

# Part One.

## The Income Tax Return

The four chapters in this part provide basic information on the tax system. They take you through the first steps of filling out a tax return— such as deciding what your filing status is, how many exemptions you can take, and what form to file. They also discuss recordkeeping requirements, IRS e-file (electronic filing), certain penalties, and the two methods used to pay tax during the year: withholding and estimated tax.

### 1.

## Filing Information

### What's New

**Who must file.** Generally, the amount of income you can receive before you must file a return has been increased. See Table 1-1, Table 1-2, and Table 1-3 for the specific amounts.

**Split refunds.** If you choose direct deposit of your refund, you may be able to split the refund among two or three accounts. See *Refunds*, later, for more information.

**Credit for federal telephone excise tax paid.** If you were billed after February 28, 2003, and before August 1, 2006, for the federal excise tax on long distance or bundled service, you may be able to claim a credit for the tax paid. For more information, see the instructions for your tax return. If you are not otherwise required to file a tax return for 2006, use Form 1040EZ-T, Request for Refund of Federal Telephone Excise Tax.

**Child's age.** The age at which a child's investment income may be reported on the parent's return has been increased from age 14 to age 18. See *Children Under Age 18*, later.

**Online payment agreement application.** You may now be able to apply online for a payment agreement if you owe federal tax, interest, and penalties. See the discussion under *Installment Agreement*, later, for more information.

**Mailing your return.** You may be mailing your return to a different address this year because the IRS has changed the filing location for several areas. If you received an envelope with your tax package, please use it. Otherwise, see *Where Do I File*, later in this chapter.

## Reminders

**Alternative filing methods.** Rather than filing a return on paper, you may be able to file electronically using IRS e-file. Create your own personal identification number (PIN) and file a completely paperless tax return. For more information, see *Does My Return Have To Be on Paper*, later.

**Change of address.** If you change your address, you should notify the IRS. See *Change of Address*, later, under *What Happens After I File*.

**Enter your social security number.** You must enter your social security number (SSN) in the spaces provided on your tax return. If you file a joint return, enter the SSNs in the same order as the names.

**Direct deposit of refund.** Instead of getting a paper check, you may be able to have your refund deposited directly into your account at a bank or other financial institution. See *Direct Deposit* under *Refunds*, later.

**Alternative payment methods.** If you owe additional tax, you may be able to pay electronically. See *How To Pay*, later.

**Installment agreement.** If you cannot pay the full amount due with your return, you may ask to make monthly installment payments. See *Installment Agreement*, later, under *Amount You Owe*.

**Automatic 6-month extension.** You can get an automatic 6-month extension to file your tax return if, no later than the date your return is due, you file Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.

**Service in combat zone.** You are allowed extra time to take care of your tax matters if you are a member of the Armed Forces who served in a combat zone, or if you served in the combat zone in support of the Armed Forces. See *Individuals Serving in Combat Zone*, later, under *When Do I Have To File*.

**Adoption taxpayer identification number.** If a child has been placed in your home for purposes of legal adoption and you will not be able to get a social security number for the child in time to file your return, you may be able to get an adoption taxpayer identification number (ATIN). For more information, see *Social Security Number*, later.

**Taxpayer identification number for aliens.** If you or your dependent is a nonresident or resident alien who does not have and is not

Table 1-1. 2006 Filing Requirements for Most Taxpayers

IF your filing status is...	AND at the end of 2006 you were...*	THEN file a return if your gross income was at least...**
single	under 65	\$ 8,450
	65 or older	\$ 9,700
married filing jointly***	under 65 (both spouses)	\$16,900
	65 or older (one spouse)	\$17,900
	65 or older (both spouses)	\$18,900
married filing separately	any age	\$ 3,300
head of household	under 65	\$10,850
	65 or older	\$12,100
qualifying widow(er) with dependent child	under 65	\$13,600
	65 or older	\$14,600

\* If you were born on January 1, 1942, you are considered to be age 65 at the end of 2006.

\*\* Gross income means all income you received in the form of money, goods, property, and services that is 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 during 2006.

\*\*\* If you did not live with your spouse at the end of 2006 (or on the date your spouse died) and your gross income was at least \$3,300, you must file a return regardless of your age.

**Table 1-2. 2006 Filing Requirements for Dependents**

See chapter 3 to find out if someone can claim you as a dependent.

<p>If your parents (or someone else) can claim you as a dependent, and any of the situations below apply to you, you must file a return. (See Table 1-3 for other situations when you must file.)</p> <p>In this table, earned income includes salaries, wages, tips, and professional fees. It also includes taxable scholarship and fellowship grants. (See <i>Scholarships and fellowships</i> in chapter 12.) Unearned income includes investment-type income such as taxable interest, ordinary dividends, and capital gain distributions. It also includes unemployment compensation, taxable social security benefits, pensions, annuities, and distributions of unearned income from a trust. Gross income is the total of your earned and unearned income.</p>
<p><b>Single dependents</b>—Were you either age 65 or older or blind?</p> <p><input type="checkbox"/> <b>No.</b> You must file a return if any of the following apply.</p> <ul style="list-style-type: none"> <li>• Your unearned income was more than \$850.</li> <li>• Your earned income was more than \$5,150.</li> <li>• Your gross income was more than the larger of:             <ul style="list-style-type: none"> <li>• \$850, or</li> <li>• Your earned income (up to \$4,850) plus \$300.</li> </ul> </li> </ul> <p><input type="checkbox"/> <b>Yes.</b> You must file a return if any of the following apply.</p> <ul style="list-style-type: none"> <li>• Your unearned income was more than \$2,100 (\$3,350 if 65 or older and blind).</li> <li>• Your earned income was more than \$6,400 (\$7,650 if 65 or older and blind).</li> <li>• Your gross income was more than \$1,250 (\$2,500 if 65 or older and blind) plus the larger of:             <ul style="list-style-type: none"> <li>• \$850, or</li> <li>• Your earned income (up to \$4,850) plus \$300.</li> </ul> </li> </ul>
<p><b>Married dependents</b>—Were you either age 65 or older or blind?</p> <p><input type="checkbox"/> <b>No.</b> You must file a return if any of the following apply.</p> <ul style="list-style-type: none"> <li>• Your unearned income was more than \$850.</li> <li>• Your earned income was more than \$5,150.</li> <li>• Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.</li> <li>• Your gross income was more than the larger of:             <ul style="list-style-type: none"> <li>• \$850, or</li> <li>• Your earned income (up to \$4,850) plus \$300.</li> </ul> </li> </ul> <p><input type="checkbox"/> <b>Yes.</b> You must file a return if any of the following apply.</p> <ul style="list-style-type: none"> <li>• Your unearned income was more than \$1,850 (\$2,850 if 65 or older and blind).</li> <li>• Your earned income was more than \$6,150 (\$7,150 if 65 or older and blind).</li> <li>• Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.</li> <li>• Your gross income was more than \$1,000 (\$2,000 if 65 or older and blind) plus the larger of:             <ul style="list-style-type: none"> <li>• \$850, or</li> <li>• Your earned income (up to \$4,850) plus \$300.</li> </ul> </li> </ul>

eligible to get a social security number, file Form W-7, Application for IRS Individual Taxpayer Identification Number, with the IRS. For more information, see *Social Security Number*, later.

## Introduction

This chapter discusses the following topics.

- Whether you have to file a return.
- Which form to use.
- How to file electronically.
- When, how, and where to file your return.
- What happens if you pay too little or too much tax.
- What records you should keep and how long you should keep them.
- How you can change a return you have already filed.

## Do I Have To File a Return?

You must file a federal income tax return if you are a citizen or resident of the United States or a resident of Puerto Rico and you meet the filing requirements for any of the following categories that apply to you.

1. Individuals in general. (There are special rules for surviving spouses, executors, administrators, legal representatives, U.S. citizens and residents living outside the United States, residents of Puerto Rico, and individuals with income from U.S. possessions.)
2. Dependents.
3. Children under age 18.
4. Self-employed persons.
5. Aliens.

The filing requirements for each category are explained in this chapter.

The filing requirements apply even if you do not owe tax.



*Even if you do not have to file a return, it may be to your advantage to do so. See Who Should File, later.*



*File only one federal income tax return for the year regardless of how many jobs you had, how many Forms W-2 you received, or how many states you lived in during the year.*

## Individuals—In General

If you are a U.S. citizen or resident, whether you must file a return depends on three factors:

1. Your gross income,
2. Your filing status, and
3. Your age.

To find out whether you must file, see Table 1-1, Table 1-2, and Table 1-3. Even if no table shows that you must file, you may need to file to get money back. (See *Who Should File*, later.)

**Gross income.** This includes all income you receive in the form of money, goods, property, and services that is not exempt from tax. It also includes income from sources outside the United States (even if you can exclude all or part of it). Common types of income are discussed in *Part Two* of this publication.

**Community income.** If you are married and your permanent home is in a community property state, half of any income described by state law as community income may be considered yours. This affects your federal taxes, including whether you must file if you do not file a joint return with your spouse. See Publication 555, *Community Property*, for more information.

**Self-employed individuals.** If you are self-employed, your gross income includes the amount on line 7 of Schedule C (Form 1040), Profit or Loss From Business; line 1 of Schedule C-EZ (Form 1040), Net Profit From Business; and line 11 of Schedule F (Form 1040), Profit or Loss From Farming. See *Self-Employed Persons*, later, for more information about your filing requirements.



*If you do not report all of your self-employment income, your social security benefits may be lower when you retire.*

**Filing status.** Your filing status depends on whether you are single or married and on your family situation. Your filing status is determined on the last day of your tax year, which is December 31 for most taxpayers. See chapter 2 for an explanation of each filing status.

**Age.** If you are 65 or older at the end of the year, you generally can have a higher amount of gross income than other taxpayers before you must file. See Table 1-1. You are considered 65 on the day before your 65th birthday. For example, if your 65th birthday is on January 1, 2007, you are considered 65 for 2006.

## Surviving Spouses, Executors, Administrators, and Legal Representatives

You must file a final return for a decedent (a person who died) if both of the following are true.

- You are the surviving spouse, executor, administrator, or legal representative.
- The decedent met the filing requirements at the date of death.

For more information on rules for filing a decedent's final return, see Publication 559, *Survivors, Executors, and Administrators*.

## U.S. Citizens and Residents Living Outside the United States

If you are a U.S. citizen or resident living outside the United States, you must file a return if you meet the filing requirements. For information on special tax rules that may apply to you, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*. It is available at most U.S. embassies and consulates. Also see *How To Get Tax Help* in the back of this publication.

## Residents of Puerto Rico

Generally, if you are a U.S. citizen and a resident of Puerto Rico, you must file a U.S. income tax return if you meet the filing requirements. This is in addition to any legal requirement you may have to file an income tax return for Puerto Rico.

If you are a resident of Puerto Rico for the entire year, gross income does not include income from sources within Puerto Rico, except for amounts received as an employee of the United States or a U.S. agency. If you receive income from Puerto Rican sources that is not subject to U.S. tax, you must reduce your standard deduction. As a result, the amount of income you must have before you are required to file a U.S. income tax return is lower than the applicable amount in Table 1-1 or Table 1-2. For more information, see Publication 570, *Tax Guide for Individuals With Income From U.S. Possessions*.

## Individuals With Income From U.S. Possessions

If you had income from Guam, the Commonwealth of the Northern Mariana Islands, American Samoa, or the U.S. Virgin Islands, special rules may apply when determining whether you must file a U.S. federal income tax return. In addition, you may have to file a return with the individual island government. See Publication 570 for more information.

## Dependents

If you are a dependent (one who meets the dependency tests in chapter 3), see Table 1-2 to find whether you must file a return. You also must file if your situation is described in Table 1-3.

**Responsibility of parent.** Generally, a child is responsible for filing his or her own tax return and for paying any tax on the return. But if a dependent child who must file an income tax return cannot file it for any reason, such as age, then a parent, guardian, or other legally responsible person must file it for the child. If the child cannot sign the return, the parent or guardian must sign the child's name followed by the words "By (your signature), parent for minor child."

**Child's earnings.** Amounts a child earns by performing services are his or her gross income. This is true even if under local law the child's parents have the right to the earnings and may actually have received them. If the child does not pay the tax due on this income, the parent is liable for the tax.

## Children Under Age 18

If a child's only income is interest and dividends (including capital gain distributions and Alaska Permanent Fund dividends) and certain other conditions are met, a parent can elect to include the child's income on the parent's return. If this election is made, the child does not have to file a return. See *Parent's Election To Report Child's Interest and Dividends* in chapter 31.

## Self-Employed Persons

You are self-employed if you:

- Carry on a trade or business as a sole proprietor,
- Are an independent contractor,
- Are a member of a partnership, or
- Are in business for yourself in any other way.

Self-employment can include work in addition to your regular full-time business activities, such as certain part-time work you do at home or in addition to your regular job.

You must file a return if your gross income is at least as much as the filing requirement amount for your filing status and age (shown in Table 1-1). Also, you must file Form 1040 and Schedule SE (Form 1040), *Self-Employment Tax*, if:

1. Your net earnings from self-employment (excluding church employee income) were \$400 or more, or
2. You had church employee income of \$108.28 or more. (See Table 1-3.)

Use Schedule SE (Form 1040) to figure your self-employment tax. Self-employment tax is comparable to the social security and Medicare tax withheld from an employee's wages. For more information about this tax, see Publication 334, *Tax Guide for Small Business*.

**Employees of foreign governments or international organizations.** If you are a U.S. citizen who works in the United States for an international organization, a foreign government, or a wholly owned instrumentality of a

foreign government, and your employer is not required to withhold social security and Medicare taxes from your wages, you must include your earnings from services performed in the United States when figuring your net earnings from self-employment.

**Ministers.** You must include income from services you performed as a minister when figuring your net earnings from self-employment, unless you have an exemption from self-employment tax. This also applies to Christian Science practitioners and members of a religious order who have not taken a vow of poverty. For more information, see Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*.

## Aliens

Your status as an alien—resident, nonresident, or dual-status—determines whether and how you must file an income tax return.

The rules used to determine your alien status are discussed in Publication 519, *U.S. Tax Guide for Aliens*.

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

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

**Dual-status taxpayer.** If you are a resident alien for part of the tax year and a nonresident alien for the rest of the year, you are a dual-status taxpayer. Different rules apply for each part of the year. For information on dual-status taxpayers, see Publication 519.

## Who Should File

Even if you do not have to file, you should file a federal income tax return to get money back if any of the following conditions apply.

1. You had federal income tax withheld from your pay.
2. You qualify for the earned income credit. See chapter 36 for more information.
3. You qualify for the additional child tax credit. See chapter 34 for more information.
4. You qualify for the health coverage tax credit. See chapter 37 for more information.
5. You qualify for the credit for federal telephone excise tax paid. If none of the previous four items apply and you are not otherwise required to file a tax return for 2006, use Form 1040EZ-T to claim this credit.

**Table 1-3. Other Situations When You Must File a 2006 Return**

If any of the four conditions listed below apply, you must file a return, even if your income is less than the amount shown in Table 1-1 or Table 1-2.

1. You owe any special taxes, such as:
  - Social security or Medicare tax on tips you did not report to your employer. (See chapter 6.)
  - Uncollected social security, Medicare, or railroad retirement tax on tips you reported to your employer. (See chapter 6.)
  - Uncollected social security, Medicare, or railroad retirement tax on your group-term life insurance. This amount should be shown in box 12 of your Form W-2.
  - Alternative minimum tax. (See chapter 30.)
  - Additional tax on a qualified retirement plan, including an individual retirement arrangement (IRA). (See chapter 17.)
  - Additional tax on an Archer MSA or health savings account. (See Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans.)
  - Additional tax on a Coverdell ESA or qualified tuition program. (See Publication 970, Tax Benefits for Education.)
  - Recapture of an investment credit or a low-income housing credit. (See the Instructions for Form 4255, Recapture of Investment Credit, or Form 8611, Recapture of Low-Income Housing Credit.)
  - Recapture tax on the disposition of a home purchased with a federally-subsidized mortgage. (See chapter 15.)
  - Recapture of the qualified electric vehicle credit. (See chapter 37.)
  - Recapture of an education credit. (See chapter 35.)
  - Recapture of the Indian employment credit. (See the Instructions for Form 8845, Indian Employment Credit.)
  - Recapture of the new markets credit. (See Form 8874, New Markets Credit.)
2. You received any advance earned income credit (EIC) payments from your employer. This amount should be shown in box 9 of your Form W-2. (See chapter 36.)
3. You had net earnings from self-employment of at least \$400. (See *Self-Employed Persons* earlier in this chapter.)
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. (See Publication 334.)

## Which Form Should I Use?

You must use one of three forms to file your return: Form 1040EZ, Form 1040A, or Form 1040. (But also see *Does My Return Have To Be on Paper*, later.)

### Form 1040EZ

Form 1040EZ is the simplest form to use.

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

1. Your filing status is single or married filing jointly. If you were a nonresident alien at any time in 2006, your filing status must be married filing jointly.
2. You (and your spouse if married filing a joint return) were under age 65 and not blind at the end of 2006. If you were born on January 1, 1942, you are considered to be age 65 at the end of 2006.
3. You do not claim any dependents.
4. Your taxable income is less than \$100,000.
5. Your income is only from wages, salaries, tips, unemployment compensation, Alaska Permanent Fund dividends, taxable scholarship and fellowship grants, and taxable interest of \$1,500 or less.
6. You did not receive any advance earned income credit (EIC) payments.
7. You do not claim any adjustments to income, such as a deduction for IRA contributions or student loan interest.
8. You do not claim any credits other than the earned income credit and the credit for federal telephone excise tax paid.

9. You do not owe any household employment taxes on wages you paid to a household employee.

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

**Figuring tax.** On Form 1040EZ, you can use only the tax table to figure your tax. You cannot use Form 1040EZ to report any other tax.

### Form 1040A

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

**You can use Form 1040A if all of the following apply.**

1. Your income is only from wages, salaries, tips, IRA distributions, pensions and annuities, taxable social security and railroad retirement benefits, taxable scholarship and fellowship grants, interest, ordinary dividends (including Alaska Permanent Fund dividends), capital gain distributions, jury duty pay, and unemployment compensation.
2. Your taxable income is less than \$100,000.
3. Your adjustments to income are for only the following items.
  - a. Penalty on early withdrawal of savings.
  - b. IRA deduction.
  - c. Student loan interest deduction.
  - d. Jury duty pay you gave to your employer.



*At the time this publication went to print, Congress was considering legislation that would extend the*

*deduction for educator expenses and tuition and fees that expired at the end of 2005. To find out if this legislation was enacted, and for more details, go to [www.irs.gov](http://www.irs.gov), click on More Forms and Publications, and then on What's Hot in forms and publications, or see Publication 553, Highlights of 2006 Tax Changes.*

*If these deductions are reinstated, you will have to use Form 1040 to claim them.*

4. You do not itemize your deductions.
5. Your taxes are from only the following items.
  - a. Tax Table.
  - b. Alternative minimum tax. (See chapter 30.)
  - c. Advance earned income credit (EIC) payments, if you received any. (See chapter 36.)
  - d. Recapture of an education credit. (See chapter 35.)
  - e. Form 8615, Tax for Children Under Age 18 With Investment Income of More Than \$1,700.
  - f. Qualified Dividends and Capital Gain Tax Worksheet.
6. You claim only the following tax credits.
  - a. The credit for child and dependent care expenses. (See chapter 32.)
  - b. The credit for the elderly or the disabled. (See chapter 33.)
  - c. The child tax credit. (See chapter 34.)
  - d. The additional child tax credit. (See chapter 34.)
  - e. The education credits. (See chapter 35.)
  - f. The retirement savings contributions credit. (See chapter 37.)
  - g. The earned income credit. (See chapter 36.)

h. The credit for the federal telephone excise tax paid.

7. You did not have an alternative minimum tax adjustment on stock you acquired from the exercise of an incentive stock option. (See Publication 525, Taxable and Nontaxable Income.)

You must meet all of the above requirements to use Form 1040A. If you do not, you must use Form 1040.

If you meet the above requirements, you can use Form 1040A even if you received employer-provided dependent care benefits.



