.	Enter the total amount from box 5 of all your Forms SSA-1099 and Forms RRB-1099 1.	
2.	Enter one-half of line 1	2
3.	Enter the total of the amounts from Form 1040A, lines 7, 8a, 9a, 10a, 11b, 12b, and 13	3
4.	Enter the amount, if any, from Form 1040A, line 8b	4
5.	Add lines 2, 3, and 4	
6.	Enter the total of the amounts from Form 1040A, lines 16 and 17	6
7.	Is the amount on line 6 less than the amount on line 5?	
	No. (STOP) None of your social security benefits are taxable.	
	☐ Yes. Subtract line 6 from line 5	7
8.		/
0.	Married filing jointly, enter \$32,000.	
	• Single, head of household, qualifying widow(er), or married filing separately and you	
	lived apart from your spouse for all of 2003, enter \$25,000.	8
	• Married filing separately and you lived with your spouse at any time in 2003, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.	
9.	Is the amount on line 8 less than the amount on line 7?	
	No. Stop None of your social security benefits are taxable. You do not have to enter any amount on line 14a or 14b of Form 1040A. But if you are married filing separately and you lived apart from your spouse for all of 2003, enter -0- on line 14b. Be sure you entered "D" to the right of the word "benefits" on line 14a.	
	Yes. Subtract line 8 from line 7	9
10.	Enter: \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2003	
11.	Subtract line 10 from line 9. If zero or less, enter -0-	11
12.	Enter the smaller of line 9 or line 10	12
13.	Enter one-half of line 12	13
14.	Enter the smaller of line 2 or line 13	14
15.	Multiply line 11 by 85% (.85). If line 11 is zero, enter -0	15
16.	Add lines 14 and 15	16
17.	Multiply line 1 by 85% (.85)	17
18.	Taxable social security benefits. Enter the smaller of line 16 or line 17	18
	• Enter the amount from line 18 above on Form 1040A, line 14b.	
[If part of your benefits are taxable for 2003 and they include benefits paid in 2003 that were for an earlier yet to reduce the taxable amount. See Pub. 915 for details.	ar, you may be able

PENSION EARNER COMPREHENSIVE PROBLEMS

Problem 2

Jay Lehigh (born February 10, 1930) and Sandra Lehigh (November 27, 1935) are married and will file a joint return. They both wish to contribute to the presidential election campaign. Jay's social security number and address are correct as shown on his income statements. Sandra's social security number is xxx-xxxxx. Jay and Sandra do not want to name a third party designee.

Jay is retired, receives a pension from his former employer, and receives social security benefits.

Sandra is a housewife. She provided day care for her 3 grandchildren. The state paid her for this service and issued her a Form 1099-MISC. She incurred no expenses.

Jay and Sandra sold some stock in 2003 and provided the following information: The principal business code for child care is 624410.

Company	# of Shares	Purchase	Per Share	Sale Date	Per Share
		Date	Basis		Sales Price
ABC Inc	100	12/01/1985	24.00	07/15/2003	51.24
XYZ Inc	200	12/20/1987	28.50	11/14/2003	53.98

2003 Form 1099-R, CD Associates

☐ CORRECTED (if checked)										
PAYER'S name, street address, city, state, and ZIP code	1	Gross distribut	ion	OM	1B No. 1545-0119		istributions From			
CD Associates	\$ 18,945.00				2003	Pe	Pensions, Annuities, Retirement or			
345 East 100th St.	2	a Taxable amour	nt		<u> </u>		Profit-Sharing Plans, IRAs, Insurance			
Your City, State, Zip Code	\$	18,945.	00	F	orm 1099-R		Contracts, etc.			
	21	b Taxable amour not determined			Total distribution	n 🔲	Copy B Report this			
PAYER'S Federal identification number RECIPIENT'S identification number	3	Capital gain (in in box 2a)	cluded	4	Federal income withheld	tax	income on your Federal tax return. If this			
xx-xxxxxx xxx-xx-xxxx	\$			\$	1,895.	00	form shows Federal income			
RECIPIENT'S name	5	Employee contri or insurance pre		6	Net unrealized appreciation in employer's sec	urities	tax withheld in box 4, attach this copy to			
Jay Lehigh	\$			\$			your return.			
Street address (including apt. no.)	7	Distribution code(s)	IRA/ SEP/ SIMPLE	8	Other		This information is			
99 Danville Ave		7		\$		%	being furnished to the Internal			
City, state, and ZIP code Your City, State, Zip Code	9a	Your percentage distribution	of total %	9b \$	Total employee con	tributions	Revenue Service.			
Account number (optional)	10	State tax withhe	eld	11	State/Payer's s	tate no.	12 State distribution			
	<u>\$</u>						\$ \$			
	+ *	Local tax withhe	eld	14	Name of localit	у	15 Local distribution			
	\$			ļ			\$			
	1 \$			1			\$			

Form 1099, Social Security Benefit Statement

FORM SS	A-1099 – SOCIAL SE	CURITY	BENEFIT STATEMENT					
2003 • PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. • SEE THE REVERSE FOR MORE INFORMATION.								
Box 1. Name			eneficiary's Social Security Number					
Jay Lehigh		х	xx-xx-xxx					
Box 3. Benefits Paid in 2003	Box 4. Benefits Repaid to SSA	A in 2003	Box 5. Net Benefits for 2003 (Box 3 minus Box 4)					
\$14,263.00			\$14,263.00					
DESCRIPTION OF A	AMOUNT IN BOX 3		DESCRIPTION OF AMOUNT IN BOX 4					
	Oraft a	Box 7. Ac	oluntary Federal Income Tax Withholding ddress Danville City, State, Zip Code					
Form SSA-1099-SM (1-2004)	DO NOT RETURN THIS	FORM T	O SSA OR IRS					

PENSION EARNER COMPREHENSIVE PROBLEMS



Reserved for Form 1099-MISC

		RECTI	ED (if checked)			
PAYER'S name, street address, city,	state, ZIP code, and telephone no.	1	Rents	OM	IB No. 1545-0115	
Division of Social Services					2003	Miscellaneous
1000 N. 16th St.		2	Royalties		<u> </u>	Income
Your City, State, Zip	Code	\$		For	m 1099-MISC	
		3	Other income	4	Federal income tax withhel	Оору Б
		\$		\$		For Recipient
PAYER'S Federal identification number	RECIPIENT'S identification number	5	Fishing boat proceeds	6	Medical and health care paymen	ts
xx-xxxxxx	xxx-xx-xxxx	\$		\$		
RECIPIENT'S name Sandra Lehigh		7	Nonemployee compensation	8	Substitute payments in lieu o dividends or interest	This is important tax information and is being furnished to
		\$	6,000.00	\$		the Internal Revenue Service. If you are
Street address (including apt. no.) 99 Danville Ave		9	Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale	10	Crop insurance proceed	required to file a return, a negligence penalty or other sanction may be
City, state, and ZIP code Your City, State, Zip	Code	11		12		imposed on you if this income is taxable and the IRS
Account number (optional)		13	Excess golden parachute payments	14	Gross proceeds paid to an attorney	determines that it has not been reported.
15		\$ 16	State tax withheld	\$	State/Payor's state as	18 State income
15		\$ \$	State tax withheid	1 <i>1</i> 	State/Payer's state no.	\$ State income
Form 1099-MISC	(keep	o for y	our records)	De	epartment of the Treasury	- Internal Revenue Service

2003 Form 1040, page1

10.10	D	whereast of the Transcript Internal December 1	Camilas O O O O					
1040		rtment of the Treasury—Internal Revenue S . Individual Income Tax Re	U)) / / \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \	}	IDO Hay Oak Brown		to to Metallanda	
<u> 1070</u>	_				IRS Use Only—Do no		•	
Label		the year Jan. 1–Dec. 31, 2003, or other tax year begi		3, ending	, 20		No. 1545-0074	h
l .	100	ır first name and initial	Last name			Tour Socia	al security num	ber
inatoriana A	16 -		Look none			0	<u> </u>	
on page 21.) B	па	joint return, spouse's first name and initial	Last name			Spouse's	social security r	umber
Use the IRS L	Но	ne address (number and street). If you have a	DO hay aga naga 21		Apt. no.	_	<u> </u>	
label. H Otherwise, E	ПО	ne address (number and street). If you have a	i F.O. box, see page 21		Apt. 110.	▲ Im	portant!	
please print R	City	, town or post office, state, and ZIP code. If y	vou bovo o foreign add	rana nana nana	01	You	must enter	
or type.	City	, town or post office, state, and zir code. If	you have a loreigh addi	ess, see page)	your	SSN(s) above	٠.
Presidential	+-	 				You	Spous	se
Election Campaign		Note. Checking "Yes" will not change				☐Yes ☐	No □Yes	
(See page 21.)	<u> </u>	Do you, or your spouse if filing a joint i						∐ No
Eiling Status	1	_l Single			of household (with o			
Filing Status	2	☐ Married filing jointly (even if only one			alifying person is a	child but no	t your depender	it, enter
Check only	3 ∟	☐ Married filing separately. Enter spous			ld's name here. ►	donondon	t shild (Cas no	90 01)
one box.		and full name here. ▶			ring widow(er) with		o. of boxes	ige 21.)
Exemptions	6a	Yourself. If your parent (or someor return, do not check box		u as a depen	dent on his or ne	ˈˈuʌ (ch	necked on	
Excliptions	h	Spouse	, oa				and 6b	
	b	Dependents:	(0) Decondant's	(3) Depe	endent's (4) if qual		o. of children n 6c who:	
	·	(1) First name Last name	(2) Dependent's social security numb	er relation	ship to child for chi	ld tax •	lived with you	
		(1) First fidile Last fidile	0	yo	credit (see pa		did not live with u due to divorce	
If more than five			- 01)		or	separation	
dependents,					18/1		ee page 22)	
see page 22.		740					ependents on 6c of the entered above	
			129				ld numbers	
	d	Total number of exemptions claimed					lines ove ▶	
						7	OVE 7	$\overline{}$
Income	7 8a	Wages, salaries, tips, etc. Attach Form Taxable interest. Attach Schedule B if				8a		
		Tax-exempt interest. Do not include o		8b				
Attach Forms W-2 and	9a	Ordinary dividends. Attach Schedule B				9a		
W-2G here.		Qualified dividends (see page 25) .		9b	· · · i ·			
Also attach	10	Taxable refunds, credits, or offsets of s	state and local incom	-	page 25)	10		
Form(s) 1099-R if tax was	11	Alimony received	state and lood moon	10 10/00/000	pago 20)	11		
withheld.	12	Business income or (loss). Attach Sche	edule C or C-F7			12		
	13a	Capital gain or (loss). Attach Schedule				13a		
	b	If box on 13a is checked, enter post-May 5 cap	•	13b				
If you did not	14	Other gains or (losses). Attach Form 47	707			14		
get a W-2,	15a	IRA distributions 15a	1 1		int (see page 25)	15b		
see page 23.	16a	Pensions and annuities 16a	b	Taxable amou	int (see page 25)	16b		
Enclose, but do	17	Rental real estate, royalties, partnership	s, S corporations, tru	usts, etc. Atta	ch Schedule E	17		
not attach, any	18	Farm income or (loss). Attach Schedule	e F			18		<u> </u>
payment. Also, please use	19					19		<u> </u>
Form 1040-V.	20a	Social security benefits . 20a	b	Taxable amou	ınt (see page 27)	20b		
	21	Other income. List type and amount (se				21		_
	22	Add the amounts in the far right column	for lines 7 through 21		total income ►	22		_
Adjusted	23	,		23				
Gross	24	IRA deduction (see page 29)		24				
	25	Student loan interest deduction (see pa	= :	25				
Income	26	Tuition and fees deduction (see page 3		26				
	27	Moving expenses. Attach Form 3903		27				
	28	One-half of self-employment tax. Attac		29				
	29	Self-employed health insurance deduct	,	30				
	30	Self-employed SEP, SIMPLE, and qualification of applications	•	31				
	31	Penalty on early withdrawal of savings Alimony paid b Recipient's SSN ▶		32a		<i>*/////</i>		
	32a 33					33		
	34	Subtract line 33 from line 22. This is yo			· · · · · ·	34		
For Disclosure. Pr		Act, and Paperwork Reduction Act No			Cat. No. 11320B	, - I	Form 1040	(2003)
		,	., F-g					, /



2003 Form 1040, page 2

			2000 Tollii 1040, page 2
Form 1040 (2003)			Page 2
T	35	Amount from line 34 (adjusted gross income)	35
Tax and	36a	Check ∫ ☐ You were born before January 2, 1939, ☐ Blind. ☐ Total boxes	
Credits		if: ☐ Spouse was born before January 2, 1939, ☐ Blind. checked ▶ 36a ☐	
Standard	h	If you are married filing separately and your spouse itemizes deductions, or	
Deduction for—	5	you were a dual-status alien, see page 34 and check here ▶ 36b	
People who	37	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	37
checked any	38	Subtract line 37 from line 35	38
box on line 36a or 36b or			
who can be	39	If line 35 is \$104,625 or less, multiply \$3,050 by the total number of exemptions claimed on	39
claimed as a dependent,	40	line 6d. If line 35 is over \$104,625, see the worksheet on page 35	40
see page 34.	40	Taxable income. Subtract line 39 from line 38. If line 39 is more than line 38, enter -0- Tax (see page 36). Check if any tax is from: a ☐ Form(s) 8814 b ☐ Form 4972	41
All others:	41 42	Alternative minimum tax (see page 37). Attach Form 6251	42
Single or	43	Add lines 41 and 42	43
Married filing separately,	44	Foreign tax credit. Attach Form 1116 if required	
\$4,750		Toroign tax oreals. Attach Torri Troumequired	
Married filing	45	Oredit for child and dependent care expenses. Attach 1 of 11 2441	
jointly or Qualifying	46 47	Credit for the elderly or the disabled. Attach Schedule R	
widow(er),	48	Education Ground: / www.income.	
\$9,500		Total official Savings Contained and Contain	
Head of household,	49 50	ormal tax crodit (coo page co)	<i>*////</i> //
\$7,000	51	Adoption credit. Attach Form 8839	
	52	Other credits. Check applicable box(es): a Form 3800	
	32	b Form 8801 c Specify	
	53	Add lines 44 through 52. These are your total credits	53
	54	Subtract line 53 from line 43. If line 53 is more than line 43, enter -0-	54
	55	Self-employment tax. Attach Schedule SE	55
Other	56	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	56
Taxes	57	Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required .	57
	58	Advance earned income credit payments from Form(s) W-2	58
	59	Household employment taxes. Attach Schedule H	59
	60	Add lines 54 through 59. This is your total tax	60
Payments	61	Federal income tax withheld from Forms W-2 and 1099 61	
i ayıncını	62	2003 estimated tax payments and amount applied from 2002 return . 62	
If you have a	63	Earned income credit (EIC)	
qualifying	64	Excess social security and tier 1 RRTA tax withheld (see page 56)	
child, attach Schedule EIC.	65	Additional child tax credit. Attach Form 8812	
Concadio Ero.	66	Amount paid with request for extension to file (see page 56)	
	67	Other payments from: a Form 2439 b Form 4136 c Form 8885 . 67	
	68	Add lines 61 through 67. These are your total payments	68
Refund	69	If line 68 is more than line 60, subtract line 60 from line 68. This is the amount you overpaid	69
Direct deposit?		Amount of line 69 you want refunded to you	70a
See page 56		Routing number	
and fill in 70b,		Account number	
70c, and 70d.	71	Amount of line 69 you want applied to your 2004 estimated tax 71	
Amount	72	Amount you owe. Subtract line 68 from line 60. For details on how to pay, see page 57	72
You Owe	73	Estimated tax penalty (see page 57)	<u> </u>
Third Party	Do	you want to allow another person to discuss this return with the IRS (see page 58)? $\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \$	Complete the following. No
Designee	De	signee's Phone Personal identifi	cation
		ne ▶ no. ▶ () number (PIN)	<u> </u>
Sign		der penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, ar lef, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of v	
Here		ur signature Date Your occupation	Daytime phone number
Joint return? See page 21.	10	Date Tour occupation	2 ayamo phono numbor
Keep a copy	_	and simply to birth whom both provided to the Co. I was	
for your	Sp	ouse's signature. If a joint return, both must sign. Date Spouse's occupation	
records.			Dranavaria 2011 au 5711
Paid		parer's Check if	Preparer's SSN or PTIN
Preparer's		, sell-employed	<u></u>
Use Only	you	n's name (or EIN ris if self-employed),	
	ado	dress, and ZİP code Phone no.	()
			Form 1040 (2003)

2003 Schedule C-EZ

	HEDULE C-EZ m 1040)		om Business		ŀ	OMB No.	545-0	074	_
(FOI	111 1040)	(Sole Prop ▶ Partnerships, joint ventures, et	orietorship)		2003				
	ment of the Treasury I Revenue Service		l. ► See instructions on back.	э.		Attachmer Sequence	it No ()9 <i>A</i>	
	of proprietor	7.11.00.7.00.7.00.7.00.7.00.7.00.7.00.7		So	cial secu	rity number			<u> </u>
Par	t I General I	nformation							
									_
Sche Inste Sche	May Use edule C-EZ ead of edule C	 Had business expenses of \$2,500 or less. Use the cash method of accounting. Did not have an inventory at any time during the year. Did not have a net loss from your business. Had only one business as a sole proprietor. 	And You: • Are not Deprece this bus for Sche C-4 to • Do not busines • Do not	requiriation siness. edule find ou deduces use have pactivi	red to fill and Am See the C, line at if you at expen of your		52, or ns		
								┙	
Α	Principal business of	or profession, including product or service	2 2 2	В	Enter co	de from page	s C-7	, 8,	& 9
С	Dusiness name If n	o separate business name, leave blank.	000	<u> </u>	Employ	er ID number	/EIN	٠ : ٤	
C	Business name. II n	o separate business name, leave blank.	00		EIIIPIOY		(EIN), II 	ally
E	Business address (i	ncluding suite or room no.). Address not require	d if same as on Form 1040, page	1.					
	City, town or post of	office, state, and ZIP code	challe						_
Par	t II Figure Yo	our Net Profit	(0						
1	employee" box or	Caution. If this income was reported to you on that form was checked, see Statutory En 1, on page C-3 and check here			1				_
2	Total expenses (see instructions). If more than \$2,500, you	must use Schedule C		2				_
3	Form 1040, line	act line 2 from line 1. If less than zero, yo 12, and also on Schedule SE, line 2. (Stat lule SE, line 2. Estates and trusts, enter on	utory employees do not report		3				
Par	t III Informati	on on Your Vehicle. Complete this part	t only if you are claiming car	or tr	uck ex	penses o	n lin	e 2	
									_
4	When did you pla	ce your vehicle in service for business pur	poses? (month, day, year) ►	!		./			
5	Of the total numb	er of miles you drove your vehicle during 2	2003, enter the number of miles	s you	used y	our vehicle	e for	:	
а	Business	b Commuting	c Other						
6	Do you (or your s	pouse) have another vehicle available for p	personal use?			. 🗌 Yes		_ r	Vo
7	Was your vehicle	available for personal use during off-duty h	nours?			. 🗆 Yes		_ r	٥V
8a	Do you have evid	ence to support your deduction?				. 🗌 Yes		_ r	٥V
b	If "Yes," is the evi	idence written?				. 🗌 Yes		_ r	No
For F	Paperwork Reduction	n Act Notice, see Form 1040 instructions.	Cat. No. 14374D			C-EZ (Form	104	0) 2	003

PENSION EARNER COMPREHENSIVE PROBLEMS



2003 Form 1040 Schedule SE

SCHEDULE SE		OMB No. 1545-0074
(Form 1040)	Self-Employment Tax	2003
Department of the Treasury nternal Revenue Service	► Attach to Form 1040. ► See Instructions for Schedule SE (Form 1040).	Attachment Sequence No. 17
	elf-employment income (as shown on Form 1040) Social security number of person with self-employment income ▶	
Who Must File	Schedule SE	
You must file Schedu	ule SE if:	
	igs from self-employment from other than church employee income (line 4 of Short Si c) of \$400 or more or	chedule SE or line 4c of
You had church er	mployee income of \$108.28 or more. Income from services you performed as a min not church employee income (see page SE-1).	nister or a member of a
	d a loss or a small amount of income from self-employment, it may be to your benefit method" in Part II of Long Schedule SE (see page SE-3).	to file Schedule SE and
oractitioner and you the write "Exempt-Form	nly self-employment income was from earnings as a minister, member of a religious orc filed Form 4361 and received IRS approval not to be taxed on those earnings, do not fil 4361" on Form 1040, line 55.	
May I Use Sho	rt Schedule SE or Must I Use Long Schedule SE?	
	Did You Receive Wages or Tips in 2003?	
	No	
Science practitioner who	nber of a religious order, or Christian received IRS approval not to be taxed ources, but you owe self-employment Yes Was the total of your wages and tips subject to or railroad retirement tax plus your net self-employment more than \$87,000?	
	No	
Are you using one of the earnings (see page SE-3	e optional methods to figure your net 3)? No Did you receive tips subject to social security of the security	or Medicare tax
	that you did not report to your employer?	7 Modicare tax
Did you receive church W-2 of \$108.28 or more	employee income reported on Form ?	
	No	<u> </u>
You May Use	Short Schedule SE Below You Must Use Long Schedule S	E on page 2
Section A—Short \$	Schedule SE. Caution. Read above to see if you can use Short Schedule SE.	
1 Net farm profit 1065), line 15a	or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form	
line 15a (other to of religious order	ss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members ers, see page SE-1 for amounts to report on this line. See page SE-2 for other	
	rt	
	1 and 2	
do not file this	schedule; you do not owe self-employment tax	
	ent tax. If the amount on line 4 is: ss, multiply line 4 by 15.3% (.153). Enter the result here and on	
Form 1040, I		
	the total here and on Form 1040, line 55.	
50% (.5). Enter	one-half of self-employment tax. Multiply line 5 by the result here and on Form 1040, line 28 6	
or Paperwork Reduc	tion Act Notice, see Form 1040 instructions. Cat No. 113587 Sched	dule SE (Form 1040) 2003

2003 Schedule D, page 1

801	HEDULE D	I		•		•						MB No. 1545	-0074
	rm 1040)			Capi	tai	Gains ar	nd L	osses				20 0 3	5
•	tment of the Treasury	•	Attach to Forn	n 1040.	•	See Instruc	tions 1	for Schedule I) (For	n 1040).		Attachment	
	al Revenue Service		► Use Sche	edule D-1	to lis	t additional tr	ansac	tions for lines	1 and		S	Sequence No.	
Name	e(s) shown on Form 104	0										cial security	
Do	" Chart To	ım Cai	pital Gains a	nd I oo		Accete H	74 O	no Voor or	Loop		XXX	XX >	XXXX
Га	(a) Description of prope		(b) Date	(c) Date		(d) Sales r	rice	(e) Cost or other			oss) for	(g) Post-Ma	v 5 gain
	(Example: 100 sh. XYZ		acquired (Mo., day, yr.)	(Mo., da		(see page the instruct)-5 of	(see page D-5 instruction	of the	the entire Subtract (e)	vear	or (los (see bel	s)*
1			, , , , , ,				T		ĺ		1	,	Í
							1						
							-	1			-		-
							1				-		
2	Enter your shor	t-term	totals, if any	, from					X				
	Schedule D-1, lin	e2.			2	-	<u> </u>				.; ://///////	<i></i>	
3	Total short-terr		•		2								
	Add lines 1 and 2		. ,			(1) fo		<u> </u>	2//////	<i>(((((((((((((((((((((((((((((((((((((</i>	<u> </u>		
4	Short-term gain fi 6781, and 8824								4				
5	Net short-term ga												
	from Schedule(s)	K-1 .							5				
6	Short-term capita						n line	8 of your	6	,	,		
72	2002 Capital Loss Combine lines 1						 enter	the result	0		<i>``</i>		<i>!!!!!!!!!</i> !.
ra	Otherwise, enter					iit is a 1055,	·		7a			()
b	Net short-term of					s 1 through	6 in c	column (f) .	7b	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	-		
Pa	rt II Long-Ter	m Cap	oital Gains a	nd Loss	ses-	1						1/12	
	(a) Description of prope (Example: 100 sh. XYZ		(b) Date acquired	(c) Date (Mo., da		(d) Sales p (see page D)-5 of	(e) Cost or othe (see page D-5	of the	the entire	year	or (los	s)*
8	, p	-	(Mo., day, yr.)		,,,,	the instruct	ions)	instruction	is)	Subtract (e)	irom (a)	(see bel	ow)
			41/102										
		1/3	2										
							-		1				
							-						+
9	Enter your long	-term	totals, if any	, from									
	Schedule D-1, lin	е9.			9		-						
10	Total long-term		•		10								
	Add lines 8 and 9		. ,		10	- 0.400		<i></i>	<i>X///////</i>				
11	Gain from Form long-term gain or						and	6252; and	11				
12	Net long-term gair						· · · tates.	and trusts					
	from Schedule(s)	K-1.							12				
13	Capital gain distri								13				
14	Long-term capita								4.4	,	,		
	2002 Capital Loss	s Carry	over Workshee	t					14				
15	Combine lines 8 t	hrough	13 in column	(a) If ze	ro or	less enter -	Λ-		15				
	2011121110 111103 0 1	ougii	. 5 50.0	(9). 11 20	. 5 01	.555, 511101 -	٠.						
16	Net long-term ca			Combin	e line	s 8 through	14 in	column (f)	16	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		<i>[[]]</i>	
*1	Next: Go to Part			aluma - /^	fun	aalaa soola	~~~						
May	lude in column (g) all 5, 2003. However, d	o not in	clude gain attrib	outable to	unred	captured sect	on 12	50 gain, "colle	ctibles	gains and I			
D-6	of the instructions) or	eligible	gain on qualified	d small bu	usines	s stock (see p		0-4 of the instru	uctions	s).			
For	Paperwork Reduction	n act N	ιοτιce, see Forn	1 1040 in	struct	ions.		Cat. No. 11338	⊣	Scl	neaule	D (Form 104	+0) 2003

PENSION EARNER COMPREHENSIVE PROBLEMS



2003 Schedule D, page 2

Sched	ule D (Form 1040) 2003		Page 2
Par	t III Taxable Gain or Deductible Loss		
	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18. If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	17a 17b	
	Next: ● If both lines 16 and 17a of Schedule D are gains or you have qualified dividends on		
	Form 1040, line 9b, complete Part IV below (unless Form 1040, line 40, is zero).		
	 Otherwise, skip the rest of Schedule D and complete Form 1040. 		
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the smaller of (a) that loss or (b) (\$3,000) (or, if married filing separately, (\$1,500)) (see page D-6 of the instructions)	18)
	Next: • If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete Part IV below (but skip lines 19 and 20).		
	Otherwise, skip Part IV below and complete the rest of Form 1040.	<u> </u>	
Par			
	If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to	line <u>19.</u>	
19	Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6	19	\perp
20	Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions	20	
	If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 of	f the instructions to	figure
	the amount to enter on lines 35 and 53 below, and skip all other lines below.		
21	Enter your taxable income from Form 1040, line 40	21	
22	Enter the smaller of line 16 or line 17a, but not less than zero 22		
23	Enter your qualified dividends from Form 1040, line 9b		
24	Add lines 22 and 23		
25	Amount from line 4g of Form 4952 (investment interest expense)		
26	7 WHO WHITE THE THE THE THE THE THE THE THE THE T	26	
	Subtract line 25 from line 24. If zero or less, enter -0	27	
27	Subtract line 26 from line 21. If zero or less, enter -0		
28	Enter the smaller of line 21 or:	<i>\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\</i>	<i>(1)(((()</i>),
	• \$56,800 if married filing jointly or qualifying widow(er); • \$28,400 if single or married filing separately or	<i>\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\</i>	
	420,400 if Single of married ming separately, of	- {/// <i>}</i> {////////////////////////////////	<i>(XIIIII)</i>
	• \$38,050 if head of household	<i>\(\(\)</i>	
	If line 27 is more than line 28, skip lines 29–39 and go to line 40.	<i>\(\(\)</i>	
29	Enter the amount from line 27	<i>-{////}{///////////////////////////////</i>	
30	Subtract line 29 from line 28. If zero or less, go to line 40	<i>-X////X///////////////////////////////</i>	
31	Add lines 17b and 23*	<i>\(((((((((((((((((((</i>	
32	Enter the smaller of line 30 or line 31	<i>\$11110</i> \$(1111111111111111111111111111111	
33	Multiply line 32 by 5% (.05)	33	
	If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.		
34	Subtract line 32 from line 30		
35	Enter your qualified 5-year gain, if any, from		
	line 8 of the worksheet on page D-8		
36	Enter the smaller of line 34 or line 35		
37	Multiply line 36 by 8% (.08)	37	
38	Subtract line 36 from line 34		
39	Multiply line 38 by 10% (.10)	39	
	If lines 26 and 30 are the same, skip lines 40–49 and go to line 50.		
40	Enter the smaller of line 21 or line 26		
41	Enter the amount from line 30 (if line 30 is blank, enter -0-) 41		
42	Subtract line 41 from line 40		
43	Add lines 17b and 23*		
44	Enter the amount from line 32 (if line 32 is blank, enter -0-)		
4 4 45	Subtract line 44 from line 43		
46 47	Enter the Children of the 12 of the 10	47	
47	Multiply line 46 by 15% (.15)		
48	Cubitact into 40 north line 42	40	
49	Multiply line 48 by 20% (.20)	49	+
50	Figure the tax on the amount on line 27. Use the Tax Table or Tax Rate Schedules, whichever applies	50	+
51	Add lines 33, 37, 39, 47, 49, and 50	51	+
52 52	Figure the tax on the amount on line 21. Use the Tax Table or Tax Rate Schedules, whichever applies	52	+
53	Tax on all taxable income. Enter the smaller of line 51 or line 52 here and on Form 1040, line 41	53	
*If line	e 25 is more than zero, see Lines 31 and 43 on page D-9 for the amount to enter. (Printed on recycled paper	Schedule D (Form 104	10) 2003