*If you receive a capital gain distribution that includes unrecaptured section 1250 gain, section 1202 gain, or collectibles (28%) gain, you cannot use Form 1040A. You must use Form 1040.*

## Form 1040

If you cannot use Form 1040EZ or Form 1040A, you must use Form 1040. You can use Form 1040 to report all types of income, deductions, and credits.

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

**You must use Form 1040 if any of the following apply.**

1. Your taxable income is \$100,000 or more.
2. You itemize your deductions.
3. You had income that cannot be reported on Form 1040EZ or Form 1040A, including tax-exempt interest from private activity bonds issued after August 7, 1986.
4. You claim any adjustments to gross income other than the adjustments listed earlier under *Form 1040A*.
5. Your Form W-2, box 12, shows uncollected employee tax (social security and Medicare tax) on tips (see chapter 6) or group-term life insurance (see chapter 5).
6. You received \$20 or more in tips in any one month and did not report all of them to your employer. (See chapter 6.)
7. You claim any credits other than the credits listed earlier under *Form 1040A*.
8. You owe the excise tax on insider stock compensation from an expatriated corporation.
9. Your Form W-2 shows an amount in box 12 with a code Z.
10. You have to file other forms with your return to report certain exclusions, taxes, or transactions.
11. You are a debtor in a chapter 11 bankruptcy case filed after October 16, 2005.

## Does My Return Have To Be on Paper?

You may be able to file a paperless return using IRS *e-file* (electronic filing). It's so easy, over 72 million taxpayers preferred *e-file* over filing a paper tax return last year.

This section explains how to *e-file*:

- Using an Authorized IRS *e-file* Provider, or
- Using your personal computer.

### IRS *e-file*



Table 1-4 lists the benefits of IRS *e-file*. IRS *e-file* uses automation to replace most of the manual steps needed to process paper returns. As a result, the processing of *e-file* returns is faster and more accurate than the processing of paper returns. However, as with a paper return, you are responsible for making sure your return contains accurate information and is filed on time.

Using *e-file* does not affect your chances of an IRS examination of your return.

**Electronic signatures.** Create your own personal identification number (PIN) and use a tax professional or file your own paperless return electronically. If you are married filing jointly, you and your spouse will each need to create a PIN and enter these PINs as your electronic signatures.

A PIN is any combination of five numbers, except five zeros. If you use a PIN, there is nothing to sign and nothing to mail—not even your Forms W-2.

Table 1-4. **Benefits of IRS *e-file***

<b>Eligible for Free File</b>	<ul style="list-style-type: none"> <li>• Free File allows qualified taxpayers to prepare and <i>e-file</i> their own tax returns for free using commercially available online tax preparation software.</li> <li>• Review online tax software provider offerings and determine if you are eligible by visiting the Free File page at <a href="http://www.irs.gov">www.irs.gov</a>.</li> </ul>
<b>Fast! Easy! Convenient!</b>	<ul style="list-style-type: none"> <li>• Get your refund in half the time as paper filers do, even faster and safer with direct deposit.</li> <li>• Sign electronically and file a completely paperless return.</li> <li>• Receive an electronic proof of receipt within 48 hours that the IRS received your return.</li> <li>• If you owe, you can <i>e-file</i> and authorize an electronic funds withdrawal or pay by credit card. If you <i>e-file</i> before April 16, 2007*, you can schedule an electronic funds withdrawal from your checking or savings account as late as April 16, 2007*.</li> <li>• Prepare and file your federal and state returns together and save time.</li> </ul>
<b>Accurate! Secure!</b>	<ul style="list-style-type: none"> <li>• IRS computers quickly and automatically check for errors or other missing information.</li> <li>• The chance of being audited does not differ whether you <i>e-file</i> or file a paper tax return.</li> <li>• Your bank account information is safeguarded along with other tax return information. The IRS does not have access to credit card numbers.</li> </ul>

\*April 17, 2007, if you live in Maine, Maryland, Massachusetts, New Hampshire, New York, Vermont, or the District of Columbia.

To verify your identity, you will be asked to enter your adjusted gross income (AGI) from your originally filed 2005 income tax return, if applicable. Do not use your AGI from an amended return (Form 1040X), math error notice, or other changed amount from the IRS. AGI is the amount shown on your 2005 Form 1040, line 37; Form 1040A, line 21; and Form 1040EZ, line 4. If you do not have your 2005 income tax return, call the IRS at 1-800-829-1040 to get a free transcript of your account. You will also be asked to enter your date of birth (DOB). Make sure your DOB is accurate and matches the information on record with the Social Security Administration by checking your annual Social Security Statement.



*You cannot sign your return electronically if you are a first-time filer under age 16 at the end of 2006, or if you are filing certain forms, such as Form 1098-C, 3115, 3468 (if attachments are required), 4136 (if certificate or statement required), 5713, 8283 (if a statement is required for Section A or if completing Section B), 8332, 8858, 8885, 8864 (if certification or statement required), or Schedule D-1 (Form 1040) (if you elect not to include your transactions on the electronic STCGI or LTCGL records).*

For more details on the PIN method, visit [www.irs.gov/efile](http://www.irs.gov/efile) and click on "e-file for Individual Taxpayers."



*An Authorized IRS e-file Provider can, with your authorization, generate a PIN for you.*

**Forms 8453 and 8453-OL.** Your return is not complete without your signature. If you are not eligible or choose not to sign your return electronically, you must complete, sign, and file Form 8453, U.S. Individual Income Tax Declaration for an IRS *e-file* Return, or Form 8453-OL, U.S. Individual Income Tax Declaration for an IRS *e-file* Online Return, whichever applies.

**State returns.** In most states, you can file an electronic state return simultaneously with your federal return. For more information, check with your local IRS office, state tax agency, tax professional, or the IRS website at [www.irs.gov/efile](http://www.irs.gov/efile).

**Refunds.** You can have a refund check mailed to you, or you can have your refund deposited directly to your checking or savings account or split among two or three accounts. With *e-file*, your refund will be issued in half the time as when filing on paper.

As with a paper return, you may not get all of your refund if you owe certain past-due amounts, such as federal tax, state tax, a student loan, or child support. See *Offset against debts* under *Refunds*, later.

**Refund inquiries.** If you do not receive your refund within 3 weeks after your electronically filed return was accepted by IRS, see *Past-Due Refund*, later.

**Amount you owe.** To avoid late-payment penalties and interest, pay your taxes in full by April 16, 2007, (April 17, 2006, if you live in Maine, Maryland, Massachusetts, New Hampshire, New York, Vermont, or the District of Columbia). You can make your payment electronically by credit card or by scheduling an electronic funds withdrawal from your checking or savings account.

See *How To Pay*, later, for information on how to pay the amount you owe.

## Using an Authorized IRS e-file Provider



Many tax professionals electronically file tax returns for their clients. As a taxpayer, you have two options.

- 1) You can prepare your return, take it to an Authorized IRS *e-file* Provider, and have the provider transmit it electronically to the IRS.
- 2) You can have a tax professional prepare your return and transmit it for you electronically.

You may personally enter your PIN or complete Form 8879, IRS *e-file* Signature Authorization, to authorize the provider to enter your PIN on your return.

**Note.** Tax professionals may charge a fee for IRS *e-file*. Fees can vary depending on the professional and the specific services rendered.

## Using Your Personal Computer



You can file your tax return in a fast, easy, and convenient way using your personal computer. A computer with a modem or Internet access and tax preparation software are all you need. Best of all, you can *e-file* from the comfort of your home 24 hours a day, 7 days a week.

IRS approved tax preparation software is available for online use on the Internet, for download from the Internet, and in retail stores.

For information, visit our website at [www.irs.gov/efile](http://www.irs.gov/efile).

## Through Employers and Financial Institutions

Some businesses offer free *e-file* to their employees, members, or customers. Others offer it for a fee. Ask your employer or financial institution if they offer IRS *e-file* as an employee, member, or customer benefit.

## Free Help With Your Return

Free help in preparing your return is available nationwide from IRS-trained volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-income taxpayers and the Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 or older with their tax returns. Many VITA sites offer free electronic filing and all volunteers will let you know about the credits and deductions you may be entitled to claim. To find a site near you, call 1-800-829-1040. Or to find the nearest AARP TaxAide site, visit AARP's website at [www.aarp.org/taxaide](http://www.aarp.org/taxaide) or call 1-888-227-7669. For more information on these programs, go to [www.irs.gov](http://www.irs.gov) and enter keyword "VITA" in the upper right-hand corner.

## When Do I Have To File?

April 16, 2007, is the due date for filing your 2006 income tax return if you use the calendar year. If you live in Maine, Maryland, Massachusetts, New Hampshire, New York, Vermont, or the District of Columbia, you have until April 17, 2007. For a quick view of due dates for filing a return with or without an extension of time to file (discussed later), see Table 1-5.

If you use a fiscal year (a year ending on the last day of any month except December, or a 52-53-week year), your income tax return is due by the 15th day of the 4th month after the close of your fiscal year.

When the due date for doing any act for tax purposes—filing a return, paying taxes, etc.—falls on a Saturday, Sunday, or legal holiday, the due date is delayed until the next business day.

Table 1-5. **When To File Your 2006 Return**

For U.S. citizens and residents who file returns on a calendar year.

	For Most Taxpayers	For Certain Taxpayers Outside the U.S.
<b>No extension requested</b>	April 16, 2007*	June 15, 2007
<b>Automatic extension</b> Form 4868 filed, or credit card payment made	October 15, 2007	October 15, 2007

\*April 17, 2007, if you live in Maine, Maryland, Massachusetts, New Hampshire, New York, Vermont, or the District of Columbia



If you file your return at the Internal Revenue Service Center in Massachusetts, your due date is April 17, 2007, because of the Patriot's Day holiday in that state.

**Filing on time.** Your paper return is filed on time if it is mailed in an envelope that is properly addressed, has enough postage, and is postmarked by the due date. If you send your return by registered mail, the date of the registration is the postmark date. The registration is evidence that the return was delivered. If you send a return by certified mail and have your receipt postmarked by a postal employee, the date on the receipt is the postmark date. The postmarked certified mail receipt is evidence that the return was delivered.

**Private delivery services.** If you use a private delivery service designated by the IRS to send your return, the postmark date generally is the date the private delivery service records in its database or marks on the mailing label. The private delivery service can tell you how to get written proof of this date.

The following are designated private delivery services.

- DHL Express (DHL): DHL Same Day Service, DHL Next Day 10:30 am, DHL Next Day 12:00 pm, DHL Next Day 3:00 pm, and DHL 2nd Day Service.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, and FedEx International First.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.



Private delivery services cannot deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.

**Electronically filed returns.** If you use IRS *e-file*, your return is considered filed on time if the authorized electronic return transmitter postmarks the transmission by the due date. An authorized electronic return transmitter is a participant in the IRS *e-file* program that transmits electronic tax return information directly to the IRS.

The electronic postmark is a record of when the authorized electronic return transmitter received the transmission of your electronically filed return on its host system. The date and time

in your time zone controls whether your electronically filed return is timely.

**Filing late.** If you do not file your return by the due date, you may have to pay a failure-to-file penalty and interest. For more information, see *Penalties*, later. Also see *Interest* under *Amount You Owe*.

If you were due a refund but you did not file a return, you generally must file within 3 years from the date the return was due (including extensions) to get that refund.

**Nonresident alien.** If you are a nonresident alien and earn wages subject to U.S. income tax withholding, your 2006 U.S. income tax return (Form 1040NR or Form 1040NR-EZ) is due by:

- April 16, 2007, if you use a calendar year, or
- The 15th day of the 4th month after the end of your fiscal year if you use a fiscal year.

If you do not earn wages subject to U.S. income tax withholding, your return is due by:

- June 15, 2007, if you use a calendar year, or
- The 15th day of the 6th month after the end of your fiscal year, if you use a fiscal year.

See Publication 519 for more filing information.

**Filing for a decedent.** If you must file a final income tax return for a taxpayer who died during the year (a decedent), the return is due by the 15th day of the 4th month after the end of the decedent's normal tax year. See Publication 559.

## Extensions of Time To File

You may be able to get an extension of time to file your return. Special rules apply for those who were:

- Outside the United States, or
- Serving in a combat zone.

### Automatic Extension

If you cannot file your 2006 return by the due date, you may be able to get an automatic 6-month extension of time to file.

**Example.** If your return is due on April 16, 2007, you will have until October 15, 2007, to file.



*If you do not pay the tax due by the regular due date (generally, April 15), you will owe interest. You may also be charged penalties, discussed later.*

**How to get the automatic extension.** You can get the automatic extension by:

1. Using IRS *e-file* (electronic filing), or
2. Filing a paper form.

**E-file options.** There are two ways you can use *e-file* to get an extension of time to file. Complete Form 4868, Application for Automatic

Extension of Time To File U.S. Individual Income Tax Return, to use as a worksheet. If you think you may owe tax when you file your return, use *Part II* of the form to estimate your balance due. If you *e-file* Form 4868 to the IRS, do not also send a paper Form 4868.

**E-file using your personal computer or a tax professional.** You can use a tax software package with your personal computer or a tax professional to file Form 4868 electronically. You will need to provide certain information from your tax return for 2005. If you wish to make a payment by electronic funds withdrawal, see *Electronic payment options*, under *How To Pay*, later in this chapter.

**E-file and pay by credit card.** You can get an extension by paying part or all of your estimate of tax due by using a credit card. You can do this by phone or over the Internet. You do not file Form 4868. See *Credit card*, under *How To Pay*, later in this chapter.

**Filing a paper Form 4868.** You can get an extension of time to file by filing a paper Form 4868. Mail it to the address shown in the form instructions.

If you want to make a payment with the form, make your check or money order payable to the "United States Treasury." Write your SSN, daytime phone number, and "2006 Form 4868" on your check or money order.

**When to file.** You must request the automatic extension by the due date for your return. You can file your return any time before the 6-month extension period ends.

**When you file your return.** Enter any payment you made related to the extension of time to file on Form 1040, line 69. If you file Form 1040EZ or Form 1040A, include that payment in your total payments on Form 1040EZ, line 10, or Form 1040A, line 43. Also enter "Form 4868" and the amount paid in the space to the left of line 10 or line 43.

### Individuals Outside the United States

You are allowed an automatic 2-month extension (until June 15, 2007, if you use the calendar year) to file your 2006 return and pay any federal income tax due if:

1. You are a U.S. citizen or resident, and
2. On the due date of your return:
  - a. You are living outside the United States and Puerto Rico, and your main place of business or post of duty is outside the United States and Puerto Rico, or
  - b. You are in military or naval service on duty outside the United States and Puerto Rico.

However, if you pay the tax due after the regular due date (generally, April 15), interest will be charged from that date until the date the tax is paid.

If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file. See *Individuals*

*Serving in Combat Zone*, later, for special rules that apply to you.

**Married taxpayers.** If you file a joint return, only one spouse has to qualify for this automatic extension. If you and your spouse file separate returns, this automatic extension applies only to the spouse who qualifies.

**How to get the extension.** To use this automatic extension, you must attach a statement to your return explaining what situation qualified you for the extension. (See the situations listed under (2), earlier.)

**Extensions beyond 2 months.** If you cannot file your return within the automatic 2-month extension period, you may be able to get an additional 4-month extension, for a total of 6 months. File Form 4868 and check the box on line 8.

This additional 4-month extension of time to file is not a further extension of time to pay. You can use a credit card to pay your estimate of tax due. See *How To Pay*, later in this chapter.

**No further extension.** An extension of more than 6 months will generally not be granted. However, if you are outside the United States and meet certain tests, you may be granted a longer extension. For more information, see *Further extensions* under *When To File and Pay* in Publication 54.

### Individuals Serving in Combat Zone

The deadline for filing your tax return, paying any tax you may owe, and filing a claim for refund is automatically extended if you serve in a combat zone. This applies to members of the Armed Forces, as well as merchant marines serving aboard vessels under the operational control of the Department of Defense, Red Cross personnel, accredited correspondents, and civilians under the direction of the Armed Forces in support of the Armed Forces.

**Combat zone.** For purposes of the automatic extension, the term "combat zone" includes the following areas.

1. The Persian Gulf area, effective January 17, 1991.
2. The qualified hazardous duty area of Bosnia and Herzegovina, Croatia, and Macedonia, effective November 21, 1995.
3. The qualified hazardous duty area of the Federal Republic of Yugoslavia (Serbia/Montenegro), Albania, the Adriatic Sea, and the Ionian Sea north of the 39th parallel, effective March 24, 1999.
4. Afghanistan, effective September 19, 2001.

See Publication 3, Armed Forces' Tax Guide, for information about other tax benefits available to military personnel serving in a combat zone.

**Extension period.** The deadline for filing your return, paying any tax due, and filing a claim for refund is extended for at least 180 days after the later of:

1. The last day you are in a combat zone or the last day the area qualifies as a combat zone, or
2. The last day of any continuous qualified hospitalization for injury from service in the combat zone.

In addition to the 180 days, your deadline is also extended by the number of days you had left to take action with the IRS when you entered the combat zone. For example, you have 3½ months (January 1–April 15) to file your tax return. Any days left in this period when you entered the combat zone (or the entire 3½ months if you entered it before the beginning of the year) are added to the 180 days. See *Extension of Deadline* in Publication 3 for more information.

The above rules on the extension for filing your return also apply when you are deployed outside the United States (away from your permanent duty station) while participating in a designated contingency operation.

## How Do I Prepare My Return?

This section explains how to get ready to fill in your tax return and when to report your income and expenses. It also explains how to complete certain sections of the form. You may find Table 1-6 helpful when you prepare your return.

In most cases, based on the paper return you filed last year, the IRS will mail you Form 1040, Form 1040A, or Form 1040EZ with related instructions. Before you fill in the form, look at the form instructions to see if you need, or would benefit from filing, a different form this year. Also see if you need any additional forms or schedules. You may also want to read *Does My Return Have To Be on Paper*, earlier.

If you do not receive a tax return package in the mail, or if you need other forms, you can order them or print them from the Internet. See *How To Get Tax Help* in the back of this publication.

**Table 1-6. Six Steps for Preparing Your Return**

1	— Get your records together for income and expenses.
2	— Get the forms, schedules, and publications you need.
3	— Fill in your return.
4	— Check your return to make sure it is correct.
5	— Sign and date your return.
6	— Attach all required forms and schedules.

**Substitute tax forms.** You cannot use your own version of a tax form unless it meets the requirements explained in Publication 1167, General Rules and Specifications for Substitute Forms and Schedules.

**Form W-2.** If you are an employee, you should receive Form W-2 from your employer. You will need the information from this form to prepare your return. See *Form W-2 under Credit for Withholding and Estimated Tax* in chapter 4.

If you do not receive Form W-2 by January 31, 2007, contact your employer. If you still do not get the form by February 15, the IRS can help you by requesting the form from your employer. When you request IRS help, be prepared to provide the following information.

- Your name, address (including zip code), and phone number.
- Your SSN.
- Your dates of employment.
- Your employer's name, address (including zip code), and phone number.

**Form 1099.** If you received certain types of income, you may receive a Form 1099. For example, if you received taxable interest of \$10 or more, the payer generally must give you a Form 1099-INT. If you have not received it by January 31, 2007, contact the payer. If you still do not get the form by February 15, call the IRS for help.

## When Do I Report My Income and Expenses?

You must figure your taxable income on the basis of a tax year. A "tax year" is an annual accounting period used for keeping records and reporting income and expenses. You must account for your income and expenses in a way that clearly shows your taxable income. The way you do this is called an accounting method. This section explains which accounting periods and methods you can use.

### Accounting Periods

Most individual tax returns cover a calendar year—the 12 months from January 1 through December 31. If you do not use a calendar year, your accounting period is a fiscal year. A regular fiscal year is a 12-month period that ends on the last day of any month except December. A 52-53-week fiscal year varies from 52 to 53 weeks and always ends on the same day of the week.

You choose your accounting period (tax year) when you file your first income tax return. It cannot be longer than 12 months.

**More information.** For more information on accounting periods, including how to change your accounting period, see Publication 538, Accounting Periods and Methods.

### Accounting Methods

Your accounting method is the way you account for your income and expenses. Most taxpayers use either the cash method or an accrual method. You choose a method when you file your first income tax return. If you want to change your accounting method after that, you generally must get IRS approval.

**Cash method.** If you use this method, report all items of income in the year in which you actually or constructively receive them. Generally, you deduct all expenses in the year you actually pay them. This is the method most individual taxpayers use.