PENSION EARNER COMPREHENSIVE PROBLEMS

2003 Social Security Benefits Worksheet

Bet	Fore you begin: Complete Form 1040, lines 21, 23, 24, and 27 through 32a, if they appeared by Figure any amount to be entered on the dotted line next to line 33 (so If you are married filing separately and you lived apart from your space) 2003, enter "D" to the right of the word "benefits" on line 20a. Be sure you have read the Exception on page 26 to see if you can use instead of a publication to find out if any of your benefits are taxable.	ee page 32.) pouse for all of se this worksheet
1.	Enter the total amount from box 5 of all your Forms SSA-1099 and Forms	
2	RRB-1099 1. Enter one-half of line 1	2.
	Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 12, 13a, 14, 15b,	
	16b, 17 through 19, and 21. Do not include amounts from box 5 of Forms SSA-1099 or	
	RRB-1099	3
	Enter the amount, if any, from Form 1040, line 8b	4
	Add lines 2, 3, and 4	5
0.	amount you entered on the dotted line next to line 33	6.
7.	Is the amount on line 6 less than the amount on line 5?	
	No. (STOP) None of your social security benefits are taxable.	
	☐ Yes. Subtract line 6 from line 5	7.
8.	If you are:	
	• Married filing jointly, enter \$32,000	
	• Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2003, enter	
	\$25,000	8
	• Married filing separately and you lived with your spouse at any time in 2003, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17	
9.	Is the amount on line 8 less than the amount on line 7?	
	No. (STOP) None of your social security benefits are taxable. You do not have to enter any amounts on lines 20a or 20b of Form 1040. But if you are married filing separately and you lived apart from your spouse for all of 2003, enter -0- on line 20b. Be sure you entered "D" to the right of the word "benefits" on line	
	20a.	
	☐ Yes. Subtract line 8 from line 7	9.
10.	Enter: \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying	
11	widow(er), or married filing separately and you lived apart from your spouse for all of 2003 Subtract line 10 from line 9. If zero or less, enter -0	10.
	Enter the smaller of line 9 or line 10.	11. 12.
	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
	Add lines 14 and 15	16.
i	Taxable social security benefits. Enter the smaller of line 16 or line 17	17 18.
	• Enter the amount from line 1 above on Form 1040, line 20a.	
	• Enter the amount from line 18 above on Form 1040, line 20b.	
	If part of your benefits are taxable for 2003 and they include benefits paid in 2003 earlier year, you may be able to reduce the taxable amount. See Pub. 915 for detail	



PENSION EARNER COMPREHENSIVE PROBLEMS Answers

Answers To Problems

Comprehensive Problem 1

2003 Form 1040A, page 1

Form 1040A		tment of the Treasury-			l (99)	200)3 IRS Us	e Onlv-	-Do not write	e or staple in this s	space.
		first name and initial		Last name	(00)			``\		MB No. 1545-0085	
Label									Your so	cial security numl	ber
(See page 21.)	Stu	art	1	Morehous	se				xxx	xx xxxx	
B E		int return, spouse's first n		Last name					Spouse'	s social security nu	ımber
Use the	Doni	na	1	Morehous	e				XXX	xx xxxx	
IRS label. Otherwise, please print	1	e address (number and str 23 Fullerton	eet). If you have a P.0	D. box, see page	22.		Apt. r	10.	▲ Ir	nportant!	! 🛦
or type.	1	town or post office, state,			ddress, see pa	ge 22.				must enter yo	our
	Your	City, State	e, Zip Cod	.e				_		SSN(s) above.	
Presidential Election Campaign (See page 22.)		ote. Checking "Yes						B	You □Yes		e X No
Eiling	1 🗆	Single				4	Head of househ	old (wit	h qualifying	person). (See pag	ne 23)
Filing status Check only one box.		Married filing join	parately. Enter sp			7	If the qualifying enter this child'	person s name	is a child be here. ►	nt child (See page	ndent,
				,	1 1		, ,	. ,	iii depende	`	C 24.j
Exemptions		Yourself. I	f your parent dependent on						Sa.	No. of boxes checked on 6a and 6b	_2_
		Dependents:			_	(0)	5	(4) J it	f qualifying	No. of children on 6c who:	
	C.	Dependents.		(2) Depende			Dependent's lationship to	child	for child	 lived with 	
		(1) First name	Last name	security	number		you		redit (see age 25)	you	
If more than six dependents,										 did not live with you due 	
see page 24.				1	1					to divorce or separation	
					1					(see page 26)	
										Dependents	
										on 6c not entered above	
					1						_
	d	Total number of	of exemptions	claimed.						Add numbers on lines above	2
Income	7	Wages, salaries	s, tips, etc. A	ttach Forr	m(s) W-2.				7	18,526	00
Attach Form(s) W-2											
here. Also	8a	8a Taxable interest. Attach Schedule 1 if required.							8a	235	00
attach	b	b Tax-exempt interest. Do not include on line 8a. 8b									
Form(s)		Ordinary divider			if required				9a		<u> </u>
1099-R if tax was withheld.		Qualified divide				9b)				
		Capital gain di	· · · · · · · · · · · · · · · · · · ·		•	4.01			10a		<u> </u>
If you did not get a W-2, see		Post-May 5 capi	tal gain distrib	utions (see	page 27).	10k					
page 27.	11a	IRA	4.4			11b	Taxable amo		441		
Enclose, but do	40-	distributions.	11a			401-	(see page 2		11b		<u> </u>
not attach, any payment.	12a	Pensions and annuities.	12a			12b	Taxable amount (see page 2		12b	13,567	00
payment.			124				(ccc page 1	<u>-,.</u>	120		
	13	Unemployment	compensati	on and Ala	aska Perr	nanei	nt Fund divid	dends.	. 13		
		Social security		<u> </u>	20.10.1		Taxable amo				
		benefits.	14a ¹⁰	,499.00			(see page 3		_14b	2,339	00
	15	Add lines 7 thro	ough 14b (far	right colum	nn). This is	s you	total incom	e.	▶ 15	34,667	00
Adjusted	16	Educator expe	nses (see pa	ge 30).		16					
gross	17	IRA deduction	(see page 30	0).		17	9	00.0	0		
income	18	Student loan in		<u> </u>		18					
	19	Tuition and fee				19				202	
	20	Add lines 16 th	rough 19. Th	nese are yo	our total	adjus	stments.		20	900	00
	04	0	0 for all 11				·		N 04	33,767	00
	21	Subtract line 2							▶ 21		
For Disclosure, P	rivacy	Act, and Paperv	vork Reduction	n Act Noti	ce, see p	age 5	7. Cat. I	No. 1132	27A	Form 1040A ((2003)

PENSION EARNER COMPREHENSIVE PROBLEMS Answers To Problems

2003 Form 1040A, page 2

Form 1040A	(2003						Р	age 2
Tax,	22	Enter the amount from line 21 (adjuste	ed gross ir	ncome).		22	33,767	00
credits,		(1		
and	23a	Check ✓ You were born before January 2, if: Spouse was born before January		Blind Total bo				
payments	h	If you are married filing separately				!		
Standard) 5	deductions, see page 34 and check her		spouse itemi	≥ 23b □			I
Deduction for—	24	Enter your standard deduction (see I).		24	10,450	00
People who	25	Subtract line 24 from line 22. If line 24			nter -0	25	23,317	.00
checked any box on line	26	Multiply \$3,050 by the total number o				26	6,100	00
23a or 23b or	27	Subtract line 26 from line 25. If line 26	is more t	than line 25, e	nter -0			
who can be claimed as a		This is your taxable income.				27	17,217	00
dependent,	28	Tax, including any alternative minimur		page 35).		28	1,884	00
see page 34. • All others:	29	Credit for child and dependent care ex Attach Schedule 2.	penses.	20				
Single or	30	Credit for the elderly or the disabled	Attach	29				
Married filing	00	Schedule 3.	. Attaon	30				
separately, \$4,750	31	Education credits. Attach Form 8863.		31				
Married filing	32	Retirement savings contributions credi	t. Attach					
jointly or Qualifying		Form 8880.		32				
widow(er), \$9,500	33	Child tax credit (see page 38).		33				
Head of	34	Adoption credit. Attach Form 8839.		34			0	Loo
household,	35 36	Add lines 29 through 34. These are you Subtract line 35 from line 28. If line 35 is			<u> </u>	35 36	1,884	00
\$7,000	37	Advance earned income credit payme			· -U	37	1,004	00
	38	Add lines 36 and 37. This is your tota		OTTI(0) VV 2.	•	38	1,884	00
	39	Federal income tax withheld from Form					,	
		and 1099.		39	3,780.00			
	40	2003 estimated tax payments and a	mount					
If you have a qualifying	l	applied from 2002 return.		40				
child, attach	41	Earned income credit (EIC).	0010	41				
Schedule EIC.	42 43	Additional child tax credit. Attach Form Add lines 39 through 42. These are you		42		43	3,780	loo
	44	If line 43 is more than line 38, subtract				40	3,760	00
Refund		This is the amount you overpaid.		OIII IIIIO 40.		44	1,896	00
Direct	45a	Amount of line 44 you want refunded	to you.		>	45a	1,896	00
deposit? See page 52	▶ b	Routing		01	0 1			
and fill in		number	c Type: □	Checking \square	Savings			
45b, 45c, and 45d.	▶ d	Account						
	40	number			1			
	46	Amount of line 44 you want applied to 2004 estimated tax.	o your	46				
Amount	47	Amount you owe. Subtract line 43 fro	om line 38		n how			l
you owe		to pay, see page 53.	,,,, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,			47		
	48	Estimated tax penalty (see page 53).		48				
Third party	, [Do you want to allow another person to discuss t	his return wi	th the IRS (see pa	age 54)? 🗌 Yes. (Complete	the following.	∠ No
designee	[Designee's	Phone	,	Personal ider			
Cian		ame Inder penalties of perjury, I declare that I have examined	no. ► (d accompanying sc	number (PIN)		ne best of my	
Sign here	ŀ	nowledge and belief, they are true, correct, and accurate f preparer (other than the taxpayer) is based on all infor	ly list all amour	nts and sources of in-	come I received during	the tax yea	r. Declaration	
Joint return? Your signature Date Your occupation Daytime pho								r
See page 22. Keep a copy for your Spouse's signature. If a joint return, both must sign. Date Spouse's occupation)	
records.	7		/ /	Secretary		<u> </u>		
Paid	F	Preparer's ignature		Date / /	Check if		's SSN or PTIN	
preparer's	_	irm's name (or		, ,	self-employed	FAX-X	- AAAA	
use only)	ddress, and ZIP code			Phone no.	()		
		Code 7			1		orm 1040A (2003)

PENSION EARNER COMPREHENSIVE PROBLEMS Answers

Answers To Problems

2003 Social Security Benefits Worksheet

300	sial Security Benefits Worksheet—Lines 20a and 20b	Keep	for Your Record
Bef	Figure any amount to be entered on the dotted line next to line 33 (so √ If you are married filing separately and you lived apart from your sp 2003, enter "D" to the right of the word "benefits" on line 20a. ✓ Be sure you have read the Exception on page 26 to see if you can us instead of a publication to find out if any of your benefits are taxable	bee page 3 bouse for se this w	32.)
1.	Enter the total amount from box 5 of all your Forms SSA-1099 and Forms RRB-1099		
2	Enter one-half of line 1	2.	5,250
	Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 12, 13a, 14, 15b, 16b, 17 through 19, and 21. Do not include amounts from box 5 of Forms SSA-1099 or		
	RRB-1099	3	32,328
	Enter the amount, if any, from Form 1040, line 8b	4	0
	Add lines 2, 3, and 4	5.	37,578
	Enter the total of the amounts from Form 1040, lines 23, 24, and 27 through 32a, plus any amount you entered on the dotted line next to line 33	6	900
7.	Is the amount on line 6 less than the amount on line 5? No. None of your social security benefits are taxable.		
	Yes. Subtract line 6 from line 5	7.	36,678
8.	If you are: ✓ Married filing jointly, enter \$32,000 • Single, head of household, qualifying widow(er), or married filing		
	separately and you lived apart from your spouse for all of 2003, enter \$25,000 • Married filing separately and you lived with your spouse at any time in 2003, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17	8	32,000
9.	Is the amount on line 8 less than the amount on line 7? No. STOP None of your social security benefits are taxable. You do not have to enter any amounts on lines 20a or 20b of Form 1040. But if you are married filing separately and you lived apart from your spouse for all of 2003, enter -0- on line 20b. Be sure you entered "D" to the right of the word "benefits" on line 20a.		
	Yes. Subtract line 8 from line 7	9.	4,678
10.	Enter: \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying		
	widow(er), or married filing separately and you lived apart from your spouse for all of 2003	10.	12,000
	Subtract line 10 from line 9. If zero or less, enter -0-	11	0
	Enter the smaller of line 9 or line 10	12	4,678
	Enter one-half of line 12	13.	2,339
	Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	14 15.	0
	Add lines 14 and 15	16.	2,339
	Multiply line 1 by 85% (.85)	17.	8,924
	Taxable social security benefits. Enter the smaller of line 16 or line 17	18.	2,339



PENSION EARNER COMPREHENSIVE PROBLEMS Answers To Problems

Comprehensive Problem 2 2003 Form 1040, page 1

.										
1040			rtment of the Treasury—Internal Revenue . Individual Income Tax Re	- JJII 11	03	(99) IRS Us	e Only—Do n	nt write or	staple in this space.	
 		_	the year Jan. 1-Dec. 31, 2003, or other tax year be		, 2003, en	` '	, 20		MB No. 1545-0074	
Label	ŀ		ir first name and initial	Last name	, 2000, 01	iding	, 20		ocial security num	her
	L	Jay		Lehigh					x xx _{xxxx}	
(See instructions	Α		joint return, spouse's first name and initial							
on page 21.)	B E		joint return, spouse's first name and initial	Last name Lehigh				-	e's social security n	
Use the IRS	ᆫ				0.4	1.0		XX	x xx xxxx	
label.	브		ne address (number and street). If you have Danville	a P.O. box, see pa	ge 21.	Apt.	no.		Important!	
Otherwise, please print	E R								ou must enter	
or type.	E		v, town or post office, state, and ZIP code. It	t you nave a toreign	address,	see page 21.			our SSN(s) above	.
Presidential	igsquare	YOU	ır City, State Zip Code					Yo	u Spous	
Election Campa	aign		Note. Checking "Yes" will not change		-					
(See page 21.)		<u> </u>	Do you, or your spouse if filing a joint	t return, want \$3 t	to go to	this fund? .		X Ye	s No XYes	No
		1	Single		4	Head of hous	ehold (with	qualifying	g person). (See page	e 21.) If
Filing Status	S	2	Married filing jointly (even if only on	e had income)		the qualifying	person is a	child but	not your dependen	nt, enter
Check only		з [Married filing separately. Enter spou	use's SSN above		this child's na	me here. >			
one box.			and full name here. ▶		5	Qualifying wi	dow(er) with	n depen	dent child. (See pa	ge 21.)
		6a	X Yourself. If your parent (or some	one else) can clair	n you as	a dependent o	on his or he	r tax)	No. of boxes	
Exemptions	3		return, do not check be	ox 6a				}	checked on 6a and 6b	2
		b	X Spouse				/.	J	No. of children	
		c	Dependents:	(2) Depende	ent's	(3) Dependent's			on 6c who:	
			(1) First name Last name	social security	number	relationship to you	child for ch credit (see p		 lived with you did not live with 	
							П		you due to divorce	
If more than fiv	'e						\vdash \vdash		or separation (see page 22)	
dependents,							+ $$		Dependents on 6c	
see page 22.							\perp Ξ		not entered above	
							$+$ \exists		Add numbers	
		d	Total number of exemptions claimed	<u> </u>					on lines above ►	2
			·			<u> </u>		7	above P	_
Income		7	Wages, salaries, tips, etc. Attach Forr							
		8a	Taxable interest. Attach Schedule B i	•				8a		
Attach	_	b	Tax-exempt interest. Do not include		. 8	D		_//////		
Forms W-2 and W-2G here.	d	9a	Ordinary dividends. Attach Schedule I	B if required .				9a		
Also attach		b	Qualified dividends (see page 25) .		. 9	b		_//////		
Form(s) 1099-F	₹ '	10	Taxable refunds, credits, or offsets of	state and local in	ncome ta	axes (see page	25)	10		-
if tax was		11	Alimony received					11		-
withheld.		12	Business income or (loss). Attach Sch	nedule C or C-EZ				12	6,000	
		13a	Capital gain or (loss). Attach Schedule	e D if required. If	not requ	ired, check her	re ▶ ု 🔲	13a	7,820	00
		b	If box on 13a is checked, enter post-May 5 ca	apital gain distributio	ns 13	3b				
If you did not		14	Other gains or (losses). Attach Form 4	4797				14		<u> </u>
get a W-2,		15a	IRA distributions 15a		b Tax	able amount (see	e page 25)	15b		<u> </u>
see page 23.		16a	Pensions and annuities 16a		b Tax	able amount (see	page 25)	16b	18,945	.00
Enclose, but do	ο .	17	Rental real estate, royalties, partnershi	ips, S corporation	s, trusts	, etc. Attach Sc	hedule E	17		<u> </u>
not attach, any	٠.	18	Farm income or (loss). Attach Schedu	ıle F				18		
payment. Also, please use		19	Unemployment compensation					19		
Form 1040-V.	:	20a	Social security benefits . 20a	14,263 00		able amount (see	e page 27)	20b	3,737	.00
	:	21	Other income. List type and amount ((see page 29)				21		
	:	22	Add the amounts in the far right column				ncome 🕨	22	36,502	0.0
		23	Educator expenses (see page 29) .		2:	3				
Adjusted		24	IRA deduction (see page 29)		2	4				
Gross		25	Student loan interest deduction (see p		. 2	5				
Income		26	Tuition and fees deduction (see page		ر ا	6				
		20 27	Moving expenses. Attach Form 3903		. 2					1
			• .		. 2		424 00			1
		28	One-half of self-employment tax. Atta				-21			1
		29	Self-employed health insurance deduc	, , ,	3) 2			<i>-\/////</i>		
		30	Self-employed SEP, SIMPLE, and qua	•	. –			- (((()))		
		31	Penalty on early withdrawal of savings		. 3			-{/////		
		32a	Alimony paid b Recipient's SSN ►	- : :		2a		-/////	404	
		33	Add lines 23 through 32a					33	424	-
		34	Subtract line 33 from line 22. This is y				•	34	36,078	•
For Disclosure	, Priv	vacy	Act, and Paperwork Reduction Act N	Notice, see page	76.	Cat. N	No. 11320B		Form 1040	(2003)

PENSION EARNER COMPREHENSIVE PROBLEMS Answers

Answers To Problems

2003 Form 1040, page 2

orm 1040 (2003)								F	Page 2
ov ond	35	Amount f	from line 34 (adjusted gross incom-	e)			35	36,078	00
ax and redits	36a	Check ∫	You were born before January	/ 2, 1939,	☐ Blind.	boxes 2			
standard		if: {	Spouse was born before Janu	ıary 2, 1939,	☐ Blind. chec				
Deduction	b	If you are	e married filing separately and your	spouse itemi	zes deductions, o	or			
or—		you were	e a dual-status alien, see page 34 a	and check her	e	. ▶ 36b 🛮			l
People who	37	Itemized	I deductions (from Schedule A) or	your standar	d deduction (see	e left margin)	37	11,400	
hecked any ox on line	38	Subtract	line 37 from line 35				38	24,678	00
6a or 36b or ho can be	39	If line 35	is \$104,625 or less, multiply \$3,050	0 by the total	number of exemp	otions claimed on		- 100	
laimed as a		line 6d. I	f line 35 is over \$104,625, see the	worksheet on	page 35		39	6,100	
lependent, ee page 34.	40		income. Subtract line 39 from line				40	18,578	
All others:	41		page 36).Check if any tax is from: a			n 4972	41	2,086	.00
Single or	42		ive minimum tax (see page 37). At	tach Form 62	51		42	2 006	0.0
Narried filing	43						43	2,086	.00
eparately, 4,750	44	Foreign t	tax credit. Attach Form 1116 if requ	uired	. 44				
Married filing	45		child and dependent care expenses.						
ointly or	46		r the elderly or the disabled. Attach						
Qualifying vidow(er),	47		on credits. Attach Form 8863 .		47				
9,500	48		ent savings contributions credit. Atta	ach Form 888					l
lead of	49		c credit (see page 39)		. 49				l
7 000	50		credit. Attach Form 8839		. 50				l
	51			Form 8859 .	V/////				1
	52		edits. Check applicable box(es):						l
					. 52			0	
	53		s 44 through 52. These are your to				53	0	
	54		line 53 from line 43. If line 53 is m				54	2086	
)ther	55	Self-emp	ployment tax. Attach Schedule SE				55	848	00
Taxes	56	Social sec	curity and Medicare tax on tip income	not reported to	employer. Attach	Form 4137	56		
	57	•	ualified plans, including IRAs, and other			·	57		
	58		e earned income credit payments fro	. ,			58		
	59		old employment taxes. Attach Sche				59	2024	0.0
	60		s 54 through 59. This is your total			1,895 00	60	2934	.00
ayments	61		income tax withheld from Forms W			1,095,00			1
	62		nated tax payments and amount applied f						l
fyou have a jualifying	63		ncome credit (EIC)						l
hild, attach	64		ocial security and tier 1 RRTA tax with	, , ,	00,				l
J.	65		al child tax credit. Attach Form 881						l
	66		paid with request for extension to		30)				l
	67 68		ents from: a Form 2439 b Form 413 s 61 through 67. These are your to				60	1,895	00
						 	68 69	1,090	00
Ciuiiu	69 70-		is more than line 60, subtract line 6		. This is the amou	unt you overpaid	70a		
rect deposit:	70a		of line 69 you want refunded to yo			•	/Ua		\vdash
d fill in 70h	b d	Routing r			c Type: L Checl	king ∟ Savings			1
c, and 70d.		Account							
	71		f line 69 you want applied to your 2004				72	1,039	00
mount ou Owe	72 73		you owe. Subtract line 68 from line d tax penalty (see page 57)			r, see page 5/ ►			VIII.
			to allow another person to discuss			nge 58)? 🗆 Vac (Complete the	of following	<i>V////</i> / №
hird Party		•	•			• , —	•		
esignee	Des nan	signee's ne ▶		Phone no. ► ()	Personal identific number (PIN)	ation		
ign	Unc	der penalties	s of perjury, I declare that I have examined	this return and a		ules and statements, and			
lere	beli	ef, they are	true, correct, and complete. Declaration of	preparer (other th	an taxpayer) is base	d on all information of w	nich preparer ha	as any knowled	dge.
oint return?	You	ır signature	e	Date	Your occupation	ı	Daytime ph	one number	
ee page 21.				/ /			()		
еер а сору	Spo	ouse's signa	ature. If a joint return, both must sign.	Date	Spouse's occup	ation			
r your cords.	•	=	· ·	/ /					
	Dro	parer's		· T	Date	01 1 17	Preparer's S	SSN or PTIN	
aid	sign	nature			/ /	Check if self-employed	Pxx-xx-	-xxxx	
reparer's		n's name (c					:		
se Only		irs if self-en				EIN	1		

PENSION EARNER COMPREHENSIVE PROBLEMS Answers To Problems

2003 Schedule C-EZ, page 1

(For	HEDULE C-EZ rm 1040)	(Sole Pro ▶ Partnerships, joint ventures, e			OMB No. 1545-0074 2003 Attachment
	Revenue Service	► Attach to Form 1040 or 104	1. ► See instructions on back		Sequence No. 09A
Name	of proprietor	Sandra Leigh	1	Social se	curity number (SSN)
			•	AAA	; AA ; AAAA
Par	t I General	Information			
Sche Inste Sche	May Use edule C-EZ ead of edule C	 Had business expenses of \$2,500 or less. Use the cash method of accounting. Did not have an inventory at any time during the year. Did not have a net loss from your business. Had only one business as a sole proprietor. 	And You: • Are of Dep this for S C-4 • Do r busi • Do r pass	not required to reciation and A	ou must file. enses for ur home. ear unallowed
Α	•	or profession, including product or service	5 03	B Enter	code from pages C-7, 8, & 9
С	Day Care Business name. If	no separate business name, leave blank.	000	D Emplo	oyer ID number (EIN), if any
E	Business address	(including suite or room no.). Address not requir	ed if same as on Form 1040, page	ge 1.	
			100	5 P	
	City, town or post	office, state, and ZIP code	1 Mail		
			<u> </u>		
Par	t II Figure Y	our Net Profit	60		
1	employee" box o	Caution. If this income was reported to you on that form was checked, see Statutory E 1, on page C-3 and check here			6,000
2	Total expenses	(see instructions). If more than \$2,500, you	ı must use Schedule C .	2	
3	Form 1040, line	ract line 2 from line 1. If less than zero, y 12, and also on Schedule SE, line 2. (Sta dule SE, line 2. Estates and trusts, enter o	tutory employees do not repe		6,000
Par	t III Informat	tion on Your Vehicle. Complete this pa	rt only if you are claiming o	car or truck	expenses on line 2.
4	When did you pla	ace your vehicle in service for business pu	rposes? (month, day, year) ▶	·/	
5	Of the total numl	ber of miles you drove your vehicle during	2003, enter the number of m	iles you used	your vehicle for:
а	Business	b Commuting	c Other		
6	Do you (or your s	spouse) have another vehicle available for	personal use?		. 🗌 Yes 🗌 No
7	Was your vehicle	available for personal use during off-duty	hours?		. 🗆 Yes 🗆 No
8a	Do you have evid	dence to support your deduction?			. 🗌 Yes 🗌 No
_ b	If "Yes," is the ev	vidence written?		<u></u>	. 🗌 Yes 🗌 No
For F	Paperwork Reducti	on Act Notice, see Form 1040 instructions.	Cat. No. 14374D		e C-EZ (Form 1040) 2003

PENSION EARNER COMPREHENSIVE PROBLEMS ANSWERS

Answers To Problems

2003 Schedule SE

SCHEDULE SE
(Form 1040)

Department of the Treasury Internal Revenue Service

Name of person with self-employment income (as shown on Form 1040)

Self-Employment Tax

Attachment Sequence No. 17

Social security number of person with self-employment income

Sandra Leigh

OMB No. 1545-0074

2003

Attachment Sequence No. 17

Who Must File Schedule SE

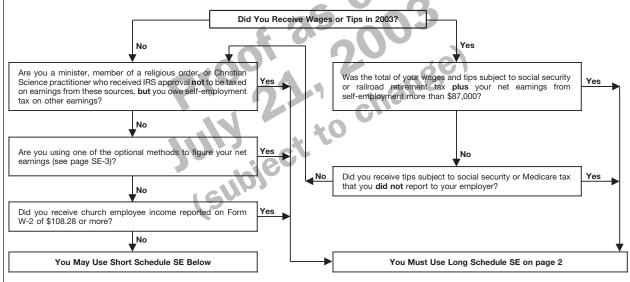
You must file Schedule SE if:

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

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

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

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



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

For Paperwork Reduction Act Notice, see Form 1040 instructions.

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1		
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report	2	6,000 6,000	
4 5	Net earnings from self-employment. Multiply line 3 by 92.35% (.9235). If less than \$400, do not file this schedule; you do not owe self-employment tax ▶ Self-employment tax. If the amount on line 4 is:	4	5,541	00
	 \$87,000 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 55. More than \$87,000, multiply line 4 by 2.9% (.029). Then, add \$10,788.00 to the result. Enter the total here and on Form 1040, line 55. 	5	848	00
6	Deduction for one-half of self-employment tax. Multiply line 5 by 50% (.5). Enter the result here and on Form 1040, line 28 6 424 00			

Cat. No. 11358Z

CP-25
PENSION EARNER

Schedule SE (Form 1040) 2003

PENSION EARNER COMPREHENSIVE PROBLEMS ANSWERS TO PROBLEMS

2003 Schedule D, page 1

OMB No. 1545-0074 **SCHEDULE D Capital Gains and Losses** (Form 1040) ► See Instructions for Schedule D (Form 1040). ► Attach to Form 1040. Department of the Treasury Attachment Sequence No. 12 ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8. Name(s) shown on Form 1040 Your social security number xxx xx xxxx Jay and Sandra Lehigh **Short-Term Capital Gains and Losses-**-Assets Held One Year or Less (d) Sales price see page D-5 of (e) Cost or other basis (see page D-5 of the instructions) (f) Gain or (loss) for the entire year Subtract (e) from (d) (g) Post-May 5 gain (b) Date (c) Date sold or (loss) acquired (Example: 100 sh. XYZ Co.) (Mo., day, yr.) Subtract (e) from (d) (see below) (Mo., day, yr.) the instructions) Enter your short-term totals, if any, from 2 Schedule D-1, line 2 Total short-term sales price amounts. 3 Add lines 1 and 2 in column (d) Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 4 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts 5 from Schedule(s) K-1 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 2002 Capital Loss Carryover Worksheet 6 7a Combine lines 1 through 5 in column (g). If the result is a loss, enter the result. Otherwise, enter -0-. Do not enter more than zero 7a b Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f) 7b Long-Term Capital Gains and Losses—Assets Held More Than One Year Part II (a) Description of property (Example: 100 sh. XYZ Co.) (b) Date (d) Sales price see page D-5 of (e) Cost or other basis (see page D-5 of the instructions) (f) Gain or (loss) for the entire year Subtract (e) from (d) (g) Post-May 5 gain or (loss)* (see below) (c) Date sold (Mo., day, yr.) the instructions) (Mo., day, yr.) 8 12/01/85 07/15/03 5,124 2,400 00 100 sh. ABC Inc 2,724 00 2,724 00 10,796 200 sh. XYZ Inc 12/20/87 11/14/03 5,700 5,096 00 5,096 00 Enter your long-term totals, if any, from Schedule D-1, line 9 10 Total long-term sales price amounts. 105:22 Add lines 8 and 9 in column (d) 10 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and 11 long-term gain or (loss) from Forms 4684, 6781, and 8824 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts 12 13 Capital gain distributions. See page D-1 of the instructions Long-term capital loss carryover. Enter the amount, if any, from line 13 of your 14 7,820:00 15 Combine lines 8 through 13 in column (g). If zero or less, enter -0- 7.820:00 Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f) Next: Go to Part III on the back.

*Include in column (g) all gains and losses from column (f) from sales, exchanges, or conversions (including installment payments received) **after** May 5, 2003. However, **do not** include gain attributable to unrecaptured section 1250 gain, "collectibles gains and losses" (as defined on page D-6 of the instructions) or eligible gain on qualified small business stock (see page D-4 of the instructions).

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11338H

Schedule D (Form 1040) 2003

PENSION EARNER COMPREHENSIVE PROBLEMS ANSWERS

Answers To Problems

2003 Schedule D, page 2

Scher	dule D (Form 1040) 2003		-	Page 2
	t III Taxable Gain or Deductible Loss			age Z
	Combine lines 7b and 16 and enter the result. If a loss, enter -0- on line 17b and go to line 18.			
	If a gain, enter the gain on Form 1040, line 13a, and go to line 17b below	17a	7,820	00
b	Combine lines 7a and 15. If zero or less, enter -0 Then complete Form 1040 through line 40.	17b	7 , 820	00
	Next: ● If both lines 16 and 17a of Schedule D are gains or you have qualified dividends on			
	Form 1040, line 9b, complete Part IV below (unless Form 1040, line 40, is zero).			
	 Otherwise, skip the rest of Schedule D and complete Form 1040. 			
18	If line 17a is a loss, enter here and on Form 1040, line 13a, the smaller of (a) that loss or	18	()
	(b) (\$3,000) (or, if married filing separately, (\$1,500)) (see page D-6 of the instructions)			
	Next: • If you have qualified dividends on Form 1040, line 9b, complete Form 1040 through line 40, and then complete Part IV below (but skip lines 19 and 20).			
	 Otherwise, skip Part IV below and complete the rest of Form 1040. 			
Pai	Tax Computation Using Maximum Capital Gains Rates			
	If line 16 or line 17a is zero or less, skip lines 19 and 20 and go to line 21. Otherwise, go to	line 1	9.	
19	Enter your unrecaptured section 1250 gain, if any, from line 18 of the worksheet on page D-6	19		Ш
20	Enter your 28% rate gain, if any, from line 7 of the worksheet on page D-9 of the instructions	20		
	If lines 19 and 20 are zero, go to line 21. Otherwise, complete the worksheet on page D-10 o	f the i	nstructions to f	igure
0.4	the amount to enter on lines 35 and 53 below, and skip all other lines below.	21	18,578	lnn
21	Enter your taxable income from Form 1040, line 40		10,010	00
22	Enter the smaller of line 16 or line 17a, but not less than zero 22 7,820 00 Enter your qualified dividends from Form 1040, line 9b 23	<i>\\\\\\</i>		
23 24	Add lines 22 and 23			
25	Amount from line 4g of Form 4952 (investment interest expense)			
26	Subtract line 25 from line 24. If zero or less, enter -0-	26	7,820	00
27	Subtract line 26 from line 21. If zero or less, enter -0	27	10 , 758	00
28	Enter the smaller of line 21 or:			
	• \$56,800 if married filing jointly or qualifying widow(er);			
	• \$28,400 if single or married filing separately; or \\ \tag{28} 18,578 \ 00	-\////		
	• \$38,050 if head of household			
00	If line 27 is more than line 28, skip lines 29–39 and go to line 40. Enter the amount from line 27 10, 758 00			
29 30	Enter the amount from line 27	<i>\\\\\\</i>		
31	Add lines 17b and 23*			
32	Enter the smaller of line 30 or line 31			
33	Multiply line 32 by 5% (.05)	33	391	00
	If lines 30 and 32 are the same, skip lines 34–39 and go to line 40.			
34	Subtract line 32 from line 30			
35	Enter your qualified 5-year gain, if any, from			
	line 8 of the worksheet on page D-8 35			
36	Enter the diffuser of line of a line	_/////// 37		
37 38	Multiply line 36 by 8% (.08)			
39	Multiply line 38 by 10% (.10)	39		
	If lines 26 and 30 are the same, skip lines 40–49 and go to line 50.			
40	Enter the smaller of line 21 or line 26			
41	Enter the amount from line 30 (if line 30 is blank, enter -0-) 41			
42	Subtract line 41 from line 40	- //////		
43	Add lines 17b and 23*			
44	Enter the amount from line 32 (if line 32 is blank, enter -0-) Subtract line 44 from line 43 45			
45 46	Subtract line 44 from line 43			
46 47	Enter the difference of line 42 of line 40	47		
47	Subtract line 46 from line 42			
49	Multiply line 48 by 20% (.20)	49		
50	Figure the tax on the amount on line 27. Use the Tax Table or Tax Rate Schedules, whichever applies	50	1,078	00
51	Add lines 33, 37, 39, 47, 49, and 50	51	1,469	0.0
52	Figure the tax on the amount on line 21. Use the Tax Table or Tax Rate Schedules, whichever applies	52	2,086	00
53	Tax on all taxable income. Enter the smaller of line 51 or line 52 here and on Form 1040, line 41	53	1,469	0.0

PENSION EARNER COMPREHENSIVE PROBLEMS Answers To Problems

Social Security Benefits Worksheet.

Complete Form 1040, lines 21, 23, 24, and 27 through 32a, if they a Figure any amount to be entered on the dotted line next to line 33 (s If you are married filing separately and you lived apart from your separately and you lived apart from your separately and you lived apart from your separately and your lived ap	ee page (pouse for	32.) 5 ′ r all of
1. Enter the total amount from box 5 of all your Forms SSA-1099 and Forms RRB-1099		
 Enter one-half of line 1 Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 12, 13a, 14, 15b, 	2	7,132
16b, 17 through 19, and 21. Do not include amounts from box 5 of Forms SSA-1099 or RRB-1099	3	32,765
4. Enter the amount, if any, from Form 1040, line 8b	4. 5.	39,897
6. Enter the total of the amounts from Form 1040, lines 23, 24, and 27 through 32a, plus any		
amount you entered on the dotted line next to line 33	6	424
No. (STOP) None of your social security benefits are taxable.		
Yes. Subtract line 6 from line 5	7.	39,473
If you are: • Married filing jointly, enter \$32,000		
• Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2003, enter		
\$25,000	8	32,000
 Married filing separately and you lived with your spouse at any time in 2003, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the 		
result on line 16. Then go to line 17		
9. Is the amount on line 8 less than the amount on line 7? No. (\$\sigma \text{No.} \sigma \text{No.} On or of your social security benefits are taxable. You do not have to enter any		
amounts on lines 20a or 20b of Form 1040. But if you are married filing		
separately and you lived apart from your spouse for all of 2003, enter -0- on line 20b. Be sure you entered "D" to the right of the word "benefits" on line		
20a.	0	7,473
Yes. Subtract line 8 from line 7	9	7,475
widow(er), or married filing separately and you lived apart from your spouse for all of 2003 11. Subtract line 10 from line 9. If zero or less, enter -0	10. 11.	12,000
12. Enter the smaller of line 9 or line 10.	12.	7,473
13. Enter one-half of line 12	13.	3,737
14. Enter the smaller of line 2 or line 13	14 15.	3,737
16. Add lines 14 and 15	16.	3,737
17. Multiply line 1 by 85% (.85)18. Taxable social security benefits. Enter the smaller of line 16 or line 17	17 18.	12,124
• Enter the amount from line 1 above on Form 1040, line 20a.	10.	,
• Enter the amount from line 18 above on Form 1040, line 20b.		
	2 41- 4	6
If part of your benefits are taxable for 2003 and they include benefits paid in 200 earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details		ere for an

Module 1

Objectives

After completing this module you should be able to:

- Open and create a new tax return.
- Complete the main information sheet for this module in TaxWise.
- Identify and enter pertinent taxpayer information into the return.
- Determine the qualifications for the single filing status.
- Define wages and input a Form W-2 using the software.
- Determine taxable and non-taxable interest income and input applicable information from Form 1099-INT.
- Identify Unemployment Compensation and input a Form 1099-G.
- Define the Educators Expense adjustment and input applicable information for the calculation of the adjustment.
- Define the qualifications for the "Student Loan Interest" adjustment and input applicable information for the calculation of the adjustment.
- Know the qualifications for an IRA contribution and input applicable information.
- Define early withdrawal penalty.
- Identify who qualifies for the "Credit for Qualified Retirement Savings Contribution" and input applicable information.
- Identify proper procedures for finishing the return.

Taxpayer Profile

Taxpayer Name	James Fairmont		
TP SSN	XXX-XX-XXXX		
Spouse Name			
SP SSN			
Street Address	76 Fisk Ave		
City, State, Zip	Your City State and Zip Code		
Phone Number	(412) 555-1212		
Date of birth TP	03/10/1979		
Date of birth Spouse			
Occupation TP	3 rd Grade Teacher		
SP			
Blind? TP	No		
SP			
Donate to Presidential Fund?			
TP	No		
SP			
Filing Status	Single		
Can be claimed as dependent by someone			
else? TP	No		
SP			
State Return Info (Yes or No)	No		
Direct Deposit	Yes		
Bank Routing Number	112200001		
Account number	987123		

Other considerations:

He tells you he spent \$537.26 on classroom supplies.

This is his first year teaching, he started in August, and worked 640 hours.

He is repaying a student loan and received a statement from his loan institution showing he paid \$235.87 in interest.

He made a traditional IRA contribution of \$450.

a Control number 123456	OM	/IB No. 1545-0008	Safe, accurate, FAST! Use Visit the IR at www.irs	S Web Site
b Employer identification number XX-XXXXXXX		1 Wages, tips, other compensation \$2,226.15 \$203.12	ax withheld	
c Employer's name, address, and ZIP code Kathy's Restaurant 10 Franklin St. Your City, State, and Zip Co	nde	3 Social security wages 4 Social security tax wi \$2,226.15 \$139.02 5 Medicare wages and tips 6 Medicare tax withheld \$2,226.15 \$32.38		
Tour Oity, blate, and hip of	oue		7 Social security tips 8 Allocated tips	
d Employee's social security number			9 Advance EIC payment 10 Dependent care I	penefits
e Employee's first name and initial Last James Fairmont 76 Fisk Ave. Your City, State, and Zip Co	name		1 Nonqualified plans 12a See instructions is a see instruction in the see instruction in the see instruction is a see instruction in the see instruction in the see instruction is a see instruction in the see instruction in the see instruction is a see instruction in the see	or box 12
15 State Employer's state ID number XX-XXXXXXX	16 State wages, tips, etc. \$2,226.15	17 State income ta: \$160.34	18 Local wages, tips, etc. 19 Local income tax	20 Locality name
Form W-2 Wage and Tax Statement Copy B To Be Filed with Employee's FEI This information is being furnished to the Ir		2003	Department of the Treasury—Interna	Revenue Service

Form W-2 Sunshine School District

a Control number 123456	O	MB No. 1545-0008	Safe, accurate, FAST! Use Visit the IRS Web Site at www.irs.gov.
b Employer identification number XX-XXXXXXX		1 Wages, tips, other compensation \$6,432.67 2 Federal income tax withheld \$432.28	
c Employer's name, address, and ZIP code Sunshine School District		3 Social security wages 4 Social security tax withheld \$0.00 \$0.00	
45 North Third Street Your City, State, and Zip (Code	5 Medicare wages and tips 6 Medicare tax withheld \$93.23	
			7 Social security tips 8 Allocated tips
d Employee's social security number			9 Advance EIC payment 10 Dependent care benefits
e Employee's first name and initial La James Fairmont	ast name	11 Nonqualified plans 12a See instructions for box 12 \$435.87	
76 Fisk Ave. Your City, State, and Zip Code			13 Statutory Retirement Third-party 12b
f Employee's address and ZIP code			12d
15 State Employer's state ID number XX-XXXXXX	16 State wages, tips, etc. \$6,432.67	17 State income ta: \$795.43	ax 18 Local wages, tips, etc. 19 Local income tax 20 Locality na
Form W-2 Wage and Tax Statement		2003	Department of the Treasury—Internal Revenue So
Copy B To Be Filed with Employee's F This information is being furnished to the			

PAYER'S name, street address, city, state	1 Unemployment compensation \$ 1,340.00	OMB No. 1545-0120		Certain	
Division of Employmen 290 West 4th St.	2 State or local income tax refunds, credits, or offsets	20 03		Government Payments	
Your City, State and	Zip Code	\$	Form 1099-G		
	CIPIENT'S identification number	3 Box 2 amount is for tax year	4 Federal income tax	withheld	Copy B
xx-xxxxxx	xxx-xx-xxxx		\$ 80.9	8	For Recipient
RECIPIENT'S name James Fairmont		5	6 Taxable grants		This is important tax information and is being furnished to the Internal Revenue
Street address (including apt. no.)		7 Agriculture payments	8 Box 2 is trade or	. \square	Service. If you are required to file a return,
76 Fisk Ave		\$	business income		a negligence penalty or
City, state, and ZIP code					other sanction may be imposed on you if this
Your City, State, and	l Zip Code				income is taxable and
Account number (optional)					the IRS determines that it has not been reported.

Form 1099-INT

e, and telephone no.	Payer's RTN (optional)	OMB No. 1545-0112		
First Bank 99 W. 48th St.		2003	Inte	rest Income
		Form 1099-INT		
deral identification number RECIPIENT'S identification number 1 Interest income not included in box 3			Copy B	
-xx-xxx	\$ 147.48	147.48		For Recipient
RECIPIENT'S name				This is important tax information and is being furnished to the
	\$ 19.68	\$		Internal Revenue
Street address (including apt. no.) 76 Fisk Ave		5 Investment expenses \$		Service. If you are required to file a return, a negligence penalty or
1	6 Foreign tax paid	7 Foreign country or possession	U.S.	other sanction may be imposed on you if this income is taxable and
	\ \$			the IRS determines that it has not been reported
	S identification number	1 Interest income not includer \$ 147.48 2 Early withdrawal penalty \$ 19.68 4 Federal income tax withheld \$ 6 Foreign tax paid	Form 1099-INT Sidentification number 1 Interest income not included in box 3 \$ 147.48 2 Early withdrawal penalty 3 Interest on U.S. Sav Bonds and Treas. of \$ 19.68 4 Federal income tax withheld \$ Investment expenses \$ 6 Foreign tax paid 7 Foreign country or	Form 1099-INT Sidentification number 1 Interest income not included in box 3 \$ 147.48 2 Early withdrawal penalty 3 Interest on U.S. Savings Bonds and Treas. obligations \$ 19.68 4 Federal income tax withheld 5 Investment expenses \$ 6 Foreign tax paid 7 Foreign country or U.S.

INTEGRATED TRAINING

Module 2

Objectives

After completing this module you should be able to:

- Create a new tax return by completing the main information sheet for this module in TaxWise.
- Determine the qualifications for head of household and married filing separately filing status.
- Use the 5 tests for dependents, to determine dependency status.
- Determine who is eligible for the credit for child and dependent care expenses.
- Use the EIC eligibility requirements, to determine an EIC qualifying child.
- Determine who is eligible for the child tax credit.
- Input applicable information from Form 1099-DIV.
- Determine who can use Schedule C-EZ and complete Schedule C-EZ and Schedule SE.
- Complete Form 2441.
- Complete the Child Tax Credit Worksheet.
- Complete the EIC Worksheet
- Explain the benefits of AEIC and review where AEIC is reported on Form 1040 or Form 1040A.
- Identify proper procedures for finishing the return.

Taxpayer Profile

Taxpayer Name	Betsy Curry
TP SSN	XXX-XX-XXXX
Spouse Name	
SP SSN	
Street Address	614 Howard Ave
City, State, Zip	Your City State and Zip Code
Phone Number	402-555-1212
Date of birth TP	08/23/1969
Date of birth Spouse	
Occupation TP	Executive Assistant
SP	
Blind? TP	No
SP	
Donate to Presidential Fund?	
TP	Yes
SP	
Filing status	Head of Household
Can be claimed as dependent by someone else? TP	No
SP	
State Return Info (Yes or No)	No
Direct Deposit	
Bank Routing Number	xxxxxxxx
Account number	XXXXXXX

Other Members of Household

Name	Date of Birth	SSN or ITIN	Relationship	Citizenship	# of Months in Home
Mary Curry	07/21/1994	xxx-xx-xxxx	Daughter	U.S.	12
James Curry	08/24/1997	xxx-xx-xxxx	Son	U.S.	12

Other considerations:

Mary is divorced and keeps up a main home for herself and her children.

She provides 100% of her children's support.

Both children lived with her for the entire year.

Betsy has a small word processing business (Code: 561900) which she runs out of her home. Her gross income was \$4,850. Her total expenses for materials were \$363 and she has written records for 1,200 business miles and 9,000 other miles on her only car. Her car was put into business use on January 1, 2002. Her business takes up only a very small area in her home and she uses her computer mainly for personal use. She elects to take the standard mileage rate.

Betsy's neighbor, Mary King, cares for her two children after school. Betsy paid \$1,750 for each child during 2003. Mary's SSN is xxx-xx-xxx and her address is 628 Howard Ave., Your City, State, and Zip Code.

Documents taxpayer gives you:

Form W-2, State of Nebraska

a Control number				Safe, accurate, FAST! Use	ile		S Web Site
123456		OMB No. 1545-0008	_			at www.irs	
b Employer identification number			1		2	Federal income t	
xx-xxxxxx			上	\$14,834.56		\$1,739.8	6
c Employer's name, address, and	3	Social security wages	4	Social security to	x withheld		
Otata of Mahmadha				\$17,834.56		\$1,106.0	0
State of Nebraska	N		5	Medicare wages and tips	6	Medicare tax wit	hheld
1345 South 10th S				\$17,834.56		\$259.00	
Omaha, Nebraska	68104		7	Social security tips	8	Allocated tips	
d Employee's social security number	ber		9	Advance EIC payment	10	Dependent care	benefits
xxx-xx-xxxx				\$1,000.00		\$1,000.0	0
e Employee's first name and initia	l Last name		11	Nonqualified plans	12a	See instructions	for box 12
					o d	\$2,00	0.00
Betsy Curry			13	Statutory Retirement Third-party employee plan sick pay	12k	,	
7614 Howard Ave.					o d		
			14	Other	120	•	
Your City, State, Z	ip Code				8		
					120	<u> </u>	
					Cod		
f Employee's address and ZIP co	nde				<i>"///</i>		
15 State Employer's state ID num	1	tc. 17 State income ta	Х	18 Local wages, tips, etc.	19 Loca	al income tax	20 Locality name
xx-xxxxxxx	\$14,834.56			3.7, 7.7.			, , , , , ,
W-2 Wage and	d Tax)	Departme	nt of the	Treasury—Interna	al Revenue Service
Form VV - Z Statemer	nt	2003)				
Copy B To Be Filed with Empl This information is being furnish		rice.					

		CTED (if checked)						
	OMB No. 1545-0110	1a Total ordinary dividends	PAYER'S name, street address, city, state, ZIP code, and telephone no.					
Dividends and	രെഹാ	\$ 54.00	ABC Corporation 3333 North Tenth Street Your City, State, Zip Code			-		
Distributions	2003 '	1b Qualified dividends						
	Form 1099-DIV	\$		rour ereg, rease,				
istr. Copy E	2b Post-May 5 capital gain distr.	2a Total capital gain distr.						
For Recipien	\$	\$						
	2d Unrecap. Sec. 1250 gain	2c Qualified 5-year gain	RECIPIENT'S identification number	PAYER'S Federal identification number				
	\$	\$	xxx-xx-xxxx	xx-xxxxxx				
in This is importan	2f Collectibles (28%) gain	2e Section 1202 gain		RECIPIENT'S name				
tax information	\$	\$		Betsy Curry				
and is being furnished to the	4 Federal income tax withheld \$	3 Nontaxable distributions						
Internal Revenue	5 Investment expenses	\$ ////////////////////////////////////		Ctuant address (including out up)				
Service. If you	5 investment expenses			Street address (including apt. no.) 614 Howard Ave.				
are required to	\$							
	7 Foreign country or U.S. possession	6 Foreign tax paid		City, state, and ZIP code				
penalty or othe		\$	Zip Code	Your City, State,				
 sanction may be imposed on you 	9 Noncash liquidation	8 Cash liquidation	Account number (optional)					
if this income is	distributions	distributions						
taxable and the	\$	\$						
that it has no been reported								
r	\$ Department of the Treasur		(keep for your recor	form 1099-DIV				

INTEGRATED TRAINING

Module 3

Objectives

After completing this module you should be able to:

- Create a new tax return by completing the main information sheet for this module in TaxWise.
- Determine the qualifications for married filing jointly and qualifying widower filing status.
- Determine basis and capital gain/loss on sale of stock.
- Determine if IRA distributions are taxable, nontaxable, or partly taxable and calculate the taxable portion.
- Determine if retirement income is taxable and calculate the taxable portion.
- Distinguish between taxable and nontaxable social security benefits and calculate the taxable portion.
- Identify how other types of income are reported.
- Determine the qualifications for the tuition and fees deduction.
- Determine the qualifications for the education credits.
- Determine the most advantageous method for reporting tuition and fees.
- Determine which items are allowed when itemizing deductions.
- Know where to report estimated tax payments.
- Determine if the estimated tax penalty applies.

Taxpayer Profile

Taxpayer Name	Don Hillsdale
TP SSN	XXX-XX-XXXX
Spouse Name	Sarah Wilson
SP SSN	XXX-XX-XXXX
Street Address	129 Pembroke Ave.
City, State, Zip	Your City, State, Zip Code
Phone Number	402-555-1212
Date of birth TP	03/12/1932
Date of birth Spouse	12/21/1940
Occupation TP	Retired
SP	Housewife
Blind? TP	No
SP	No
Donate to Presidential Fund?	
TP	Yes
SP	No
Filing Status	MFJ
Can be claimed as dependent by someone else? TP	No
SP	No
State Return Info (Yes or No)	
Direct Deposit	
Bank Routing Number	xxxxxxxx
Account number	xxxxxxxxxxx

Other Members of Household

Name	Date of Birth	SSN or ITIN	Relationship	Citizenship	# of Months in Home
Betty Wilson	05/23/1983	xxx-xx-xxxx	Granddaughter	U.S.	12

Other considerations:

- Don paid \$1,350 for tuition and fees to the local college for his granddaughter's education. She is a junior and a full-time student.
- Don and Sarah's previous year tax liability was \$2,011.

• Sarah provided the following information on the sale of stock.

Company	# of Shares	Purchase Date	Per Share Basis	Sale Date	Per Share Sale Price
ABC Co.	100	05/28/1985	48.00	05/30/2003	55.00
XYZ Co.	100	11/05/2002	32.00	04/10/2003	49.00

• Don and Sarah had the following expenses for the year:

	_
Medical insurance	\$2,250
Medical travel	500 miles
Dental bills	\$275
New glasses	\$165
Prescription drugs	\$1,263
Over the counter medication	\$120
Church donations	\$1,000
Donation to neighbor whose	
house burnt	\$100
Other charities (cash)	\$82
Clothing to Salvation Army	\$327
Home mortgage interest	\$3,175
City real estate tax	\$550
County real estate tax	\$1,721
Car license fee	\$35
Personal property tax	\$817
Gambling losses	\$1,500

• Don made the following estimated tax payments:

04/12/2003	\$200
06/15/2003	\$200
09/10/2003	\$200
01/15/2004	\$200

• Don and Sarah had \$200 of their previous year's tax refund applied to this year's taxes.

Documents taxpayer gives you:

Form 1099-R, Emerson Utility

PAYER'S name, street address			ED (if checke Gross distribut		ON			istributions From	
Emerson Utilities		\$	31,562.	00		@@ n n	Pe	nsions, Annuities, Retirement or	
555 East 10th St.		Ť	a Taxable amou	nt		2003		Profit-Sharing Plans, IRAs,	
Your City, State, Zi	ip Code	\$	31,562.	00	F	orm 1099-R		Insurance Contracts, etc.	
		21	Taxable amou			Total distribution	n 🔲	Copy B Report this	
PAYER'S Federal identification number	RECIPIENT'S identification number	3	Capital gain (ir in box 2a)	ncluded	4	Federal income withheld	tax	income on your Federal tax return. If this	
xx-xxxxxx	***-**-	\$			\$	1,250.			
RECIPIENT'S name Don Hillsdale		5	Employee control or insurance pr		6	Net unrealized appreciation in employer's sec	urities	tax withheld in box 4, attach this copy to your return.	
Street address (including ont in	0.)	\$	Distribution	IRA/	\$	Other	I	your roturn	
Street address (including apt. n	0.)	'	code(s)	SEP/ SIMPLE	$ $ $^{\circ}$	Other		This information is	
129 Pembroke Ave			7		\$		%	being furnished to the Internal	
City, state, and ZIP code Your City, State	Zip Code	9a	Your percentage distribution	of total %	9b \$	Total employee con	tributions	Revenue Service.	
Account number (optional)		10 \$	State tax withh	eld		State/Payer's s		12 State distribution \$	
		\$						\$	
		13	Local tax withh	eld	14	Name of localit	у	15 Local distribution	
		1.0	2000. 107. 1111						

Form 1099-R, First Security

		RECTE	ED (if checke	ed)			_	
PAYER'S name, street address,	city, state, and ZIP code	1 Gross distribution		ОМ	_		Distributions Fron	
First Security		\$	2,252.	00		തെമാ	Pe	nsions, Annuities Retirement o
895 West Whittier Your City, State, Zip Code		2a	Taxable amou	nt		2003		Profit-Sharing Plans, IRAs
		\$	2,252.	00	F	orm 1099-R		Insuranc Contracts, etc
		2b	Taxable amou not determine			Total distribution	n 🔲	Copy Report thi
PAYER'S Federal identification number RECIPIENT'S identification number		3	Capital gain (in box 2a)	ncluded	4	Federal income withheld	tax	income on yoເ Federal ta
xx-xxxxxx	***-**-	\$			\$	225.	return. If form sho	
RECIPIENT'S name Don Hillsdale		5	Employee cont or insurance pr		6	Net unrealized appreciation in employer's sec	urities	tax withheld box 4, attact this copy t
		\$			\$			your retur
Street address (including apt. n	0.)	7	Distribution code(s)	IRA/ SEP/ SIMPLE	l	Other		This information
129 Pembroke Ave			7	X	\$		%	being furnished the Intern
City, state, and ZIP code Your City, State Zip Code		9a	Your percentage distribution	of total %	9b \$	Total employee con	tributions	Revenue Servic
Account number (optional)		10	State tax withh	eld	11	State/Payer's s	tate no.	12 State distribution
		\$						\$
		\$						\$
		13	Local tax withh	eld	14	Name of locality	У	15 Local distribution
		\$						\$
		\$						\$

PAYER'S name ABC Casino	1 Gross winnings \$1,500.00	2 Federal income tax withheld	OMB No. 1545-0238	
Street address	3 Type of wager	4 Date won	2003	
2233 N. 33rd St.	Slots	3 31 2003	Form W-2G	
City, state, and ZIP code Your City, State, Zip Code	5 Transaction	6 Race	Certain	
Federal identification number Telephone number	7 Winnings from identical wagers	8 Cashier	Gambling Winnings	
WINNER'S name Sarah Wilson	9 Winner's taxpayer identification no.	10 Window	For Privacy Act and Paperwork Reduction Act	
Street address (including apt. no.) 129 Pembroke Ave	11 First I.D.	12 Second I.D.	Notice, see the 2003 General Instructions for Forms 1099, 1098, 5498	
City, state, and ZIP code Your City, State, Zip Code	13 State/Payer's state identification no.	14 State income tax withheld	and W-2G. File with Form 1096	
Under penalties of perjury, I declare that, to the best of my knowledge and correctly identify me as the recipient of this payment and any payments from			Copy A For Internal Revenue	
Signature ▶	D	ate ▶	Service Center	

Form 1099-DIV

		CTED (if checked)				
PAYER'S name, street address, city	, state, ZIP code, and telephone no.	1a Total ordinary dividends	OMB No. 1545-0110			
ABC Securities 3333 North Tenth S	treet	\$ 1b Qualified dividends	2003	Dividends and Distributions		
Your City, State, Zip Code		\$	Form 1099-DIV			
		2a Total capital gain distr.	2b Post-May 5 capital (gain distr. Copy B		
	Ţ	\$ 1,236.00	\$ 1,000.00	For Recipient		
PAYER'S Federal identification number	RECIPIENT'S identification number	2c Qualified 5-year gain	2d Unrecap. Sec. 1	250 gain		
xx-xxxxxx	xxx-xx-xxxx	\$ 236.00	\$			
RECIPIENT'S name	•	2e Section 1202 gain	2f Collectibles (289	%) gain This is important		
Sarah Wilson		\$	\$	tax information		
		3 Nontaxable distributions	4 Federal income tax \$ 124.0	and is being		
Street address (including apt. no.) 129 Pembroke Ave.	` • , ,		5 Investment expen	Internal Payonus		
City, state, and ZIP code		6 Foreign tax paid	7 Foreign country or U.S. p	negligence negligence		
	Your City, State, Zip Code			penalty or other sanction may be		
Account number (optional)		8 Cash liquidation distributions	9 Noncash liquidations	imposed on you if this income is		
		\$	\$	taxable and the IRS determines		
				that it has not been reported.		
Form 1099-DIV	(keep for your recor	ds)	Department of the Tr	reasury - Internal Revenue Service		

	2003 : PART OF	YOUR SOCIAL SECURITY BENEF REVERSE FOR MORE INFORMAT	TITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME.
Box 3. Benefits Paid in 2003 12,240.00 DESCRIPTION OF AMOUNT IN BOX 3 Box 4. Benefits Repaid to SSA in 2003 DESCRIPTION OF AMOUNT IN BOX 3 Box 5. Net Benefits for 2003 (Box 3 minus Box 4) 12,240.00 DESCRIPTION OF AMOUNT IN BOX 4 Box 6. Voluntary Federal Income Tax Withholding 0 Box 7. Address 129 Pembroke Ave Your City, State, Zip Code	Box 1. Name		
DESCRIPTION OF AMOUNT IN BOX 3 Box 6. Voluntary Federal Income Tax Withholding 0 Box 7. Address 129 Pembroke Ave Your City, State, Zip Code	Don Hillsdale		xxx-xx-xxxx
Box 6. Voluntary Federal Income Tax Withholding 0 Box 7. Address 129 Pembroke Ave Your City, State, Zip Code			· ·
		ek 25	6. Voluntary Federal Income Tax Withholding

Module 4

Wage Earner Objectives

After completing this module you should be able to:

- Identify when Individual Taxpayer Identification Numbers are required.
- Define multiple support as it applies to dependent exemptions.
- Determine when and how tip income is reported.
- Determine when scholarship and fellowship grants are taxable.
- Determine when state and local tax refunds are taxable.
- Distinguish between alimony and child support and identify where to report the receipt of alimony.
- Identify where alimony payments are reported.
- Identify where jury duty payments returned to an employer are reported.
- Explain foreign tax credit and mortgage interest credit.

Pension Earner Objectives

After completing this module you should be able to:

- Determine when a gain from the sale of a home is reported.
- Determine when Coverdell ESAs are taxable.
- Determine the qualifications for the credit for the elderly and disabled.

	STUDI	ENT NOTES		
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	1	

STU	IDENT NOTES

And your filing status is-

2003 Earned Income Credit (EIC) Table

Caution. This is not a tax table.

1. To find your credit, read down the "At least - But less than" columns and find the line that includes the amount you were told to look up from credit from that column on your EIC Worksheet.

2. Then, go to the column and the number of qualifying children you have. Enter the your EIC Worksheet.

Example. If your filing that includes your filing status status is single, you have one qualifying child, and the amount you are looking up from your EIC Worksheet is \$2,455, you would enter \$842.