**Constructive receipt.** Generally, you constructively receive income when it is credited to your account or set apart in any way that makes it available to you. You do not need to have physical possession of it. For example, interest credited to your bank account on December 31, 2006, is taxable income to you in 2006 if you could have withdrawn it in 2006 (even if the amount is not entered in your passbook or withdrawn until 2007).

**Garnisheed wages.** If your employer uses your wages to pay your debts, or if your wages are attached or garnisheed, the full amount is constructively received by you. You must include these wages in income for the year you would have received them.

**Debts paid for you.** If another person cancels or pays your debts (but not as a gift or loan), you have constructively received the amount and generally must include it in your gross income for the year. See *Canceled Debts* in chapter 12 for more information.

**Payment to third party.** If a third party is paid income from property you own, you have constructively received the income. It is the same as if you had actually received the income and paid it to the third party.

**Payment to an agent.** Income an agent receives for you is income you constructively received in the year the agent receives it. If you indicate in a contract that your income is to be paid to another person, you must include the amount in your gross income when the other person receives it.

**Check received or available.** A valid check that was made available to you before the end of the tax year is constructively received by you in that year. A check that was "made available to you" includes a check you have already received, but not cashed or deposited. It also includes, for example, your last paycheck of the year that your employer made available for you to pick up at the office before the end of the year. It is constructively received by you in that year whether or not you pick it up before the end of the year or wait to receive it by mail after the end of the year.

**No constructive receipt.** There may be facts to show that you did not constructively receive income.

**Example.** Alice Johnson, a teacher, agreed to her school board's condition that, in her absence, she would receive only the difference between her regular salary and the salary of a substitute teacher hired by the school board. Therefore, Alice did not constructively receive the amount by which her salary was reduced to pay the substitute teacher.

**Accrual method.** If you use an accrual method, you generally report income when you earn it, rather than when you receive it. You generally deduct your expenses when you incur them, rather than when you pay them.

**Income paid in advance.** An advance payment of income is generally included in gross income in the year you receive it. Your method of accounting does not matter as long as the income is available to you. An advance payment may include rent or interest you receive in advance and pay for services you will perform later.

A limited deferral until the next tax year may be allowed for certain advance payments. See Publication 538 for specific information.

**Additional information.** For more information on accounting methods, including how to change your accounting method, see Publication 538.

## Social Security Number

You must enter your social security number (SSN) in the space provided on your return. Be sure the SSN on your return is the same as the SSN on your social security card. If you are married, enter the SSNs for both you and your spouse, whether you file jointly or separately.

If you are filing a joint return, write the SSNs in the same order as the names. Use this same order in submitting other forms and documents to the IRS.

**Name change.** If you changed your name because of marriage, divorce, etc., be sure to report the change to your local Social Security Administration (SSA) office before filing your return. This prevents delays in processing your return and issuing refunds. It also safeguards your future social security benefits.

**Dependent's social security number.** You must provide the SSN of each dependent you claim, regardless of the dependent's age. This requirement applies to all dependents (not just your children) claimed on your tax return.

**Exception.** If your child was born and died in 2006 and you do not have an SSN for the child, you may attach a copy of the child's birth certificate instead. If you do, enter "DIED" in column (2) of line 6c (Form 1040 or 1040A).

**No social security number.** File Form SS-5, Application for a Social Security Card, with your local SSA office to get an SSN for yourself or your dependent. It usually takes about 2 weeks to get an SSN. If you or your dependent is not eligible for an SSN, see *Individual taxpayer identification number (ITIN)*, later.

If you are a U.S. citizen or resident alien, you must show proof of age, identity, and citizenship or alien status with your Form SS-5. If you are 12 or older and have never been assigned an SSN, you must appear in person with this proof at an SSA office.

Form SS-5 is available at any SSA office, on the Internet at [www.socialsecurity.gov](http://www.socialsecurity.gov), or by calling 1-800-772-1213. If you have any questions about which documents you can use as proof of age, identity, or citizenship, contact your SSA office.

If your dependent does not have an SSN by the time your return is due, you may want to ask for an extension of time to file, as explained earlier under *When Do I Have To File*.

If you do not provide a required SSN or if you provide an incorrect SSN, your tax may be increased and any refund may be reduced.

**Adoption taxpayer identification number (ATIN).** If you are in the process of adopting a child who is a U.S. citizen or resident and cannot get an SSN for the child until the adoption is final, you can apply for an ATIN to use instead of an SSN.

File Form W-7A, Application for Taxpayer Identification Number for Pending U.S. Adoptions, with the IRS to get an ATIN if all of the following are true.

- You have a child living with you who was placed in your home for legal adoption.
- You cannot get the child's existing SSN even though you have made a reasonable attempt to get it from the birth parents, the placement agency, and other persons.
- You cannot get an SSN for the child from the SSA because, for example, the adoption is not final.
- You cannot get an individual taxpayer identification number (ITIN) (discussed later) for the child.
- You are eligible to claim the child as a dependent on your tax return.

After the adoption is final, you must apply for an SSN for the child. You cannot continue using the ATIN.

See Form W-7A for more information.

**Nonresident alien spouse.** If your spouse is a nonresident alien and you file a joint or separate return, your spouse must have either an SSN or an ITIN. If your spouse is not eligible for an SSN, see the next discussion.

**Individual taxpayer identification number (ITIN).** The IRS will issue you an ITIN if you are a nonresident or resident alien and you do not have and are not eligible to get an SSN. This also applies to an alien spouse or dependent. To apply for an ITIN, file Form W-7 with the IRS. It usually takes about 4 to 6 weeks to get an ITIN. Enter the ITIN on your tax return wherever an SSN is requested.



*If you are applying for an ITIN for yourself, your spouse, or a dependent in order to file your tax return, attach your completed tax return to your Form W-7. See the Form W-7 instructions for how and where to file.*



*An ITIN is for tax use only. It does not entitle you or your dependent to social security benefits or change the employment or immigration status of either of you under U.S. law.*

**Penalty for not providing social security number.** If you do not include your SSN or the SSN of your spouse or dependent as required, you may have to pay a penalty. See the discussion on *Penalties*, later, for more information.

**SSN on correspondence.** If you write to the IRS about your tax account, be sure to include your SSN (and the name and SSN of your spouse, if you filed a joint return) in your correspondence. Because your SSN is used to identify your account, this helps the IRS respond to your correspondence promptly.

## Presidential Election Campaign Fund

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

## Computations

The following information on entering numbers on your tax return may be useful in making the return easier to complete.

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

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

**Example.** You receive two Forms W-2: one showing wages of \$5,000.55 and one showing wages of \$18,500.73. On Form 1040, line 7, you would enter \$23,501 (\$5,000.55 + \$18,500.73 = \$23,501.28), not \$23,502 (\$5,001 + \$18,501).

**Equal amounts.** If you are asked to enter the smaller or larger of two equal amounts, enter that amount.

**Example.** Line 1 is \$500. Line 3 is \$500. Line 5 asks you to enter the smaller of line 1 or 3. Enter \$500 on line 5.

**Negative amounts.** If you need to enter a negative amount, put the amount in parentheses rather than using a minus sign. To combine positive and negative amounts, add all the positive amounts together and then subtract the negative amounts.

## Attachments

Depending on the form you file and the items reported on your return, you may have to complete additional schedules and forms and attach them to your return.



*You may be able to file a paperless return using IRS e-file. There's nothing to sign, attach, or mail, not even your Forms W-2.*

**Form W-2.** Form W-2 is a statement from your employer of wages and other compensation paid to you and taxes withheld from your pay. You should have a Form W-2 from each employer. Be sure to attach a copy of Form W-2 in the place indicated on the front page of your return. Attach it only to the front page of your return, not to any attachments. For more information, see *Form W-2* in chapter 4.

If you received a Form 1099-R, Distributions From Pensions, Annuities, Retirement or

Profit-Sharing Plans, IRAs, Insurance Contracts, etc., showing federal income tax withheld, attach a copy of that form in the place indicated on the front page of your return.

**Form 1040EZ.** There are no additional schedules to file with Form 1040EZ.

**Form 1040A.** Attach the additional schedules and forms that you had to complete behind the Form 1040A in order by number. If you are filing Schedule EIC, put it last. Do not attach items unless required to do so.

**Form 1040.** Attach any forms and schedules behind Form 1040 in order of the "Attachment Sequence Number" shown in the upper right corner of the form or schedule. Then arrange all other statements or attachments in the same order as the forms and schedules they relate to and attach them last. Do not attach items unless required to do so.


## Third Party Designee

You can authorize the IRS to discuss your return with a friend, family member, or any other person you choose. If you check the "Yes" box in the *Third party designee* area of your 2006 tax return and provide the information required, you are authorizing:

1. The IRS to call the designee to answer any questions that arise during the processing of your return, and
2. The designee to:
  - a. Give information that is missing from your return to the IRS,
  - b. Call the IRS for information about the processing of your return or the status of your refund or payments,
  - c. Receive copies of notices or transcripts related to your return, upon request, and
  - d. Respond to certain IRS notices about math errors, offsets (see *Refunds*, later), and return preparation.


The authorization will automatically end no later than the due date (without any extensions) for filing your 2007 tax return. This is April 15, 2008, for most people.

See your form instructions for more information.

 **TIP** *If you want to allow the paid preparer who signed your return to discuss it with the IRS, just enter "Preparer" in the space for the designee's name.*

## Signatures

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

 **CAUTION** *If you file a joint return, both spouses are generally liable for the tax, and the entire tax liability may be assessed against either spouse. See chapter 2.*



**TIP** *If you e-file your return, you can use an electronic signature to sign your return. See Does My Return Have To Be on Paper, earlier.*

If you are due a refund, it cannot be issued unless you have signed your return.

Enter your occupation in the space provided in the signature section. If you file a joint return, enter both your occupation and your spouse's occupation. Entering your daytime phone number may help speed the processing of your return.

**When someone can sign for you.** You can appoint an agent to sign your return if you are:

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

**Power of attorney.** A return signed by an agent in any of these cases must have a power of attorney (POA) attached that authorizes the agent to sign for you. You can use a POA that states that the agent is granted authority to sign the return, or you can use Form 2848, Power of Attorney and Declaration of Representative. Part I of Form 2848 must state that the agent is granted authority to sign the return.

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

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

**Spouse unable to sign.** If your spouse is unable to sign for any reason, see *Signing a joint return* in chapter 2.

**Child's return.** If a child has to file a tax return but cannot sign the return, the child's parent, guardian, or another legally responsible person must sign the child's name, followed by the words "By (your signature), parent for minor child."

## Paid Preparer

Generally, anyone you pay to prepare, assist in preparing, or review your tax return must sign it and fill in the other blanks in the paid preparer's area of your return.

A paid preparer can sign the return manually or use a rubber stamp, mechanical device, or computer software program. The preparer is personally responsible for affixing his or her signature to the return.

If the preparer is self-employed (that is, not employed by any person or business to prepare the return), he or she should check the self-employed box in the *Paid Preparer's Use Only* space on the return.

The preparer must give you a copy of your return in addition to the copy filed with the IRS.

If you prepare your own return, leave this area blank. If another person prepares your return and does not charge you, that person should not sign your return.

If you have questions about whether a preparer must sign your return, contact any IRS office.

## Refunds

When you complete your return, you will determine if you paid more income tax than you owed. If so, you can get a refund of the amount you overpaid or, if you file Form 1040 or Form 1040A, you can choose to apply all or part of the overpayment to your next year's (2007) estimated tax. You cannot have your overpayment applied to your 2007 estimated tax if you file Form 1040EZ.



**CAUTION** *If you choose to have a 2006 overpayment applied to your 2007 estimated tax, you cannot change your mind and have any of it refunded to you after the due date (without extensions) of your 2006 return.*

Follow the form instructions to complete the entries to claim your refund and/or to apply your overpayment to your 2007 estimated tax.



**TIP** *If your refund for 2006 is large, you may want to decrease the amount of income tax withheld from your pay in 2007. See chapter 4 for more information.*



**DIRECT DEPOSIT** *Simple. Safe. Secure.* Instead of getting a paper check, you may be able to have your refund deposited directly into your account at a bank or other financial institution. Follow the form instructions to request direct deposit.

If the direct deposit cannot be done, the IRS will send a check instead.

**Split refunds.** If you choose direct deposit, you may be able to split the refund and have it deposited among two or three accounts. If you want to split your refund, check the box on the line for the amount you want refunded to you. Then, complete Form 8888, Direct Deposit of Refund to More Than One Account, and attach it to your return.

**Overpayment less than one dollar.** If your overpayment is less than one dollar, you will not get a refund unless you ask for it in writing.

**Cashing your refund check.** Cash your tax refund check soon after you receive it. Checks not cashed within 12 months of the date they are issued will be canceled and the proceeds returned to the IRS.

If your check has been canceled, you can apply to the IRS to have it reissued.

**Refund more or less than expected.** If you receive a check for a refund you are not entitled to, or for an overpayment that should have been credited to estimated tax, do not cash the check. Call the IRS.

If you receive a check for more than the refund you claimed, do not cash the check until you receive a notice explaining the difference.

If your refund check is for less than you claimed, it should be accompanied by a notice explaining the difference. Cashing the check

does not stop you from claiming an additional amount of refund.

If you did not receive a notice and you have any questions about the amount of your refund, you should wait 2 weeks. If you still have not received a notice, call the IRS.

**Offset against debts.** If you are due a refund but have not paid certain amounts you owe, all or part of your refund may be used to pay all or part of the past-due amount. This includes past-due federal income tax, other federal debts (such as student loans), state income tax, and child and spousal support payments. You will be notified if the refund you claimed has been offset against your debts.

**Joint return and injured spouse.** When a joint return is filed and only one spouse owes a past-due amount, the other spouse can be considered an injured spouse. An injured spouse can get a refund for his or her share of the overpayment that would otherwise be used to pay the past-due amount.

To be considered an injured spouse, you must:

1. File a joint return, and
2. Have reported income (such as wages, interest, etc.), or
3. Have made and reported tax payments (such as federal income tax withheld from wages or estimated tax payments), or claimed the earned income credit or other refundable credit, and
4. Not be legally obligated to pay the past-due amount.

**Note.** If the injured spouse's permanent home is in a community property state, then the injured spouse must only meet (1) and (4) above. For more information, see Publication 555, Community Property.

If you are an injured spouse, you must file Form 8379, Injured Spouse Allocation, to have your portion of the overpayment refunded to you. Follow the instructions for the form.

If you have not filed your joint return and you know that your joint refund will be offset, file Form 8379 with your return. You should receive your refund within 14 weeks from the date the paper return is filed or within 11 weeks from the date the return is filed electronically.

If you filed your joint return and your joint refund was offset, file Form 8379 by itself. When filed after offset, it can take up to 8 weeks to receive your refund. Do not attach the previously filed tax return, but do include copies of all Forms W-2 and W-2G for both spouses and any Forms 1099 that show income tax withheld. The processing of Form 8379 may be delayed if these forms are not attached, or if the form is incomplete when filed.

A separate Form 8379 must be filed for each tax year to be considered.



*An injured spouse claim is different from an innocent spouse relief request.*

*An injured spouse uses Form 8379 to request the division of the tax overpayment attributed to each spouse. An innocent spouse uses Form 8857, Request for Innocent Spouse Relief, to request relief from joint liability for tax, interest, and penalties on a joint return for items*

*of the other spouse (or former spouse) that were incorrectly reported on the joint return. For information on innocent spouses, see Relief from joint liability under Filing a Joint Return in chapter 2.*

## Amount You Owe

When you complete your return, you will determine if you have paid the full amount of tax that you owe. If you owe additional tax, you should pay it with your return.

If the IRS figures your tax for you, you will receive a bill for any tax that is due. You should pay this bill within 30 days (or by the due date of your return, if later). See *Tax Figured by IRS* in chapter 30.



*If you do not pay your tax when due, you may have to pay a failure-to-pay penalty. See Penalties, later. For more information about your balance due, see Publication 594, The IRS Collection Process.*



*If the amount you owe for 2006 is large, you may want to increase the amount of income tax withheld from your pay or make estimated tax payments for 2007. See chapter 4 for more information.*

## How To Pay

If you have an amount due on your tax return, you can pay by check, money order, or credit card. If you filed electronically, you also may be able to make your payment electronically.



*You do not have to pay if the amount you owe is less than \$1.*

**Check or money order.** If you pay by check or money order, make it out to the "United States Treasury." Show your correct name, address, SSN, daytime phone number, and the tax year and form number on the front of your check or money order. If you are filing a joint return, enter the SSN shown first on your tax return.

For example, if you file Form 1040 for 2006 and you owe additional tax, show your name, address, SSN, daytime phone number, and "2006 Form 1040" on the front of your check or money order. If you file an amended return (Form 1040X) for 2005 and you owe tax, show your name, address, SSN, daytime phone number, and "2005 Form 1040X" on the front of your check or money order.

Enclose your payment with your return, but do not attach it to the form. If you filed Form 1040, complete Form 1040-V, Payment Voucher, and enclose it with your payment and return. Form 1040-V will help us process your payment more accurately and efficiently. Follow the instructions that come with the form.

Do not mail cash with your return. If you pay cash at an IRS office, keep the receipt as part of your records.

**Payment not honored.** If your check or money order is not honored by your bank (or other financial institution) and the IRS does not receive the funds, you still owe the tax. In addition, you may be subject to a dishonored check penalty.

**Electronic payment options.** Electronic payment options are convenient, safe, and secure methods for paying individual income taxes. There's no check to write, money order to buy, or voucher to mail. Payments can be made 24 hours a day, 7 days a week.

**Credit card.** You can use your American Express® Card, Discover® Card, MasterCard® card, or Visa® card.

To pay by credit card, call a service provider and follow the recorded instructions. You can also pay by credit card over the Internet using a service provider's website.

The service providers charge a convenience fee based on the amount you are paying. Fees may vary between the providers. You will be told what the fee is during the transaction and will have the option to continue or end the transaction. You may also obtain the convenience fee by calling the service provider's automated customer service telephone number or visiting their respective website.



*Do not add the convenience fee to your tax payment.*

If you pay by credit card, write the confirmation number you were given at the end of the transaction and the tax payment amount in the upper left corner of page 1 of your tax return.

## Service Providers

### Official Payments Corporation

To make a payment, call . . . 1-800-2PAY-TAX<sup>SM</sup>  
or . . . . . 1-800-272-9829

For Customer Service . . . . . 1-877-754-4413

Web Address . . . . [www.officialpayments.com](http://www.officialpayments.com)

### Link2Gov Corporation

To make a payment, call . . . 1-888-PAY-1040<sup>SM</sup>  
or . . . . . 1-888-729-1040

For Customer Service . . . . . 1-888-658-5465

Web Address . . . . [www.PAY1040.com](http://www.PAY1040.com)

You can *e-file* and pay in a single step by authorizing a credit card payment. This option is available through some tax software packages and tax professionals. You can also pay by credit card using the telephone or the Internet.

**Electronic funds withdrawal.** You can *e-file* and pay in a single step by authorizing an electronic funds withdrawal from your checking or savings account. If you select this payment option, you will need to have your account number, your financial institution's routing transit number, and account type (checking or savings). You can schedule the payment for any future date up to and including the return due date.



*Be sure to check with your financial institution to make sure that an electronic funds withdrawal is allowed and to get the correct routing and account numbers.*

**Electronic Federal Tax Payment System (EFTPS).** EFTPS is a free tax payment system that all individual and business taxpayers can use. You can make payments online or by phone.

Here are just a few of the benefits of this easy-to-use system.

- Convenient and flexible. You can use it to schedule payments in advance. For example, you can schedule estimated tax payments (Form 1040-ES) or installment agreement payments weekly, monthly, or quarterly.
- Fast and accurate. You can make a tax payment in minutes. Because there are verification steps along the way, you can check and review your information before sending it.
- Safe and secure. It offers the highest available levels of security. Every transaction receives an immediate confirmation.

For more information or details on enrolling, visit [www.eftps.gov](http://www.eftps.gov) or call EFTPS Customer Service at 1-800-316-6541 (individual) or 1-800-555-4477 (business). TTY/TDD help is available by calling 1-800-733-4829.