If the amount you are Single, head of household, looking up from the or qualifying widow(er) and you haveworksheet is-No One Two children At least But less than Your credit is-825 2,400 2,450 186 970 2,450 2,500 189 (842 990

your EIC v	vorksneet.		your Eit	J Worksr	ieet.		would en	ter φ642.		`					
			An	d your filir	g status	is—					And	d your fili	ng status i	s—	
If the amo	ount you are	Single.	head of he			d filing joi	ntly and	If the amo	ount you are	Single, h	ead of ho			filing joir	ntly and
	p from the			w(er) and	you ha				p from the			w(er) and	you hav		
workshee		you hav	/e—					workshee		you have	_		•		
		No	One	Two	No	One	Two			No	One	Two	No	One	Two
		children		children	children	child	children			children	child	children		child	children
At least	But less than	Yo	ur credit	is—	Yo	ur credit	is—	At least	But less than	Yo	ur credit	is—	You	ur credit	is—
\$1	\$50	\$2	\$9	\$10	\$2	\$9	\$10	3,000	3,050	231	1,029	1,210	231	1,029	1,210
50	100	6	26	30	6	26	30	3,050	3,100	235	1,046	1,230	235	1,046	1,230
100	150	10	43	50	10	43	50	3,100	3,150	239	1,063	1,250	239	1,063	1,250
150	200	13	60	70	13	60	70	3,150	3,200	243	1,080	1,270	243	1,080	1,270
200	250	17	77	90	17	77	90	3,200	3,250	247	1,097	1,290	247	1,097	1,290
250	300	21	94	110	21	94	110	3,250	3,300	251	1,114	1,310	251	1,114	1,310
300	350	25	111	130	25	111	130	3,300	3,350	254	1,131	1,330	254	1,131	1,330
350	400	29	128	150	29	128	150	3,350	3,400	258	1,148	1,350	258	1,148	1,350
400	450	33	145	170	33	145	170	3,400	3,450	262	1,165	1,370	262	1,165	1,370
450	500	36	162	190	36	162	190	3,450	3,500	266	1,182	1,390	266	1,182	1,390
500	550	40	179	210	40	179	210	3,500	3,550	270	1,199	1,410	270	1,199	1,410
550	600	44	196	230	44	196	230	3,550	3,600	273	1,216	1,430	273	1,216	1,430
600	650	48	213	250	48	213	250	3,600	3,650	277	1,233	1,450	277	1,233	1,450
650	700	52	230	270	52	230	270	3,650	3,700	281	1,250	1,470	281	1,250	1,470
700	750	55	247	290	55	247	290	3,700	3,750	285	1,267	1,490	285	1,267	1,490
750	800	59	264	310	59	264	310	3,750	3,800	289	1,284	1,510	289	1,284	1,510
800	850	63	281	330	63	281	330	3,800	3,850	293	1,301	1,530	293	1,301	1,530
850	900	67	298	350	67	298	350	3,850	3,900	296	1,318	1,550	296	1,318	1,550
900 950	950	71 75	315 332	370 390	71 75	315	370 390	3,900	3,950	300 304	1,335	1,570	300 304	1,335	1,570
	1,000				75	332		3,950	4,000		1,352	1,590		1,352	1,590
1,000 1,050	1,050	78 82	349 366	410 430	78 82	349 366	410 430	4,000	4,050 4,100	308 312	1,369 1,386	1,610 1,630	308 312	1,369 1,386	1,610 1,630
1,100	1,100 1,150	86	383	450 450	86	383	450 450	4,050 4,100	4,150	316	1,403	1,650	316	1,403	1,650
1,150	1,200	90	400	470	90	400	470	4,150	4,200	319	1,420	1,670	319	1,403	1,670
1,130	1,250	94	417	490	94	417	490	4,130	4,250	323	1,437	1,670	323	1,420	1,670
1,250	1,300	98	434	510	98	434	510	4,250	4,300	327	1,454	1,710	327	1,454	1,710
1,300	1,350	101	451	530	101	451	530	4,300	4,350	331	1,471	1,710	331	1,434	1,710
1,350	1,400	105	468	550	105	468	550	4,350	4,400	335	1,488	1,750	335	1,488	1,750
1,400	1,450	109	485	570	109	485	570	4,400	4,450	339	1,505	1,770	339	1,505	1,770
1,450	1,500	113	502	590	113	502	590	4,450	4,500	342	1,522	1,790	342	1,522	1,790
1,500	1,550	117	519	610	117	519	610	4,500	4,550	346	1,539	1,810	346	1,539	1,810
1,550	1,600	120	536	630	120	536	630	4,550	4,600	350	1,556	1,830	350	1,556	1,830
1,600	1,650	124	553	650	124	553	650	4,600	4,650	354	1,573	1,850	354	1,573	1,850
1,650	1,700	128	570	670	128	570	670	4,650	4,700	358	1,590	1,870	358	1,590	1,870
1,700	1,750	132	587	690	132	587	690	4,700	4,750	361	1,607	1,890	361	1,607	1,890
1,750	1,800	136	604	710	136	604	710	4,750	4,800	365	1,624	1,910	365	1,624	1,910
1,800	1,850	140	621	730	140	621	730	4,800	4,850	369	1,641	1,930	369	1,641	1,930
1,850	1,900	143	638	750	143	638	750	4,850	4,900	373	1,658	1,950	373	1,658	1,950
1,900	1,950	147	655	770	147	655	770	4,900	4,950	377	1,675	1,970	377	1,675	1,970
1,950	2,000	151	672	790	151	672	790	4,950	5,000	382	1,692	1,990	382	1,692	1,990
2,000	2,050	155	689	810	155	689	810	5,000	5,050	382	1,709	2,010	382	1,709	2,010
2,050	2,100	159	706	830	159	706	830	5,050	5,100	382	1,726	2,030	382	1,726	2,030
2,100	2,150	163	723	850	163	723	850	5,100	5,150 5,200	382	1,743	2,050	382	1,743	2,050
2,150 2,200	2,200 2,250	166 170	740 757	870 890	166 170	740 757	870 890	5,150 5,200	5,200 5,250	382 382	1,760 1,777	2,070 2,090	382 382	1,760 1,777	2,070 2,090
		170	774				910								2,110
2,250 2,300	2,300 2,350	174	774 791	910 930	174 178	774 791	910	5,250 5,300	5,300 5,350	382 382	1,794 1,811	2,110 2,130	382 382	1,794 1,811	2,110
2,300 2,350	2,350 2,400	182	808	930 950	182	808	930 950	5,300 5,350	5,400	382	1,828	2,130	382	1,828	2,130
2,350	2,400 2,450	186	825	950 970	186	825	950 970	5,400	5,400 5,450	382	1,845	2,150	382	1,845	2,150
2,450	2,500	189	842	990	189	842	990	5,450	5,500	382	1,862	2,170	382	1,862	2,170
2,500	2,550	193	859	1,010	193	859	1,010	5,500	5,550	382	1,879	2,190	382	1,879	2,210
2,550	2,600	197	876	1,010	197	876	1,010	5,550	5,600	382	1,896	2,210	382	1,896	2,210
2,600	2,650	201	893	1,050	201	893	1,050	5,600	5,650	382	1,913	2,250	382	1,913	2,250
2,650	2,700	205	910	1,030	205	910	1,070	5,650	5,700	382	1,930	2,270	382	1,930	2,270
2,700	2,750	208	927	1,070	208	927	1,070	5,700	5,750	382	1,947	2,290	382	1,947	2,290
2,750	2,800	212	944	1,110	212	944	1,110	5,750	5,800	382	1,964	2,310	382	1,964	2,310
2,800	2,850	216	961	1,130	216	961	1,130	5,800	5,850	382	1,981	2,330	382	1,981	2,330
2,850	2,900	220	978	1,150	220	978	1,150	5,850	5,900	382	1,998	2,350	382	1,998	2,350
2,900	2,950	224	995	1,170	224	995	1,170	5,900	5,950	382	2,015	2,370	382	2,015	2,370
2,950	3,000	228	1,012	1,190	228	1,012	1,190	5,950	6,000	382	2,032	2,390	382	2,032	2,390
	.,		,	,		,	,	.,	-,		,	,			n page 51)

(Continued on page 51)

2003 Earned Income Credit (EIC) Table—Continued (Caution. This is not a tax table.) And your filing status is-And your filing status is-Single, head of household, Married filing jointly and Single, head of household. Married filing jointly and If the amount you are If the amount you are looking up from the or qualifying widow(er) and you have looking up from the or qualifying widow(er) and you haveyou haveyou haveworksheet isworksheet is-One Two No One No One Two No One No children children children child children child children children child children children child At least At least But less than Your credit is-Your credit is— But less than Your credit is-Your credit is-6.000 6.050 382 2.049 2.410 382 2.049 2.410 9.500 9.550 2.547 2.547 3.810 130 3.810 207 6,050 6,100 382 2,066 2,430 382 2,066 2,430 9,550 9,600 127 2,547 3,830 203 2,547 3,830 6,100 6,150 382 2.083 2,450 382 2.083 2,450 9.600 9,650 123 2.547 3.850 199 2.547 3.850 382 2,100 382 2,100 2,470 3,870 195 2,547 6.150 6.200 2.470 9.650 9.700 119 2.547 3.870 2,1<u>1</u>7 <u>2,4</u>90 2,117 2,490 6,200 6,250 382 382 9,700 9.750 115 2,547 3.890 192 2.547 3,890 2,134 6.250 6,300 379 2,134 2,510 382 2,510 9,750 9,800 111 2.547 3,910 188 2.547 3,910 6,300 6,350 375 2,151 2,530 382 2,151 2,530 9,800 9,850 107 2,547 3,930 184 2,547 3,930 6,350 6,400 371 2,168 2,550 382 2,168 2,550 9,850 9,900 104 2,547 3,950 180 2,547 3,950 6.400 6.450 368 2.185 2.570 382 2.185 2.570 9.900 9.950 100 2.547 3.970 2.547 3.970 176 <u>2,5</u>90 9,950 10,000 6,450 6,500 364 2,202 382 2,202 2,590 96 2,547 3,990 173 2,547 3,990 6.500 6.550 360 2.219 2.610 382 2.219 2.610 10.000 10,050 92 2 547 4,010 169 2.547 4,010 6,550 6,600 356 2,236 2,630 382 2,236 2,630 10,050 10,100 88 2,547 4,030 165 2,547 4,030 6,600 6,650 352 2,253 2,650 382 2,253 2,650 10,100 10,150 85 2,547 4,050 161 2,547 4,050 10,150 348 2,270 382 2,270 4.070 2.547 4.070 6.650 6,700 2,670 2.670 10,200 81 2.547 157 2,690 10,200 6,700 6,750 345 2,287 2,690 382 2.287 10,250 77 2,547 4,090 153 2.547 4,090 6,750 6,800 341 2,304 2,710 382 2,304 2,710 10,250 10,300 73 2.547 4,110 150 2,547 4.110 337 10,300 6,800 6,850 2,321 2,730 382 2,321 2,730 10,350 69 2.547 4,130 146 2.547 4,130 6,850 6,900 382 2,338 10.350 333 2.338 2.750 2.750 10,400 65 2.547 4.150 142 2.547 4.150 2,355 10,450 6.900 6.950 329 2.770 382 2,355 2.770 10.400 62 2,547 4,170 138 2,547 4,170 2<u>,372</u> 6,950 7,000 326 2,372 2,790 382 2,790 10,450 10,500 2,547 4,190 134 2,547 58 4.190 7,050 7,000 322 2,389 2,810 2,810 10,500 10,550 54 2,547 4,204 130 2,547 382 2,389 4,204 7,050 7,100 318 2,406 2,830 382 2,406 2,830 10,550 10,600 50 2,547 4,204 127 2,547 4,204 7,100 7,150 314 2.423 2,850 382 2,423 2.850 10.600 10.650 46 2.547 4.204 123 2.547 4.204 2,440 2,457 10,650 7,150 7,200 310 2.440 2.870 382 2.870 10,700 42 2.547 4,204 119 2.547 4.204 7,250 2,457 2,890 10,750 7,200 306 382 10,700 4,204 4,204 2,890 2,547 ,547 7,250 7,300 303 2,474 2,910 2,474 2,910 10,750 35 2,547 4,204 111 2,547 10.800 7,300 7,350 299 2,491 2,930 375 2,491 2,930 10,800 10,850 31 2,547 4,204 107 2,547 4,204 10,850 7.350 7.400 295 2.508 2.508 2.950 10.900 27 2.547 2.547 2.950 371 4.204 104 4.204 7,400 7,450 291 2,525 2,970 368 2,525 2,970 10,900 10.950 23 2.547 4,204 100 2,547 4,204 11,000 287 10,950 7,450 7.500 2.547 2.990 364 2,547 2.990 20 2,547 4,204 96 .547 4,204 7.500 7.550 283 2.547 3,010 360 2,547 3.010 11,000 11,050 16 2.547 4.204 92 2.547 7,550 7,600 280 2,547 3,030 356 2,547 3,030 11,050 11,100 12 2,547 4,204 88 2,547 4,204 2,547 7.600 7,650 276 2 547 352 2.547 11.100 8 2 547 85 3.050 3.050 11.150 4.204 4.204 7,700 7,650 272 2.547 3,070 348 2,547 3,070 11,150 11,200 4 2.547 4,204 81 2,547 4,204 7,700 7.750 268 2.547 3.090 345 2.547 3.090 11,200 11.250 2.547 4,204 .547 4.204 7,750 2,547 11,250 0 73 7.800 264 3,110 2.547 3,110 11,300 2.547 4.204 2.547 7,850 260 2,547 337 2,547 11,300 11,350 0 2,547 4,204 69 2,547 4,204 7.800 3.130 3.130 7.850 7.900 257 2.547 3.150 333 2.547 3.150 11.350 11.400 0 2.547 4.204 65 2.547 4.204 7,900 7,950 253 2,547 3,170 329 2,547 3,170 11,400 11,450 0 2,547 4,204 62 2,547 4,204 11,450 7,950 8,000 249 2.547 3,190 326 2,547 3,190 11,500 0 2,547 4,204 58 547 4,204 8,000 8,050 2,547 3,210 2,547 11,500 11,550 0 2,547 245 322 3.210 2.547 4.204 54 4.204 11,550 4,204 8.050 8.100 241 2 547 3.230 318 2.547 3.230 11.600 n 2 547 4.204 50 2 547 8,100 8,150 238 2.547 3,250 314 2,547 3,250 11,600 11,650 0 2,547 4,204 46 2,547 4,204 234 3,270 2,547 3,270 11,650 8,150 8,200 2.547 310 11,700 0 2.547 4,204 42 2.547 4.204 8,200 8,250 230 11,700 .547 3.290 306 2.547 3.290 11.750 0 2.547 4.204 39 .547 4.204 8,250 226 2,547 2,547 2,547 35 8.300 3.310 303 3.310 11.750 11.800 0 4.204 2.547 4.204 8.350 11,800 11.850 4.204 8.300 222 2.547 2.547 3.330 299 2.547 3.330 0 4.204 31 2.547 8,350 8,400 218 2,547 3,350 295 2,547 3,350 11,850 11,900 0 2,547 4,204 27 2,547 4,204 11,900 8,400 8,450 215 2.547 3,370 291 2,547 3,370 11.950 0 2.547 4,204 23 2.547 4.204 <u>3,3</u>90 <u>3,39</u>0 8,450 8.500 211 207 2,54*t* 2,547 2,547 2.547 11,950 12.000 2,547 2.547 4,204 4,204 4,204 2,547 2.547 8.500 0 3.410 12,000 12.050 8.550 283 3.410 16 4.204 2,547 8,550 2.547 2,547 12,050 4,204 2.547 4,204 8.600 203 3,430 280 3,430 12,100 0 12 8,600 8,650 199 2,547 3,450 276 2,547 3,450 12,100 12,150 0 2,547 4,204 8 2,547 4,204 8,650 8,700 195 2,547 3,470 272 2,547 3,470 12,150 12,200 0 2,547 4,204 2,547 4,204 12,250 8,700 8,750 192 2.547 3.490 3,490 12,200 4,204 4.204 268 2.547 n 2.547 547 2,547 2,547 0 2.547 188 3,510 2.547 3.510 12.250 13.750 0 8.750 8.800 264 4.204 4,204 13,750 8.800 8.850 184 2.547 3.530 260 2.547 3.530 13.800 O 2.539 4.195 0 2.547 4.204 8,850 8,900 180 2,547 3,550 257 2,547 3,550 13,800 13,850 0 2,531 4,184 0 2,547 4,204 13,850 8,900 8,950 176 2,547 3,570 253 2,547 3,570 13,900 0 2,523 4,173 O 2,547 4,204 8,950 <u>3,</u>590 13,900 13,950 <u>2,51</u>5 9,000 4.204 173 .547 3.590 249 2,547 2.547 0 4,163 0 2.547 2.547 2.547 9.000 9.050 169 3.610 245 3.610 13.950 14.000 0 2.507 4,152 0 4.204 9,050 9,100 165 2,547 3,630 241 2,547 3,630 14,000 14,050 0 2,499 4,142 0 2,547 4,204 9,100 161 2,547 238 2,547 14,050 0 2,547 4,204 9.150 3.650 3.650 14,100 0 2,491 4,131 9,150 9,200 157 2,547 3,670 234 2,547 3,670 14,100 14,150 2.483 0 2,547 4,204 n 4.121 3,690 9,250 2,475 2,547 230 14.150 14,200 0 4,110 0 .547 4,204 9.200 153 2,547 3,690 9.250 9.300 150 2.547 3,710 226 2.547 3,710 14.200 14.250 0 2.467 4.100 0 2.547 4.204 9,300 9,350 146 2,547 3,730 222 2,547 3,730 14,250 14,300 0 2,460 4,089 0 2,547 4,204 9,350 9,400 142 2,547 3,750 218 2,547 3,750 14,300 14,350 0 2,452 4,079 O 2,547 4,204 9.400 138 2.547 14.350 0 2.444 9.450 2.547 3,770 215 3,770 14.400 4.068 0 2.547 4.204

9,450 9,500 2,547 3,790 211 2,547 3,790 14,400 14,450 2,436 4,058 2,547 4,204 *If the amount you are looking up from the worksheet is at least \$11,200 (\$12,200 if married filing jointly) but less than \$11,230 (\$12,230 if married filing jointly), your credit is \$1. Otherwise, you cannot take the credit.

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14,450 14,500 14,550 14,600 14,650 14,700 14,750 14,800	from the	you have No children You	ead of he ing wide	d your filir ousehold, ow(er) and		l filing joir	ntly and	If the amou	nt you are	Single, he	ad of ho			l filing joir	ntly and
At least 14,450 14,550 14,550 14,650 14,650 14,750 14,700 14,750 14,800	But less than 14,500 14,550	you have No children You	— One	w(er) and			-								
At least 14,450 14,500 14,550 14,600 14,650 14,700 14,750 14,800	But less than 14,500 14,550	No children You	One					looking up f				w(er) and	you hav	/e—	
14,450 14,500 14,550 14,600 14,650 14,700 14,750 14,800	14,500 14,550	children You		l Two	No I	One	Two	worksheet i	s—	you have No	— One	Two	No I	One	Two
14,450 14,500 14,550 14,600 14,650 14,700 14,750 14,800	14,500 14,550		child	children	children	child	children			children	child	children	children	child	childr
14,500 14,550 14,600 14,650 14,700 14,750 14,800	14,550		r credit			ır credit i			But less than		ur credit			ur credit	
14,550 14,600 14,650 14,700 14,750 14,800		0	2,428 2,420	4,047 4,037	0	2,547 2,547	4,204 4,204	17,950 18,000	18,000 18,050	0	1,868 1,860	3,310 3,299	0	2,028 2,020	3,52 3,51
14,650 14,700 14,750 14,800		ő	2,412	4,026	0	2,547	4,204	18,050	18,100	Ö	1,852	3,289	0	2,012	3,50
14,700 14,750 14,800	14,650	0	2,404	4,016	0	2,547	4,204	18,100	18,150	0	1,844	3,278	0	2,004	3,48
14,750 14,800	14,700	0	2,396 2,388	4,005 3,994	0	2,547 2,547	4,204 4,204	18,150 18,200	18,200 18,250	0	1,836 1,828	3,268 3,257	0	1,996 1,988	3,4
14,800	14,750 14,800	0	2,380	3,984	0	2,539	4,204	18,250	18,300		1,820	3,247	0	1,980	3,4
14,850		Ō	2,372	3,973	0	2,531	4,184		18,350	0	1,812	3,236	0	1,972	3,4
	14,900	0	2,364	3,963	0	2,523	4,173		18,400	0	1,804	3,226	0	1,964	3,4
14,900 14,950	14,950 15,000	0	2,356 2,348	3,952 3,942	0	2,515 2,507	4,163 4,152		18,450 18,500	0	1,796 1,788	3,215 3,205	0	1,956 1,948	3,4
•	15,050	ő	2,340	3,931	Ö	2,499	4,142		18,550	Ö	1,780	3,194	0	1,940	3,4
•	15,100	0	2,332	3,921	0	2,491	4,131			0	1,772	3,184	0	1,932	3,3
15,100 15,150	15,150 15,200	0	2,324 2,316	3,910 3,900	0	2,483 2,475	4,121 4,110	18,600 18,650	18,650 18,700	0	1,764 1,756	3,173 3,163	0	1,924 1,916	3,38 3,3
15,200	15,250	0	2,308	3,889	0	2,467	4,110	18,700	18,750	0	1,748	3,152	0	1,908	3,3
	15,300	0	2,300	3,879	0	2,460	4,089	18,750	18,800	0	1,740	3,142	0	1,900	3,3
-	15,350	0	2,292	3,868	0	2,452	4,079		18,850	0	1,732	3,131	0	1,892	3,3
	15,400 15.450	0	2,284 2,276	3,858 3,847	0	2,444	4,068 4,058	18,850 18,900	18,900 18,950	0	1,724 1,716	3,120 3,110	0	1,884 1,876	3,3 3,3
15,450	15,500	Ö	2,268	3,837	Ö	2,428	4,047	18,950	19,000	Ö	1,708	3,099	0	1,868	3,3
	15,550	0	2,260	3,826	0	2,420	4,037	19,000	19,050	0	1,700	3,089	0	1,860	3,2
15,550 15,600	15,600 15,650	0	2,252 2,244	3,815 3,805	0	2,412 2,404	4,026 4,016	19,050 19,100	19,100 19,150	0	1,692 1,684	3,078 3,068	0	1,852 1,844	3,2 3,2
15,650	15,700	Ö	2,236	3,794	0	2,396	4,005	19,150	19,200	0	1,676	3,057	0	1,836	3,2
15,700	15,750	0	2,228	3,784	0	2,388	3,994	19,200	19,250	0	1,668	3,047	0	1,828	3,2
15,750	15,800 15,850	0	2,220 2,212	3,773 3,763	0	2,380 2,372	3,984 3,973	19,250 19,300	19,300 19,350	0	1,661	3,036 3,026	0	1,820	3,2 3,2
	15,900	0	2,212	3,752	0	2,364	3,963	19,350	19,330		1,653 1,645	3,026	0	1,812 1,804	3,2
15,900	15,950	0	2,196	3,742	0	2,356	3,952	19,400	19,450	0	1,637	3,005	0	1,796	3,2
15,950	16,000	0	2,188	3,731	0	2,348	3,942	19,450	19,500	0	1,629	2,994	0	1,788	3,2
•	16,050 16,100	0	2,180 2,172	3,721 3,710	0	2,340 2,332	3,931 3,921	19,500 19,550	19,550 19,600	0	1,621 1,613	2,984 2,973	0	1,780 1,772	3,1 3,1
-	16,150	Ō	2,164	3,700	0	2,324	3,910			0	1,605	2,963	Ö	1,764	3,1
16,150	16,200	0	2,156	3,689	0	2,316	3,900	19,650	19,700	0	1,597	2,952	0	1,756	3,1
	16,250 16,300	0	2,148 2,140	3,679 3,668	0	2,308 2,300	3,889 3,879	19,700 19,750	19,750 19,800	0	1,589 1,581	2,941 2,931	0	1,748 1,740	3,1 3,1
16,300	16,350	ő	2,132	3,657	0	2,292	3,868	19,800	19,850	Ö	1,573	2,920	0	1,732	3,1
-	16,400	0	2,124	3,647	0	2,284	3,858	19,850	19,900	0	1,565	2,910	0	1,724	3,1
16,400 16,450	16,450 16,500	0	2,116 2,108	3,636 3,626	0	2,276 2,268	3,847 3,837	19,900 19,950	19,950 20,000	0	1,557 1,549	2,899 2,889	0	1,716 1,708	3,1
16,500	16,550	ő	2,100	3,615	0	2,260	3,826	20,000	20,050	0	1,541	2,878	0	1,700	3,0
16,550	16,600	0	2,092	3,605	0	2,252	3,815	20,050	20,100	0	1,533	2,868	0	1,692	3,0
16,600	16,650 16,700	0	2,084 2,076	3,594 3,584	0	2,244 2,236	3,805 3,794	20,100 20,150	20,150 20,200	0	1,525 1,517	2,857 2,847	0	1,684 1,676	3,0 3,0
16,650 16,700	16,750	0	2,068	3,573	0	2,228	3,784	20,130		0	1,509	2,836	0	1,668	3,0
16,750	16,800	0	2,060	3,563	0	2,220	3,773	20,250		0	1,501	2,826	0	1,661	3,0
16,800	•	0	2,052 2,044	3,552 3,542	0	2,212	3,763 3,752	20,300 20,350	20,350 20,400	0	1,493	2,815	0	1,653	3,0
16,850 16,900	16,950	0	2,036	3,531	0	2,204 2,196	3,742	20,330	20,450	0	1,485 1,477	2,805 2,794	0	1,645 1,637	3,0 3,0
16,950	17,000	0	2,028	3,521	0	2,188	3,731	20,450	20,500	0	1,469	2,784	0	1,629	2,9
17,000		0	2,020	3,510	0	2,180	3,721	20,500	20,550	0	1,461	2,773	0	1,621	2,9
17,050 17,100		0	2,012 2,004	3,500 3,489	0	2,172 2,164	3,710 3,700	20,550 20,600	20,600 20,650	0	1,453 1,445	2,762 2,752	0	1,613 1,605	2,9 2,9
17,150	17,200	0	1,996	3,478	0	2,156	3,689	20,650	20,700	0	1,437	2,741	0	1,597	2,9
17,200		0	1,988	3,468	0	2,148	3,679	20,700	20,750	0	1,429	2,731	0	1,589	2,9
17,250 17,300		0	1,980 1,972	3,457 3,447	0	2,140 2,132	3,668 3,657	20,750 20,800	20,800 20,850	0	1,421 1,413	2,720 2,710	0	1,581 1,573	2,9 2,9
17,350		ő	1,964	3,436	Ö	2,124	3,647	20,850	20,900	ő	1,405	2,699	Ö	1,565	2,9
17,400		0	1,956	3,426	0	2,116	3,636	20,900	20,950	0	1,397	2,689	0	1,557	2,8
17,450 17,500		0	1,948 1,940	3,415 3,405	0	2,108 2,100	3,626 3,615	20,950 21,000	21,000 21,050	0	1,389 1,381	2,678 2,668	0	1,549 1,541	2,8 2,8
17,550		0	1,932	3,394	0	2,100	3,605	21,000		0	1,373	2,657	0	1,533	2,8
17,600	17,650	0	1,924	3,384	0	2,084	3,594	21,100	21,150	0	1,365	2,647	0	1,525	2,8
17,650 17,700		0	1,916 1,908	3,373 3,363	0	2,076 2,068	3,584 3,573	21,150 21,200	21,200 21,250	0	1,357 1,349	2,636 2,626	0	1,517 1,509	2,8 2,8
17,750		0	1,900	3,352	0	2,060	3,563		21,230	0	1,349	2,626	0	1,509	2,8
17,800	17,850	0	1,892	3,342	0	2,052	3,552	21,300	21,350	0	1,333	2,604	0	1,493	2,8
17,850 17,900		0 0	1,884 1,876	3,331 3,321	0	2,044 2,036	3,542 3,531		21,400 21,450	0	1,325 1,317	2,594 2,583	0	1,485 1,477	2,8 2,7

(Continued on page 53)