**Estimated tax payments.** Do not include any 2007 estimated tax payment in the payment for your 2006 income tax return. See chapter 4 for information on how to pay estimated tax.

## Interest

Interest is charged on tax you do not pay by the due date of your return. Interest is charged even if you get an extension of time for filing.



*If the IRS figures your tax for you, interest cannot start earlier than the 31st day after the IRS sends you a bill. For information, see Tax Figured by IRS in chapter 30.*

**Interest on penalties.** Interest is charged on the failure-to-file penalty, the accuracy-related penalty, and the fraud penalty from the due date of the return (including extensions) to the date of payment. Interest on other penalties starts on the date of notice and demand, but is not charged on penalties paid within 21 calendar days from the date of the notice (or within 10 business days if the notice is for \$100,000 or more).

**Interest due to IRS error or delay.** All or part of any interest you were charged can be forgiven if the interest is due to an unreasonable error or delay by an officer or employee of the IRS in performing a ministerial or managerial act.

A ministerial act is a procedural or mechanical act that occurs during the processing of your case. A managerial act includes personnel transfers and extended personnel training. A decision concerning the proper application of federal tax law is not a ministerial or managerial act.

The interest can be forgiven only if you are not responsible in any important way for the error or delay and the IRS has notified you in writing of the deficiency or payment. For more information, see Publication 556, Examination

of Returns, Appeal Rights, and Claims for Refund.

Interest and certain penalties may also be suspended for a limited period if you filed your return by the due date (including extensions) and the IRS does not provide you with a notice specifically stating your liability and the basis for it before the close of the 18-month period beginning on the later of:

- The date the return is filed, or
- The due date of the return without regard to extensions.

For more information, see Publication 556.

## Installment Agreement

If you cannot pay the full amount due with your return, you can ask to make monthly installment payments for the full or a partial amount. However, you will be charged interest and may be charged a late payment penalty on the tax not paid by the date your return is due, even if your request to pay in installments is granted. If your request is granted, you must also pay a fee. To limit the interest and penalty charges, pay as much of the tax as possible with your return. But before requesting an installment agreement, you should consider other less costly alternatives, such as a bank loan.

To ask for an installment agreement, use Form 9465, Installment Agreement Request. You should receive a response to your request within 30 days. But if you file your return after March 31, it may take longer for a reply.

In addition to paying by check or money order, you can use a credit card or EFTPS to make installment agreement payments. See *Credit card* and *Electronic Federal Tax Payment System (EFTPS)*, under *How To Pay*, earlier.

**Guaranteed availability of installment agreement.** The IRS must agree to accept the full payment of your tax liability in installments if, as of the date you offer to enter into the agreement:

1. Your total taxes (not counting interest, penalties, additions to the tax, or additional amounts) do not exceed \$10,000,
2. In the last 5 years, you (and your spouse if the liability relates to a joint return) have not:
  - a. Failed to file any required income tax return,
  - b. Failed to pay any tax shown on any such return, or
  - c. Entered into an installment agreement for the payment of any income tax,
3. You show you cannot pay your income tax in full when due,
4. The tax will be paid in full in 3 years or less, and
5. You agree to comply with the tax laws while your agreement is in effect.

**Online payment agreement (OPA) application.** You may now be able to apply online for a payment agreement if you owe federal tax, interest, and penalties. If you have received a balance due notice from the IRS and you cannot

pay in full, you may request a payment agreement. The OPA application allows you, or your authorized representative, to self-qualify for and apply for a payment agreement, receive notification of approval, and arrange a payment schedule.

To use the OPA application, you must have filed all required tax returns. You should also have the following information available:

- Balance due notice from the IRS.
- Social security number or individual taxpayer identification number.
- Personal identification number, which can be established online using the caller identification number from the balance due notice.

For more information and to access the OPA application, go to [www.irs.gov](http://www.irs.gov), use the pull-down menu under "I need to..." and select "Set Up a Payment Plan."

## Gift To Reduce Debt Held by the Public



You can make a contribution (gift) to reduce debt held by the public. If you wish to do so, make a separate check payable to "Bureau of the Public Debt." Send your check to:

Bureau of the Public Debt  
Department G  
P.O. Box 2188  
Parkersburg, WV 26106-2188.

Or, enclose your separate check in the envelope with your income tax return. Do not add this gift to any tax you owe.

You can deduct this gift as a charitable contribution on next year's tax return if you itemize your deductions on Schedule A (Form 1040).

## Peel-Off Address Label

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

If you file electronically and you are not eligible or choose not to sign your return using your PIN, use your label on Form 8453 or 8453-OL. (More information on electronic filing is found earlier in this chapter.)

The label helps the IRS to correctly identify your account. It also saves processing costs and speeds up processing so that refunds can be issued sooner.



*You must write your SSN in the spaces provided on your tax return.*

**Correcting the label.** Make necessary name and address changes on the label. If you have an apartment number that is not shown on the label, please write it in. If you changed your

name, see the discussion under *Social Security Number*, earlier.

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

If you file Form 1040EZ and you do not have a label, print or type this information in the spaces provided.

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

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

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

Follow the country's practice for entering the postal code.

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## Where Do I File?

After you complete your return, you must send it to the IRS. You can mail it or you may be able to file it electronically. See *Does My Return Have To Be on Paper*, earlier.

**Mailing your return.** If an addressed envelope came with your tax forms package, you should mail your return in that envelope.

If you do not have an addressed envelope or if you moved during the year, mail your return to the address shown at the end of this publication for the area where you now live.

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## What Happens After I File?

After you send your return to the IRS, you may have some questions. This section discusses concerns you may have about recordkeeping, your refund, and what to do if you move.

## What Records Should I Keep?



You must keep records so that you can prepare a complete and accurate income tax return. The law does not require any special form of records. However, you should keep all receipts, canceled checks or other proof of payment, and any other records to support any deductions or credits you claim.

If you file a claim for refund, you must be able to prove by your records that you have overpaid your tax.

**How long to keep records.** You must keep your records for as long as they are important for the federal tax law.

Keep records that support an item of income or a deduction appearing on a return until the period of limitations for the return runs out. (A period of limitations is the period of time after which no legal action can be brought.) For assessment of tax you owe, this generally is 3 years from the date you filed the return. For filing a claim for credit or refund, this generally is 3 years from the date you filed the original return, or 2 years from the date you paid the tax, whichever is later. Returns filed before the due date are treated as filed on the due date.

If you did not report income that you should have reported on your return, and it is more than 25% of the income shown on the return, the period of limitations does not run out until 6 years after you filed the return. If a return is false or fraudulent with intent to evade tax, or if no return is filed, an action can generally be brought at any time.

You may need to keep records relating to the basis of property longer than the period of limitations. Keep those records as long as they are important in figuring the basis of the original or replacement property. Generally, this means for as long as you own the property and, after you dispose of it, for the period of limitations that applies to you. See chapter 13 for information on basis.

**Note.** If you receive a Form W-2, keep Copy C until you begin receiving social security benefits. This will help protect your benefits in case there is a question about your work record or earnings in a particular year. Review the information shown on your annual (for workers over age 25) Social Security Statement.

**Copies of returns.** You should keep copies of tax returns you have filed and the tax forms package as part of your records. They may be helpful in amending filed returns or preparing future ones.

If you need a copy of a prior year tax return, you can get it from the IRS. Use Form 4506, Request for Copy of Tax Return. There is a charge for a copy of a return, which you must pay with Form 4506. It may take up to 60 days to process your request.



*If your main home, principal place of business, or tax records are located in a Presidentially declared disaster area, the charge will be waived.*

**Transcript of tax return.** If you just need information from your return, you can order a transcript by calling 1-800-829-1040, or using Form 4506-T, Request for Transcript of Tax Return. There is no fee for a transcript.

You can request the following items.

**Return transcript.** This includes most of the line items of a tax return as filed with the IRS. Return transcripts are available for the current year and returns processed during the prior 3 processing years. Most requests will be processed within 10 business days.

**Account transcript.** This contains information on the financial status of the account, such as payments made on the account, penalty assessments, and adjustments made by you or the IRS after the return was filed. Return information is limited to items such as tax liability and estimated tax payments. Account transcripts are available for most returns. Most requests will be processed within 20 business days.

**Record of account.** This is a combination of line item information and later adjustments to the account. This information is available for the current year and 3 prior tax years. Most requests will be processed within 20 business days.

**More information.** For more information on recordkeeping, see Publication 552, Recordkeeping for Individuals.

## Interest on Refunds

If you are due a refund, you may get interest on it. The interest rates are adjusted quarterly.

If the refund is made within 45 days after the due date of your return, no interest will be paid. If you file your return after the due date (including extensions), no interest will be paid if the refund is made within 45 days after the date you filed. If the refund is not made within this 45-day period, interest will be paid from the due date of the return or from the date you filed, whichever is later.

Accepting a refund check does not change your right to claim an additional refund and interest. File your claim within the period of time that applies. See *Amended Returns and Claims for Refund*, later. If you do not accept a refund check, no more interest will be paid on the overpayment included in the check.

**Interest on erroneous refund.** All or part of any interest you were charged on an erroneous refund generally will be forgiven. Any interest charged for the period before demand for repayment was made will be forgiven unless:

1. You, or a person related to you, caused the erroneous refund in any way, or
2. The refund is more than \$50,000.

For example, if you claimed a refund of \$100 on your return, but the IRS made an error and sent you \$1,000, you would not be charged interest for the time you held the \$900 difference. You must, however, repay the \$900 when the IRS asks.

## Past-Due Refund

You can check on the status of your 2006 refund if it has been at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Be sure to have a copy of your 2006 tax return available because you will need to know the filing status, the first SSN shown on the return, and the exact whole-dollar amount of the refund. To check on your refund, do one of the following.

- Go to [www.irs.gov](http://www.irs.gov), and click on "Where's My Refund."
- Call 1-800-829-4477 24 hours a day, 7 days a week for automated refund information.

- Call 1-800-829-1954 during the hours shown in your form instructions.

## Change of Address

If you have moved, file your return using your new address.

If you move after you filed your return, you should give the IRS clear and concise written notification of your change of address. Send the notification to the Internal Revenue Service Center serving your old address. You can use Form 8822, Change of Address. If you are expecting a refund, also notify the post office serving your old address. This will help in forwarding your check to your new address (unless you chose direct deposit of your refund). If you are affected by a Presidentially declared disaster, you may be able to change your address with the IRS orally.

Be sure to include your SSN (and the name and SSN of your spouse, if you filed a joint return) in any correspondence with the IRS.

## What If I Made a Mistake?

Errors may delay your refund or result in notices being sent to you. If you discover an error, you can file an amended return or claim for refund.

## Amended Returns and Claims for Refund

You should correct your return if, after you have filed it, you find that:

1. You did not report some income,
2. You claimed deductions or credits you should not have claimed,
3. You did not claim deductions or credits you could have claimed, or
4. You should have claimed a different filing status. (Once you file a joint return, you cannot choose to file separate returns for that year after the due date of the return. However, an executor may be able to make this change for a deceased spouse.)

If you need a copy of your return, see *Copies of returns* under *What Records Should I Keep*, earlier in this chapter.

**Form 1040X.** Use Form 1040X, Amended U.S. Individual Income Tax Return, to correct a return you have already filed. An amended tax return cannot be filed electronically under the e-file system.

**Completing Form 1040X.** On Form 1040X, write your income, deductions, and credits as you originally reported them on your return, the changes you are making, and the corrected amounts. Then figure the tax on the corrected amount of taxable income and the amount you owe or your refund.

If you owe tax, pay the full amount with Form 1040X. The tax owed will not be subtracted from any amount you had credited to your estimated tax.

If you cannot pay the full amount due with your return, you can ask to make monthly installment payments. See *Installment Agreement*, earlier.

If you overpaid tax, you can have all or part of the overpayment refunded to you, or you can apply all or part of it to your estimated tax. If you choose to get a refund, it will be sent separately from any refund shown on your original return.

**Filing Form 1040X.** After you finish your Form 1040X, check it to be sure that it is complete. Do not forget to show the year of your original return and explain all changes you made. Be sure to attach any forms or schedules needed to explain your changes. Mail your Form 1040X to the Internal Revenue Service Center serving the area where you now live (as shown in the instructions to the form). However, if you are filing Form 1040X in response to a notice you received from the IRS, mail it to the address shown on the notice. Do not use the addresses listed at the end of this publication.

File a separate form for each tax year involved.

**Time for filing a claim for refund.** Generally, you must file your claim for a credit or refund within 3 years after the date you filed your original return or within 2 years after the date you paid the tax, whichever is later. Returns filed before the due date (without regard to extensions) are considered filed on the due date (even if the due date was a Saturday, Sunday, or legal holiday). These time periods are suspended while you are financially disabled, discussed later.

If the last day for claiming a credit or refund is a Saturday, Sunday, or legal holiday, you can file the claim on the next business day.

If you do not file a claim within this period, you may not be entitled to a credit or a refund.

**Late-filed return.** If you were due a refund but you did not file a return, you generally must file your return within 3 years from the date the return was due (including extensions) to get that refund. Generally, your return must be postmarked no later than 3 years from the date the return was due (including extensions). For information on postmarks, see *Filing on time*, under *When Do I Have To File*, earlier.

**Limit on amount of refund.** If you file your claim within 3 years after the date you filed your return, the credit or refund cannot be more than the part of the tax paid within the 3-year period (plus any extension of time for filing your return) immediately before you filed the claim. This time period is suspended while you are financially disabled, discussed later.

**Tax paid.** Payments, including estimated tax payments, made before the due date (without regard to extensions) of the original return are considered paid on the due date. For example, income tax withheld during the year is considered paid on the due date of the return, April 15 for most taxpayers.

**Example 1.** You made estimated tax payments of \$500 and got an automatic extension of time to August 16, 2004, to file your 2003 income tax return. When you filed your return on that date, you paid an additional \$200 tax. On August 15, 2007, you filed an amended return and claimed a refund of \$700. Because you filed

your claim within 3 years after you filed your original return, you can get a refund of up to \$700, the tax paid within the 3 years plus the 4-month extension period immediately before you filed the claim.

**Example 2.** The situation is the same as in *Example 1*, except you filed your return on October 27, 2004, 2½ months after the extension period ended. You paid an additional \$200 on that date. On October 29, 2007, you filed an amended return and claimed a refund of \$700. Although you filed your claim within 3 years from the date you filed your original return, the refund was limited to \$200, the tax paid within the 3 years plus the 4-month extension period immediately before you filed the claim. The estimated tax of \$500 paid before that period cannot be refunded or credited.

**If you file a claim more than 3 years after you file your return,** the credit or refund cannot be more than the tax you paid within the 2 years immediately before you file the claim.

**Example.** You filed your 2003 tax return on April 15, 2004. You paid taxes of \$500. On November 3, 2005, after an examination of your 2003 return, you had to pay an additional tax of \$200. On May 10, 2007, you file a claim for a refund of \$300. However, because you filed your claim more than 3 years after you filed your return, your refund will be limited to the \$200 you paid during the 2 years immediately before you filed your claim.

**Financially disabled.** The time periods for claiming a refund are suspended for the period in which you are financially disabled. For a joint income tax return, only one spouse has to be financially disabled for the time period to be suspended. You are financially disabled if you are unable to manage your financial affairs because of a medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. However, you are not treated as financially disabled during any period your spouse or any other person is authorized to act on your behalf in financial matters.

To claim that you are financially disabled, you must send in the following written statements with your claim for refund.

1. A statement from your qualified physician that includes:
  - a. The name and a description of your physical or mental impairment,
  - b. The physician's medical opinion that the impairment prevented you from managing your financial affairs,
  - c. The physician's medical opinion that the impairment was or can be expected to result in death, or that its duration has lasted, or can be expected to last, at least 12 months,
  - d. The specific time period (to the best of the physician's knowledge), and
  - e. The following certification signed by the physician: "I hereby certify that, to the best of my knowledge and belief, the

above representations are true, correct, and complete.”

2. A statement made by the person signing the claim for credit or refund that no person, including your spouse, was authorized to act on your behalf in financial matters during the period of disability (or the exact dates that a person was authorized to act for you).

**Exceptions for special types of refunds.** If you file a claim for one of the items listed below, the dates and limits discussed earlier may not apply. These items, and where to get more information, are as follows.

- Bad debt. (See *Nonbusiness Bad Debts* in chapter 14.)
- Worthless security. (See *Worthless securities* in chapter 14.)
- Foreign tax paid or accrued. (See Publication 514, *Foreign Tax Credit for Individuals*.)
- Net operating loss carryback. (See Publication 536, *Net Operating Losses (NOLs) for Individuals, Estates, and Trusts*.)
- Carryback of certain business tax credits. (See Form 3800, *General Business Credit*.)
- Claim based on an agreement with the IRS extending the period for assessment of tax.

**Processing claims for refund.** Claims are usually processed shortly after they are filed. Your claim may be accepted as filed, disallowed, or subject to examination. If a claim is examined, the procedures are the same as in the examination of a tax return.

If your claim is disallowed, you will receive an explanation of why it was disallowed.

**Taking your claim to court.** You can sue for a refund in court, but you must first file a timely claim with the IRS. If the IRS disallows your claim or does not act on your claim within 6 months after you file it, you can then take your claim to court. For information on the burden of proof in a court proceeding, see Publication 556.

The IRS provides a fast method to move your claim to court if:

- You are filing a claim for a credit or refund based solely on contested income tax or on estate tax or gift tax issues considered in your previously examined returns, and
- You want to take your case to court instead of appealing it within the IRS.

When you file your claim with the IRS, you get the fast method by requesting in writing that your claim be immediately rejected. A notice of claim disallowance will then be promptly sent to you.

You have 2 years from the date of mailing of the notice of claim disallowance to file a refund suit in the United States District Court having jurisdiction or in the United States Court of Federal Claims.

**Interest on refund.** If you receive a refund because of your amended return, interest will be paid on it from the due date of your original

return or the date you filed your original return, whichever is later, to the date you filed the amended return. However, if the refund is not made within 45 days after you file the amended return, interest will be paid up to the date the refund is paid.

**Reduced refund.** Your refund may be reduced by an additional tax liability that has been assessed against you.

Also, your refund may be reduced by amounts you owe for past-due child support, debts to another federal agency, or for state tax. If your spouse owes these debts, see *Offset against debts*, under *Refunds*, earlier, for the correct refund procedures to follow.

**Effect on state tax liability.** If your return is changed for any reason, it may affect your state income tax liability. This includes changes made as a result of an examination of your return by the IRS. Contact your state tax agency for more information.

## Penalties

The law provides penalties for failure to file returns or pay taxes as required.

### Civil Penalties

If you do not file your return and pay your tax by the due date, you may have to pay a penalty. You may also have to pay a penalty if you substantially understate your tax, understate a reportable transaction, file a frivolous return, or fail to supply your SSN or individual taxpayer identification number. If you provide fraudulent information on your return, you may have to pay a civil fraud penalty.

**Filing late.** If you do not file your return by the due date (including extensions), you may have to pay a failure-to-file penalty. The penalty is usually 5% for each month or part of a month that a return is late, but not more than 25%. The penalty is based on the tax not paid by the due date (without regard to extensions).

**Fraud.** If your failure to file is due to fraud, the penalty is 15% for each month or part of a month that your return is late, up to a maximum of 75%.

**Return over 60 days late.** If you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of \$100 or 100% of the unpaid tax.

**Exception.** You will not have to pay the penalty if you show that you failed to file on time because of reasonable cause and not because of willful neglect.

**Paying tax late.** You will have to pay a failure-to-pay penalty of 1/2 of 1% (.50%) of your unpaid taxes for each month, or part of a month, after the due date that the tax is not paid. This penalty does not apply during the automatic 6-month extension of time to file period if you paid at least 90% of your actual tax liability on or before the due date of your return and pay the balance when you file the return.

The monthly rate of the failure-to-pay penalty is half the usual rate (.25% instead of .50%) if an installment agreement is in effect for that month. You must have filed your return by the due date

(including extensions) to qualify for this reduced penalty.

If a notice of intent to levy is issued, the rate will increase to 1% at the start of the first month beginning at least 10 days after the day that the notice is issued. If a notice and demand for immediate payment is issued, the rate will increase to 1% at the start of the first month beginning after the day that the notice and demand is issued.

This penalty cannot be more than 25% of your unpaid tax. You will not have to pay the penalty if you can show that you had a good reason for not paying your tax on time.

**Combined penalties.** If both the failure-to-file penalty and the failure-to-pay penalty (discussed earlier) apply in any month, the 5% (or 15%) failure-to-file penalty is reduced by the failure-to-pay penalty. However, if you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of \$100 or 100% of the unpaid tax.

**Accuracy-related penalty.** You may have to pay an accuracy-related penalty if you underpay your tax because:

1. You show negligence or disregard of the rules or regulations, or
2. You substantially understate your income tax.

The penalty is equal to 20% of the underpayment. The penalty will not be figured on any part of an underpayment on which the fraud penalty (discussed later) is charged.

**Negligence or disregard.** The term “negligence” includes a failure to make a reasonable attempt to comply with the tax law or to exercise ordinary and reasonable care in preparing a return. Negligence also includes failure to keep adequate books and records. You will not have to pay a negligence penalty if you have a reasonable basis for a position you took.

The term “disregard” includes any careless, reckless, or intentional disregard.

**Adequate disclosure.** You can avoid the penalty for disregard of rules or regulations if you adequately disclose on your return a position that has at least a reasonable basis. See *Disclosure statement*, later.

This exception will not apply to an item that is attributable to a tax shelter. In addition, it will not apply if you fail to keep adequate books and records, or substantiate items properly.

**Substantial understatement of income tax.** You understate your tax if the tax shown on your return is less than the correct tax. The understatement is substantial if it is more than the larger of 10% of the correct tax or \$5,000. However, the amount of the understatement may be reduced to the extent the understatement is due to:

1. Substantial authority, or
2. Adequate disclosure and a reasonable basis.

If an item on your return is attributable to a tax shelter, there is no reduction for an adequate disclosure. However, there is a reduction for a position with substantial authority, but only if you reasonably believed that your tax treatment was more likely than not the proper treatment.

**Substantial authority.** Whether there is or was substantial authority for the tax treatment of an item depends on the facts and circumstances. Some of the items that may be considered are court opinions, Treasury regulations, revenue rulings, revenue procedures, and notices and announcements issued by the IRS and published in the Internal Revenue Bulletin that involve the same or similar circumstances as yours.

**Disclosure statement.** To adequately disclose the relevant facts about your tax treatment of an item, use Form 8275, Disclosure Statement. You must also have a reasonable basis for treating the item the way you did.

In cases of substantial understatement only, items that meet the requirements of Revenue Procedure 2005-75 (or later update) are considered adequately disclosed on your return without filing Form 8275.

Use Form 8275-R, Regulation Disclosure Statement, to disclose items or positions contrary to regulations.

**Reasonable cause.** You will not have to pay a penalty if you show a good reason (reasonable cause) for the way you treated an item. You must also show that you acted in good faith.

**Frivolous return.** You may have to pay a penalty of \$500 if you file a frivolous return. A frivolous return is one that does not include enough information to figure the correct tax or that contains information clearly showing that the tax you reported is substantially incorrect.

You will have to pay the penalty if you filed this kind of return because of a frivolous position on your part or a desire to delay or interfere with the administration of federal income tax laws. This includes altering or striking out the preprinted language above the space provided for your signature.

This penalty is added to any other penalty provided by law.

The penalty must be paid in full upon notice and demand from IRS even if you protest the penalty.

**Fraud.** If there is any underpayment of tax on your return due to fraud, a penalty of 75% of the underpayment due to fraud will be added to your tax.

**Joint return.** The fraud penalty on a joint return does not apply to a spouse unless some part of the underpayment is due to the fraud of that spouse.

**Failure to supply social security number.** If you do not include your SSN or the SSN of another person where required on a return, statement, or other document, you will be subject to a penalty of \$50 for each failure. You will also be subject to a penalty of \$50 if you do not give your SSN to another person when it is required on a return, statement, or other document.

For example, if you have a bank account that earns interest, you must give your SSN to the bank. The number must be shown on the Form 1099-INT or other statement the bank sends you. If you do not give the bank your SSN, you will be subject to the \$50 penalty. (You also may be subject to “backup” withholding of income tax. See chapter 4.)

You will not have to pay the penalty if you are able to show that the failure was due to reasonable cause and not willful neglect.

**Report tax shelter registration number.** If you claim any deduction, credit, or other tax benefit because of a tax shelter, you must attach Form 8271, Investor Reporting of Tax Shelter Registration Number, to your return to report your tax shelter registration number.

## Criminal Penalties

You may be subject to criminal prosecution (brought to trial) for actions such as:

1. Tax evasion,
2. Willful failure to file a return, supply information, or pay any tax due,
3. Fraud and false statements, or
4. Preparing and filing a fraudulent return.

## 2.

# Filing Status

## Introduction

This chapter helps you determine which filing status to use. There are five filing statuses.

- Single.
- Married Filing Jointly.
- Married Filing Separately.
- Head of Household.
- Qualifying Widow(er) With Dependent Child.



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

You must determine your filing status before you can determine your filing requirements (chapter 1), standard deduction (chapter 20), and correct tax (chapter 30). You also use your filing status in determining whether you are eligible to claim certain deductions and credits.

## Useful Items

You may want to see:

### Publication

- 501** Exemptions, Standard Deduction, and Filing Information
- 519** U.S. Tax Guide for Aliens
- 555** Community Property

# Marital Status

In general, your filing status depends on whether you are considered unmarried or married. For federal tax purposes, a marriage means only a legal union between a man and a woman as husband and wife.

**Unmarried persons.** You are considered unmarried for the whole year if, on the last day of your tax year, you are unmarried or legally separated from your spouse under a divorce or separate maintenance decree. State law governs whether you are married or legally separated under a divorce or separate maintenance decree.

**Divorced persons.** If you are divorced under a final decree by the last day of the year, you are considered unmarried for the whole year.

**Divorce and remarriage.** If you obtain a divorce in one year for the sole purpose of filing tax returns as unmarried individuals, and at the time of divorce you intended to and did remarry each other in the next tax year, you and your spouse must file as married individuals.

**Annulled marriages.** If you obtain a court decree of annulment, which holds that no valid marriage ever existed, you are considered unmarried even if you filed joint returns for earlier years. You must file Form 1040X, Amended U.S. Individual Income Tax Return, claiming single or head of household status for each tax year affected by the annulment that is not closed by the statute of limitations for filing a tax return. The statute of limitations generally does not expire until 3 years after your original return was filed.

**Head of household or qualifying widow(er) with dependent child.** If you are considered unmarried, you may be able to file as a head of household or as a qualifying widow(er) with a dependent child. See *Head of Household and Qualifying Widow(er) With Dependent Child* to see if you qualify.

**Married persons.** If you are considered married for the whole year, you and your spouse can file a joint return, or you can file separate returns.

**Considered married.** You are considered married for the whole year if on the last day of your tax year you and your spouse meet any one of the following tests.

1. You are married and living together as husband and wife.
2. You are living together in a common law marriage that is recognized in the state where you now live or in the state where the common law marriage began.
3. You are married and living apart, but not legally separated under a decree of divorce or separate maintenance.
4. You are separated under an interlocutory (not final) decree of divorce. For purposes of filing a joint return, you are not considered divorced.

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

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

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

**Married persons living apart.** If you live apart from your spouse and meet certain tests, you may be considered unmarried. If this applies to you, you can file as head of household even though you are not divorced or legally separated. If you qualify to file as head of household instead of as married filing separately, your standard deduction will be higher. Also, your tax may be lower, and you may be able to claim the earned income credit. See *Head of Household*, later.

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## Single

Your filing status is single if, on the last day of the year, you are unmarried or legally separated from your spouse under a divorce or separate maintenance decree, and you do not qualify for another filing status. To determine your marital status on the last day of the year, see *Marital Status*, earlier.

**Widow(er).** Your filing status may be single if you were widowed before January 1, 2006, and did not remarry before the end of 2006. However, you might be able to use another filing status that will give you a lower tax. See *Head of Household* and *Qualifying Widow(er) With Dependent Child*, later, to see if you qualify.

**How to file.** You can file Form 1040EZ (if you have no dependents, are under 65 and not blind, and meet other requirements), Form 1040A, or Form 1040. If you file Form 1040A or Form 1040, show your filing status as single by checking the box on line 1. Use the *Single* column of the Tax Table or Section A of the Tax Computation Worksheet to figure your tax.

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## Married Filing Jointly

You can choose married filing jointly as your filing status if you are married and both you and your spouse agree to file a joint return. On a joint return, you report your combined income and deduct your combined allowable expenses. You can file a joint return even if one of you had no income or deductions.

If you and your spouse decide to file a joint return, your tax may be lower than your combined tax for the other filing statuses. Also, your standard deduction (if you do not itemize deductions) may be higher, and you may qualify for tax benefits that do not apply to other filing statuses.



**TIP** *If you and your spouse each have income, you may want to figure your tax both on a joint return and on separate returns (using the filing status of married filing separately). Choose the method that gives the two of you the lower combined tax.*

**How to file.** If you file as married filing jointly, you can use Form 1040 or Form 1040A. If you have no dependents, are under 65 and not blind, and meet other requirements, you can file Form 1040EZ. If you file Form 1040 or Form 1040A, show this filing status by checking the box on line 2. Use the *Married filing jointly* column of the Tax Table or Section B of the Tax Computation Worksheet to figure your tax.

**Spouse died during the year.** If your spouse died during the year, you are considered married for the whole year and can choose married filing jointly as your filing status. See *Spouse died*, earlier, for more information.

**Divorced persons.** If you are divorced under a final decree by the last day of the year, you are considered unmarried for the whole year and you cannot choose married filing jointly as your filing status.

## Filing a Joint Return

Both you and your spouse must include all of your income, exemptions, and deductions on your joint return.

**Accounting period.** Both of you must use the same accounting period, but you can use different accounting methods. See *Accounting Periods* and *Accounting Methods* in chapter 1.

**Joint responsibility.** Both of you may be held responsible, jointly and individually, for the tax and any interest or penalty due on your joint return. One spouse may be held responsible for all the tax due even if all the income was earned by the other spouse.

**Divorced taxpayer.** You may be held jointly and individually responsible for any tax, interest, and penalties due on a joint return filed before your divorce. This responsibility may apply even if your divorce decree states that your former spouse will be responsible for any amounts due on previously filed joint returns.

**Relief from joint liability.** In some cases, one spouse may be relieved of joint liability for tax, interest, and penalties on a joint return for items of the other spouse that were incorrectly reported on the joint return. You can ask for relief no matter how small the liability.

There are three types of relief available.

1. Innocent spouse relief, which applies to all joint filers.
2. Separation of liability, which applies to joint filers who are divorced, widowed, legally separated, or have not lived together for the 12 months ending on the date election of this relief is filed.
3. Equitable relief, which applies to all joint filers who do not qualify for innocent spouse relief or separation of liability and to married couples filing separate returns in community property states.

You must file Form 8857, Request for Innocent Spouse Relief, to request any of these kinds of relief. Publication 971, Innocent Spouse Relief, explains these kinds of relief and who may qualify for them.

**Signing a joint return.** For a return to be considered a joint return, both husband and wife generally must sign the return.

**Spouse died before signing.** If your spouse died before signing the return, the executor or administrator must sign the return for your spouse. If neither you nor anyone else has yet been appointed as executor or administrator, you can sign the return for your spouse and enter "Filing as surviving spouse" in the area where you sign the return.

**Spouse away from home.** If your spouse is away from home, you should prepare the return, sign it, and send it to your spouse to sign so that it can be filed on time.

**Injury or disease prevents signing.** If your spouse cannot sign because of disease or injury and tells you to sign, you can sign your spouse's name in the proper space on the return followed by the words "By (your name), Husband (or Wife)." Be sure to also sign in the space provided for your signature. Attach a dated statement, signed by you, to the return. The statement should include the form number of the return you are filing, the tax year, the reason your spouse cannot sign, and that your spouse has agreed to your signing for him or her.

**Signing as guardian of spouse.** If you are the guardian of your spouse who is mentally incompetent, you can sign the return for your spouse as guardian.

**Spouse in combat zone.** If your spouse is unable to sign the return because he or she is serving in a combat zone (such as the Persian Gulf Area, Yugoslavia, or Afghanistan), or a qualified hazardous duty area (Bosnia and Herzegovina, Croatia, and Macedonia), and you do not have a power of attorney or other statement, you can sign for your spouse. Attach a signed statement to your return that explains that your spouse is serving in a combat zone. For more information on special tax rules for persons who are serving in a combat zone, or who are in missing status as a result of serving in a combat zone, get Publication 3, Armed Forces' Tax Guide.

**Other reasons spouse cannot sign.** If your spouse cannot sign the joint return for any other reason, you can sign for your spouse only if you are given a valid power of attorney (a legal document giving you permission to act for your spouse). Attach the power of attorney (or a copy of it) to your tax return. You can use Form 2848, Power of Attorney and Declaration of Representative.

**Nonresident alien or dual-status alien.** A joint return generally cannot be filed if either spouse is a nonresident alien at any time during the tax year. However, if one spouse was a nonresident alien or dual-status alien who was married to a U.S. citizen or resident alien at the end of the year, the spouses can choose to file a joint return. If you do file a joint return, you and your spouse are both treated as U.S. residents for the entire tax year. For information on this choice, see chapter 1 of Publication 519.

## Married Filing Separately

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

If you and your spouse do not agree to file a joint return, you may have to use this filing status unless you qualify for head of household status, discussed next.

You may be able to choose head of household filing status if you live apart from your spouse, meet certain tests, and are considered unmarried (explained later, under *Head of Household*). This can apply to you even if you are not divorced or legally separated. If you qualify to file as head of household, instead of as married filing separately, your tax may be lower, you may be able to claim the earned income credit and certain other credits, and your standard deduction will be higher. The head of household filing status allows you to choose the standard deduction even if your spouse chooses to itemize deductions. See *Head of Household*, later, for more information.

**TIP** Unless you are required to file separately, you should figure your tax both ways (on a joint return and on separate returns). This way you can make sure you are using the filing status that results in the lowest combined tax. However, you will generally pay more combined tax on separate returns than you would on a joint return for the reasons listed under Special Rules, later.

**How to file.** If you file a separate return, you generally report only your own income, exemptions, credits, and deductions on your individual return. You can claim an exemption for your spouse if your spouse had no gross income and was not the dependent of another person. However, if your spouse had any gross income or was the dependent of someone else, you cannot claim an exemption for him or her on your separate return.

If you file as married filing separately, you can use Form 1040A or Form 1040. Select this filing status by checking the box on line 3 of either form. You also must enter your spouse's social security number and full name in the spaces provided. Use the *Married filing separately* column of the Tax Table or Section C of the Tax Computation Worksheet to figure your tax.

## Special Rules

If you choose married filing separately as your filing status, the following special rules apply. Because of these special rules, you will usually pay more tax on a separate return than if you used another filing status that you qualify for.

1. Your tax rate generally will be higher than it would be on a joint return.
2. Your exemption amount for figuring the alternative minimum tax will be half that allowed to a joint return filer.

3. You cannot take the credit for child and dependent care expenses in most cases, and the amount that you can exclude from income under an employer's dependent care assistance program is limited to \$2,500 (instead of \$5,000 if you filed a joint return). For more information about these expenses, the credit, and the exclusion, see chapter 32.
4. You cannot take the earned income credit.
5. You cannot take the exclusion or credit for adoption expenses in most cases.
6. You cannot take the education credits (the Hope credit and the lifetime learning credit), or the deduction for student loan interest.
7. You cannot exclude any interest income from qualified U.S. savings bonds that you used for higher education expenses.
8. If you lived with your spouse at any time during the tax year:
  - a. You cannot claim the credit for the elderly or the disabled.
  - b. You will have to include in income more (up to 85%) of any social security or equivalent railroad retirement benefits you received, and
  - c. You cannot roll over amounts from a traditional IRA into a Roth IRA.
9. The following deductions and credits are reduced at income levels that are half those for a joint return:
  - a. The child tax credit,
  - b. The retirement savings contributions credit,
  - c. Itemized deductions, and
  - d. The deduction for personal exemptions.
10. Your capital loss deduction limit is \$1,500 (instead of \$3,000 if you filed a joint return).
11. If your spouse itemizes deductions, you cannot claim the standard deduction. If you can claim the standard deduction, your basic standard deduction is half the amount allowed on a joint return.

### Individual retirement arrangements (IRAs).

You may not be able to deduct all or part of your contributions to a traditional IRA if you or your spouse were covered by an employee retirement plan at work during the year. Your deduction is reduced or eliminated if your income is more than a certain amount. This amount is much lower for married individuals who file separately and lived together at any time during the year. For more information, see *How Much Can You Deduct* in chapter 17.

**Rental activity losses.** If you actively participated in a passive rental real estate activity that produced a loss, you generally can deduct the loss from your nonpassive income, up to \$25,000. This is called a special allowance. However, married persons filing separate returns who lived together at any time during the

year cannot claim this special allowance. Married persons filing separate returns who lived apart at all times during the year are each allowed a \$12,500 maximum special allowance for losses from passive real estate activities. See *Limits on Rental Losses* in chapter 9.

**Community property states.** If you live in Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, or Wisconsin and file separately, your income may be considered separate income or community income for income tax purposes. See Publication 555.

## Joint Return After Separate Returns

You can change your filing status by filing an amended return using Form 1040X.

If you or your spouse (or both of you) file a separate return, you generally can change to a joint return any time within 3 years from the due date of the separate return or returns. This does not include any extensions. A separate return includes a return filed by you or your spouse claiming married filing separately, single, or head of household filing status.

## Separate Returns After Joint Return

Once you file a joint return, you cannot choose to file separate returns for that year after the due date of the return.

**Exception.** A personal representative for a decedent can change from a joint return elected by the surviving spouse to a separate return for the decedent. The personal representative has 1 year from the due date of the return (including extensions) to make the change. See Publication 559, *Survivors, Executors, and Administrators*, for more information on filing a return for a decedent.

## Head of Household

You may be able to file as head of household if you meet all the following requirements.

1. You are unmarried or "considered unmarried" on the last day of the year.
2. You paid more than half the cost of keeping up a home for the year.
3. A "qualifying person" lived with you in the home for more than half the year (except for temporary absences, such as school). However, if the "qualifying person" is your dependent parent, he or she does not have to live with you. See *Special rule for parent*, later, under *Qualifying Person*.

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

**Kidnapped child.** A child may qualify you to file as head of household even if the child has

been kidnapped. For more information, see Publication 501.

**How to file.** If you file as head of household, you can use either Form 1040A or Form 1040. Indicate your choice of this filing status by checking the box on line 4 of either form. Use the *Head of household* column of the Tax Table or Section D of the Tax Computation Worksheet to figure your tax.

## Considered Unmarried

To qualify for head of household status, you must be either unmarried or considered unmarried on the last day of the year. You are considered unmarried on the last day of the tax year if you meet all the following tests.

1. You file a separate return, defined earlier under *Joint Return After Separate Returns*.
2. You paid more than half the cost of keeping up your home for the tax year.
3. Your spouse did not live in your home during the last 6 months of the tax year. Your spouse is considered to live in your home

even if he or she is temporarily absent due to special circumstances. See *Temporary absences*, under *Qualifying Person*, later.

4. Your home was the main home of your child, stepchild, or eligible foster child for more than half the year. (See *Home of qualifying person*, under *Qualifying Person*, later, for rules applying to a child's birth, death, or temporary absence during the year.)
5. You must be able to claim an exemption for the child. However, you meet this test if you cannot claim the exemption only because the noncustodial parent can claim the child using the rules described in *Children of divorced or separated parents* under *Qualifying Child* in chapter 3, or in *Support Test for Children of Divorced or Separated Parents* under *Qualifying Relative* in chapter 3. The general rules for claiming an exemption for a dependent are explained under *Exemptions for Dependents* in chapter 3.



If you were considered married for part of the year and lived in a community property state (listed earlier under *Married Filing Separately*), special rules may apply in determining your income and expenses. See Publication 555 for more information.

**Nonresident alien spouse.** You are considered unmarried for head of household purposes if your spouse was a nonresident alien at any time during the year and you do not choose to treat your nonresident spouse as a resident alien. However, your spouse is not a qualifying person for head of household purposes. You must have another qualifying person and meet the other tests to be eligible to file as a head of household.