2003 Ea	rned Inco	me Cre	dit (E	IC) Tak	ole—Co	ntinu	ed	(Caution	ı. This is n	ot a ta	ax tabl	e.)			
					ng status is	s—						d your filir	ng status i	is—	
	ount you are p from the t is—	3 .,	ing wido	ousehold, ow(er) and	Married you hav		intly and	If the amore looking up worksheet		, ,		ousehold, ow(er) and	Married you hav	d filing joir ve—	ntly and
		No children	One child	Two children	No children	One child	Two children			No children	One	Two children	No children	One child	Two children
At least	But less than		ır credit			r credit		At least	But less than		our credi			ur credit	
21,450	21,500	0	1,309	2,573	0	1,469	2,784	24,950	25,000	0	750	1,836	0	909	2,046
21,500	21,550	0	1,301	2,562	0	1,461	2,773	25,000	25,050	0	742	1,825	0	901	2,036
21,550 21,600	21,600 21,650	0	1,293 1,285	2,552 2,541	0	1,453 1,445	2,762 2,752	25,050 25,100	25,100 25,150	0	734 726	1,815 1,804	0	893 885	2,025 2,015
21,650	21,700	0	1,277	2,531	0	1,443	2,732	25,150	25,200	0	718	1,794	0	877	2,013
21,700	21,750	0	1,269	2,520	0	1,429	2,731	25,200	25,250	0	710	1,783	0	869	1,994
21,750	21,800	0	1,261	2,510	0	1,421	2,720	25,250	25,300	0	702	1,773	0	862	1,983
21,800 21,850	21,850 21,900	0	1,253 1,245	2,499 2,489	0	1,413 1,405	2,710 2,699	25,300 25,350	25,350 25,400	0	694 686	1,762 1,752	0	854 846	1,973 1,962
21,900	21,950	ő	1,237	2,403	0	1,397	2,689	25,400	25,450 25,450	ő	678	1,741	0	838	1,952
21,950	22,000	0	1,229	2,468	0	1,389	2,678	25,450	25,500	0	670	1,731	0	830	1,941
22,000	22,050	0	1,221	2,457	0	1,381	2,668	25,500	25,550	0	662	1,720	0	822	1,931
22,050 22,100	22,100 22,150	0	1,213 1,205	2,447 2,436	0	1,373 1,365	2,657 2,647	25,550 25,600	25,600 25,650	0	654 646	1,709 1,699	0	814 806	1,920 1,910
22,150	22,200	0	1,197	2,425	0	1,357	2,636	25,650	25,700	Ö	638	1,688	0	798	1,899
22,200	22,250	0	1,189	2,415	0	1,349	2,626	25,700	25,750	0	630	1,678	0	790	1,888
22,250 22,300	22,300 22,350	0	1,181 1,173	2,404 2,394	0	1,341 1,333	2,615 2,604	25,750 25,800	25,800 25,850	0	622 614	1,667 1,657	0	782 774	1,878 1,867
22,300	22,350	0	1,173	2,394	0	1,325	2,594	25,850	25,850	0	606	1,646	0	774 766	1,857
22,400	22,450	0	1,157	2,373	0	1,317	2,583	25,900	25,950	0	598	1,636	0	758	1,846
22,450	22,500	0	1,149	2,362	0	1,309	2,573	25,950	26,000	0	590	1,625	0	750	1,836
22,500 22,550	22,550 22,600	0	1,141 1,133	2,352 \ 2,341	0	1,301 1,293	2,562 2,552	26,000 26,050	26,050 26,100	0	582 574	1,615 1,604	0	742 734	1,825 1,815
22,600	22,650	ő	1,125	2,331	Ö	1,285	2,541	26,100	26,150	ő	566	1,594	ő	726	1,804
22,650	22,700	0	1,117	2,320	0	1,277	2,531	26,150	26,200	0	558	1,583	0	718	1,794
22,700 22,750	22,750 22.800	0	1,109 1,101	2,310 2,299	0	1,269 1,261	2,520 2,510	26,200 26,250	26,250 26,300	0	550 542	1,573 1,562	0	710 702	1,783 1,773
22,800	22,850	0	1,093	2,289	0	1,253	2,499	26,300	26,350	ő	534	1,551	0	694	1,773
22,850	22,900	0	1,085	2,278	0	1,245	2,489	26,350	26,400	0	526	1,541	0	686	1,752
22,900	22,950	0	1,077	2,268	0	1,237	2,478	26,400	26,450	0	518	1,530	0	678	1,741
22,950 23,000	23,000 23,050	0	1,069 1,061	2,257 2,246	0	1,229 1,221	2,468 2,457	26,450 26,500	26,500 26,550	0	510 502	1,520 1,509	0	670 662	1,731 1,720
23,050	23,100	ő	1,053	2,236	ő	1,213	2,447	26,550	26,600	ő	494	1,499	ő	654	1,709
23,100	23,150	0	1,045	2,225	0	1,205	2,436	26,600	26,650	0	486	1,488	0	646	1,699
23,150 23,200	23,200 23,250	0	1,037 1,029	2,215 2,204	0	1,197 1,189	2,425 2,415	26,650 26,700	26,700 26,750	0	478 470	1,478 1,467	0	638 630	1,688 1,678
23,250	23,300	ő	1,021	2,194	Ö	1,181	2,404	26,750	26,800	ő	462	1,457	Ö	622	1,667
23,300	23,350	0	1,013	2,183	0	1,173	2,394	26,800	26,850	0	454	1,446	0	614	1,657
23,350 23,400	23,400 23,450	0	1,005 997	2,173 2,162	0	1,165 1,157	2,383 2,373	26,850 26,900	26,900 26,950	0	446 438	1,436 1,425	0	606 598	1,646 1,636
23,450	23,500	0	989	2,152	0	1,149	2,362	26,950	27,000	0	430	1,415	0	590	1,625
23,500	23,550	0	981	2,141	0	1,141	2,352	27,000	27,050	0	422	1,404	0	582	1,615
23,550	23,600	0	973	2,131	0	1,133	2,341	27,050	27,100	0	414 406	1,394	0	574	1,604
23,600 23,650	23,650 23,700	0	965 957	2,120 2,110	0	1,125 1,117	2,331 2,320	27,100 27,150	27,150 27,200	0	398	1,383 1,372	0	566 558	1,594 1,583
23,700	23,750	0	949	2,099	0	1,109	2,310	27,200	27,250	0	390	1,362	0	550	1,573
23,750	23,800	0	941	2,089	0	1,101	2,299	27,250	27,300	0	382	1,351	0	542	1,562
23,800 23,850	23,850 23,900	0	933 925	2,078 2,067	0	1,093 1,085	2,289 2,278	27,300 27,350	27,350 27,400	0	374 366	1,341 1,330	0	534 526	1,551 1,541
23,900	23,950	0	917	2,057	0	1,077	2,268	27,400	27,450	0	358	1,320	0	518	1,530
23,950	24,000	0	909	2,046	0	1,069	2,257	27,450	27,500	0	350	1,309	0	510	1,520
24,000 24,050	24,050 24,100	0	901 893	2,036 2,025	0	1,061 1,053	2,246 2,236	27,500 27,550	27,550 27,600	0	342 334	1,299 1,288	0	502 494	1,509 1,499
24,100	24,150	ő	885	2,023	0	1,035	2,225	27,600	27,650	0	326	1,278	0	486	1,488
24,150	24,200	0	877	2,004	0	1,037	2,215	27,650	27,700	0	318	1,267	0	478	1,478
24,200 24,250	24,250	0	869 862	1,994 1,983	0	1,029 1,021	2,204	27,700	27,750	0	310 302	1,257	0	470 462	1,467
24,250	24,300 24,350	0	854	1,963	0	1,021	2,194 2,183	27,750 27,800	27,800 27,850	0	302 294	1,246 1,236	0	462 454	1,457 1,446
24,350	24,400	0	846	1,962	0	1,005	2,173	27,850	27,900	0	286	1,225	0	446	1,436
24,400	24,450	0	838	1,952	0	997	2,162	27,900	27,950	0	278	1,215	0	438	1,425
24,450 24,500	24,500 24,550	0	830 822	1,941 1,931	0	989 981	2,152 2,141	27,950 28,000	28,000 28,050	0	270 262	1,204 1,193	0	430 422	1,415 1,404
24,550	24,600	ő	814	1,920	0	973	2,131	28,050	28,100	0	254	1,183	0	414	1,394
24,600	24,650	0	806	1,910	0	965	2,120	28,100	28,150	0	246	1,172	0	406	1,383
24,650 24,700	24,700 24,750	0	798 790	1,899 1,888	0	957 949	2,110 2,099	28,150	28,200	0	238	1,162	0	398 390	1,372 1,362
24,750	24,750 24,800	0	790 782	1,878	0	949	2,099	28,200 28,250	28,250 28,300	0	230	1,151 1,141	0	382	1,362
24,800	24,850	0	774	1,867	0	933	2,078	28,300	28,350	0	214	1,130	0	374	1,341
24,850	24,900	0	766	1,857	0	925	2,067	28,350	28,400	0	206	1,120	0	366	1,330
24,900	24,950	0	758	1,846	0	917	2,057	28,400	28,450	0	198	1,109	0	358	1,320

(Continued on page 54)

2003 Earned Incor	me Cred	lit (EIC) Tal	ole—Co	ontinu	ed	(Caution. This is not a tax table.)								
		And your fili				(d your filir	ng status i	s—		
If the amount you are looking up from the worksheet is—		ad of household, ng widow(er) and	Married you hav	I filing joi /e—	ntly and	If the amou looking up t worksheet i	from the		ing wido	ousehold, w(er) and	Married you hav	I filing joir /e—	ntly and	
worksneet is—	1 '	One Two	No	One	Two	Worksneet	5—	No	,— One	Two	No	One	Two	
	 	child children		child	children			children	child		children	child	children	
At least But less than	Your 0	credit is— 190 1,099	You 0	r credit 350		At least 31,950	But less than 32,000	0 Y o	ur credit	1 is— 362	0 Yo	ur credit 0	572	
28,450 28,500 28,500 28,550		182 1,088		342	1,309 1,299	32,000	32,000	0	0	351		0	562	
28,550 28,600	Ö	174 1,078	Ö	334	1,288	32,050		Ö	0	341	Ö	Ő	551	
28,600 28,650	0	166 1,067	0	326	1,278	32,100	32,150	0	0	330	0	0	541	
28,650 28,700	0	158 1,057	0	318	1,267	32,150	32,200	0	0	319	0	0	530	
28,700 28,750 28,750 28,800	0	150 1,046 142 1,036	0	310 302	1,257 1,246	32,200 32,250	32,250 32,300	0	0	309 298	0	0 0	520 509	
28,800 28,850	0	134 1,025	0	294	1,236	32,230		0	0	288	0	0	498	
28,850 28,900	Ö	126 1,014	Ŏ	286	1,225	32,350		Ö	Ö	277	ő	Ö	488	
28,900 28,950	0	118 1,004	0	278	1,215	32,400	32,450	0	0	267	0	0	477	
28,950 29,000	0	110 993	0	270	1,204	32,450	32,500	0	0	256	0	0	467	
29,000 29,050 29,050 29,100	0	102 983 94 972	0	262 254	1,193 1,183	32,500 32,550	32,550 32,600	0	0 0	246 235	0	0 0	456 446	
29,100 29,150	l 0	86 962	lő	246	1,172	32,600		0	0	225	lő	0	435	
29,150 29,200	Ö	78 951	Ō	238	1,162	32,650	32,700	0	Ō	214	ō	Ō	425	
29,200 29,250	0	70 941	0	230	1,151	32,700	32,750	0	0	204	0	0	414	
29,250 29,300	0	63 930	0	222	1,141	32,750	32,800	0	0	193	0	0	404	
29,300 29,350 29,350 29,400	0	55 920 47 909	0	214 206	1,130 1,120	32,800 32,850	32,850 32,900	0	0 0	183 172	0	0 0	393 383	
29,400 29,450	l 0	39 899	0	198	1,109		32,950	0	0	162	l 0	0	372	
29,450 29,500	0	31 888	0	190	1,099	32,950	33,000	Ö	0	151	Ö	0	362	
29,500 29,550	0	23 878	0	182	1,088	33,000	33,050	0	0	140	0	0	351	
29,550 29,600	0	15 867	0	174	1,078	33,050	,	0	0	130	0	0 0	341	
29,600 29,650 29,650 29,700	0	7 857 ** 846	0	166 158	1,067 1,057	33,100 33,150	,	0	0	119 109	0	0	330 319	
29,700 29,750	0	0 835	ő	150	1,046	33,200	33,250	0	0	98	0	0	309	
29,750 29,800	0	0 825	0	142	1,036	33,250		0	0	88	0	0	298	
29,800 29,850	0	0 814	0	134	1,025	33,300		0	0	77	0	0	288	
29,850 29,900	0	0 804	0	126	1,014	33,350		0	0	67	0	0	277	
29,900 29,950 29,950 30,000	0	0 793 0 783	0	118 110	1,004 993	33,400 33,450	33,450 33,500	0	0	<u>56</u> 46	0	0	267 256	
30,000 30,050	ő	0 772	ő	102	983	33,500		Ö	Ö	35	Ö	Ő	246	
30,050 30,100	0	0 762	0	94	972	33,550		0	0	25	0	0	235	
30,100 30,150	0	0 751	0	86	962	33,600		0	0	14 ***	0	0	225	
30,150 30,200 30,200 30,250	0	0 741 0 730	0	78 70	951 941	33,650 33,700	33,700 33,750	0	0	0	0	0	214 204	
30,250 30,300	Ö	0 720	Ö	63	930	33,750		Ö	0	0	Ö	Ő	193	
30,300 30,350	0	0 709	0	55	920	33,800		0	0	0	0	0	183	
30,350 30,400	0	0 699	0	47	909	33,850		0	0	0	0	0	172	
30,400 30,450 30,450 30,500	0	0 688 0 678	0	39 31	899 888	33,900 33,950	33,950 34,000	0	0	0	0	0	162 151	
30,500 30,550	l 0	0 667	lő	23	878	34,000	34,050	0	0	0	lő	0	140	
30,550 30,600	0	0 656	0	15	867	34,050		0	0	0	0	0	130	
30,600 30,650	0	0 646	0	7	857	34,100		0	0	0	0	0	119	
30,650 30,700	0	0 635 0 625	0	**	846 835	34,150		0	0	0	0	0	109	
30,700 30,750 30,750 30,800	0	0 625		0	825	34,200 34,250	34,250 34,300	0	0	0		0	98 88	
30,800 30,850	ő	0 604	ő	0	814	34,300		Ö	0	Ö	ő	Ö	77	
30,850 30,900	0	0 593	0	0	804	34,350		0	0	0	0	0	67	
30,900 30,950 30,950 31,000	0	0 583 0 572	0	0	793 783	34,400 34,450	34,450 34,500	0	0	0	0	0	<u>56</u> 46	
31,000 31,050	0	0 562	0	0	772		34,500 34,550	0	0	0	0	0	46 35	
31,050 31,100	ő	0 551	ő	0	762		34,600	Ö	Ö	Ö	ő	Ö	25	
31,100 31,150	0	0 541	0	0	751	34,600	34,650	0	0	0	0	0	14	
31,150 31,200	0	0 530 0 520	0	0	741		34,692	0	0	0	0	0	<u>4</u> 0	
31,200 31,250 31,250 31,300	0	0 520 0 509	0	0	730 720	34,092	or more	U	0	U	"	U	U	
31,300 31,350	0	0 498	0	0	709									
31,350 31,400	0	0 488	0	0	699									
31,400 31,450	0	0 477	0	0	688									
31,450 31,500 31,500 31,550	0	0 467 0 456	0	0	678 667									
31,550 31,600	0	0 446	0	0	656									
31,600 31,650	Ö	0 435	ő	0	646									
31,650 31,700	0	0 425	0	0	635									
31,700 31,750	0	0 414	0	0	625									
31,750 31,800 31,800 31,850	0	0 404 0 393	0	0	614 604									
31,850 31,900	0	0 383	0	0	593									
31,900 31,950	Ō	0 372	Ō	0	583									

<sup>31,900 31,950 0 0 0 372 0 0 0 583

**</sup>If the amount you are looking up from the worksheet is at least \$29,650 (\$30,650 if married filing jointly) but less than \$29,666 (\$30,666 if married filing jointly), your credit is \$1. Otherwise, you cannot take the credit.

***If the amount you are looking up from the worksheet is at least \$33,650 but less than \$33,692, your credit is \$4. Otherwise, you cannot take the credit.

STUI	ENT NOTES
1	

2003 Tax Table

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

Example. Mr. and Mrs. Brown are filing a joint return. Their taxable income on line 40 of Form 1040 is \$25,300. First, they find the \$25,300–25,350 income line. Next, they find the column for married filing jointly and read down the column. The amount shown where the income line and filing status column meet is \$3,099. This is the tax amount they should enter on line 41 of their Form 1040.

Sample Table

At But least less than	Single	Married filing jointly	Married filing sepa- rately	Head of a house- hold
		Your ta	ax is—	
25,200 25,250 25,250 25,300 25,300 25,350 25,350 25,400	3,434 3,441 3,449 3,456	3,084 3,091 3,099 3,106	3,434 3,441 3,449 3,456	3,284 3,291 3,299 3,306

lf line (taxab incom	le		And yo	ou are—		If line (taxab incom	le		And yo	u are—	•	If line (taxab incom	le		And yo	u are—	
At least	But less than	Single	Married filing jointly	Married filing sepa- rately	Head of a house- hold	At least	But less than	Single	Married filing jointly	Married filing sepa- rately	Head of a house- hold	At least	But less than	Single	Married filing jointly	Married filing sepa- rately	Head of a house- hold
			Your t	ax is—	ı				Your to	ax is—	*			Y	∣ ′our tax	is—	l
ō	5	0	0	0	0	1,300 1,325	1,325 1,350	131 134	131 134	131 134	131 134	2,700 2,725	2,725 2,750	271 274	271 274	271 274	271 274
5 15	15 25	1 2	1 2	1 2	1 2	1,350	1,375 1,400	136 139	136 139	136 139	136 139	2,750	2,775	276 279	276 279	276 279	276 279
25 50	50 75	4 6	4 6	4 6	4 6	1,375 1,400	1,425	141	141	141	141	2,775 2,800	2,800 2,825	281	281	281	281
75	100	9	9	9	9	1,425 1,450	1,450 1,475	144 146	144 146	144 146	144 146	2,825 2,850	2,850 2,875	284 286	284 286	284 286	284 286
100 125	125 150	11 14	11 14	11 14	11 14	1,475	1,500	149	149	149	149	2,875	2,900	289	289	289	289
150 175	175 200	16 19	16 19	16 19	16 19	1,500 1,525	1,525 1,550	151 154	151 154	151 154	151 154	2,900 2,925	2,925 2,950	291 294	291 294	291 294	291 294
200 225	225 250	21 24	21 24	21 24	21 24	1,550 1,575	1,575 1,600	156 159	156 159	156 159	156 159	2,950 2,975	2,975 3,000	296 299	296 299	296 299	296 299
250	275	26	26	26	26	1,600 1,625	1,625 1,650	161 164	161 164	161 164	161 164	3,0	000				
275 300	300 325	29 31	29 31	29 31	29 31	1,650 1,675	1,675 1,700	166 169	166 169	166 169	166 169	3,000	3,050	303	303	303	303
325 350	350 375	34 36	34 36	34 36	34 36	1,700	1,725	171	171	171	171	3,050 3,100	3,100 3,150	308 313	308 313	308 313	308 313
375	400	39	39	39	39	1,725 1,750	1,750 1,775	174 176	174 176	174 176	174 176	3,150 3,200	3,200 3,250	318 323	318 323	318 323	318 323
400 425	425 450	41 44	41 44	41 44	41 44	1,775	1,800 1,825	179 181	179 181	179 181	179 181	3,250	3,300	328	328	328	328
450 475	475 500	46 49	46 49	46 49	46 49	1,825 1,850	1,850 1,875	184 186	184 186	184 186	184 186	3,300 3,350	3,350 3,400	333 338	333 338	333 338	333 338
500 525	525 550	51 54	51 54	51 54	51 54	1,875	1,900	189	189	189	189	3,400 3,450	3,450 3,500	343 348	343 348	343 348	343 348
550	575 600	56 59	56 59	56 59	56 59	1,900 1,925	1,925 1,950	191 194	191 194	191 194	191 194	3,500 3,550	3,550 3,600	353 358	353 358	353 358	353 358
575 600	625	61	61	61	61	1,950 1,975	1,975 2,000	196 199	196 199	196 199	196 199	3,600	3,650	363	363	363	363
625 650	650 675	64 66	64 66	64 66	64 66		000					3,650 3,700	3,700 3,750	368 373	368 373	368 373	368 373
675	700	69	69	69	69	2,000	2,025	201	201	201	201	3,750 3,800	3,800 3,850	378 383	378 383	378 383	378 383
700 725	725 750	71 74	71 74	71 74	71 74	2,025	2,050 2,075	204 206	204 206	204 206	204 206	3,850 3,900	3,900 3,950	388 393	388 393	388 393	388 393
750 775	775 800	76 79	76 79	76 79	76 79	2,075	2,100	209 211	209 211	209 211	209 211	3,950	4,000	398	398	398	398
800 825	825 850	81 84	81 84	81 84	81 84	2,100	2,125 2,150	214	214	214	214	4,0	000				
850 875	875 900	86 89	86 89	86 89	86 89	2,150 2,175	2,175 2,200	216 219	216 219	216 219	216 219	4,000	4,050	403	403	403	403
900	925	91	91	91	91	2,200 2,225	2,225 2,250	221 224	221 224	221 224	221 224	4,050 4,100	4,100 4,150	408 413	408 413	408 413	408 413
925 950	950 975	94 96	94 96	94 96	94 96	2,250 2,275	2,275 2,300	226 229	226 229	226 229	226 229	4,150 4,200	4,200 4,250	418 423	418 423	418 423	418 423
975	1,000	99	99	99	99	2,300	2,325	231	231	231	231	4,250 4,300	4,300 4,350	428 433	428 433	428 433	428 433
1,0	000					2,325 2,350	2,350 2,375	234 236	234 236	234 236	234 236	4,350	4,400	438	438	438	438
1,000	1,025	101	101	101	101	2,375 2,400	2,400 2,425	239 241	239 241	239 241	239 241	4,400 4,450	4,450 4,500	443 448	443 448	443 448	443 448
1,025 1,050	1,050 1,075	104 106	104 106	104 106	104 106	2,425 2,450	2,450 2,475	244 246	244 246	244 246	244 246	4,500 4,550	4,550 4,600	453 458	453 458	453 458	453 458
1,075	1,100	109	109	109	109	2,475	2,500	249	249	249	249	4,600 4,650	4,650 4,700	463 468	463 468	463 468	463 468
1,100 1,125	1,125 1,150	111 114	111 114	111 114	111 114	2,500 2,525	2,525 2,550	251 254	251 254	251 254	251 254	4,700	4,750	473	473	473	473
1,150 1,175	1,175 1,200	116 119	116 119	116 119	116 119	2,550 2,575	2,575 2,600	256 259	256 259	256 259	256 259	4,750 4,800	4,800 4,850	478 483	478 483	478 483	478 483
1,200 1,225	1,225 1,250	121 124	121 124	121	121	2,600	2,625	261	261	261	261	4,850 4,900	4,900 4,950	488 493	488 493	488 493	488 493
1,250	1,275	126	126	124 126	124 126	2,625 2,650	2,650 2,675	264 266	264 266	264 266	264 266	4,950		498	498	498	498
1,275	1,300	129	129	129	129	2,675	2,700	269	269	269	269		·		(Contin	ued on	page 6

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

If line 40 (taxable income) is— At But least less			And yo	ou are—		If line (taxab incom			And yo	ou are-	_	If line (taxal incon			And yo	ou are—	•
At least	But less than	Single	Married filing jointly	Married filing sepa-rately ax is—	Head of a house- hold	At least	But less than	Single	Married filing jointly	Married filing sepa- rately	Head of a house- hold	At least	But less than	Single	Married filing jointly *	Married filing sepa-rately tax is—	Head of a house hold
5,00	00					8,0	00					11,	,000	l			
5,000	5,050	503	503	503	503	8,000	8,050	854	803	854	803	11,000	11,050	1,304	1,103	1,304	1,154
5,050	5,100	508	508	508	508	8,050	8,100	861	808	861	808	11,050	11,100	1,311	1,108	1,311	1,161
5,100	5,150	513	513	513	513	8,100	8,150	869	813	869	813	11,100	11,150	1,319	1,113	1,319	1,169
5,150	5,200	518	518	518	518	8,150	8,200	876	818	876	818	11,150	11,200	1,326	1,118	1,326	1,176
5,200	5,250	523	523	523	523	8,200	8,250	884	823	884	823	11,200	11,250	1,334	1,123	1,334	1,184
5,250	5,300	528	528	528	528	8,250	8,300	891	828	891	828	11,250	11,300	1,341	1,128	1,341	1,191
5,300	5,350	533	533	533	533	8,300	8,350	899	833	899	833	11,300	11,350	1,349	1,133	1,349	1,199
5,350	5,400	538	538	538	538	8,350	8,400	906	838	906	838	11,350	11,400	1,356	1,138	1,356	1,206
5,400	5,450	543	543	543	543	8,400	8,450	914	843	914	843	11,400	11,450	1,364	1,143	1,364	1,214
5,450	5,500	548	548	548	548	8,450	8,500	921	848	921	848	11,450	11,500	1,371	1,148	1,371	1,221
5,500	5,550	553	553	553	553	8,500	8,550	929	853	929	853	11,500	11,550	1,379	1,153	1,379	1,229
5,550	5,600	558	558	558	558	8,550	8,600	936	858	936	858	11,550	11,600	1,386	1,158	1,386	1,236
5,600	5,650	563	563	563	563	8,600	8,650	944	863	944	863	11,600	11,650	1,394	1,163	1,394	1,244
5,650	5,700	568	568	568	568	8,650	8,700	951	868	951	868	11,650	11,700	1,401	1,168	1,401	1,251
5,700	5,750	573	573	573	573	8,700	8,750	959	873	959	873	11,700	11,750	1,409	1,173	1,409	1,259
5,750	5,800	578	578	578	578	8,750	8,800	966	878	966	878	11,750	11,800	1,416	1,178	1,416	1,266
5,800	5,850	583	583	583	583	8,800	8,850	974	883	974	883	11,800	11,850	1,424	1,183	1,424	1,274
5,850	5,900	588	588	588	588	8,850	8,900	981	888	981	888	11,850	11,900	1,431	1,188	1,431	1,281
5,900	5,950	593	593	593	593	8,900	8,950	989	893	989	893	11,900	11,950	1,439	1,193	1,439	1,289
5,950	6,000	598	598	598	598	8,950	9,000	996	898	996	898	11,950	12,000	1,446	1,198	1,446	1,296
6,00	00					9,0	00					12,	,000				
6,000	6,050	603	603	603	603	9,000	9,050	1,004	903	1,004	903	12,000	12,050	1,454	1,203	1,454	1,304
6,050	6,100	608	608	608	608	9,050	9,100	1,011	908	1,011	908	12,050	12,100	1,461	1,208	1,461	1,311
6,100	6,150	613	613	613	613	9,100	9,150	1,019	913	1,019	913	12,100	12,150	1,469	1,213	1,469	1,319
6,150	6,200	618	618	618	618	9,150	9,200	1,026	918	1,026	918	12,150	12,200	1,476	1,218	1,476	1,326
6,200	6,250	623	623	623	623	9,200	9,250	1,034	923	1,034	923	12,200	12,250	1,484	1,223	1,484	1,334
6,250	6,300	628	628	628	628	9,250	9,300	1,041	928	1,041	928	12,250	12,300	1,491	1,228	1,491	1,341
6,300	6,350	633	633	633	633	9,300	9,350	1,049	933	1,049	933	12,300	12,350	1,499	1,233	1,499	1,349
6,350	6,400	638	638	638	638	9,350	9,400	1,056	938	1,056	938	12,350	12,400	1,506	1,238	1,506	1,356
6,400	6,450	643	643	643	643	9,400	9,450	1,064	943	1,064	943	12,400	12,450	1,514	1,243	1,514	1,364
6,450	6,500	648	648	648	648	9,450	9,500	1,071	948	1,071	948	12,450	12,500	1,521	1,248	1,521	1,371
6,500	6,550	653	653	653	653	9,500	9,550	1,079	953	1,079	953	12,500	12,550	1,529	1,253	1,529	1,379
6,550	6,600	658	658	658	658	9,550	9,600	1,086	958	1,086	958	12,550	12,600	1,536	1,258	1,536	1,386
6,600	6,650	663	663	663	663	9,600	9,650	1,094	963	1,094	963	12,600	12,650	1,544	1,263	1,544	1,394
6,650	6,700	668	668	668	668	9,650	9,700	1,101	968	1,101	968	12,650	12,700	1,551	1,268	1,551	1,401
6,700	6,750	673	673	673	673	9,700	9,750	1,109	973	1,109	973	12,700	12,750	1,559	1,273	1,559	1,409
6,750	6,800	678	678	678	678	9,750	9,800	1,116	978	1,116	978	12,750	12,800	1,566	1,278	1,566	1,416
6,800 6,850 6,900 6,950	6,850 6,900 6,950 7,000	683 688 693 698	683 688 693 698	683 688 693 698	683 688 693 698		9,850 9,900 9,950 10,000	1,124 1,131 1,139 1,146	983 988 993 998	1,124 1,131 1,139 1,146	983 988 993 998	12,950	12,850 12,900 12,950 13,000	1,574 1,581 1,589 1,596	1,283 1,288 1,293 1,298	1,574 1,581 1,589 1,596	1,424 1,431 1,439 1,446
7,00	00					10,	000					13,	,000				
7,000 7,050 7,100 7,150	7,050 7,100 7,150 7,200	704 711 719 726	703 708 713 718	704 711 719 726	703 708 713 718	10,000 10,050 10,100 10,150	10,100 10,150 10,200	1,154 1,161 1,169 1,176	1,003 1,008 1,013 1,018	1,154 1,161 1,169 1,176	1,004 1,011 1,019 1,026	13,050	13,050 13,100 13,150 13,200	1,604 1,611 1,619 1,626	1,303 1,308 1,313 1,318	1,604 1,611 1,619 1,626	1,454 1,461 1,469 1,476
7,200 7,250 7,300 7,350	7,250 7,300 7,350 7,400	734 741 749 756	723 728 733 738	734 741 749 756	723 728 733 738	10,200 10,250 10,300 10,350	10,250 10,300 10,350 10,400	1,184 1,191 1,199 1,206	1,023 1,028 1,033 1,038	1,184 1,191 1,199 1,206	1,034 1,041 1,049 1,056	13,200 13,250 13,300 13,350	13,350 13,400	1,634 1,641 1,649 1,656	1,323 1,328 1,333 1,338	1,634 1,641 1,649 1,656	1,484 1,491 1,499 1,506
7,400 7,450 7,500 7,550	7,450 7,500 7,550 7,600	764 771 779 786	743 748 753 758	764 771 779 786	743 748 753 758	10,400 10,450 10,500 10,550	10,450 10,500 10,550 10,600	1,214 1,221 1,229 1,236	1,043 1,048 1,053 1,058	1,214 1,221 1,229 1,236	1,064 1,071 1,079 1,086	13,400 13,450 13,500 13,550	13,550 13,600	1,664 1,671 1,679 1,686	1,343 1,348 1,353 1,358	1,664 1,671 1,679 1,686	1,514 1,521 1,529 1,536
7,600	7,650	794	763	794	763	10,600	10,650	1,244	1,063	1,244	1,094	13,600	13,650	1,694	1,363	1,694	1,544
7,650	7,700	801	768	801	768	10,650	10,700	1,251	1,068	1,251	1,101	13,650	13,700	1,701	1,368	1,701	1,551
7,700	7,750	809	773	809	773	10,700	10,750	1,259	1,073	1,259	1,109	13,700	13,750	1,709	1,373	1,709	1,559
7,750	7,800	816	778	816	778	10,750	10,800	1,266	1,078	1,266	1,116	13,750	13,800	1,716	1,378	1,716	1,566
7,800	7,850	824	783	824	783	10,800	10,850	1,274	1,083	1,274	1,124	13,800	13,850	1,724	1,383	1,724	1,574
7,850	7,900	831	788	831	788	10,850	10,900	1,281	1,088	1,281	1,131	13,850	13,900	1,731	1,388	1,731	1,581
7,900	7,950	839	793	839	793	10,900	10,950	1,289	1,093	1,289	1,139	13,900	13,950	1,739	1,393	1,739	1,589
7,950	8,000	846	798	846	798	10,950	11,000	1,296	1,098	1,296	1,146	13,950	14,000	1,746	1,398	1,746	1,596

						1						1	200	JO IAX	Iable	_Cont	iriueu
If line 4 (taxable income)	•		And yo	ou are—		If line (taxab incom			And yo	ou are–	-	If line (taxal incon			And yo	u are—	
At least	But less than	Single	Married filing jointly	filing sepa- rately	Head of a house- hold	At least	But less than	Single	Married filing jointly	filing sepa- rately	Head of a house- hold	At least	But less than	Single	Married filing jointly	filing sepa- rately	Head of a house- hold
11	000		Your t	ax is—		17	000		Your t	ax is—		20	,000		Your	tax is—	
		4 754	4 404	4 754	1 00 1	·		0.004	4.054	0.004	0.054	†		0.054	0.004	0.054	0.504
14,000 14,050 14,100 14,150 14,200	14,150	1,754 1,761 1,769 1,776 1,784	1,404 1,411 1,419 1,426 1,434	1,754 1,761 1,769 1,776 1,784	1,604 1,611 1,619 1,626 1,634	17,000 17,050 17,100 17,150 17,200	17,050 17,100 17,150 17,200 17,250	2,204 2,211 2,219 2,226 2,234	1,854 1,861 1,869 1,876 1,884	2,204 2,211 2,219 2,226 2,234	2,054 2,061 2,069 2,076 2,084	20,000 20,050 20,100 20,150 20,200	20,050 20,100 20,150 20,200 20,250	2,654 2,661 2,669 2,676 2,684	2,304 2,311 2,319 2,326 2,334	2,654 2,661 2,669 2,676 2,684	2,504 2,511 2,519 2,526 2,534
14,250 14,300 14,350	14,300 14,350 14,400	1,791 1,799 1,806	1,441 1,449 1,456	1,791 1,799 1,806	1,641 1,649 1,656	17,250 17,300 17,350	17,300 17,350 17,400	2,241 2,249 2,256	1,891 1,899 1,906	2,241 2,249 2,256	2,091 2,099 2,106	20,250 20,300 20,350	20,300 20,350 20,400	2,691 2,699 2,706	2,341 2,349 2,356	2,691 2,699 2,706	2,541 2,549 2,556
14,400 14,450 14,500 14,550	14,450 14,500 14,550 14,600	1,814 1,821 1,829 1,836	1,464 1,471 1,479 1,486	1,814 1,821 1,829 1,836	1,664 1,671 1,679 1,686	17,400 17,450 17,500 17,550	17,450 17,500 17,550 17,600	2,264 2,271 2,279 2,286	1,914 1,921 1,929 1,936	2,264 2,271 2,279 2,286	2,114 2,121 2,129 2,136	20,400 20,450 20,500 20,550	20,450 20,500 20,550 20,600	2,714 2,721 2,729 2,736	2,364 2,371 2,379 2,386	2,714 2,721 2,729 2,736	2,564 2,571 2,579 2,586
14,600 14,650 14,700 14,750	14,650 14,700 14,750 14,800	1,844 1,851 1,859 1,866	1,494 1,501 1,509 1,516	1,844 1,851 1,859 1,866	1,694 1,701 1,709 1,716	17,600 17,650 17,700 17,750	17,650 17,700 17,750 17,800	2,294 2,301 2,309 2,316	1,944 1,951 1,959 1,966	2,294 2,301 2,309 2,316	2,144 2,151 2,159 2,166	20,600 20,650 20,700 20,750	20,650 20,700 20,750 20,800	2,744 2,751 2,759 2,766	2,394 2,401 2,409 2,416	2,744 2,751 2,759 2,766	2,594 2,601 2,609 2,616
	14,850 14,900 14,950 15,000	1,874 1,881 1,889 1,896	1,524 1,531 1,539 1,546	1,874 1,881 1,889 1,896	1,724 1,731 1,739 1,746	17,800 17,850 17,900 17,950	17,850 17,900 17,950 18,000	2,324 2,331 2,339 2,346	1,974 1,981 1,989 1,996	2,324 2,331 2,339 2,346	2,174 2,181 2,189 2,196	20,800 20,850 20,900 20,950	20,850 20,900 20,950 21,000	2,774 2,781 2,789 2,796	2,424 2,431 2,439 2,446	2,774 2,781 2,789 2,796	2,624 2,631 2,639 2,646
15,	000					18,	000					21,	,000				
		1,904 1,911 1,919 1,926	1,554 1,561 1,569 1,576	1,904 1,911 1,919 1,926	1,754 1,761 1,769 1,776	18,000 18,050 18,100 18,150	18,050 18,100 18,150 18,200	2,354 2,361 2,369 2,376	2,004 2,011 2,019 2,026	2,354 2,361 2,369 2,376	2,204 2,211 2,219 2,226	21,000 21,050 21,100 21,150	21,050 21,100 21,150 21,200	2,804 2,811 2,819 2,826	2,454 2,461 2,469 2,476	2,804 2,811 2,819 2,826	2,654 2,661 2,669 2,676
15,200 15,250 15,300 15,350	15,300 15,350	1,934 1,941 1,949 1,956	1,584 1,591 1,599 1,606	1,934 1,941 1,949 1,956	1,784 1,791 1,799 1,806	18,200 18,250 18,300 18,350	18,250 18,300 18,350 18,400	2,384 2,391 2,399 2,406	2,034 2,041 2,049 2,056	2,384 2,391 2,399 2,406	2,234 2,241 2,249 2,256	21,200 21,250 21,300 21,350	21,250 21,300 21,350 21,400	2,834 2,841 2,849 2,856	2,484 2,491 2,499 2,506	2,834 2,841 2,849 2,856	2,684 2,691 2,699 2,706
15,400 15,450 15,500 15,550	15,450 15,500 15,550 15,600	1,964 1,971 1,979 1,986	1,614 1,621 1,629 1,636	1,964 1,971 1,979 1,986	1,814 1,821 1,829 1,836	18,400 18,450 18,500 18,550	18,450 18,500 18,550 18,600	2,414 2,421 2,429 2,436	2,064 2,071 2,079 2,086	2,414 2,421 2,429 2,436	2,264 2,271 2,279 2,286	21,400 21,450 21,500 21,550	21,450 21,500 21,550 21,600	2,864 2,871 2,879 2,886	2,514 2,521 2,529 2,536	2,864 2,871 2,879 2,886	2,714 2,721 2,729 2,736
15,600 15,650 15,700 15,750	15,650 15,700 15,750 15,800	1,994 2,001 2,009 2,016	1,644 1,651 1,659 1,666	1,994 2,001 2,009 2,016	1,844 1,851 1,859 1,866	18,600 18,650 18,700 18,750	18,650 18,700 18,750 18,800	2,444 2,451 2,459 2,466	2,094 2,101 2,109 2,116	2,444 2,451 2,459 2,466	2,294 2,301 2,309 2,316	21,600 21,650 21,700 21,750	21,650 21,700 21,750 21,800	2,894 2,901 2,909 2,916	2,544 2,551 2,559 2,566	2,894 2,901 2,909 2,916	2,744 2,751 2,759 2,766
	15,950 16,000	2,024 2,031 2,039 2,046	1,674 1,681 1,689 1,696	2,024 2,031 2,039 2,046	1,874 1,881 1,889 1,896	18,950	18,850 18,900 18,950 19,000	2,474 2,481 2,489 2,496	2,124 2,131 2,139 2,146	2,474 2,481 2,489 2,496	2,324 2,331 2,339 2,346	<u> </u>	21,850 21,900 21,950 22,000	2,924 2,931 2,939 2,946	2,574 2,581 2,589 2,596	2,924 2,931 2,939 2,946	2,774 2,781 2,789 2,796
16,	000					19,	000					22,	,000				
16,050 16,100	16,050 16,100 16,150 16,200	2,054 2,061 2,069 2,076	1,704 1,711 1,719 1,726	2,054 2,061 2,069 2,076	1,904 1,911 1,919 1,926	19,100	19,100	2,504 2,511 2,519 2,526	2,154 2,161 2,169 2,176	2,504 2,511 2,519 2,526	2,354 2,361 2,369 2,376	22,000 22,050 22,100 22,150	22,050 22,100 22,150 22,200	2,954 2,961 2,969 2,976	2,604 2,611 2,619 2,626	2,954 2,961 2,969 2,976	2,804 2,811 2,819 2,826
16,300 16,350	16,300 16,350 16,400	2,084 2,091 2,099 2,106	1,734 1,741 1,749 1,756	2,084 2,091 2,099 2,106	1,934 1,941 1,949 1,956	19,250 19,300 19,350		2,534 2,541 2,549 2,556	2,184 2,191 2,199 2,206	2,534 2,541 2,549 2,556	2,384 2,391 2,399 2,406	22,200 22,250 22,300 22,350	22,250 22,300 22,350 22,400	2,984 2,991 2,999 3,006	2,634 2,641 2,649 2,656	2,984 2,991 2,999 3,006	2,834 2,841 2,849 2,856
16,450 16,500 16,550	16,600	2,114 2,121 2,129 2,136	1,764 1,771 1,779 1,786	2,114 2,121 2,129 2,136	1,964 1,971 1,979 1,986	19,400 19,450 19,500 19,550	19,550 19,600	2,564 2,571 2,579 2,586	2,214 2,221 2,229 2,236	2,564 2,571 2,579 2,586	2,414 2,421 2,429 2,436	22,400 22,450 22,500 22,550	22,450 22,500 22,550 22,600	3,014 3,021 3,029 3,036	2,664 2,671 2,679 2,686	3,014 3,021 3,029 3,036	2,864 2,871 2,879 2,886
16,750	16,750 16,800	2,144 2,151 2,159 2,166	1,794 1,801 1,809 1,816	2,144 2,151 2,159 2,166	1,994 2,001 2,009 2,016	19,600 19,650 19,700 19,750	19,650 19,700 19,750 19,800	2,594 2,601 2,609 2,616	2,244 2,251 2,259 2,266	2,594 2,601 2,609 2,616	2,444 2,451 2,459 2,466	22,600 22,650 22,700 22,750	22,650 22,700 22,750 22,800	3,044 3,051 3,059 3,066	2,694 2,701 2,709 2,716	3,044 3,051 3,059 3,066	2,894 2,901 2,909 2,916
16,900	16,850 16,900 16,950 17,000	2,174 2,181 2,189 2,196	1,824 1,831 1,839 1,846	2,174 2,181 2,189 2,196	2,024 2,031 2,039 2,046	19,900	19,900	2,624 2,631 2,639 2,646	2,274 2,281 2,289 2,296	2,624 2,631 2,639 2,646	2,474 2,481 2,489 2,496	22,800 22,850 22,900 22,950	22,850 22,900 22,950 23,000	3,074 3,081 3,089 3,096	2,724 2,731 2,739 2,746	3,074 3,081 3,089 3,096	2,924 2,931 2,939 2,946
* This co	olumn m	ust also	be used	by a qu	ualifying	widow(e	er).								(Contir	nued on p	age 66)

2003 Tax Table—Continued If line 40 If line 40 If line 40 If line 40																	
If line 4 (taxable income)	•		And yo	ou are—	=	If line (taxab incom	le		And yo	ou are–	-	(taxab			And yo	u are—	
At least	But less than	Single	Married filing jointly	Married filing sepa-rately	Head of a house- hold	At least	But less than	Single	Married filing jointly	Married filing sepa-rately ax is—	Head of a house- hold	At least	But less than	Single	Married filing jointly *	Married filing sepa-rately tax is—	Head of a house- hold
23,	000					26,	000					29,	000				
23,000 23,050 23,100 23,150 23,200 23,250 23,300	23,100 23,150 23,200 23,250 23,300 23,350	3,104 3,111 3,119 3,126 3,134 3,141 3,149	2,754 2,761 2,769 2,776 2,784 2,791 2,799	3,104 3,111 3,119 3,126 3,134 3,141 3,149	2,954 2,961 2,969 2,976 2,984 2,991 2,999	26,000 26,050 26,100 26,150 26,200 26,250 26,300	26,050 26,100 26,150 26,200 26,250 26,300 26,350	3,554 3,561 3,569 3,576 3,584 3,591 3,599	3,204 3,211 3,219 3,226 3,234 3,241 3,249	3,554 3,561 3,569 3,576 3,584 3,591 3,599	3,404 3,411 3,419 3,426 3,434 3,441 3,449	29,000 29,050 29,100 29,150 29,200 29,250 29,300	29,050 29,100 29,150 29,200 29,250 29,350 29,350	4,066 4,079 4,091 4,104 4,116 4,129 4,141	3,654 3,661 3,669 3,676 3,684 3,691 3,699	4,066 4,079 4,091 4,104 4,116 4,129 4,141	3,854 3,861 3,869 3,876 3,884 3,891 3,899
23,350 23,400 23,450 23,500 23,550 23,600	23,400 23,450 23,500 23,550 23,600 23,650	3,156 3,164 3,171 3,179 3,186 3,194	2,806 2,814 2,821 2,829 2,836 2,844	3,156 3,164 3,171 3,179 3,186 3,194	3,006 3,014 3,021 3,029 3,036 3,044	26,350 26,400 26,450 26,500 26,550 26,600	26,400 26,450 26,500 26,550 26,600 26,650	3,606 3,614 3,621 3,629 3,636 3,644	3,256 3,264 3,271 3,279 3,286 3,294	3,606 3,614 3,621 3,629 3,636 3,644	3,456 3,464 3,471 3,479 3,486 3,494	29,350 29,400 29,450 29,500 29,550 29,600	29,400 29,450 29,500 29,550 29,600 29,650	4,154 4,166 4,179 4,191 4,204 4,216	3,706 3,714 3,721 3,729 3,736 3,744	4,154 4,166 4,179 4,191 4,204 4,216	3,906 3,914 3,921 3,929 3,936 3,944
23,650 23,700 23,750 23,800	23,700 23,750	3,201 3,209 3,216 3,224	2,851 2,859 2,866 2,874	3,201 3,209 3,216 3,224	3,051 3,059 3,066 3,074	26,650 26,700 26,750 26,800	26,700 26,750 26,800 26,850	3,651 3,659 3,666 3,674	3,301 3,309 3,316 3,324	3,651 3,659 3,666 3,674	3,501 3,509 3,516 3,524	29,650 29,700 29,750 29,800	29,700 29,750 29,800 29,850	4,229 4,241 4,254 4,266	3,751 3,759 3,766 3,774	4,229 4,241 4,254 4,266	3,951 3,959 3,966 3,974
23,850 23,900 23,950	23,900 23,950 24,000	3,231 3,239 3,246	2,881 2,889	3,231 3,239 3,246	3,081 3,089 3,096	26,850 26,900 26,950	26,900 26,950 27,000	3,681 3,689 3,696	3,331 3,339	3,681 3,689 3,696	3,531 3,539 3,546	29,850 29,900 29,950	29,900 29,950 30,000	4,279 4,291 4,304	3,781 3,789 3,796	4,279 4,291 4,304	3,981 3,989 3,996
	000						000					30,	000				
24,000 24,050 24,100 24,150	24,150	3,254 3,261 3,269 3,276	2,904 2,911 2,919 2,926	3,254 3,261 3,269 3,276	3,104 3,111 3,119 3,126	27,000 27,050 27,100 27,150	27,050 27,100 27,150 27,200	3,704 3,711 3,719 3,726	3,354 3,361 3,369 3,376	3,704 3,711 3,719 3,726	3,554 3,561 3,569 3,576	30,000 30,050 30,100 30,150	30,050 30,100 30,150 30,200	4,316 4,329 4,341 4,354	3,804 3,811 3,819 3,826	4,316 4,329 4,341 4,354	4,004 4,011 4,019 4,026
24,200 24,250 24,300 24,350	24,250 24,300 24,350 24,400	3,284 3,291 3,299 3,306	2,934 2,941 2,949 2,956	3,284 3,291 3,299 3,306	3,134 3,141 3,149 3,156	27,200 27,250 27,300 27,350	27,250 27,300 27,350 27,400	3,734 3,741 3,749 3,756	3,384 3,391 3,399 3,406	3,734 3,741 3,749 3,756	3,584 3,591 3,599 3,606	30,200 30,250 30,300 30,350	30,250 30,300 30,350 30,400	4,366 4,379 4,391 4,404	3,834 3,841 3,849 3,856	4,366 4,379 4,391 4,404	4,034 4,041 4,049 4,056
24,400 24,450 24,500 24,550		3,314 3,321 3,329 3,336	2,964 2,971 2,979 2,986	3,314 3,321 3,329 3,336	3,164 3,171 3,179 3,186	27,400 27,450 27,500 27,550	27,450 27,500 27,550 27,600	3,764 3,771 3,779 3,786	3,414 3,421 3,429 3,436	3,764 3,771 3,779 3,786	3,614 3,621 3,629 3,636	30,400 30,450 30,500 30,550	30,450 30,500 30,550 30,600	4,416 4,429 4,441 4,454	3,864 3,871 3,879 3,886	4,416 4,429 4,441 4,454	4,064 4,071 4,079 4,086
24,600 24,650 24,700 24,750	24,650 24,700 24,750 24,800	3,344 3,351 3,359 3,366	2,994 3,001 3,009 3,016	3,344 3,351 3,359 3,366	3,194 3,201 3,209 3,216	27,600 27,650 27,700 27,750	27,650 27,700 27,750 27,800	3,794 3,801 3,809 3,816	3,444 3,451 3,459 3,466	3,794 3,801 3,809 3,816	3,644 3,651 3,659 3,666	30,600 30,650 30,700 30,750	30,650 30,700 30,750 30,800	4,466 4,479 4,491 4,504	3,894 3,901 3,909 3,916	4,466 4,479 4,491 4,504	4,094 4,101 4,109 4,116
24,800 24,850 24,900 24,950	24,850 24,900 24,950 25,000	3,374 3,381 3,389 3,396	3,024 3,031 3,039 3,046	3,374 3,381 3,389 3,396	3,224 3,231 3,239 3,246	27,800 27,850 27,900 27,950	27,850 27,900 27,950 28,000	3,824 3,831 3,839 3,846	3,474 3,481 3,489 3,496	3,824 3,831 3,839 3,846	3,674 3,681 3,689 3,696	30,800 30,850 30,900 30,950	30,850 30,900 30,950 31,000	4,516 4,529 4,541 4,554	3,924 3,931 3,939 3,946	4,516 4,529 4,541 4,554	4,124 4,131 4,139 4,146
25,	000					28,	000					31,	000				
25,050 25,100 25,150	25,150 25,200	3,404 3,411 3,419 3,426	3,054 3,061 3,069 3,076	3,404 3,411 3,419 3,426	3,254 3,261 3,269 3,276	28,050 28,100 28,150	28,150 28,200	3,854 3,861 3,869 3,876	3,504 3,511 3,519 3,526	3,854 3,861 3,869 3,876	3,704 3,711 3,719 3,726	31,050 31,100 31,150	31,050 31,100 31,150 31,200	4,566 4,579 4,591 4,604	3,954 3,961 3,969 3,976	4,566 4,579 4,591 4,604	4,154 4,161 4,169 4,176
25,300 25,350	25,300 25,350 25,400	3,434 3,441 3,449 3,456	3,084 3,091 3,099 3,106	3,434 3,441 3,449 3,456	3,284 3,291 3,299 3,306	28,200 28,250 28,300 28,350	28,400	3,884 3,891 3,899 3,906	3,534 3,541 3,549 3,556	3,884 3,891 3,899 3,906	3,734 3,741 3,749 3,756	31,200 31,250 31,300 31,350	31,250 31,300 31,350 31,400	4,616 4,629 4,641 4,654	3,984 3,991 3,999 4,006	4,616 4,629 4,641 4,654	4,184 4,191 4,199 4,206
25,450 25,500 25,550	25,550 25,600	3,464 3,471 3,479 3,486	3,114 3,121 3,129 3,136	3,464 3,471 3,479 3,486	3,314 3,321 3,329 3,336	28,400 28,450 28,500 28,550	28,500 28,550 28,600	3,916 3,929 3,941 3,954	3,564 3,571 3,579 3,586	3,916 3,929 3,941 3,954	3,764 3,771 3,779 3,786	31,400 31,450 31,500 31,550	31,450 31,500 31,550 31,600	4,666 4,679 4,691 4,704	4,014 4,021 4,029 4,036	4,666 4,679 4,691 4,704	4,214 4,221 4,229 4,236
	25,700 25,750 25,800	3,494 3,501 3,509 3,516	3,144 3,151 3,159 3,166	3,494 3,501 3,509 3,516	3,344 3,351 3,359 3,366	28,600 28,650 28,700 28,750	28,650 28,700 28,750 28,800	3,966 3,979 3,991 4,004	3,594 3,601 3,609 3,616	3,966 3,979 3,991 4,004	3,794 3,801 3,809 3,816	31,600 31,650 31,700 31,750	31,650 31,700 31,750 31,800	4,716 4,729 4,741 4,754	4,044 4,051 4,059 4,066	4,716 4,729 4,741 4,754	4,244 4,251 4,259 4,266
25,900	25,850 25,900 25,950 26,000	3,524 3,531 3,539 3,546	3,174 3,181 3,189 3,196	3,524 3,531 3,539 3,546	3,374 3,381 3,389 3,396	28,800 28,850 28,900 28,950		4,016 4,029 4,041 4,054	3,624 3,631 3,639 3,646	4,016 4,029 4,041 4,054	3,824 3,831 3,839 3,846	31,800 31,850 31,900 31,950	31,850 31,900 31,950 32,000	4,766 4,779 4,791 4,804	4,074 4,081 4,089 4,096	4,766 4,779 4,791 4,804	4,274 4,281 4,289 4,296
* This co	olumn m	ust also	be used	by a q	ualifying	widow(e	er).								(Contin	ued on p	age 67)

											2003 Tax Table—Continued								
If line 4 (taxable income	•		And yo	ou are—		If line (taxab incom	le		And yo	ou are—	-	If line (taxab incom		And you are—					
At least	But less than	Single	Married filing jointly *	Married filing sepa-rately ax is—	Head of a house- hold	At least	But less than	Single	Married filing jointly *	Married filing sepa- rately ax is—	Head of a house- hold	At least	But less than	Single	Married filing jointly *	Married filing sepa-rately tax is—	Head of a house- hold		
32,	000					35,	000					38,000							
32,000	32.050	4,816	4,104	4,816	4,304	35,000	35,050	5,566	4,554	5,566	4,754	38,000	38,050	6,316	5,004	6,316	5,204		
32,050 32,100 32,150	32,100 32,150 32,200	4,829 4,841 4,854	4,111 4,119 4,126	4,829 4,841 4,854	4,311 4,319 4,326	35,050 35,100 35,150	35,100 35,150 35,200	5,579 5,591 5,604	4,561 4,569 4,576	5,579 5,591 5,604	4,761 4,769 4,776	38,050 38,100 38,150	38,100 38,150 38,200	6,329 6,341 6,354	5,011 5,019 5,026	6,329 6,341 6,354	5,214 5,226 5,239		
32,200 32,250 32,300 32,350	32,250 32,300 32,350 32,400	4,866 4,879 4,891 4,904	4,134 4,141 4,149 4,156	4,866 4,879 4,891 4,904	4,334 4,341 4,349 4,356	35,200 35,250 35,300 35,350	35,250 35,300 35,350 35,400	5,616 5,629 5,641 5,654	4,584 4,591 4,599 4,606	5,616 5,629 5,641 5,654	4,784 4,791 4,799 4,806	38,200 38,250 38,300 38,350	38,250 38,300 38,350 38,400	6,366 6,379 6,391 6,404	5,034 5,041 5,049 5,056	6,366 6,379 6,391 6,404	5,251 5,264 5,276 5,289		
32,400 32,450 32,500 32,550	32,450 32,500 32,550 32,600	4,916 4,929 4,941 4,954	4,164 4,171 4,179 4,186	4,916 4,929 4,941 4,954	4,364 4,371 4,379 4,386	35,400 35,450 35,500 35,550	35,450 35,500 35,550 35,600	5,666 5,679 5,691 5,704	4,614 4,621 4,629 4,636	5,666 5,679 5,691 5,704	4,814 4,821 4,829 4,836	38,400 38,450 38,500 38,550	38,450 38,500 38,550 38,600	6,416 6,429 6,441 6,454	5,064 5,071 5,079 5,086	6,416 6,429 6,441 6,454	5,301 5,314 5,326 5,339		
32,600 32,650 32,700 32,750	32,650 32,700 32,750 32,800	4,966 4,979 4,991 5,004	4,194 4,201 4,209 4,216	4,966 4,979 4,991 5,004	4,394 4,401 4,409 4,416	35,600 35,650 35,700 35,750	35,650 35,700 35,750 35,800	5,716 5,729 5,741 5,754	4,644 4,651 4,659 4,666	5,716 5,729 5,741 5,754	4,844 4,851 4,859 4,866	38,600 38,650 38,700 38,750	38,650 38,700 38,750 38,800	6,466 6,479 6,491 6,504	5,094 5,101 5,109 5,116	6,466 6,479 6,491 6,504	5,351 5,364 5,376 5,389		
32,800 32,850 32,900 32,950	32,850 32,900 32,950	5,016 5,029 5,041 5,054	4,224 4,231 4,239 4,246	5,016 5,029 5,041 5,054	4,424 4,431 4,439 4,446	35,800 35,850 35,900 35,950	35,850 35,900 35,950 36,000	5,766 5,779 5,791 5,804	4,674 4,681 4,689	5,766 5,779 5,791 5,804	4,874 4,881 4,889 4,896	38,800 38,850 38,900 38,950	38,850 38,900 38,950 39,000	6,516 6,529 6,541 6,554	5,124 5,131 5,139 5,146	6,516 6,529 6,541 6,554	5,401 5,414 5,426 5,439		
33,000						<u> </u>	000	0,00	.,000		.,000		000	0,001					
33,000		5,066	4,254	5,066	4,454		36,050	5,816	4,704	5,816	4,904	39,000	39,050	6,566	5,154	6,566	5,451		
33,050 33,100 33,150	33,100 33,150 33,200	5,079 5,091 5,104	4,261 4,269 4,276	5,079 5,091 5,104	4,461 4,469 4,476	36,050 36,100 36,150	36,100 36,150 36,200	5,829 5,841 5,854	4,711 4,719 4,726	5,829 5,841 5,854	4,911 4,919 4,926	39,050 39,100 39,150	39,100 39,150 39,200	6,579 6,591 6,604	5,161 5,169 5,176	6,579 6,591 6,604	5,464 5,476 5,489		
33,200 33,250 33,300 33,350	33,250 33,300 33,350 33,400	5,116 5,129 5,141 5,154	4,284 4,291 4,299 4,306	5,116 5,129 5,141 5,154	4,484 4,491 4,499 4,506	36,200 36,250 36,300 36,350	36,250 36,300 36,350 36,400	5,866 5,879 5,891 5,904	4,734 4,741 4,749 4,756	5,866 5,879 5,891 5,904	4,934 4,941 4,949 4,956	39,200 39,250 39,300 39,350	39,250 39,300 39,350 39,400	6,616 6,629 6,641 6,654	5,184 5,191 5,199 5,206	6,616 6,629 6,641 6,654	5,501 5,514 5,526 5,539		
33,400 33,450 33,500 33,550	33,450 33,500 33,550 33,600	5,166 5,179 5,191 5,204	4,314 4,321 4,329 4,336	5,166 5,179 5,191 5,204	4,514 4,521 4,529 4,536	36,400 36,450 36,500 36,550	36,450 36,500 36,550 36,600	5,916 5,929 5,941 5,954	4,764 4,771 4,779 4,786	5,916 5,929 5,941 5,954	4,964 4,971 4,979 4,986	39,400 39,450 39,500 39,550	39,450 39,500 39,550 39,600	6,666 6,679 6,691 6,704	5,214 5,221 5,229 5,236	6,666 6,679 6,691 6,704	5,551 5,564 5,576 5,589		
33,600 33,650 33,700 33,750	33,650 33,700 33,750 33,800	5,216 5,229 5,241 5,254	4,344 4,351 4,359 4,366	5,216 5,229 5,241 5,254	4,544 4,551 4,559 4,566	36,600 36,650 36,700 36,750	36,650 36,700 36,750 36,800	5,966 5,979 5,991 6,004	4,794 4,801 4,809 4,816	5,966 5,979 5,991 6,004	4,994 5,001 5,009 5,016	39,600 39,650 39,700 39,750	39,650 39,700 39,750 39,800	6,716 6,729 6,741 6,754	5,244 5,251 5,259 5,266	6,716 6,729 6,741 6,754	5,601 5,614 5,626 5,639		
33,800 33,850 33,900 33,950	33,850 33,900 33,950 34,000	5,266 5,279 5,291 5,304	4,374 4,381 4,389 4,396	5,266 5,279 5,291 5,304	4,574 4,581 4,589 4,596	36,800 36,850 36,900 36,950	36,850 36,900 36,950 37,000	6,016 6,029 6,041 6,054	4,824 4,831 4,839 4,846	6,016 6,029 6,041 6,054	5,024 5,031 5,039 5,046	39,800 39,850 39,900 39,950	39,850 39,900 39,950 40,000	6,766 6,779 6,791 6,804	5,274 5,281 5,289 5,296	6,766 6,779 6,791 6,804	5,651 5,664 5,676 5,689		
34,	000					37,	000					40,	000						
34,000 34,050 34,100 34,150	34,150	5,316 5,329 5,341 5,354	4,404 4,411 4,419 4,426	5,316 5,329 5,341 5,354	4,604 4,611 4,619 4,626	37,000 37,050 37,100 37,150	37,150	6,066 6,079 6,091 6,104	4,854 4,861 4,869 4,876	6,066 6,079 6,091 6,104	5,054 5,061 5,069 5,076	40,000 40,050 40,100 40,150	40,050 40,100 40,150 40,200	6,816 6,829 6,841 6,854	5,304 5,311 5,319 5,326	6,816 6,829 6,841 6,854	5,701 5,714 5,726 5,739		
34,200 34,250 34,300 34,350	34,250 34,300 34,350	5,366 5,379 5,391 5,404	4,434 4,441 4,449 4,456	5,366 5,379 5,391 5,404	4,634 4,641 4,649 4,656	37,200 37,250 37,300 37,350	37,250 37,300	6,116 6,129 6,141 6,154	4,884 4,891 4,899 4,906	6,116 6,129 6,141 6,154	5,084 5,091 5,099 5,106	40,200 40,250 40,300 40,350	40,250 40,300 40,350 40,400	6,866 6,879 6,891 6,904	5,334 5,341 5,349 5,356	6,866 6,879 6,891 6,904	5,751 5,764 5,776 5,789		
34,400 34,450 34,500 34,550	34,450 34,500 34,550 34,600	5,416 5,429 5,441 5,454	4,464 4,471 4,479 4,486	5,416 5,429 5,441 5,454	4,664 4,671 4,679 4,686	37,400 37,450 37,500 37,550	37,500	6,166 6,179 6,191 6,204	4,914 4,921 4,929 4,936	6,166 6,179 6,191 6,204	5,114 5,121 5,129 5,136	40,400 40,450 40,500 40,550	40,450 40,500 40,550 40,600	6,916 6,929 6,941 6,954	5,364 5,371 5,379 5,386	6,916 6,929 6,941 6,954	5,801 5,814 5,826 5,839		
34,600 34,650 34,700 34,750	34,650 34,700 34,750 34,800	5,466 5,479 5,491 5,504	4,494 4,501 4,509 4,516	5,466 5,479 5,491 5,504	4,694 4,701 4,709 4,716	37,600 37,650 37,700 37,750	37,650 37,700 37,750 37,800	6,216 6,229 6,241 6,254	4,944 4,951 4,959 4,966	6,216 6,229 6,241 6,254	5,144 5,151 5,159 5,166	40,600 40,650 40,700 40,750	40,650 40,700 40,750 40,800	6,966 6,979 6,991 7,004	5,394 5,401 5,409 5,416	6,966 6,979 6,991 7,004	5,851 5,864 5,876 5,889		
34,800 34,850 34,900 34,950	34,950	5,516 5,529 5,541 5,554	4,524 4,531 4,539 4,546	5,516 5,529 5,541 5,554	4,724 4,731 4,739 4,746	37,800 37,850 37,900 37,950	37,900	6,266 6,279 6,291 6,304	4,974 4,981 4,989 4,996	6,266 6,279 6,291 6,304	5,174 5,181 5,189 5,196	40,800 40,850 40,900 40,950	40,850 40,900 40,950 41,000	7,016 7,029 7,041 7,054	5,424 5,431 5,439 5,446	7,016 7,029 7,041 7,054	5,901 5,914 5,926 5,939		
* This c	olumn m	ust also	be used	by a q	ualifying	widow(e	er).								(Contin	ued on p	age 68)		