**Earned income credit.** Even if you are considered unmarried for head of household purposes because you are married to a nonresident alien, you are still considered married for purposes of the earned income credit (unless you meet the five tests listed earlier). You are not entitled to the credit unless you file a joint return with your spouse and meet other qualifications. See chapter 36 for more information.

Table 2-1. Who Is a Qualifying Person Qualifying You To File as Head of Household?<sup>1</sup>

**Caution.** See the text of this publication for the other requirements you must meet to claim head of household filing status.

IF the person is your . . .	AND . . .	THEN that person is . . .
qualifying child (such as a son, daughter, or grandchild who lived with you more than half the year and meets certain other tests) <sup>2</sup>	he or she is single	a qualifying person, whether or not you can claim an exemption for the person.
	he or she is married <u>and</u> you can claim an exemption for him or her	a qualifying person.
	he or she is married <u>and</u> you cannot claim an exemption for him or her	not a qualifying person. <sup>3</sup>
qualifying relative <sup>4</sup> who is your father or mother	you can claim an exemption for him or her <sup>5</sup>	a qualifying person. <sup>6</sup>
	you cannot claim an exemption for him or her	not a qualifying person.
qualifying relative <sup>4</sup> other than your father or mother (such as a grandparent, brother, or sister who meets certain tests) <sup>7</sup>	he or she lived with you more than half the year, <u>and</u> you can claim an exemption for him or her <sup>5</sup>	a qualifying person.
	he or she did not live with you more than half the year	not a qualifying person.
	you cannot claim an exemption for him or her	not a qualifying person.

<sup>1</sup>A person cannot qualify more than one taxpayer to use the head of household filing status for the year.

<sup>2</sup>The term "qualifying child" is defined in chapter 3. **Note.** If you are a noncustodial parent, the term "qualifying child" for head of household filing status does not include a child who is your qualifying child for exemption purposes only because of the rules described under *Children of divorced or separated parents* under *Qualifying Child* in chapter 3. If you are the custodial parent and those rules apply, the child generally is your qualifying child for head of household filing status even though the child is not a qualifying child for whom you can claim an exemption.

<sup>3</sup> This person is a qualifying person if the only reason you cannot claim the exemption is that you can be claimed as a dependent on someone else's return.

<sup>4</sup>The term "qualifying relative" is defined in chapter 3.

<sup>5</sup>If you can claim an exemption for a person only because of a multiple support agreement, that person is not a qualifying person. See *Multiple Support Agreement* in chapter 3.

<sup>6</sup>See *Special rule for parent* for an additional requirement.

<sup>7</sup>A person who is your qualifying relative only because he or she lived with you all year as a member of your household is not a qualifying person.

**Choice to treat spouse as resident.** You are considered married if you choose to treat your spouse as a resident alien.

## Keeping Up a Home

To qualify for head of household status, you must pay more than half of the cost of keeping up a home for the year. You can determine whether you paid more than half of the cost of keeping up a home by using the worksheet shown on the next page.

### Cost of Keeping Up a Home

*Keep for Your Records*



	Amount You Paid	Total Cost
Property taxes	\$ _____	\$ _____
Mortgage interest expense	_____	_____
Rent	_____	_____
Utility charges	_____	_____
Upkeep and repairs	_____	_____
Property insurance	_____	_____
Food consumed on the premises	_____	_____
Other household expenses	_____	_____
<b>Totals</b>	<b>\$ _____</b>	<b>\$ _____</b>
 Minus total amount you paid		( _____ )
 <b>Amount others paid</b>		<b>\$ _____</b>

If the total amount you paid is more than the amount others paid, you meet the requirement of paying more than half the cost of keeping up the home.

**Costs you include.** Include in the cost of upkeep expenses such as rent, mortgage interest, real estate taxes, insurance on the home, repairs, utilities, and food eaten in the home.

If you used payments you received under Temporary Assistance for Needy Families (TANF) or other public assistance programs to pay part of the cost of keeping up your home, you cannot count them as money you paid. However, you must include them in the total cost of keeping up your home to figure if you paid over half the cost.

**Costs you do not include.** Do not include in the cost of upkeep expenses such as clothing, education, medical treatment, vacations, life insurance, or transportation. Also, do not include the rental value of a home you own or the value of your services or those of a member of your household.

Also do not include any government or charitable assistance you received because of your temporary relocation due to Hurricane Katrina.

## Qualifying Person

See Table 2-1 to see who is a qualifying person.

Any person not described in Table 2-1 is not a qualifying person.

**Home of qualifying person.** Generally, the qualifying person must live with you for more than half of the year.

**Special rule for parent.** If your qualifying person is your father or mother, you may be eligible to file as head of household even if your father or mother does not live with you. However, you must be able to claim an exemption for your father or mother. Also, you must pay more than half the cost of keeping up a home that was the main home for the entire year for your father or mother. You are keeping up a main home for your father or mother if you pay more than half the cost of keeping your parent in a rest home or home for the elderly.

**Temporary absences.** You and your qualifying person are considered to live together even if one or both of you are temporarily absent from your home due to special circumstances such as illness, education, business, vacation, or military service. It must be reasonable to assume that the absent person will return to the home after the temporary absence. You must continue to keep up the home during the absence.

**Death or birth.** You may be eligible to file as head of household if the individual who qualifies you for this filing status is born or dies during the year. You must have provided more than half of the cost of keeping up a home that was the individual's main home for more than half the year or, if less, the period during which the individual lived.

**Example.** You are unmarried. Your mother, for whom you can claim an exemption, lived in an apartment by herself. She died on September 2. The cost of the upkeep of her apartment for the year until her death was \$6,000. You paid \$4,000 and your brother paid \$2,000. Your brother made no other payments toward your mother's support. Your mother had no income. Because you paid more than half the cost of keeping up your mother's apartment from January 1 until her death, and you can claim an exemption for her, you can file as a head of household.

## Qualifying Widow(er) With Dependent Child

If your spouse died in 2006, you can use married filing jointly as your filing status for 2006 if you otherwise qualify to use that status. The year of death is the last year for which you can file jointly with your deceased spouse. See *Married Filing Jointly*, earlier.

You may be eligible to use qualifying widow(er) with dependent child as your filing status for 2 years following the year your spouse

died. For example, if your spouse died in 2005, and you have not remarried, you may be able to use this filing status for 2006 and 2007.

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

**How to file.** If you file as qualifying widow(er) with dependent child, you can use either Form 1040A or Form 1040. Indicate your filing status by checking the box on line 5 of either form. Use the *Married filing jointly* column of the Tax Table or Section B of the Tax Computation Worksheet to figure your tax.

**Eligibility rules.** You are eligible to file your 2006 return as a qualifying widow(er) with dependent child if you meet all of the following tests.

- You were entitled to file a joint return with your spouse for the year your spouse died. It does not matter whether you actually filed a joint return.
- Your spouse died in 2004 or 2005 and you did not remarry before the end of 2006.
- You have a child or stepchild for whom you can claim an exemption. (This does not include a foster child).
- This child lived in your home all year, except for temporary absences. See *Temporary absences*, earlier, under *Head of Household*. There are also exceptions, described later, for a child who was born or died during the year, and for a kidnapped child.
- You paid more than half the cost of keeping up a home for the year. See *Keeping Up a Home*, earlier, under *Head of Household*.



As mentioned earlier, this filing status is available for only 2 years following the year your spouse died.

**Example.** John Reed's wife died in 2004. John has not remarried. During 2005 and 2006, he continued to keep up a home for himself and his child, who lives with him and for whom he can claim an exemption. For 2004 he was entitled to file a joint return for himself and his deceased wife. For 2005 and 2006, he can file as qualifying widower with a dependent child. After 2006 he can file as head of household if he qualifies.

**Death or birth.** You may be eligible to file as a qualifying widow(er) with dependent child if the child who qualifies you for this filing status is born or dies during the year. You must have provided more than half of the cost of keeping up a home that was the child's main home during the entire part of the year he or she was alive.

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## 3.

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# Personal Exemptions and Dependents

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## What's New

**Exemption amount.** The amount you can deduct for each exemption has increased from \$3,200 in 2005 to \$3,300 in 2006.

**Exemption phaseout.** You lose part of the benefit of your exemptions if your adjusted gross income is above a certain amount. For 2006, this phaseout begins at \$112,875 for married persons filing separately; \$150,500 for single individuals; \$188,150 for heads of household; and \$225,750 for married persons filing jointly or qualifying widow(er)s. However, beginning in 2006, you can lose no more than  $\frac{2}{3}$  of the amount of your exemptions. In other words, each exemption cannot be reduced to less than \$1,100.

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## Introduction

This chapter discusses exemptions. The following topics will be explained.

- Personal exemptions — You generally can take one for yourself and, if you are married, one for your spouse.
- Exemptions for dependents — You generally can take an exemption for each of your dependents. A dependent is your qualifying child or qualifying relative. If you are entitled to claim an exemption for a dependent, that dependent cannot claim a personal exemption on his or her own tax return.
- Phaseout of exemptions — You get less of a deduction when your adjusted gross income goes above a certain amount.
- Social security number (SSN) requirement for dependents — You must list the social security number of any dependent for whom you claim an exemption.

**Deduction.** Exemptions reduce your taxable income. Generally, you can deduct \$3,300 for each exemption you claim in 2006. But, you may lose part of the dollar amount of your exemptions if your adjusted gross income is above a certain amount. See *Phaseout of Exemptions*, later.

**How to claim exemptions.** How you claim an exemption on your tax return depends on which form you file.

If you file Form 1040EZ, the exemption amount is combined with the standard deduction amount and entered on line 5.

If you file Form 1040A or Form 1040, follow the instructions for the form. The total number of exemptions you can claim is the total in the box on line 6d. Also complete line 26 (Form 1040A) or line 42 (Form 1040).

## Useful Items

You may want to see:

### Publication

- **501** Exemptions, Standard Deduction, and Filing Information

### Form (and Instructions)

- **2120** Multiple Support Declaration
- **8332** Release of Claim to Exemption for Child of Divorced or Separated Parents

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## Exemptions

There are two types of exemptions: personal exemptions and exemptions for dependents. While each is worth the same amount (\$3,300 for 2006), different rules apply to each type.

## Personal Exemptions

You are generally allowed one exemption for yourself and, if you are married, one exemption for your spouse. These are called personal exemptions.

### Your Own Exemption

You can take one exemption for yourself unless you can be claimed as a dependent by another taxpayer. If another taxpayer is entitled to claim you as a dependent, you cannot take an exemption for yourself even if the other taxpayer does not actually claim you as a dependent.

### Your Spouse's Exemption

Your spouse is never considered your dependent.

**Joint return.** On a joint return you can claim one exemption for yourself and one for your spouse.

**Separate return.** If you file a separate return, you can claim the exemption for your spouse only if your spouse had no gross income, is not filing a return, and was not the dependent of another taxpayer. This is true even if the other taxpayer does not actually claim your spouse as a dependent. This is also true if your spouse is a nonresident alien.

**Death of spouse.** If your spouse died during the year, you generally can claim your spouse's exemption under the rules just explained under *Joint return*. If you file a separate return for the year, you may be able to claim your spouse's

exemption under the rules just described in *Separate return*.

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

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

**Divorced or separated spouse.** If you obtained a final decree of divorce or separate maintenance by the end of the year, you cannot take your former spouse's exemption. This rule applies even if you provided all of your former spouse's support.

## Exemption for Individual Displaced by Hurricane Katrina

You may be able to take an exemption amount of \$500 for providing housing to a person displaced by Hurricane Katrina.

You can claim this exemption for up to four individuals. Since the exemption is \$500 per person, the maximum you can claim is \$2,000. You may be able to take this exemption for 2006 if all of the following are true.

- You provided housing in your main home for a period of at least 60 consecutive days ending in 2006 to a person displaced by Hurricane Katrina.
- The person lived in the Hurricane Katrina disaster area on August 28, 2005.
- You did not receive rent or any other amount for providing the housing.
- The person displaced was not your spouse or dependent.
- You did not claim the maximum additional exemption amount of \$2,000 in 2005.

You cannot claim this exemption in 2006 for a person for whom you claimed this type of exemption in 2005.

To claim this amount, file Form 8914. For more information, see Publication 4492.

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## Exemptions for Dependents

You are allowed one exemption for each person you can claim as a dependent. You can claim an exemption for a dependent even if your dependent files a return.

The term "dependent" means:

- A qualifying child, or
- A qualifying relative.

The terms "qualifying child" and "qualifying relative" are defined later.

**Table 3-1. Overview of the Rules for Claiming an Exemption for a Dependent**

**Caution.** This table is only an overview of the rules. For details, see the rest of this chapter.

<ul style="list-style-type: none"> <li>You cannot claim any dependents if you, or your spouse if filing jointly, could be claimed as a dependent by another taxpayer.</li> <li>You cannot claim a married person who files a joint return as a dependent unless that joint return is only a claim for refund and there would be no tax liability for either spouse on separate returns.</li> <li>You cannot claim a person as a dependent unless that person is a U.S. citizen, U.S. resident alien, U.S. national, or a resident of Canada or Mexico, for some part of the year.<sup>1</sup></li> <li>You cannot claim a person as a dependent unless that person is your <b>qualifying child</b> or <b>qualifying relative</b>.</li> </ul>	
Tests To Be a Qualifying Child	Tests To Be a Qualifying Relative
<ol style="list-style-type: none"> <li>The child must be your son, daughter, stepchild, eligible foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them.</li> <li>The child must be (a) under age 19 at the end of the year, (b) under age 24 at the end of the year and a full-time student, or (c) any age if permanently and totally disabled.</li> <li>The child must have lived with you for more than half of the year.<sup>2</sup></li> <li>The child must not have provided more than half of his or her own support for the year.</li> <li>If the child meets the rules to be a qualifying child of more than one person, you must be the person entitled to claim the child as a qualifying child.</li> </ol>	<ol style="list-style-type: none"> <li>The person cannot be your qualifying child or the qualifying child of anyone else.</li> <li>The person either (a) must be related to you in one of the ways listed under <i>Relatives who do not have to live with you</i>, or (b) must live with you all year as a member of your household (and your relationship must not violate local law).<sup>2</sup></li> <li>The person's gross income for the year must be less than \$3,300.<sup>3</sup></li> <li>You must provide more than half of the person's total support for the year.<sup>4</sup></li> </ol>
<p><sup>1</sup>There is an exception for certain adopted children.  <sup>2</sup>There are exceptions for temporary absences, children who were born or died during the year, children of divorced or separated parents, and kidnapped children.  <sup>3</sup>There is an exception if the person is disabled and has income from a sheltered workshop.  <sup>4</sup>There are exceptions for multiple support agreements, children of divorced or separated parents, and kidnapped children.</p>	

You can claim an exemption for a qualifying child or qualifying relative only if these three tests are met.

1. Dependent taxpayer test.
2. Joint return test.
3. Citizen or resident test.

These three tests are explained in detail later.

All the requirements for claiming an exemption for a dependent are summarized in Table 3-1.



**Dependent not allowed a personal exemption.** *If you can claim an exemption for your dependent, the dependent cannot claim his or her own exemption on his or her own tax return. This is true even if you do not claim the dependent's exemption on your return or if the exemption will be reduced under the phaseout rule described under Phaseout of Exemptions, later.*

**Housekeepers, maids, or servants.** If these people work for you, you cannot claim exemptions for them.

**Child tax credit.** You may be entitled to a child tax credit for each qualifying child who was under age 17 at the end of the year. For more information, see the instructions in your tax forms package.

### Dependent Taxpayer Test

If you could be claimed as a dependent by another person, you cannot claim anyone else as a dependent. Even if you have a qualifying child or qualifying relative, you cannot claim that person as a dependent.

If you are filing a joint return and your spouse could be claimed as a dependent by someone else, you and your spouse cannot claim any dependents on your joint return.

### Joint Return Test

You generally cannot claim a married person as a dependent if he or she files a joint return.

**Example.** You supported your 18-year-old daughter, and she lived with you all year while her husband was in the Armed Forces. The couple files a joint return. Even though your daughter is your qualifying child, you cannot take an exemption for her.

**Exception.** 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.

**Example.** Your son and his wife each had less than \$3,000 of wages and no unearned income. Neither is required to file a tax return. Taxes were taken out of their pay, so they filed a joint return to get a refund. The exception to the joint return test applies, so you are not disqualified from claiming their exemptions just because they filed a joint return. You can claim their exemptions if you meet all the other requirements to do so.

### Citizen or Resident Test

You cannot claim a person as a dependent unless that person is a U.S. citizen, U.S. resident alien, U.S. national, or a resident of Canada or Mexico, for some part of the year. However,

there is an exception for certain adopted children, as explained next.

**Adopted child.** If you are a U.S. citizen or U.S. national who has legally adopted a child who is not a U.S. citizen, U.S. resident alien, or U.S. national, this test is met if the child lived with you as a member of your household all year. This also applies if the child was lawfully placed with you for legal adoption.

**Child's place of residence.** Children usually are citizens or residents of the country of their parents.

If you were a U.S. citizen when your child was born, the child may be a U.S. citizen even if the other parent was a nonresident alien and the child was born in a foreign country. If so, this test is met.

**Foreign students' place of residence.** Foreign students brought to this country under a qualified international education exchange program and placed in American homes for a temporary period generally are not U.S. residents and do not meet this test. You cannot claim an exemption for them. However, if you provided a home for a foreign student, you may be able to take a charitable contribution deduction. See *Expenses Paid for Student Living With You* in chapter 24.

**U.S. national.** A U.S. national is an individual who, although not a U.S. citizen, owes his or her allegiance to the United States. U.S. nationals include American Samoans and Northern Mariana Islanders who chose to become U.S. nationals instead of U.S. citizens.

### Qualifying Child

There are five tests that must be met for a child to be your qualifying child. The five tests are:

1. Relationship,
2. Age,
3. Residency,
4. Support, and
5. Special test for qualifying child of more than one person.

These tests are explained next.

## Relationship Test

To meet this test, a child must be:

- Your son, daughter, stepchild, eligible foster child, or a descendant (for example, your grandchild) of any of them, or
- Your brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant (for example, your niece or nephew) of any of them.

**Adopted child.** An adopted child is always treated as your own child. The term “adopted child” includes a child who was lawfully placed with you for legal adoption.

**Eligible foster child.** An eligible foster child is an individual who is placed with you by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

## Age Test

To meet this test, a child must be:

- Under age 19 at the end of the year,
- A full-time student under age 24 at the end of the year, or
- Permanently and totally disabled at any time during the year, regardless of age.

**Example.** Your son turned 19 on December 10. Unless he was disabled or a full-time student, he does not meet the age test because, at the end of the year, he was not **under** age 19.

**Full-time student.** A full-time student is a student who is enrolled for the number of hours or courses the school considers to be full-time attendance.

**Student defined.** To qualify as a student, your child must be, during some part of each of any 5 calendar months of the year:

1. A full-time student at a school that has a regular teaching staff, course of study, and a regularly enrolled student body at the school, or
2. A student taking a full-time, on-farm training course given by a school described in (1), or by a state, county, or local government agency.

The 5 calendar months do not have to be consecutive.

**School defined.** A school can be an elementary school, junior and senior high school, college, university, or technical, trade, or mechanical school. However, an on-the-job

training course, correspondence school, or school offering courses only through the Internet does not count as a school.

**Vocational high school students.** Students who work on “co-op” jobs in private industry as a part of a school’s regular course of classroom and practical training are considered full-time students.

**Permanently and totally disabled.** Your child is permanently and totally disabled if both of the following apply.

- He or she cannot engage in any substantial gainful activity because of a physical or mental condition.
- A doctor determines the condition has lasted or can be expected to last continuously for at least a year or can lead to death.

## Residency Test

To meet this test, your child must have lived with you for more than half of the year. There are exceptions for temporary absences, children who were born or died during the year, kidnapped children, and children of divorced or separated parents.

**Temporary absences.** Your child is considered to have lived with you during periods of time when one of you, or both, are temporarily absent due to special circumstances such as:

- Illness,
- Education,
- Business,
- Vacation, or
- Military service.

**Death or birth of child.** A child who was born or died during the year is treated as having lived with you all year if your home was the child’s home the entire time he or she was alive during the year. The same is true if the child lived with you all year except for any required hospital stay following birth.

**Child born alive.** You may be able to claim an exemption for a child who was born alive during the year, even if the child lived only for a moment. State or local law must treat the child as having been born alive. There must be proof of a live birth shown by an official document, such as a birth certificate. The child must be your qualifying child or qualifying relative, and all the other tests to claim an exemption for a dependent must be met.

**Stillborn child.** You cannot claim an exemption for a stillborn child.

**Kidnapped child.** You can treat your child as meeting the residency test even if the child has been kidnapped, but both of the following statements must be true.

1. The child is presumed by law enforcement authorities to have been kidnapped by someone who is not a member of your family or the child’s family.
2. In the year the kidnapping occurred, the child lived with you for more than half

the part of the year before the date of the kidnapping.

This treatment applies for all years until the child is returned. However, the last year this treatment can apply is the earlier of:

1. The year there is a determination that the child is dead, or
2. The year the child would have reached age 18.

## Children of divorced or separated parents.

In most cases, because of the residency test, a child of divorced or separated parents is the qualifying child of the custodial parent. However, the child will be treated as the qualifying child of the noncustodial parent if all four of the following statements are true.

1. The parents:
  - a. Are divorced or legally separated under a decree of divorce or separate maintenance,
  - b. Are separated under a written separation agreement, or
  - c. Lived apart at all times during the last 6 months of the year.
2. The child received over half of his or her support for the year from the parents.
3. The child is in the custody of one or both parents for more than half of the year.
4. Either of the following statements is true.
  - a. The custodial parent signs a written declaration, discussed later, that he or she will not claim the child as a dependent for the year, and the noncustodial parent attaches this written declaration to his or her return. (If the decree or agreement went into effect after 1984, see *Divorce decree or separation agreement made after 1984*, later.)
  - b. A pre-1985 decree of divorce or separate maintenance or written separation agreement that applies to 2006 states that the noncustodial parent can claim the child as a dependent, the decree or agreement was not changed after 1984 to say the noncustodial parent cannot claim the child as a dependent, and the noncustodial parent provides at least \$600 for the child’s support during the year.

## Custodial parent and noncustodial parent.

The custodial parent is the parent with whom the child lived for the greater part of the year. The other parent is the noncustodial parent.

If the parents divorced or separated during the year and the child lived with both parents before the separation, the custodial parent is the one with whom the child lived for the greater part of the rest of the year.

**Example.** Your child lived with you for 10 months of the year. The child lived with your former spouse for the other 2 months. You are considered the custodial parent.

**Written declaration.** The custodial parent may use either Form 8332 or a similar statement (containing the same information required by the form) to make the written declaration to release the exemption to the noncustodial parent. The noncustodial parent must attach the form or statement to his or her tax return.

The exemption can be released for 1 year, for a number of specified years (for example, alternate years), or for all future years, as specified in the declaration. If the exemption is released for more than 1 year, the original release must be attached to the return of the noncustodial parent for the first year, and a copy must be attached for each later year.

**Divorce decree or separation agreement made after 1984.** If the divorce decree or separation agreement went into effect after 1984, the noncustodial parent can attach certain pages from the decree or agreement instead of Form 8332. To be able to do this, the decree or agreement must state all three of the following.

1. The noncustodial parent can claim the child as a dependent without regard to any condition, such as payment of support.
2. The custodial parent will not claim the child as a dependent for the year.
3. The years for which the noncustodial parent, rather than the custodial parent, can claim the child as a dependent.

The noncustodial parent must attach all of the following pages of the decree or agreement to his or her tax return.

- The cover page (write the other parent's social security number on this page).
- The pages that include all of the information identified in items (1) through (3) above.
- The signature page with the other parent's signature and the date of the agreement.



*The noncustodial parent must attach the required information even if it was filed with a return in an earlier year.*

**Remarried parent.** If you remarry, the support provided by your new spouse is treated as provided by you.

**Parents who never married.** This special rule for divorced or separated parents also applies to parents who never married.

### Support Test (To Be a Qualifying Child)

To meet this test, the child cannot have provided more than half of his or her own support for the year.

This test is different from the support test to be a qualifying relative, which is described later. However, to see what is or is not support, see *Support Test (To Be a Qualifying Relative)*, later. If you are not sure whether a child provided more than half of his or her own support, you may find Worksheet 3-1 helpful.

**Scholarships.** A scholarship received by a child who is a full-time student is not taken into

account in determining whether the child provided more than half of his or her own support.

### Special Test for Qualifying Child of More Than One Person



*If your qualifying child is not a qualifying child for anyone else, this test does not apply to you and you do not need to read about it. This is also true if your qualifying child is not a qualifying child for anyone else except your spouse with whom you file a joint return.*



*If a child is treated as the qualifying child of the noncustodial parent under the rules for children of divorced or separated parents described earlier, see Applying this special test to divorced or separated parents, later.*

Sometimes, a child meets the relationship, age, residency, and support tests to be a qualifying child of more than one person. Although the child is a qualifying child of each of these persons, only one person can actually treat the child as a qualifying child. To meet this special test, you must be the person who can treat the child as a qualifying child.

If you and another person have the same qualifying child, you and the other person(s) can decide which of you will treat the child as a qualifying child. That person can take all of the following tax benefits (provided the person is eligible for each benefit) based on the qualifying child.

- The exemption for the child.
- The child tax credit.
- Head of household filing status.
- The credit for child and dependent care expenses.
- The exclusion from income for dependent care benefits.
- The earned income credit.

The other person cannot take any of these benefits based on this qualifying child. In other words, you and the other person cannot agree to divide these tax benefits between you.

If you and the other person(s) cannot agree on who will claim the child and more than one person files a return claiming the same child, the IRS will disallow all but one of the claims using the tie-breaker rule in Table 3-2.

#### **Example 1—child lived with parent and grandparent.**

You and your 3-year-old daughter, Jane, lived with your mother all year. You are 25 years old and earned \$9,000 for the year. Your mother is not your dependent. Jane is a qualifying child of both you and your mother because she meets the relationship, age, residency, and support tests for both you and your mother. However, only one of you can claim her. You agree to let your mother claim Jane. This means your mother can claim Jane as a dependent and can claim her as a qualifying child for the child tax credit, head of household filing status, credit for child and dependent care expenses, exclusion for dependent care benefits, and the earned income credit, if she qualifies for each of those tax benefits (and if you do not claim Jane as a dependent or as a qualifying child for any of those tax benefits).

#### **Example 2—two persons claim same child.**

The facts are the same as in Example 1 except that you and your mother both claim Jane as a dependent and claim her as a qualifying child for the child tax credit and earned income credit. In this case, you as the child's parent will be the only one allowed to claim Jane as a dependent and claim her as a qualifying child for the child tax credit and earned income credit. The IRS will disallow your mother's claim to these tax benefits unless she has another qualifying child.

#### **Example 3—qualifying children split between two persons.**

The facts are the same as in Example 1 except that you also have two other young children who are qualifying children of both you and your mother. Only one of you can claim each child as a dependent. However, you and your mother can split the three qualifying children between you. For example, you can claim one child as a dependent and your mother can claim the other two.

#### **Example 4—taxpayer who is a qualifying child.**

The facts are the same as in Example 1

**Table 3-2. When More Than One Person Files a Return Claiming the Same Qualifying Child (Tie-Breaker Rule)**

**Caution.** If a child is treated as the qualifying child of the noncustodial parent under the rules for children of divorced or separated parents, see *Applying this special test to divorced or separated parents*.

<b>IF more than one person files a return claiming the same qualifying child and . . .</b>	<b>THEN the child will be treated as the qualifying child of the. . .</b>
only one of the persons is the child's parent,	parent.
two of the persons are parents of the child and they do not file a joint return together,	parent with whom the child lived for the longer period of time during the year.
two of the persons are parents of the child, they do not file a joint return together, and the child lived with each parent the same amount of time during the year,	parent with the higher adjusted gross income (AGI).
none of the persons are the child's parent,	person with the highest AGI.

except that you are only 18 years old and did not provide more than half of your own support for the year. This means you are your mother's qualifying child and she could claim you as a dependent. Because of the *Dependent Taxpayer Test* explained earlier, you cannot treat your daughter as a qualifying child and cannot claim her as a dependent. Only your mother can treat your daughter as a qualifying child.

**Example 5—separated parents.** You, your husband, and your 10-year-old son lived together until August 1, 2006, when your husband moved out of the household. In August and September, your son lived with you. For the rest of the year, your son lived with your husband. Your son is a qualifying child of both you and your husband because your son lived with each of you for more than half the year and because he met the relationship, age, and support tests for both of you. At the end of the year, you and your husband still were not divorced, legally separated, or separated under a written separation agreement, so the special rule for divorced or separated parents does not apply.

You and your husband will file separate returns. Your husband agrees to let you treat your son as a qualifying child. This means, if your husband does not claim your son as a qualifying child, you can claim your son as a dependent and treat him as a qualifying child for the child tax credit and exclusion for dependent care benefits, if you qualify for each of those tax benefits. However, you cannot claim head of household filing status because you and your husband did not live apart the last 6 months of the year. As a result, your filing status is married filing separately, so you cannot claim the earned income credit or the credit for child and dependent care expenses.

**Example 6—separated parents claim same child.** The facts are the same as in Example 5 except that you and your husband both claim your son as a qualifying child. In this case, only your husband will be allowed to treat your son as a qualifying child. This is because, during 2006, the boy lived with him longer than with you. If you claimed an exemption, the child tax credit, head of household filing status, credit for child and dependent care expenses, exclusion for dependent care benefits, or the earned income credit for your son, the IRS will disallow your claim to all these tax benefits. In addition, because you and your husband did not live apart the last 6 months of the year, your husband cannot claim head of household filing status. As a result, his filing status is married filing separately, so he cannot claim the earned income credit or the credit for child and dependent care expenses.

**Example 7—unmarried parents.** You, your 5-year-old son, and your son's father lived together all year. You and your son's father are not married. Your son is a qualifying child of both you and his father because he meets the relationship, age, residency, and support tests for both you and his father. Your adjusted gross income (AGI) is \$8,000 and your son's father's AGI is \$18,000. Your son's father agrees to let you treat the child as a qualifying child. This means you can claim him as a dependent and treat him as a qualifying child for the child tax

credit, head of household filing status, credit for child and dependent care expenses, exclusion for dependent care benefits, and the earned income credit, if you qualify for each of those tax benefits (and if your son's father does not claim your son as a dependent or as a qualifying child for any of those tax benefits).

**Example 8—unmarried parents claim same child.** The facts are the same as in Example 7 except that you and your son's father both claim your son as a qualifying child. In this case, only your son's father will be allowed to treat your son as a qualifying child. This is because his AGI, \$18,000, is more than your AGI, \$8,000. If you claimed an exemption, the child tax credit, head of household filing status, credit for child and dependent care expenses, exclusion for dependent care benefits, or the earned income credit for your son, the IRS will disallow your claim to all these tax benefits.

**Example 9—child did not live with a parent.** You and your 7-year-old niece, your sister's child, lived with your mother all year. You are 25 years old, and your AGI is \$9,300. Your mother's AGI is \$15,000. Your niece is a qualifying child of both you and your mother because she meets the relationship, age, residency, and support tests for both you and your mother. However, only one of you can treat her as a qualifying child. Your mother agrees to let you treat the child as a qualifying child.

**Example 10—child did not live with a parent.** The facts are the same as in Example 9 except that you and your mother both claim your niece as a qualifying child. In this case, only your mother will be allowed to treat your niece as a qualifying child. This is because your mother's AGI, \$15,000, is more than your AGI, \$9,300. If you claimed an exemption, the child tax credit, head of household filing status, credit for child and dependent care expenses, exclusion for dependent care benefits, or the earned income credit for your niece, the IRS will disallow your claim to all these tax benefits.

**Applying this special test to divorced or separated parents.** If a child is treated as the qualifying child of the noncustodial parent under the rules for children of divorced or separated parents described earlier, only the noncustodial parent can claim an exemption and the child tax credit for the child. However, the noncustodial parent cannot claim the child as a qualifying child for head of household filing status, the credit for child and dependent care expenses, the exclusion for dependent care benefits, and the earned income credit. Only the custodial parent or other eligible parent can claim the child as a qualifying child for these four tax benefits. If you and another eligible taxpayer both claim the child as a qualifying child for purposes of these four benefits, the IRS will disallow all but one of the claims using the tie-breaker rule in Table 3-2.

**Example 1.** You and your 5-year-old son lived with your mother all year. Under the rules for children of divorced or separated parents, your son is the qualifying child of your ex-husband, who can claim an exemption and

the child tax credit for the child if he meets all the requirements to do so. Because of this, you cannot claim an exemption or the child tax credit for your son. However, your ex-husband cannot claim the boy as a qualifying child for head of household filing status, the credit for child and dependent care expenses, the exclusion for dependent care benefits, and the earned income credit. You and your mother did not have any child care expenses or dependent care benefits, but the boy is a qualifying child of both you and your mother for head of household filing status and the earned income credit because he meets the relationship, age, residency, and support tests for both you and your mother. (Note: The support test does not apply for the earned income credit.) However, you agree to let your mother claim your son. This means, if you do not claim your son as a qualifying child for head of household filing status or the earned income credit, your mother can claim him as a qualifying child for each of those tax benefits for which she qualifies.

**Example 2.** The facts are the same as in Example 1 except that you and your mother both claim your son as a qualifying child for head of household filing status and the earned income credit. You as the child's parent will be the only one allowed to claim your son as a qualifying child for these tax benefits. The IRS will disallow your mother's claim to these tax benefits unless she has another qualifying child.

## Qualifying Relative

There are four tests that must be met for a person to be your qualifying relative. The four tests are:

1. Not a qualifying child test,
2. Member of household or relationship test,
3. Gross income test, and
4. Support test.

**Age.** Unlike a qualifying child, a qualifying relative can be any age. There is no age test for a qualifying relative.

**Kidnapped child.** You can treat a child as your qualifying relative even if the child has been kidnapped, but both of the following statements must be true.

1. The child is presumed by law enforcement authorities to have been kidnapped by someone who is not a member of your family or the child's family.
2. In the year the kidnapping occurred, the child met the tests to be your qualifying relative for the part of the year before the date of the kidnapping.

This treatment applies for all years until the child is returned. However, the last year this treatment can apply is the earlier of:

1. The year there is a determination that the child is dead, or
2. The year the child would have reached age 18.

## Not a Qualifying Child Test

A child is not your qualifying relative if the child is your qualifying child or the qualifying child of any other taxpayer.

**Example 1.** Your 22-year-old daughter, who is a full-time student, lives with you and meets all the tests to be your qualifying child. She is not your qualifying relative.

**Example 2.** Your 2-year-old son lives with your parents and meets all the tests to be their qualifying child. He is not your qualifying relative.

**Example 3.** Your son lives with you but is not your qualifying child because he is 30 years old and does not meet the age test. He may be your qualifying relative if the gross income test and the support test are met.

**Example 4.** Your 13-year-old grandson lived with his mother for 3 months, with his uncle for 4 months, and with you for 5 months during the year. He is not your qualifying child because he does not meet the residency test. He may be your qualifying relative if the gross income test and the support test are met.

**Child in Canada or Mexico.** A child who lives in Canada or Mexico may be your qualifying relative, and you may be able to claim the child as a dependent. If the child does not live with you, the child does not meet the residency test to be your qualifying child. If the persons the child does live with are not U.S. citizens and have no U.S. gross income, those persons are not “taxpayers,” so the child is not the qualifying child of any other taxpayer. If the child is not your qualifying child or the qualifying child of any other taxpayer, the child is your qualifying relative if the gross income test and the support test are met.

You cannot claim as a dependent a child who lives in a foreign country other than Canada or Mexico, unless the child is a U.S. citizen, U.S. resident alien, or U.S. national for some part of the year. There is an exception for certain adopted children who lived with you all year. See *Citizen or Resident Test*, earlier.

**Example.** You provide all the support of your children, ages 6, 8, and 12, who live in Mexico with your mother and have no income. You are single and live in the United States. Your mother is not a U.S. citizen and has no U.S. income, so she is not a “taxpayer.” Your children are not your qualifying children because they do not meet the residency test. Also, they are not the qualifying children of any other taxpayer, so they are your qualifying relatives and you can claim them as dependents if all the tests are met. You may also be able to claim your mother as a dependent if all the tests are met, including the gross income test and the support test.

## Member of Household or Relationship Test

To meet this test, a person must either:

1. Live with you all year as a member of your household, or
2. Be related to you in one of the ways listed under *Relatives who do not have to live with you*.

If at any time during the year the person was your spouse, that person cannot be your qualifying relative. However, see *Personal Exemptions*, earlier.

**Relatives who do not have to live with you.** A person related to you in any of the following ways does not have to live with you all year as a member of your household to meet this test.

- Your child, stepchild, eligible foster child, or a descendant of any of them (for example, your grandchild). (A legally adopted child is considered your child.)
- Your brother, sister, half brother, half sister, stepbrother, or stepsister.
- Your father, mother, grandparent, or other direct ancestor, but not foster parent.
- Your stepfather or stepmother.
- A son or daughter of your brother or sister.
- A brother or sister of your father or mother.
- Your son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law.

Any of these relationships that were established by marriage are not ended by death or divorce.

**Example.** You and your wife began supporting your wife’s father, a widower, in 2001. Your wife died in 2005. In spite of your wife’s death, your father-in-law continues to meet this test, and you can claim him as a dependent if all other tests are met, including the gross income test and support test.

**Eligible foster child.** An eligible foster child is an individual who is placed with you by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

**Joint return.** If you file a joint return, the person can be related to either you or your spouse. Also, the person does not need to be related to the spouse who provides support.

For example, your spouse’s uncle who receives more than half of his support from you may be your qualifying relative, even though he does not live with you. However, if you and your spouse file separate returns, your spouse’s uncle can be your qualifying relative only if he lives with you all year as a member of your household.

**Temporary absences.** A person is considered to live with you as a member of your household during periods of time when one of you, or both, are temporarily absent due to special circumstances such as:

- Illness,
- Education,
- Business,
- Vacation, or
- Military service.

If the person is placed in a nursing home for an indefinite period of time to receive constant medical care, the absence may be considered temporary.

**Death or birth.** A person who died during the year, but lived with you as a member of your household until death, will meet this test. The same is true for a child who was born during the year and lived with you as a member of your household for the rest of the year. The test is also met if a child lived with you as a member of your household except for any required hospital stay following birth.

If your dependent died during the year and you otherwise qualified to claim an exemption for the dependent, you can still claim the exemption.

**Example.** Your dependent mother died on January 15. She met the tests to be your qualifying relative. The other tests to claim an exemption for a dependent were also met. You can claim an exemption for her on your return.

**Local law violated.** A person does not meet this test if at any time during the year the relationship between you and that person violates local law.

**Example.** Your girlfriend lived with you as a member of your household all year. However, your relationship with her violated the laws of the state where you live, because she was married to someone else. Therefore, she does not meet this test and you cannot claim her as a dependent.

**Adopted child.** An adopted child is always treated as your own child. The term “adopted child” includes a child who was lawfully placed with you for legal adoption.

**Cousin.** Your cousin meets this test only if he or she lives with you all year as a member of your household. A cousin is a descendant of a brother or sister of your father or mother.

## Gross Income Test

To meet this test, a person’s gross income for the year must be less than \$3,300.

**Gross income defined.** Gross income is all income in the form of money, property, and services that is not exempt from tax.

In a manufacturing, merchandising, or mining business, gross income is the total net sales minus the cost of goods sold, plus any miscellaneous income from the business.

Gross receipts from rental property are gross income. Do not deduct taxes, repairs, etc., to determine the gross income from rental property.

Gross income includes a partner’s share of the gross (not a share of the net) partnership income.

Gross income also includes all unemployment compensation and certain scholarship and fellowship grants. Scholarships received by degree candidates that are used for tuition, fees, supplies, books, and equipment required for particular courses may not be included in gross income. For more information about scholarships, see chapter 12.

Tax-exempt income, such as certain social security benefits, is not included in gross income.

**Disabled dependent working at sheltered workshop.** For purposes of this test (the gross income test), the gross income of an individual who is permanently and totally disabled at any time during the year does not include income for services the individual performs at a sheltered workshop. The availability of medical care at the workshop must be the main reason for the individual's presence there. Also, the income must come solely from activities at the workshop that are incident to this medical care.