	Tax Tab	oie—Co	onunue	ea		T						T						
If line 4 (taxable income	е		And yo	ou are—	-	If line (taxab incom			And yo	ou are—	-	If line (taxal incon		And you are—				
At least	But less than	Single	Married filing jointly	Married filing sepa- rately	Head of a house- hold	At least	But less than	Single	Married filing jointly	Married filing sepa- rately ax is—	Head of a house- hold	At least	But less than	Single	Married filing jointly *	Married filing sepa- rately tax is—	Head of a house- hold	
41	,000					44,	000					Your tax is— 47,000						
	41,050	7,066	5,454	7,066	5,951	44,000	44,050	7,816	5,904	7,816	6,701	47,000	47,050	8,566	6,354	8,566	7,451	
41,050 41,100	41,150	7,079 7,091	5,461 5,469	7,079 7,091	5,964 5,976	44,050 44,100	44,100 44,150	7,829 7,841	5,911 5,919	7,829 7,841	6,714 6,726	47,050 47,100	47,100 47,150	8,579 8,591	6,361 6,369	8,579 8,591	7,464 7,476	
41,150 41,200	41,250	7,104 7,116	5,476 5,484	7,104 7,116	5,989 6,001	44,150 44,200	44,200 44,250	7,854 7,866	5,926 5,934	7,854 7,866	6,739 6,751	47,150 47,200	47,200 47,250	8,604 8,616	6,376 6,384	8,604 8,616	7,489 7,501	
41,250 41,300	41,350	7,129 7,141	5,491 5,499	7,129 7,141	6,014 6,026	44,250 44,300	44,300 44,350	7,879 7,891	5,941 5,949	7,879 7,891	6,764 6,776	47,250 47,300	47,300 47,350	8,629 8,641	6,391 6,399	8,629 8,641	7,514 7,526	
41,350 41,400	41,450	7,154 7,166	5,506 5,514	7,154 7,166	6,039 6,051	44,350 44,400	44,400 44,450	7,904 7,916	5,956 5,964	7,904 7,916	6,789 6,801	47,350 47,400	47,400 47,450	8,654 8,666	6,406 6,414	8,654 8,666	7,539 7,551	
41,450 41,500	41,550	7,179 7,191	5,521 5,529	7,179 7,191	6,064 6,076	44,450 44,500	44,500 44,550	7,929 7,941	5,971 5,979	7,929 7,941		47,450 47,500	47,500 47,550	8,679 8,691	6,421 6,429	8,679 8,691	7,564 7,576	
41,550 41,600	41,650	7,204 7,216	5,536 5,544	7,204 7,216	6,089 6,101	44,550 44,600	44,600 44,650	7,954 7,966	5,986 5,994	7,954 7,966	6,839 6,851	47,550 47,600	47,600 47,650	8,704 8,716	6,436 6,444	8,704 8,716	7,589 7,601	
41,650 41,700	41,750	7,229 7,241	5,551 5,559	7,229 7,241	6,114 6,126	44,650 44,700	44,700 44,750	7,979 7,991	6,001 6,009	7,979 7,991	6,864 6,876	47,650 47,700	47,700 47,750	8,729 8,741	6,451 6,459	8,729 8,741	7,614 7,626	
41,750 41,800	41,850	7,254 7,266	5,566 5,574	7,254 7,266	6,139 6,151	44,750 44,800	44,800 44,850	8,004 8,016	6,016 6,024	8,016	6,889 6,901	47,750 47,800	47,800 47,850	8,754 8,766	6,466 6,474	8,754 8,766	7,639 7,651	
41,850 41,900	41,950	7,279 7,291	5,581 5,589 5,596	7,279 7,291	6,164 6,176	44,850 44,900 44,950	44,900 44,950 45,000	8,029 8,041 8,054	6,039	8,029 8,041 8,054	6,914 6,926 6,939	47,850 47,900 47,950	47,900 47,950 48,000	8,779 8,791 8,804	6,481 6,489 6,496	8,779 8,791 8,804	7,664 7,676 7,689	
41,950 42,000 7,304 5,596 7,304 6,189 42,000					<u> </u>	000	6,034	0,040	6,054	0,939	<u> </u>	,000	0,004	7,009				
42,000		7,316	5,604	7,316	6,201		45,050	8,066	6,054	8,066	6,951	48,000	48,050	8,816	6,504	8,816	7,701	
42,050 42,100	42,100 42,150	7,329 7,341	5,611 5,619	7,329 7,341	6,214 6,226	45,050 45,100	45,100 45,150	8,079 8,091	6,061 6,069	8,079 8,091	6,964 6,976	48,050 48,100	48,100 48,150	8,829 8,841	6,511 6,519	8,829 8,841	7,714 7,726	
42,150 42,200		7,354 7,366	5,626 5,634	7,354 7,366	6,239 6,251	45,150 45,200	45,200 45,250	8,104 8,116	6,076 6,084	8,104 8,116	6,989 7,001	48,150 48,200	48,200 48,250	8,854 8,866	6,526 6,534	8,854 8,866	7,739 7,751	
42,250 42,300	42,300	7,379 7,391	5,641 5,649	7,379 7,391	6,264 6,276	45,250 45,300	45,300 45,350	8,129 8,141	6,091 6,099	8,129 8,141	7,014 7,026	48,250 48,300	48,300 48,350	8,879 8,891	6,541 6,549	8,879 8,891	7,764 7,776	
42,350 42,400	•	7,404 7,416	5,656 5,664	7,404 7,416	6,289 6,301	45,350 45,400	45,400 45,450	8,154 8,166	6,106 6,114	8,154 8,166	7,039 7,051	48,350 48,400	48,400 48,450	8,904 8,916	6,556 6,564	8,904 8,916	7,789 7,801	
42,450 42,500	42,500	7,429 7,441	5,671 5,679	7,429 7,441	6,314 6,326	45,450 45,500	45,500 45,550	8,179 8,191	6,121 6,129	8,179 8,191	7,064 7,076	48,450 48,500	48,500 48,550	8,929 8,941	6,571 6,579	8,929 8,941	7,814 7,826	
42,550 42,600	•	7,454 7.466	5,686 5,694	7,454 7,466	6,339 6,351	45,550 45,600	45,600 45,650	8,204 8,216	6,136 6,144	8,204 8,216	7,089 7,101	48,550 48,600	48,600 48,650	8,954 8,966	6,586 6,594	8,954 8,966	7,839 7,851	
42,650 42,700	42,700	7,479 7,491	5,701 5,709	7,479 7,491	6,364 6,376	45,650 45,700	45,700 45,750	8,229 8,241	6,151 6,159	8,229 8,241	7,114 7,126	48,650 48,700	48,700 48,750	8,979 8,991	6,601 6,609	8,979 8,991	7,864 7,876	
42,750 42,800	42,800	7,504 7,516	5,716 5,724	7,504 7,516	6,389 6,401	45,750 45,800	45,800 45,850	8,254 8,266	6,166 6,174	8,254 8,266	7,139 7,151	48,750 48,800	48,800 48,850	9,004 9,016	6,616 6,624	9,004 9,016	7,889 7,901	
42,850 42,900	42,900	7,529 7,541	5,731 5,739	7,529 7,541	6,414 6,426	45,850 45,900	45,900 45,950	8,279 8,291	6,181 6,189	8,279 8,291	7,164 7,176	48,850	48,900 48,950	9,029 9,041	6,631 6,639	9,029 9,041	7,914 7,926	
42,950	43,000 , 000	7,554	5,746	7,554	6,439	45,950	46,000 000	8,304	6,196	8,304	7,189	48,950	49,000	9,054	6,646	9,054	7,939	
		7.500	F 754	7.500	0.454			0.010	0.004	0.010	7.004			0.000	0.054	0.000	7.054	
	43,050 43,100 43,150	7,566 7,579 7,591	5,754 5,761 5,769	7,566 7,579 7,591	6,451 6,464 6,476	46,000 46,050 46,100	46,050 46,100 46,150	8,316 8,329 8,341	6,204 6,211 6,219	8,316 8,329 8,341	7,201 7,214 7,226	49,000 49,050 49,100	49,050 49,100 49,150	9,066 9,079 9,091	6,654 6,661 6,669	9,066 9,079 9,091	7,951 7,964 7,976	
43,150	43,200	7,604	5,776	7,604	6,489	46,150	46,200	8,354	6,226	8,354	7,239	49,150	49,200	9,104	6,676	9,104	7,989	
43,200 43,250 43,300	43,250 43,300 43,350	7,616 7,629 7,641	5,784 5,791 5,799	7,616 7,629 7,641	6,501 6,514 6,526	46,200 46,250 46,300		8,366 8,379 8,391	6,234 6,241 6,249	8,366 8,379 8,391	7,251 7,264 7,276	49,200 49,250 49,300	49,250 49,300 49,350	9,116 9,129 9,141	6,684 6,691 6,699	9,116 9,129 9,141	8,001 8,014 8,026	
43,350	43,400	7,654	5,806	7,654	6,539	46,350	46,400	8,404	6,256	8,404	7,289	49,350	49,400	9,154	6,706	9,154	8,039	
43,400 43,450	43,500	7,666 7,679	5,814 5,821	7,666 7,679 7,601	6,551 6,564 6,576	46,400 46,450	46,450 46,500	8,416 8,429	6,264 6,271	8,416 8,429	7,301 7,314 7,326	49,400 49,450 49,500	49,450 49,500 49,550	9,166 9,179 9,191	6,714 6,721 6,729	9,166 9,179 9,191	8,051 8,064 8,076	
43,550		7,691 7,704	5,829 5,836	7,691 7,704	6,576 6,589	46,500 46,550	46,600	8,441 8,454	6,279 6,286	8,441 8,454	7,326 7,339	49,550	49,600	9,204	6,736	9,204	8,089	
43,650	43,650 43,700	7,716 7,729	5,844 5,851	7,716 7,729	6,601 6,614	46,600 46,650	46,700	8,466 8,479	6,294 6,301	8,466 8,479	7,351 7,364	49,600 49,650	49,650 49,700	9,216 9,229	6,744 6,751	9,216 9,229	8,101 8,114	
43,700 43,750	43,800	7,741 7,754	5,859 5,866	7,741 7,754	6,626 6,639	46,700 46,750		8,491 8,504	6,309 6,316	8,491 8,504	7,376 7,389	49,700 49,750	49,750 49,800	9,241 9,254	6,759 6,766	9,241 9,254	8,126 8,139	
43,800 43,850	43,900	7,766 7,779	5,874 5,881	7,766 7,779	6,651 6,664	46,800 46,850		8,516 8,529	6,324 6,331	8,516 8,529	7,401 7,414	49,800 49,850	49,850 49,900	9,266 9,279	6,774 6,781	9,266 9,279	8,151 8,164	
43,900	43,950 44,000	7,791 7,804	5,889 5,896	7,791 7,804	6,676 6,689	46,900 46,950		8,541 8,554	6,339 6,346	8,541 8,554	7,426 7,439	49,900 49,950	49,950 50,000	9,291 9,304	6,789 6,796	9,291 9,304	8,176 8,189	
* This c	olumn m	ust also	be used	by a qu	ualifying	widow(e	er).								(Contin	ued on p	age 69)	

								ı					200)3 Tax	Table	_Cont	inued		
If line 40 (taxable income) is—			And ye	ou are—		If line (taxab incom			And ye	ou are–	-	If line (taxal incom		And you are—					
At least	But less than	Single	Married filing jointly *	Married filing sepa-rately	Head of a house- hold	At least	But less than	Single	Married filing jointly *	Married filing sepa-rately	d Head of a house- hold	At least	But less than	Single	Married filing jointly *	Married filing sepa- rately tax is—	Head of a house- hold		
50,	000					53,	000					56,000							
50,000 50,050 50,100 50,150	50,100 50,150	9,316 9,329 9,341 9,354	6,804 6,811 6,819 6,826	9,316 9,329 9,341 9,354	8,201 8,214 8,226 8,239	53,000 53,050 53,100 53,150	53,050 53,100 53,150 53,200	10,066 10,079 10,091 10,104	7,254 7,261 7,269 7,276	10,066 10,079 10,091 10,104	8,951 8,964 8,976 8,989	56,000 56,050 56,100 56,150	56,050 56,100 56,150 56,200	10,816 10,829 10,841 10,854	7,704 7,711 7,719 7,726	10,816 10,829 10,841 10,854	9,701 9,714 9,726 9,739		
50,200 50,250 50,300 50,350		9,366 9,379 9,391 9,404	6,834 6,841 6,849 6,856	9,366 9,379 9,391 9,404	8,251 8,264 8,276 8,289	53,200 53,250 53,300 53,350	53,250 53,300 53,350 53,400	10,116 10,129 10,141 10,154	7,284 7,291 7,299 7,306	10,116 10,129 10,141 10,154	9,001 9,014 9,026 9,039	56,200 56,250 56,300 56,350	56,250 56,300 56,350 56,400	10,866 10,879 10,891 10,904	7,734 7,741 7,749 7,756	10,866 10,879 10,891 10,904	9,751 9,764 9,776 9,789		
50,400 50,450 50,500 50,550	50,550	9,416 9,429 9,441 9,454	6,864 6,871 6,879 6,886	9,416 9,429 9,441 9,454	8,301 8,314 8,326 8,339	53,400 53,450 53,500 53,550	53,450 53,500 53,550 53,600	10,166 10,179 10,191 10,204		10,166 10,179 10,191 10,204	9,051 9,064 9,076 9,089	56,400 56,450 56,500 56,550	56,450 56,500 56,550 56,600	10,916 10,929 10,941 10,954	7,764 7,771 7,779 7,786	10,916 10,929 10,941 10,954	9,801 9,814 9,826 9,839		
50,600 50,650 50,700 50,750		9,466 9,479 9,491 9,504	6,894 6,901 6,909 6,916	9,466 9,479 9,491 9,504	8,351 8,364 8,376 8,389	53,600 53,650 53,700 53,750	53,650 53,700 53,750 53,800	10,216 10,229 10,241 10,254	7,344 7,351 7,359 7,366	10,216 10,229 10,241 10,254	9,101 9,114 9,126 9,139	56,600 56,650 56,700 56,750	56,650 56,700 56,750 56,800	10,966 10,979 10,991 11,004	7,794 7,801 7,809 7,816	10,966 10,979 10,991 11,004	9,851 9,864 9,876 9,889		
50,800 50,850 50,900 50,950	50,900	9,516 9,529 9,541 9,554	6,924 6,931 6,939 6,946	9,516 9,529 9,541 9,554	8,401 8,414 8,426 8,439	53,800 53,850 53,900 53,950	53,850 53,900 53,950 54,000	10,266 10,279 10,291 10,304	7,374 7,381 7,389 7,396	10,266 10,279 10,291 10,304	9,151 9,164 9,176 9,189	56,800 56,850 56,900 56,950	56,850 56,900 56,950 57,000	11,016 11,029 11,041 11,054	7,839 7,851	11,016 11,029 11,041 11,054	9,901 9,914 9,926 9,939		
51,	000					54,	000					57,	000	,					
51,000 51,050 51,100 51,150	51,150	9,566 9,579 9,591 9,604	6,954 6,961 6,969 6,976	9,566 9,579 9,591 9,604	8,451 8,464 8,476 8,489	54,000 54,050 54,100 54,150	54,050 54,100 54,150 54,200	10,316 10,329 10,341 10,354	7,404 7,411 7,419 7,426	10,316 10,329 10,341 10,354	9,201 9,214 9,226 9,239	57,000 57,050 57,100 57,150	57,050 57,100 57,150 57,200	11,066 11,079 11,091 11,104	7,889	11,066 11,079 11,091 11,104	9,951 9,964 9,976 9,989		
		9,616 9,629 9,641 9,654	6,984 6,991 6,999 7,006	9,616 9,629 9,641 9,654	8,501 8,514 8,526 8,539	54,200 54,250 54,300 54,350	54,250 54,300 54,350 54,400	10,366 10,379 10,391 10,404	7,441 7,449	10,366 10,379 10,391 10,404	9,251 9,264 9,276 9,289	57,200 57,250 57,300 57,350	57,250 57,300 57,350 57,400	11,116 11,129 11,141 11,154	7,926 7,939 7,951 7,964	11,116 11,129 11,141 11,155	10,014 10,026		
51,400 51,450 51,500 51,550	51,500 51,550	9,666 9,679 9,691 9,704	7,014 7,021 7,029 7,036	9,666 9,679 9,691 9,704	8,551 8,564 8,576 8,589	54,400 54,450 54,500 54,550	54,450 54,500 54,550 54,600	10,416 10,429 10,441 10,454	7,464 7,471 7,479 7,486	10,416 10,429 10,441 10,454	9,301 9,314 9,326 9,339	57,400 57,450 57,500 57,550	57,450 57,500 57,550 57,600	11,166 11,179 11,191 11,204	7,976 7,989 8,001 8,014	11,169 11,183 11,197 11,211	10,076		
51,600 51,650 51,700 51,750	51,700 51,750 51,800	9,716 9,729 9,741 9,754	7,044 7,051 7,059 7,066	9,716 9,729 9,741 9,754	8,601 8,614 8,626 8,639	54,600 54,650 54,700 54,750	54,650 54,700 54,750 54,800	10,466 10,479 10,491 10,504	7,494 7,501 7,509 7,516	10,466 10,479 10,491 10,504	9,351 9,364 9,376 9,389	57,600 57,650 57,700 57,750	57,650 57,700 57,750 57,800	11,216 11,229 11,241 11,254	8,026 8,039 8,051 8,064	11,239 11,253	10,101 10,114 10,126 10,139		
51,900 51,950	51,900 51,950 52,000		7,074 7,081 7,089 7,096	9,766 9,779 9,791 9,804	8,651 8,664 8,676 8,689	54,950	54,850 54,900 54,950 55,000	10,516 10,529 10,541 10,554	7,524 7,531 7,539 7,546	10,516 10,529 10,541 10,554	9,401 9,414 9,426 9,439	57,950	57,850 57,900 57,950 58,000	11,266 11,279 11,291 11,304	8,089 8,101	11,281 11,295 11,309 11,323	10,164 10,176		
52,	000					55,	000					58,	,000						
52,050 52,100	52,050 52,100 52,150 52,200	9,816 9,829 9,841 9,854	7,104 7,111 7,119 7,126	9,816 9,829 9,841 9,854	8,701 8,714 8,726 8,739	55,050 55,100	55,050 55,100 55,150 55,200	10,579	7,561 7,569	10,566 10,579 10,591 10,604	9,451 9,464 9,476 9,489	58,050	58,050 58,100 58,150 58,200	11,316 11,329 11,341 11,354	8,139 8,151	11,337 11,351 11,365 11,379	10,214 10,226		
52,250 52,300	52,250 52,300 52,350 52,400	9,866 9,879 9,891 9,904	7,134 7,141 7,149 7,156	9,866 9,879 9,891 9,904	8,751 8,764 8,776 8,789	55,200 55,250 55,300 55,350	55,300 55,350	10,616 10,629 10,641 10,654	7,584 7,591 7,599	10,616 10,629 10,641 10,654	9,501 9,514 9,526 9,539	58,200 58,250 58,300 58,350	58,250 58,300 58,350 58,400	11,366 11,379 11,391 11,404	8,189 8,201	11,393 11,407 11,421 11,435	10,264 10,276		
52,450 52,500 52,550	52,450 52,500 52,550 52,600	9,916 9,929 9,941 9,954	7,164 7,171 7,179 7,186	9,916 9,929 9,941 9,954	8,801 8,814 8,826 8,839	55,500	55,450 55,500 55,550 55,600	10,666 10,679 10,691 10,704	7,621 7,629	10,666 10,679 10,691 10,704	9,551 9,564 9,576 9,589	58,400 58,450 58,500 58,550	58,450 58,500 58,550 58,600	11,416 11,429 11,441 11,454	8,239 8,251	11,449 11,463 11,477 11,491	10,314 10,326		
52,650 52,700	52,650 52,700 52,750 52,800	9,966 9,979 9,991 10,004	7,194 7,201 7,209 7,216	9,966 9,979 9,991 10,004	8,851 8,864 8,876 8,889	55,650 55,700	55,650 55,700 55,750 55,800	10,716 10,729 10,741 10,754	7,651 7,659	10,716 10,729 10,741 10,754	9,601 9,614 9,626 9,639	58,600 58,650 58,700 58,750	58,650 58,700 58,750 58,800	11,466 11,479 11,491 11,504	8,289 8,301	11,505 11,519 11,533 11,547	10,364 10,376		
52,850 52,900	52,850 52,900 52,950 53,000	10,016 10,029 10,041 10,054	7,231 7,239	10,016 10,029 10,041 10,054	8,901 8,914 8,926 8,939	55,900	55,900 55,950	10,766 10,779 10,791 10,804	7,681 7,689	10,766 10,779 10,791 10,804	9,651 9,664 9,676 9,689	58,800 58,850 58,900 58,950	58,850 58,900 58,950 59,000	11,516 11,529 11,541 11,554	8,339 8,351	11,561 11,575 11,589 11,603	10,414 10,426		
* This c	,950 53,000 10,054 7,246 10,054 8,939 55,950 56,000 10,804 7,696 10,804 9,689 his column must also be used by a qualifying widow(er).												(Continued on page 70)						

2003 Tax Table—Continued																		
If line 40 (taxable income)	,		And y	ou are–	-	If line (taxab incom	le		And yo	ou are–	-	If line (taxal incom		And you are—				
At least	But less than	Single	Married filing jointly *	Married filing sepa- rately tax is—	Head of a house- hold	At least	But less than	Single	Married filing jointly	Married filing sepa- rately	Head of a house- hold	At least	But less than	Single	Married filing jointly *	Married filing sepa-rately tax is—	Head of a house- hold	
59,	000					62,	000					65,000						
59,000 59,050 59,100 59,150	59,050 59,100 59,150 59,200	11,566 11,579 11,591 11,604	8,389	11,617 11,631 11,645 11,659	10,464 10,476	62,050	62,050 62,100 62,150 62,200	12,316 12,329 12,341 12,354	9,139 9,151	12,457 12,471 12,485 12,499	11,214 11,226	65,000 65,050 65,100 65,150	65,050 65,100 65,150 65,200	13,066 13,079 13,091 13,104	9,889	13,297 13,311 13,325 13,339	11,964 11,976	
59,200 59,250 59,300 59,350	59,250 59,300 59,350 59,400	11,616 11,629 11,641 11,654		11,673 11,687 11,701 11,715	10,501 10,514 10,526	62,200 62,250 62,300 62,350	62,250 62,300 62,350 62,400	12,366 12,379 12,391 12,404	9,176 9,189 9,201	12,513 12,527 12,541 12,555	11,251 11,264 11,276	65,200 65,250 65,300 65,350	65,250 65,300 65,350 65,400	13,116 13,129 13,141 13,154		13,353 13,367 13,381 13,395	12,001 12,014 12,026	
59,400 59,450 59,500 59,550	59,450 59,500 59,550 59,600	11,666 11,679 11,691 11,704	8,476 8,489 8,501	11,729 11,743 11,757 11,771	10,551 10,564 10,576	62,400 62,450 62,500 62,550	62,450 62,500 62,550 62,600	12,416 12,429 12,441 12,454	9,226 9,239 9,251	12,569 12,583 12,597 12,611	11,301 11,314 11,326	65,400 65,450 65,500 65,550	65,450 65,500 65,550 65,600	13,166 13,179 13,191	9,976 9,989 10,001	13,409 13,423 13,437 13,451	12,051 12,064 12,076	
59,600 59,650 59,700 59,750	59,650 59,700 59,750 59,800	11,716 11,729 11,741 11,754	8,526 8,539 8,551 8,564	11,785 11,799 11,813 11,827	10,614 10,626	62,600 62,650 62,700 62,750	62,650 62,700 62,750 62,800	12,466 12,479 12,491 12,504	9,289 9,301	12,625 12,639 12,653 12,667	11,364 11,376	65,600 65,650 65,700 65,750	65,650 65,700 65,750 65,800	13,229	10,039 10,051	13,465 13,479 13,493 13,507	12,114 12,126	
59,800 59,850 59,900 59,950	59,850 59,900 59,950 60,000	11,766 11,779 11,791 11,804	8,576 8,589 8,601 8,614	11,841 11,855 11,869 11,883	10,664 10,676	62,800 62,850 62,900 62,950	62,850 62,900 62,950 63,000	12,516 12,529 12,541 12,554	9,326 9,339 9,351 9,364	12,681 12,695 12,709 12,723	11,414 11,426	65,800 65,850 65,900 65,950	65,850 65,900 65,950 66,000		10,089 10,101	13,521 13,535 13,549 13,563	12,164 12,176	
60,	000					63,000						66,000						
60,000 60,050 60,100 60,150	60,050 60,100 60,150 60,200	11,816 11,829 11,841 11,854	8,639 8,651	11,897 11,911 11,925 11,939	10,714 10,726		63,050 63,100 63,150 63,200	12,566 12,579 12,591 12,604	9,389 9,401	12,737 12,751 12,765 12,779	11,464 11,476	66,000 66,050 66,100 66,150	66,050 66,100 66,150 66,200	13,329 13,341	10,139 10,151	13,577 13,591 13,605 13,619	12,214 12,226	
60,200 60,250 60,300 60,350	60,250 60,300 60,350 60,400	11,866 11,879 11,891 11,904		11,953 11,967 11,981 11,995	10,764 10,776	63,200 63,250 63,300 63,350	63,250 63,300 63,350 63,400	12,616 12,629 12,641 12,654	9,439 9,451	12,793 12,807 12,821 12,835	11,514 11,526	66,200 66,250 66,300 66,350	66,250 66,300 66,350 66,400	13,379 13,391	10,189 10,201	13,633 13,647 13,661 13,675	12,264 12,276	
60,400 60,450 60,500 60,550	60,450 60,500 60,550 60,600	11,916 11,929 11,941 11,954	8,726 8,739 8,751 8,764	12,009 12,023 12,037 12,051	10,814 10,826	63,400 63,450 63,500 63,550	63,450 63,500 63,550 63,600	12,666 12,679 12,691 12,704	9,489 9,501	12,849 12,863 12,877 12,891	11,564 11,576	66,400 66,450 66,500 66,550	66,450 66,500 66,550 66,600	13,429 13,441	10,239	13,689 13,703 13,717 13,731	12,314 12,326	
60,600 60,650 60,700 60,750	60,650 60,700 60,750 60,800	11,966 11,979 11,991 12,004	8,776 8,789 8,801 8,814	12,065 12,079 12,093 12,107	10,864 10,876	63,600 63,650 63,700 63,750	63,650 63,700 63,750 63,800	12,716 12,729 12,741 12,754	9,539 9,551	12,905 12,919 12,933 12,947	11,614 11,626	66,600 66,650 66,700 66,750	66,650 66,700 66,750 66,800	13,479 13,491	10,301	13,745 13,759 13,773 13,787	12,364 12,376	
60,950	60,850 60,900 60,950 61,000		8,839 8,851	12,121 12,135 12,149 12,163	10,914 10,926	63,900 63,950	63,850 63,900 63,950 64,000	12,766 12,779 12,791 12,804	9,589 9,601	12,961 12,975 12,989 13,003	11,664 11.676	66,950	66,850 66,900 66,950 67,000	13,529 13,541	10,339 10,351	13,801 13,815 13,829 13,843	12,414 12,426	
61,	000					64,	000					67,	,000	<u> </u>				
61,050	61,050 61,100 61,150 61,200	12,066 12,079 12,091 12,104	8,889 8,901	12,177 12,191 12,205 12,219	10,964 10,976	64,050 64,100	64,050 64,100 64,150 64,200	12,816 12,829 12,841 12,854	9,639 9,651	13,017 13,031 13,045 13,059	11,714 11,726	67,050	67,050 67,100 67,150 67,200	13,579 13,591	10,389 10,401	13,857 13,871 13,885 13,899	12,464 12,476	
61,250 61,300	61,250 61,300 61,350 61,400	12,116 12,129 12,141 12,154	8,939 8,951	12,233 12,247 12,261 12,275	11,014 11,026	64,250 64,300 64,350	64,250 64,300 64,350 64,400	12,866 12,879 12,891 12,904	9,689 9,701	13,073 13,087 13,101 13,115	11,764 11,776	67,250 67,300 67,350	67,300	13,629 13,641	10,439 10,451	13,913 13,927 13,941 13,955	12,514 12,526	
61,500 61,550	61,500 61,550 61,600	12,166 12,179 12,191 12,204	8,989 9,001 9,014	12,289 12,303 12,317 12,331	11,064 11,076 11,089	64,450 64,500 64,550	64,450 64,500 64,550 64,600	12,916 12,929 12,941 12,954	9,739 9,751 9,764	13,129 13,143 13,157 13,171	11,814 11,826 11,839	67,550	67,450 67,500 67,550 67,600	13,679 13,691 13,704	10,489 10,501 10,514	13,969 13,983 13,997 14,011	12,564 12,576 12,589	
61,650 61,700 61,750	61,650 61,700 61,750 61,800	12,216 12,229 12,241 12,254	9,039 9,051 9,064	12,345 12,359 12,373 12,387	11,114 11,126 11,139	64,650 64,700 64,750	64,650 64,700 64,750 64,800	12,966 12,979 12,991 13,004	9,789 9,801 9,814	13,185 13,199 13,213 13,227	11,864 11,876 11,889	67,700 67,750	67,750 67,800	13,729 13,741 13,754	10,539 10,551 10,564	14,025 14,039 14,053 14,067	12,614 12,626 12,639	
61,900	61,850 61,900 61,950 62,000	12,266 12,279 12,291 12,304	9,089 9,101	12,401 12,415 12,429 12,443	11,164 11,176	64,850 64,900	64,850 64,900 64,950 65,000		9,839	13,241 13,255 13,269 13,283	11,914 11,926	67,900	67,850 67,900 67,950 68,000	13,779 13,791	10,589 10,601	14,081 14,095 14,109 14,123	12,664 12,676	
* This co	olumn m	ust also	be used	d by a q	ualifying	widow(e	r).								(Contin	ued on p	age 71)	

													200)3 Tax	Table	—Con	tinued
If line 4 (taxable income	•		And y	ou are–	_	If line (taxab incom	le		And y	ou are–	_	If line (taxat incom			And yo	ou are—	-
At least	But less than	Single	Married filing jointly	Married filing sepa- rately tax is—	Head of a house- hold	At least	But less than	Single	Married filing jointly	Married filing sepa-rately	Head of a house- hold	At least	But less than	Single	Married filing jointly *	Married filing sepa-rately tax is—	Head of a house- hold
68,	,000					71,	000					74,	000				
68,000 68,050 68,100 68,150	68,100 68,150	13,829 13,841	10,639 10,651	14,137 14,151 14,165 14,179	12,714 12,726	71,050	71,050 71,100 71,150 71,200	14,647 14,661	11,389 11,401	14,977 14,991 15,005 15,019	13,464 13,476	74,000 74,050 74,100 74,150		15,487 15,501	12,139 12,151	15,817 15,831 15,845 15,859	14,214 14,226
68,200 68,250 68,300 68,350	68,300 68,350	13,879 13,891	10,676 10,689 10,701 10,714	14,193 14,207 14,221 14,235	12,764 12,776	71,200 71,250 71,300 71,350	71,250 71,300 71,350 71,400	14,703 14,717 14,731			13,514 13,526 13,539	74,200 74,250 74,300 74,350	74,250 74,300 74,350 74,400	15,543 15,557 15,571	12,189 12,201 12,214	15,873 15,887 15,901 15,915	14,264 14,276 14,289
68,400 68,450 68,500 68,550	68,500 68,550 68,600	13,929 13,941 13,954	10,739 10,751 10,764	14,249 14,263 14,277 14,291	12,814 12,826 12,839	71,400 71,450 71,500 71,550	71,450 71,500 71,550 71,600	14,759 14,773 14,787	11,489 11,501 11,514	15,089 15,103 15,117 15,131	13,564 13,576 13,589	1 1	74,600	15,599 15,613 15,627	12,239 12,251 12,264	15,929 15,943 15,957 15,971	14,314 14,326 14,339
68,600 68,650 68,700 68,750	68,700 68,750 68,800	13,979 13,991 14,004	10,789 10,801 10,814	14,305 14,319 14,333 14,347	12,864 12,876 12,889	71,600 71,650 71,700 71,750 71,800	71,650 71,700 71,750 71,800 71,850	14,815 14,829 14,843	11,551	15,145 15,159 15,173 15,187 15,201	13,626 13,639	74,600 74,650 74,700 74,750 74,800	74,650 74,700 74,750 74,800 74,850	15,655 15,669 15,683	12,289 12,301 12,314	15,985 15,999 16,013 16,027 16,041	14,364 14,376 14,389
68,800 68,850 68,900 68,950	68,900 68,950 69,000	14,031 14,045	10,839 10,851	14,361 14,375 14,389 14,403	12,914 12,926	71,850 71,900 71,950	71,900 71,950 72,000	14,871 14,885	11,589 11,601		13,664 13,676	74,850 74,900 74,950	74,900 74,950 75,000	15,711 15,725	12,339 12,351	16,055 16,069 16,083	14,414 14,426
69,	,000					72,	000	,				75,	000				
69,000 69,050 69,100 69,150	69,150	14,087 14,101	10,889 10,901	14,417 14,431 14,445 14,459	12,964 12,976	72,050	72,050 72,100 72,150 72,200	14,927 14,941	11,639 11,651	15,257 15,271 15,285 15,299	13,714 13,726	75,050	75,050 75,100 75,150 75,200	15,767 15,781	12,389 12,401	16,097 16,111 16,125 16,139	14,464 14,476
69,200 69,250 69,300 69,350	69,300 69,350	14,143 14,157	10,939 10,951	14,473 14,487 14,501 14,515	13,014 13,026	72,200 72,250 72,300 72,350	72,250 72,300 72,350 72,400	14,983 14,997	11,689 11,701	15,313 15,327 15,341 15,355	13,764 13,776	75,200 75,250 75,300 75,350	75,250 75,300 75,350 75,400	15,823 15,837	12,439 12,451	16,153 16,167 16,181 16,195	14,514 14,526
69,400 69,450 69,500 69,550	69,500 69,550	14,199 14,213	10,989 11,001	14,529 14,543 14,557 14,571	13,064 13,076	72,400 72,450 72,500 72,550		15,039 15,053 15,067	11,739 11,751 11,764	15,369 15,383 15,397 15,411	13,814 13,826 13,839	75,400 75,450 75,500 75,550		15,879 15,893 15,907	12,489 12,501 12,514	16,209 16,223 16,237 16,251	14,564 14,576 14,589
69,600 69,650 69,700 69,750	69,700 69,750	14,255 14,269	11,039 11,051	14,585 14,599 14,613 14,627	13,114 13,126	72,600 72,650 72,700 72,750	72,650 72,700 72,750 72,800	15,095 15,109 15,123	11,789 11,801 11,814	15,425 15,439 15,453 15,467	13,864 13,876 13,889	75,600 75,650 75,700 75,750		15,935 15,949 15,963	12,539 12,551 12,564	16,265 16,279 16,293 16,307	14,614 14,626 14,639
69,950	69,900 69,950 70,000	14,311 14,325	11,089 11,101	14,641 14,655 14,669 14,683	13,164 13,176	72,900 72,950	73,000	15,151 15,165	11,839 11,851	15,481 15,495 15,509 15,523	13,914 13,926	75,850 75,900 75,950	75,850 75,900 75,950 76,000	15,991 16,005	12,589 12,601	16,321 16,335 16,349 16,363	14,664 14,676
70,	,000					73,	000	I				76,	000	I			
70,050 70,100	70,050 70,100 70,150 70,200	14,367 14,381	11,139 11,151	14,697 14,711 14,725 14,739	13,214 13,226	73,050 73,100	73,050 73,100 73,150 73,200	15,207 15,221	11,889 11,901	15,537 15,551 15,565 15,579	13,964 13,976	76,050 76,100	76,050 76,100 76,150 76,200	16,047 16,061	12,639 12,651	16,377 16,391 16,405 16,419	14,714 14,726
70,250 70,300	70,250 70,300 70,350 70,400	14,423 14,437	11,189 11,201	14,753 14,767 14,781 14,795	13,264 13,276	73,250 73,300 73,350	73,250 73,300 73,350 73,400	15,263 15,277 15,291	11,939 11,951 11,964	15,593 15,607 15,621 15,635	14,014 14,026 14,039	76,250 76,300 76,350	76,250 76,300 76,350 76,400	16,103 16,117 16,131	12,689 12,701 12,714	16,433 16,447 16,461 16,475	14,764 14,776 14,789
	70,500 70,550	14,479 14,493	11,239 11,251	14,809 14,823 14,837 14,851	13,314 13,326	73,450 73,500 73,550	73,450 73,500 73,550 73,600	15,319 15,333 15,347	11,989 12,001 12,014	15,649 15,663 15,677 15,691	14,064 14,076 14,089	76,450 76,500 76,550	76,450 76,500 76,550 76,600	16,159 16,173 16,187	12,739 12,751 12,764	16,489 16,503 16,517 16,531	14,814 14,826 14,839
70,600 70,650 70,700 70,750	70,700 70,750	14,535 14,549 14,563	11,289 11,301 11,314	14,865 14,879 14,893 14,907	13,364 13,376 13,389	73,650 73,700 73,750	73,650 73,700 73,750 73,800	15,375 15,389 15,403	12,039 12,051 12,064	15,705 15,719 15,733 15,747	14,114 14,126 14,139	76,650 76,700 76,750	76,650 76,700 76,750 76,800	16,215 16,229 16,243	12,789 12,801 12,814	16,545 16,559 16,573 16,587	14,864 14,876 14,889
70,850 70,900	70,850 70,900 70,950 71,000	14,591 14,605	11,339 11,351	14,921 14,935 14,949 14,963	13,414 13,426	73,900	73,850 73,900 73,950 74,000	15,431 15,445	12,089 12,101	15,761 15,775 15,789 15,803	14,164 14,176	76,850 76,900	76,850 76,900 76,950 77,000	16,271 16,285	12,839 12,851	16,601 16,615 16,629 16,643	14,914 14,926
* This co	0,950 71,000 14,619 11,364 14,963 13,439 73,950 74,000 15,459 12,114 15,803 14,189 76,950 77,000 16,299 12,864 16,643 14,939 [This column must also be used by a qualifying widow(er). (Continued on page 72)																

2003 1	ax Tab	ole—C	ontinue	ed													
If line 40 (taxable income))		And y	ou are-	-	If line (taxab incom	le		And ye	ou are–	-	If line (taxab incom			And yo	u are—	
At least	But less than	Single	Married filing jointly	Married filing sepa-rately	Head of a house- hold	At least	But less than	Single	Married filing jointly	Married filing sepa- rately	Head of a house- hold	At least	But less than	Single	Married filing jointly *	Married filing separately tax is—	Head of a house- hold
77,	000					80,	000					83,000					
77,000 77,050 77,100 77,150 77,200 77,250 77,300 77,350		16,327 16,341 16,355 16,369 16,383 16,397	12,876 12,889 12,901 12,914 12,926 12,939 12,951 12,964	16,657 16,671 16,685 16,699 16,713 16,727 16,741 16,755	14,964 14,976 14,989 15,001 15,014 15,026			17,167 17,181 17,195 17,209 17,223 17,237	13,626 13,639 13,651 13,664 13,676 13,689 13,701 13,714	17,511 17,525 17,539 17,553 17,567 17,581	15,714 15,726 15,739 15,751 15,764 15,776	83,050 83,100 83,150 83,200 83,250 83,300		18,007 18,021 18,035 18,049 18,063 18,077	14,389 14,401 14,414 14,426 14,439 14,451	18,337 18,351 18,365 18,379 18,393 18,407 18,421	16,464 16,476 16,489 16,501 16,514 16,526
77,400 77,450 77,500	77,450 77,500	16,425 16,439 16,453 16,467 16,481 16,495 16,509	12,976 12,989 13,001	16,769 16,783 16,797 16,811 16,825 16,839 16,853 16,867	15,051 15,064 15,076 15,089 15,101 15,114 15,126	80,400 80,450 80,500 80,550 80,600 80,650 80,700 80,750	80,450 80,500 80,550	17,265 17,279 17,293 17,307 17,321 17,335 17,349	13,726 13,739 13,751 13,764 13,776 13,789 13,801 13,814	17,609 17,623 17,637 17,651 17,665 17,679 17,693	15,801 15,814 15,826 15,839 15,851 15,864 15,876	83,350 83,450 83,450 83,550 83,550 83,650 83,750 83,750	83,750	18,105 18,119 18,133 18,147 18,161 18,175 18,189	14,489 14,501 14,514 14,526 14,539 14,551	18,435 18,449 18,463 18,477 18,491 18,505 18,519 18,533 18,547	16,551 16,564 16,576 16,589 16,601 16,614 16,626
77,800 77,850 77,900 77,950	77,850 77,900 77,950 78,000	16,537 16,551 16,565	13,076 13,089 13,101	16,881 16,895 16,909 16,923	15,164 15,176	80,800 80,850 80,900 80,950	80,850 80,900 80,950 81,000	17,377 17,391 17,405	13,826	17,721 17,735 17,749	15,901 15,914 15,926	83,800 83,850 83,900 83,950	83,850 83,900 83,950 84,000	18,217 18,231 18,245	14,576 14,589 14,601	18,561 18,575 18,589 18,603	16,651 16,664 16,676
78,	000					81,	000					84,	000	ı			
78,000 78,050 78,100 78,150	78,150 78,200	16,607 16,621	13,139 13,151	16,937 16,951 16,965 16,979	15,214 15,226	81,050 81,100	81,050 81,100 81,150 81,200	17,447 17,461	13,876 13,889 13,901 13,914	17,791 17,805	15,964 15,976		84,050 84,100 84,150 84,200	18,287 18,301	14,639 14,651	18,617 18,631 18,645 18,659	16,714 16,726
78,200 78,250 78,300 78,350	78,250 78,300 78,350 78,400	16,663 16,677 16,691	13,201 13,214	16,993 17,007 17,021 17,035	15,264 15,276 15,289	81,250 81,300	81,250 81,300 81,350 81,400	17,503 17,517	13,926 13,939 13,951 13,964	17,847 17,861	16,014 16,026	84,200 84,250 84,300 84,350	84,400	18,343 18,357 18,371	14,689 14,701 14,714	18,673 18,687 18,701 18,715	16,764 16,776 16,789
78,400 78,450 78,500 78,550	78,450 78,500 78,550 78,600	16,719 16,733 16,747	13,239 13,251 13,264	17,049 17,063 17,077 17,091	15,314 15,326 15,339	81,400 81,450 81,500 81,550	81,500 81,550 81,600	17,559 17,573 17,587	13,976 13,989 14,001 14,014	17,903 17,917 17,931	16,064 16,076 16,089	84,400 84,450 84,500 84,550	84,450 84,500 84,550 84,600	18,399 18,413 18,427	14,739 14,751 14,764	18,729 18,743 18,757 18,771	16,814 16,826 16,839
78,600 78,650 78,700 78,750	78,650 78,700 78,750 78,800	16,775 16,789 16,803	13,289 13,301 13,314	17,119 17,133 17,147	15,364 15,376 15,389	81,700 81,750	81,650 81,700 81,750 81,800	17,615 17,629 17,643	14,026 14,039 14,051 14,064	17,959 17,973 17,987	16,114 16,126 16,139	84,600 84,650 84,700 84,750	84,650 84,700 84,750 84,800	18,455 18,469 18,483	14,801 14,814	18,813 18,827	16,864 16,876 16,889
	78,850 78,900 78,950 79,000	16,831 16,845	13,339 13,351	17,161 17,175 17,189 17,203	15,414 15,426	81,850 81,900	81,850 81,900 81,950 82,000	17,671 17,685	14,076 14,089 14,101 14,114	18,015 18,029	16,164 16,176	84,900	84,850 84,900 84,950 85,000	18,511 18,525	14,839 14,851		16,914 16,926
79,	000					82,	000					85,	000	I			
79,050 79,100	79,050 79,100 79,150 79,200	16,887 16,901	13,389 13,401	17,217 17,231 17,245 17,259	15,464 15,476	82,050 82,100	82,050 82,100 82,150 82,200	17,727 17,741	14,126 14,139 14,151 14,164	18,071 18,085	16,214 16,226	85,050 85,100	85,050 85,100 85,150 85,200	18,567 18,581	14,889 14,901	18,897 18,911 18,925 18,939	16,964 16,976
	79,300 79,350	16,943 16,957	13,439 13,451	17,273 17,287 17,301 17,315	15,514 15,526	82,250 82,300 82,350	82,250 82,300 82,350 82,400	17,783 17,797	14,176 14,189 14,201 14,214	18,127 18,141	16,264 16,276	85,250 85,300	85,250 85,300 85,350 85,400	18,623 18,637	14,939 14,951	18,953 18,967 18,981 18,995	17,014 17,026
79,550	79,500 79,550 79,600	16,999 17,013 17,027	13,489 13,501 13,514	17,329 17,343 17,357 17,371	15,564 15,576 15,589	82,450 82,500 82,550	82,450 82,500 82,550 82,600	17,839 17,853 17,867	14,226 14,239 14,251 14,264	18,183 18,197 18,211	16,314 16,326 16,339	85,500 85,550	85,500 85,550 85,600	18,679 18,693 18,707	14,989 15,001 15,014	19,009 19,023 19,037 19,051	17,064 17,076 17,089
79,700 79,750	79,700 79,750 79,800	17,055 17,069 17,083	13,539 13,551 13,564	17,385 17,399 17,413 17,427	15,614 15,626 15,639	82,650 82,700 82,750	82,650 82,700 82,750 82,800	17,895 17,909 17,923	14,276 14,289 14,301 14,314	18,239 18,253 18,267	16,364 16,376 16,389	85,650 85,700 85,750	85,650 85,700 85,750 85,800	18,735 18,749 18,763	15,039 15,051 15,064	19,065 19,079 19,093 19,107	17,114 17,126 17,139
		17,111 17,125	13,589 13,601	17,441 17,455 17,469 17,483	15,664 15,676	82,850 82,900	82,850 82,900 82,950 83,000	17,951 17,965	14,326 14,339 14,351 14,364	18,295 18,309	16,414 16,426	85,850 85,900	85,850 85,900 85,950 86,000	18,791 18,805	15,089 15,101	19,121 19,135 19,149 19,163	17,164 17,176
* This co	olumn m	ust also	be used	d by a q	ualifying	widow(e	r).				_			_	(Contin	ued on p	age 73)

APPENDIX

													200	<u> 3 1ax</u>	lable	—Cont	<u>inued</u>
If line 4 (taxable income)	,		And y	ou are-	-	If line (taxab incom	le		And y	ou are–	-	If line (taxab incom			And yo	ou are—	
At least	But less than	Single	Married filing jointly *	Married filing sepa- rately tax is—	Head of a house- hold	At least	But less than	Single	Married filing jointly *	Married filing sepa-rately	Head of a house- hold	At least	But less than	Single	Married filing jointly *	Married filing sepa-rately tax is—	Head of a house- hold
86,	000					89,	000	ı				92,	000				
86,000 86,050 86,100 86,150	86,050 86,100 86,150 86,200	18,847 18,861	15,139 15,151	19,177 19,191 19,205 19,219	17,214 17,226	89,000 89,050 89,100 89,150	89,050 89,100 89,150 89,200	19,687 19,701	15,889 15,901	20,101 20,118 20,134 20,151	17,964 17,976	92,050	92,050 92,100 92,150 92,200	20,527 20,541	16,639 16,651	21,091 21,108 21,124 21,141	18,714 18,726
86,200 86,250 86,300 86,350	86,250 86,300 86,350 86,400	18,889 18,903 18,917	15,176	19,233 19,247 19,261 19,275	17,251 17,264 17,276	89,200 89,250 89,300 89,350	89,250 89,300 89,350 89,400	19,729 19,743 19,757		20,167 20,184 20,200	18,001	92,200 92,250 92,300 92,350	92,250 92,300 92,350 92,400	20,569 20,583 20,597	16,676 16,689 16,701	21,157 21,174 21,190 21,207	18,751 18,764 18,776
86,400 86,450 86,500 86,550	86,450 86,500 86,550 86,600	18,959 18,973	15,226 15,239 15,251 15,264	19,289 19,303 19,317 19,331	17,314 17,326	89,400 89,450 89,500 89,550	89,450 89,500 89,550 89,600	19,799 19,813	15,989 16,001	20,233 20,250 20,266 20,283	18,064 18,076	92,500	92,450 92,500 92,550 92,600	20,639 20,653	16,739 16,751	21,223 21,240 21,256 21,273	18,814 18,826
86,600 86,650 86,700 86,750	86,650 86,700 86,750 86,800	19,015 19,029 19,043	,	19,345 19,359 19,373 19,387	17,364 17,376 17,389	89,600 89,650 89,700 89,750	89,650 89,700 89,750 89,800	19,855 19,869 19,883	16,064	20,316 20,332 20,349	18,126 18,139	1 '	92,800	20,695 20,709 20,723	16,789 16,801 16,814	21,289 21,306 21,322 21,339	18,864 18,876 18,889
86,800 86,850 86,900 86,950	87,000	19,071 19,085	15,339 15,351	19,401 19,415 19,429 19,443	17,414 17,426	89,800 89,850 89,900 89,950	89,850 89,900 89,950 90,000	19,911 19,925	16,076 16,089 16,101 16,114	20,365 20,382 20,398 20,415	18,164 18,176	92,850 92,900 92,950	92,850 92,900 92,950 93,000	20,751 20,765	16,839 16,851	21,355 21,372 21,388 21,405	18,914 18,926
87,	000					90,	000					93,	000				
87,000 87,050 87,100 87,150	87,150	19,127 19,141	15,389	19,457 19,471 19,485 19,499	17,464 17,476	90,000 90,050 90,100 90,150	90,050 90,100 90,150 90,200	19,967 19,981	16,139 16,151	20,431 20,448 20,464 20,481	18,214 18,226	93,050 93,100	93,050 93,100 93,150 93,200	20,807 20,821	16,889 16,901	21,421 21,438 21,454 21,471	18,964 18,976
87,200 87,250 87,300 87,350	87,350	19,183 19,197	15,439 15,451	19,513 19,527 19,541 19,557	17,514 17,526	90,200 90,250 90,300 90,350	90,250 90,300 90,350 90,400	20,023 20,037	16,189 16,201	20,497 20,514 20,530 20,547	18,264 18,276	93,250 93,300 93,350	93,250 93,300 93,350 93,400	20,863 20,877	16,939 16,951	21,487 21,504 21,520 21,537	19,014 19,026
87,400 87,450 87,500 87,550	87,450 87,500 87,550 87,600	19,239 19,253	15,476 15,489 15,501 15,514	19,573 19,590 19,606 19,623	17,564 17,576	90,400 90,450 90,500 90,550	90,450 90,500 90,550 90,600	20,079 20,093 20,107	16,239 16,251 16,264	20,563 20,580 20,596 20,613	18,314 18,326	93,400 93,450 93,500 93,550	93,600	20,919 20,933	16,989 17,001	21,553 21,570 21,586 21,603	19,064 19,076
87,600 87,650 87,700 87,750	87,650 87,700 87,750 87,800	19,295 19,309 19,323	15,526 15,539 15,551 15,564	19,639 19,656 19,672 19,689	17,614 17,626 17,639	90,600 90,650 90,700 90,750	90,650 90,700 90,750 90,800	20,135 20,149 20,163	16,276 16,289 16,301 16,314	20,646 20,662 20,679	18,376 18,389	93,600 93,650 93,700 93,750	93,650 93,700 93,750 93,800	20,975 20,989 21,003	17,039 17,051 17,064	21,619 21,636 21,652 21,669	19,114 19,126 19,139
87,950	87,950 88,000	19,351 19,365	15,589 15,601		17,664 17,676	90,950	91,000	20,191 20,205	16,339 16,351	20,695 20,712 20,728 20,745	18,414 18,426	93,900 93,950	93,900 93,950 94,000	21,031 21,045	17,089 17,101		19,164 19,176
	000					91,	000					94,	000				
88,050	88,050 88,100 88,150 88,200	19,407 19,421	15,639 15,651	19,771 19,788 19,804 19,821	17,714 17,726	91,050 91,100	91,050 91,100 91,150 91,200	20,247 20,261	16,389 16,401	20,761 20,778 20,794 20,811	18,464 18,476	94,050 94,100	94,050 94,100 94,150 94,200	21,087 21,101	17,139 17,151	21,751 21,768 21,784 21,801	19,214 19,226
88,200 88,250 88,300 88,350	88,300 88,350 88,400	19,463 19,477	15,689 15,701	19,837 19,854 19,870 19,887	17,764 17,776	91,250 91,300 91,350	91,250 91,300 91,350 91,400	20,303 20,317 20,331	16,439 16,451 16,464	20,827 20,844 20,860 20,877	18,514 18,526 18,539	94,250 94,300	94,250 94,300 94,350 94,400	21,143 21,157 21,171	17,189 17,201 17,214	21,817 21,834 21,850 21,867	19,264 19,276 19,289
88,400 88,450 88,500 88,550	88,500 88,550 88,600	19,519 19,533 19,547	15,739 15,751 15,764	19,903 19,920 19,936 19,953	17,814 17,826 17,839	91,450 91,500 91,550		20,359 20,373 20,387	16,489 16,501 16,514	20,893 20,910 20,926 20,943	18,564 18,576 18,589	94,450 94,500 94,550	94,450 94,500 94,550 94,600	21,199 21,213 21,227	17,239 17,251 17,264		19,314 19,326 19,339
88,600 88,650 88,700 88,750	88,750 88,800	19,575 19,589 19,603	15,789 15,801 15,814	19,969 19,986 20,002 20,019	17,864 17,876 17,889	91,650 91,700 91,750	91,750 91,800	20,415 20,429 20,443	16,539 16,551 16,564	20,959 20,976 20,992 21,009	18,614 18,626 18,639	94,650 94,700 94,750	94,650 94,700 94,750 94,800	21,255 21,269 21,283	17,289 17,301 17,314		19,364 19,376 19,389
	88,900 88,950 89,000	19,631 19,645 19,659	15,839 15,851 15,864	20,035 20,052 20,068 20,085	17,914 17,926 17,939	91,850 91,900 91,950	91,850 91,900 91,950 92,000	20,471 20,485	16,589 16,601	21,025 21,042 21,058 21,075	18,664 18,676	94,850 94,900	94,850 94,900 94,950 95,000	21,311 21,325	17,339 17,351 17,364	22,065	19,414 19,426 19,439
* This co	olumn m	ust also	be used	by a q	ualifying	widow(e	r).								(Contin	ued on p	age 74)

If line 40 (taxable income)			And ye	ou are-	-	If line (taxab incom			And yo	ou are-	-
At least	But less than	Single	Married filing jointly *	Married filing sepa- rately	Head of a house- hold	At least	But less than	Single	Married filing jointly	Married filing sepa- rately	Head of a house- hold
95,	000					98,000					
95,000 95,050 95,100 95,150	95,050 95,100 95,150 95,200	21,353 21,367 21,381 21,395	17,401	22,081 22,098 22,114 22,131	19,451 19,464 19,476 19,489	98,000 98,050 98,100 98,150	98,050 98,100 98,150 98,200	22,193 22,207 22,221 22,235	18,151	23,088	20,201 20,214 20,226 20,239
95,200 95,250 95,300 95,350	95,250 95,300 95,350 95,400	21,409 21,423 21,437	17,426 17,439	22,147 22,164 22,180 22,197	19,501 19,514 19,526 19,539	98,200 98,250 98,300 98,350	98,250 98,300 98,350 98,400	22,249 22,263 22,277	18,176 18,189	23,137 23,154 23,170	20,251 20,265
95,400 95,450 95,500 95,550	95,450 95,500 95,550 95,600	21,465 21,479 21,493 21,507	17,489 17,501	22,213 22,230 22,246 22,263	19,551 19,564 19,576 19,589	98,400 98,450 98,500 98,550	98,450 98,500 98,550 98,600	22,305 22,319 22,333 22,347	18,239 18,251	23,203 23,220 23,236 23,253	20,307 20,321 20,335 20,349
95,600 95,650 95,700 95,750	95,650 95,700 95,750 95,800	21,521 21,535 21,549 21,563	17,539 17,551	22,279 22,296 22,312 22,329	19,601 19,614 19,626 19,639	98,600 98,650 98,700 98,750	98,650 98,700 98,750 98,800	22,389	18,289	23,269 23,286 23,302 23,319	20,363 20,377 20,391 20,405
95,800 95,850 95,900 95,950	95,850 95,900 95,950 96,000			22,345 22,362 22,378 22,395	19,651 19,664 19,676 19,689	98,800 98,850 98,900 98,950	98,850 98,900 98,950 99,000	22,417 22,431 22,445 22,459	18,339	23,352 23,368	20,419 20,433 20,447 20,461
96,	000	V			7	99,	000				
96,000 96,050 96,100 96,150	96,050 96,100 96,150 96,200	21,647 21,661 21,675		22,411 22,428 22,444 22,461	19,701 19,714 19,726 19,739	99,000 99,050 99,100 99,150	99,050 99,100 99,150 99,200	22,487 22,501 22,515	18,401 18,414	23,401 23,418 23,434 23,451	20,475 20,489 20,503 20,517
96,200 96,250 96,300 96,350	96,250 96,300 96,350 96,400		17,689 17,701 17,714	22,477 22,494 22,510 22,527	19,751 19,764 19,776 19,789	99,200 99,250 99,300 99,350	99,250 99,300 99,350 99,400	22,543 22,557 22,571	18,451 18,464	23,517	20,531 20,545 20,559 20,573
96,400 96,450 96,500 96,550	96,450 96,500 96,550 96,600	21,745 21,759 21,773 21,787	17,739 17,751 17,764	22,543 22,560 22,576 22,593	19,801 19,814 19,826 19,839	99,400 99,450 99,500 99,550	99,450 99,500 99,550 99,600	22,585 22,599 22,613 22,627	18,489 18,501 18,514	23,566 23,583	20,587 20,601 20,615 20,629
96,600 96,650 96,700 96,750	96,650 96,700 96,750 96,800	21,801 21,815 21,829 21,843	17,789 17,801	22,609 22,626 22,642 22,659	19,851 19,864 19,876 19,889	99,600 99,650 99,700 99,750	99,650 99,700 99,750 99,800	22,641 22,655 22,669 22,683	18,539	23,616 23,632	
96,800 96,850 96,900 96,950	96,850 96,900 96,950 97,000	21,871 21,885	17,839 17,851	22,675 22,692 22,708 22,725	19,914 19,926		99,850 99,900 99,950 100,000	22,711 22,725	18,576 18,589 18,601 18,614	23,682 23,698	20,713 20,727
97,	000										
97,000 97,050 97,100 97,150	97,050 97,100 97,150 97,200	21,913 21,927 21,941 21,955	17,889 17,901		19,951 19,964 19,976 19,989						
97,200 97,250 97,300 97,350	97,250 97,300 97,350 97,400	21,969 21,983 21,997 22,011	17,939 17,951	22,807 22,824 22,840 22,857	20,014 20,026			or ov	0, 000 ver — the		
97,400 97,450 97,500 97,550	97,450 97,500 97,550 97,600	22,025 22,039 22,053 22,067	17,989 18,001	22,873 22,890 22,906 22,923	20,064 20,076			Tax Sche	Rate dules		
97,600 97,650 97,700 97,750	97,650 97,700 97,750 97,800	22,081 22,095 22,109 22,123	18,039	22,939 22,956 22,972 22,989	20,114 20,126		\	on pa	ige 75	/	
97,800 97,850 97,900 97,950	97,850 97,900 97,950 98,000	22,137 22,151 22,165 22,179	18,089 18,101	23,005 23,022 23,038 23,055	20,164 20,176						

2003 Tax Rate Schedules



Use **only** if your taxable income (Form 1040, line 40) is \$100,000 or more. If less, use the **Tax Table**. Even though you cannot use the Tax Rate Schedules below if your taxable income is less than \$100,000, all levels of taxable income are shown so taxpayers can see the tax rate that applies to each level.

Schedule X—Use if your filing status is Single

If the amount on Form 1040, line 40, is: Over—	But not over—	Enter on Form 1040, line 41	of the amount over—
\$0	\$7,000	10%	\$0
7,000	28,400	\$700.00 + 15%	7,000
28,400	68,800	3,910.00 + 25%	28,400
68,800	143,500	14,010.00 + 28%	68,800
143,500	311,950	34,926.00 + 33%	143,500
311,950		90,514.50 + 35%	311,950

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

If the amount on Form 1040, line 40, is: Over—	But not over—	Enter on Form 1040, line 41	of the amount over—
\$0	\$14,000	10%	\$0
14,000	56,800	\$1,400.00 + 15%	14,000
56,800	114,650	7,820.00 + 25%	56,800
114,650	174,700	22,282.50 + 28%	114,650
174,700	311,950	39,096.50 + 33%	174,700
311,950		84,389.00 + 35%	311,950

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

	,	e maniou ming copulator,	
If the amount on Form 1040, line 40, is: Over—	But not over—	Enter on Form 1040, line 41	of the amount over—
\$0	\$7,000	10%	\$0
7,000	28,400	\$700.00 + 15%	7,000
28,400	57,325	3,910.00 + 25%	28,400
57,325	87,350	11,141.25 + 28%	57,325
87,350	155,975	19,548.25 + 33%	87,350
155,975		42,194.50 + 35%	155,975

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

	your ming oraces io		
If the amount on Form 1040, line 40, is:	But not over—	Enter on Form 1040, line 41	of the amount over—
\$0	\$10,000	10%	\$0
10,000	38,050	\$1,000.00 + 15%	10,000
38,050	98,250	5,207.50 + 25%	38,050
98,250	159,100	20,257.50 + 28%	98,250
159,100	311,950	37,295.50 + 33%	159,100
311,950		87,736.00 + 35%	311,950

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