A "sheltered workshop" is a school that:

- Provides special instruction or training designed to alleviate the disability of the individual, and
- Is operated by certain tax-exempt organizations, or by a state, a U.S. possession, a political subdivision of a state or possession, the United States, or the District of Columbia.

"Permanently and totally disabled" has the same meaning here as under *Qualifying child*, earlier.

## Support Test (To Be a Qualifying Relative)

To meet this test, you generally must provide more than half of a person's total support during the calendar year.

However, if two or more persons provide support, but no one person provides more than half of a person's total support, see *Multiple Support Agreement*, later.

**How to determine if support test is met.** You figure whether you have provided more than half of a person's total support by comparing the amount you contributed to that person's support with the entire amount of support that person received from all sources. This includes support the person provided from his or her own funds.

You may find Worksheet 3-1 helpful in figuring whether you provided more than half of a person's support.

**Person's own funds not used for support.** A person's own funds are not support unless they are actually spent for support.

**Example.** Your mother received \$2,400 in social security benefits and \$300 in interest. She paid \$2,000 for lodging and \$400 for recreation. She put \$300 in a savings account.

Even though your mother received a total of \$2,700 (\$2,400 + \$300), she spent only \$2,400 (\$2,000 + \$400) for her own support. If you spent more than \$2,400 for her support and no other support was received, you have provided more than half of her support.

**Child's wages used for own support.** You cannot include in your contribution to your child's support any support that is paid for by the child with the child's own wages, even if you paid the wages.

**Year support is provided.** The year you provide the support is the year you pay for it, even if

you do so with borrowed money that you repay in a later year.

If you use a fiscal year to report your income, you must provide more than half of the dependent's support for the calendar year in which your fiscal year begins.

**Armed Forces dependency allotments.** The part of the allotment contributed by the government and the part taken out of your military pay are both considered provided by you in figuring whether you provide more than half of the support. If your allotment is used to support persons other than those you name, you can take the exemptions for them if they otherwise qualify.

**Example.** You are in the Armed Forces. You authorize an allotment for your widowed mother that she uses to support herself and her sister. If the allotment provides more than half of each person's support, you can take an exemption for each of them, if they otherwise qualify, even though you authorize the allotment only for your mother.

**Tax-exempt military quarters allowances.** These allowances are treated the same way as dependency allotments in figuring support. The allotment of pay and the tax-exempt basic allowance for quarters are both considered as provided by you for support.

**Tax-exempt income.** In figuring a person's total support, include tax-exempt income, savings, and borrowed amounts used to support that person. Tax-exempt income includes certain social security benefits, welfare benefits, nontaxable life insurance proceeds, Armed Forces family allotments, nontaxable pensions, and tax-exempt interest.

**Example 1.** You provide \$4,000 toward your mother's support during the year. She has earned income of \$600, nontaxable social security benefits of \$4,800, and tax-exempt interest of \$200. She uses all these for her support. You cannot claim an exemption for your mother because the \$4,000 you provide is not more than half of her total support of \$9,600.

**Example 2.** Your brother's daughter takes out a student loan of \$2,500 and uses it to pay her college tuition. She is personally responsible for the loan. You provide \$2,000 toward her total support. You cannot claim an exemption for her because you provide less than half of her support.

**Social security benefits.** If a husband and wife each receive benefits that are paid by one check made out to both of them, half of the total paid is considered to be for the support of each spouse, unless they can show otherwise.

If a child receives social security benefits and uses them toward his or her own support, the benefits are considered as provided by the child.

**Support provided by the state (welfare, food stamps, housing, etc.).** Benefits provided by the state to a needy person generally are considered support provided by the state. However, payments based on the needs of the recipient will not be considered as used entirely for that person's support if it is shown that part of the payments were not used for that purpose.

**Foster care payments and expenses.** Payments you receive for the support of a foster

child from a child placement agency are considered support provided by the agency. Similarly, payments you receive for the support of a foster child from a state or county are considered support provided by the state or county.

If you are not in the trade or business of providing foster care and your unreimbursed out-of-pocket expenses in caring for a foster child were mainly to benefit an organization qualified to receive deductible charitable contributions, the expenses are deductible as charitable contributions but are not considered support you provided. For more information about the deduction for charitable contributions, see chapter 24. If your unreimbursed expenses are not deductible as charitable contributions, they are considered support you provided.

If you are in the trade or business of providing foster care, your unreimbursed expenses are not considered support provided by you.

**Example.** Lauren, an eligible foster child, lived with Mr. and Mrs. Smith for the last 3 months of the year. The Smiths cared for Lauren because they wanted to adopt her (although she had not been placed with them for adoption). They did not care for her as a trade or business or to benefit the agency that placed her in their home. The Smiths' unreimbursed expenses are not deductible as charitable contributions but are considered support they provided for Lauren.

**Home for the aged.** If you make a lump-sum advance payment to a home for the aged to take care of your relative for life and the payment is based on that person's life expectancy, the amount of support you provide each year is the lump-sum payment divided by the relative's life expectancy. The amount of support you provide also includes any other amounts you provided during the year.

## Total Support

To figure if you provided more than half of a person's support, you must first determine the total support provided for that person. Total support includes amounts spent to provide food, lodging, clothing, education, medical and dental care, recreation, transportation, and similar necessities.

Generally, the amount of an item of support is the amount of the expense incurred in providing that item. For lodging, the amount of support is the fair rental value of the lodging.

Expenses that are not directly related to any one member of a household, such as the cost of food for the household, must be divided among the members of the household.

**Example 1.** Grace Brown, mother of Mary Miller, lives with Frank and Mary Miller and their two children. Grace gets social security benefits of \$2,400, which she spends for clothing, transportation, and recreation. Grace has no other income. Frank and Mary's total food expense for the household is \$5,200. They pay Grace's medical and drug expenses of \$1,200. The fair rental value of the lodging provided for Grace is \$1,800 a year, based on the cost of similar rooming facilities. Figure Grace's total support as follows:



<b>Funds Belonging to the Person You Supported</b>		
1. Enter the 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 . . . . .	1.	
2. Enter the amount on line 1 that was used for the person's support . . . . .	2.	
3. Enter the amount on line 1 that was used for other purposes . . . . .	3.	
4. Enter the total amount in the person's savings and other accounts at the end of the year . . . . .	4.	
5. Add lines 2 through 4. (This amount should equal line 1.) . . . . .	5.	
<b>Expenses for Entire Household (where the person you supported lived)</b>		
6. Lodging (complete line 6a or 6b):		
6a. Enter the total rent paid . . . . .	6a.	
6b. Enter the fair rental value of the home. If the person you supported owned the home, also include this amount in line 21. . . . .	6b.	
7. Enter the total food expenses . . . . .	7.	
8. Enter the total amount of utilities (heat, light, water, etc. not included in line 6a or 6b) . . . . .	8.	
9. Enter the total amount of repairs (not included in line 6a or 6b) . . . . .	9.	
10. Enter the total of other expenses. Do not include expenses of maintaining the home, such as mortgage interest, real estate taxes, and insurance. . . . .	10.	
11. Add lines 6a through 10. These are the total household expenses . . . . .	11.	
12. Enter total number of persons who lived in the household . . . . .	12.	
<b>Expenses for the Person You Supported</b>		
13. Divide line 11 by line 12. This is the person's share of the household expenses . . . . .	13.	
14. Enter the person's total clothing expenses . . . . .	14.	
15. Enter the person's total education expenses . . . . .	15.	
16. Enter the person's total medical and dental expenses not paid for or reimbursed by insurance . . . . .	16.	
17. Enter the person's total travel and recreation expenses . . . . .	17.	
18. Enter the total of the person's other expenses . . . . .	18.	
19. Add lines 13 through 18. This is the total cost of the person's support for the year . . . . .	19.	
<b>Did the Person Provide More Than Half of His or Her Own Support?</b>		
20. Multiply line 19 by 50% (.50) . . . . .	20.	
21. Enter the amount from line 2, plus the amount from line 6b if the person you supported owned the home. This is the amount the person provided for his or her own support . . . . .	21.	
22. Is line 21 more than line 20?		
<input type="checkbox"/> <b>No.</b> You meet the support test for this person to be your qualifying child. If this person also meets the other tests to be a qualifying child, stop here; do not complete lines 23–26. Otherwise, go to line 23 and fill out the rest of the worksheet to determine if this person is your qualifying relative.		
<input type="checkbox"/> <b>Yes.</b> You do not meet the support test for this person to be either your qualifying child or your qualifying relative. <b>Stop here.</b>		
<b>Did You Provide More Than Half?</b>		
23. Enter the 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. . . . .	23.	
24. Add lines 21 and 23 . . . . .	24.	
25. Subtract line 24 from line 19. This is the amount you provided for the person's support . . . . .	25.	
26. Is line 25 more than line 20?		
<input type="checkbox"/> <b>Yes.</b> You meet the support test for this person to be your qualifying relative.		
<input type="checkbox"/> <b>No.</b> You do not meet the support test for this person to be your qualifying relative. You cannot claim an exemption for this person unless you can do so under a multiple support agreement, the support test for children of divorced or separated parents, or the special rule for kidnapped children. See <i>Multiple Support Agreement</i> , <i>Support Test for Children of Divorced or Separated Parents</i> , or <i>Kidnapped Child</i> under <i>Qualifying Relative</i> .		

Fair rental value of lodging . . . . .	\$ 1,800	Share of food (1/5 of \$5,200) . . . . .	1,040	
Clothing, transportation, and recreation . . . . .	2,400	<b>Total support</b> . . . . .	<u>\$6,440</u>	
Medical expenses . . . . .	1,200	The support Frank and Mary provide (\$1,800 lodging + \$1,200 medical expenses + \$1,040 food = \$4,040) is more than half of Grace's \$6,440 total support.		

**Example 2.** Your parents live with you, your spouse, and your two children in a house you own. The fair rental value of your parents' share

of the lodging is \$2,000 a year (\$1,000 each), which includes furnishings and utilities. Your father receives a nontaxable pension of \$4,200, which he spends equally between your mother and himself for items of support such as clothing, transportation, and recreation. Your total food expense for the household is \$6,000. Your heat and utility bills amount to \$1,200. Your mother has hospital and medical expenses of \$600, which you pay during the year. Figure your parents' total support as follows:

<b>Support provided</b>	<b>Father</b>	<b>Mother</b>
Fair rental value of lodging	\$1,000	\$1,000
Pension spent for their support	2,100	2,100
Share of food (1/6 of \$6,000)	1,000	1,000
Medical expenses for mother		600
<b>Parents' total support</b>	<b>\$4,100</b>	<b>\$4,700</b>

You must apply the support test separately to each parent. You provide \$2,000 (\$1,000 lodging, \$1,000 food) of your father's total support of \$4,100 – less than half. You provide \$2,600 to your mother (\$1,000 lodging, \$1,000 food, \$600 medical) – more than half of her total support of \$4,700. You meet the support test for your mother, but not your father. Heat and utility costs are included in the fair rental value of the lodging, so these are not considered separately.

**Lodging.** If you provide a person with lodging, you are considered to provide support equal to the fair rental value of the room, apartment, house, or other shelter in which the person lives. Fair rental value includes a reasonable allowance for the use of furniture and appliances, and for heat and other utilities that are provided.

**Fair rental value defined.** This is the amount you could reasonably expect to receive from a stranger for the same kind of lodging. It is used instead of actual expenses such as taxes, interest, depreciation, paint, insurance, utilities, cost of furniture and appliances, etc. In some cases, fair rental value may be equal to the rent paid.

If you provide the total lodging, the amount of support you provide is the fair rental value of the room the person uses, or a share of the fair rental value of the entire dwelling if the person has use of your entire home. If you do not provide the total lodging, the total fair rental value must be divided depending on how much of the total lodging you provide. If you provide only a part and the person supplies the rest, the fair rental value must be divided between both of you according to the amount each provides.

**Example.** Your parents live rent free in a house you own. It has a fair rental value of \$5,400 a year furnished, which includes a fair rental value of \$3,600 for the house and \$1,800 for the furniture. This does not include heat and utilities. The house is completely furnished with furniture belonging to your parents. You pay \$600 for their utility bills. Utilities are not usually included in rent for houses in the area where your parents live. Therefore, you consider the total fair rental value of the lodging to be \$6,000 (\$3,600 fair rental value of the unfurnished

house, \$1,800 allowance for the furnishings provided by your parents, and \$600 cost of utilities) of which you are considered to provide \$4,200 (\$3,600 + \$600).

**Person living in his or her own home.** The total fair rental value of a person's home that he or she owns is considered support contributed by that person.

**Living with someone rent free.** If you live with a person rent free in his or her home, you must reduce the amount you provide for support by the fair rental value of lodging he or she provides you.

**Property.** Property provided as support is measured by its fair market value. Fair market value is the price that property would sell for on the open market. It is the price that would be agreed upon between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts.

**Capital expenses.** Capital items, such as furniture, appliances, and cars, that are bought for a person during the year can be included in total support under certain circumstances.

The following examples show when a capital item is or is not support.

**Example 1.** You buy a \$200 power lawn mower for your 13-year-old child. The child is given the duty of keeping the lawn trimmed. Because the lawn mower benefits all members of the household, you cannot include the cost of the lawn mower in the support of your child.

**Example 2.** You buy a \$150 television set as a birthday present for your 12-year-old child. The television set is placed in your child's bedroom. You can include the cost of the television set in the support of your child.

**Example 3.** You pay \$5,000 for a car and register it in your name. You and your 17-year-old daughter use the car equally. Because you own the car and do not give it to your daughter but merely let her use it, you cannot include the cost of the car in your daughter's total support. However, you can include in your daughter's support your out-of-pocket expenses of operating the car for her benefit.

**Example 4.** Your 17-year-old son, using personal funds, buys a car for \$4,500. You provide all the rest of your son's support – \$4,000. Since the car is bought and owned by your son, the car's fair market value (\$4,500) must be included in his support. Your son has provided more than half of his own total support of \$8,500 (\$4,500 + \$4,000), so he is not your qualifying child. You did not provide more than half of his total support, so he is not your qualifying relative. You cannot claim an exemption for your son.

**Medical insurance premiums.** Medical insurance premiums you pay, including premiums for supplementary Medicare coverage, are included in the support you provide.

**Medical insurance benefits.** Medical insurance benefits, including basic and supplementary Medicare benefits, are not part of support.

**Tuition payments and allowances under the GI Bill.** Amounts veterans receive under the GI Bill for tuition payments and allowances while they attend school are included in total support.

**Example.** During the year, your son receives \$2,200 from the government under the GI Bill. He uses this amount for his education. You provide the rest of his support – \$2,000. Because GI benefits are included in total support, your son's total support is \$4,200 (\$2,200 + \$2,000). You have not provided more than half of his support.

**Child care expenses.** If you pay someone to provide child or dependent care, you can include these payments in the amount you provided for the support of your child or disabled dependent, even if you claim a credit for the payments. For information on the credit, see chapter 32.

**Other support items.** Other items may be considered as support depending on the facts in each case.

## Do Not Include in Total Support

The following items are not included in total support.

1. Federal, state, and local income taxes paid by persons from their own income.
2. Social security and Medicare taxes paid by persons from their own income.
3. Life insurance premiums.
4. Funeral expenses.
5. Scholarships received by your child if your child is a full-time student.
6. Survivors' and Dependents' Educational Assistance payments used for the support of the child who receives them.

Government or charitable assistance you received because of your temporary relocation due to Hurricane Katrina, Rita, or Wilma, is not included in total support. Disregard these amounts in determining who provided a person's support.

## Multiple Support Agreement

Sometimes no one provides more than half of the support of a person. Instead, two or more persons, each of whom would be able to take the exemption but for the support test, together provide more than half of the person's support.

When this happens, you can agree that any one of you who individually provides more than 10% of the person's support, but only one, can claim an exemption for that person as a qualifying relative. Each of the others must sign a statement agreeing not to claim the exemption for that year. The person who claims the exemption must keep these signed statements for his or her records. A multiple support declaration identifying each of the others who agreed not to claim the exemption must be attached to the return of the person claiming the exemption. Form 2120, Multiple Support Declaration, can be used for this purpose.

You can claim an exemption under a multiple support agreement for someone related to you or for someone who lived with you all year as a member of your household.

**Example 1.** You, your sister, and your two brothers provide the entire support of your mother for the year. You provide 45%, your sister 35%, and your two brothers each provide 10%. Either you or your sister can claim an exemption for your mother. The other must sign a statement agreeing not to take an exemption for your mother. The one who claims the exemption must attach Form 2120, or a similar declaration, to his or her return and must keep the statement signed by the other for his or her records. Because neither brother provides more than 10% of the support, neither can take the exemption and neither has to sign a statement.

**Example 2.** You and your brother each provide 20% of your mother's support for the year. The remaining 60% of her support is provided equally by two persons who are not related to her. She does not live with them. Because more than half of her support is provided by persons who cannot claim an exemption for her, no one can take the exemption.

**Example 3.** Your father lives with you and receives 25% of his support from social security, 40% from you, 24% from his brother (your uncle), and 11% from a friend. Either you or your uncle can take the exemption for your father if the other signs a statement agreeing not to. The one who takes the exemption must attach Form 2120, or a similar declaration, to his return and must keep for his records the signed statement from the one agreeing not to take the exemption.

### Support Test for Children of Divorced or Separated Parents

In most cases, a child of divorced or separated parents will be a qualifying child of one of the parents. See *Children of divorced or separated parents* under *Qualifying Child*, earlier. However, if the child does not meet the requirements to be a qualifying child of either parent, the child may be a qualifying relative of one of the parents. In that case, the following rules must be used in applying the support test.

A child will be treated as being the qualifying relative of his or her noncustodial parent if all four of the following statements are true.

1. The parents:
  - a. Are divorced or legally separated under a decree of divorce or separate maintenance,
  - b. Are separated under a written separation agreement, or
  - c. Lived apart at all times during the last 6 months of the year.
2. The child received over half of his or her support for the year from the parents.
3. The child is in the custody of one or both parents for more than half of the year.
4. Either of the following statements is true.
  - a. The custodial parent signs a written declaration, discussed later, that he or

she will not claim the child as a dependent for the year, and the noncustodial parent attaches this written declaration to his or her return. (If the decree or agreement went into effect after 1984, see *Divorce decree or separation agreement made after 1984*, later.)

- b. A pre-1985 decree of divorce or separate maintenance or written separation agreement that applies to 2006 states that the noncustodial parent can claim the child as a dependent, the decree or agreement was not changed after 1984 to say the noncustodial parent cannot claim the child as a dependent, and the noncustodial parent provides at least \$600 for the child's support during the year.

#### Custodial parent and noncustodial parent.

The custodial parent is the parent with whom the child lived for the greater part of the year. The other parent is the noncustodial parent.

If the parents divorced or separated during the year and the child lived with both parents before the separation, the custodial parent is the one with whom the child lived for the greater part of the rest of the year.

**Example.** Your child lived with you for 10 months of the year. The child lived with your former spouse for the other 2 months. You are considered the custodial parent.

**Written declaration.** The custodial parent may use either Form 8332 or a similar statement (containing the same information required by the form) to make the written declaration to release the exemption to the noncustodial parent. The noncustodial parent must attach the form or statement to his or her tax return.

The exemption can be released for 1 year, for a number of specified years (for example, alternate years), or for all future years, as specified in the declaration. If the exemption is released for more than 1 year, the original release must be attached to the return of the noncustodial parent for the first year, and a copy must be attached for each later year.

**Divorce decree or separation agreement made after 1984.** If the divorce decree or separation agreement went into effect after 1984, the noncustodial parent can attach certain pages from the decree or agreement instead of Form 8332. To be able to do this, the decree or agreement must state all three of the following.

1. The noncustodial parent can claim the child as a dependent without regard to any condition, such as payment of support.
2. The custodial parent will not claim the child as a dependent for the year.
3. The years for which the noncustodial parent, rather than the custodial parent, can claim the child as a dependent.

The noncustodial parent must attach all of the following pages of the decree or agreement to his or her tax return.

- The cover page (write the other parent's social security number on this page).
- The pages that include all of the information identified in items (1) through (3) above.

- The signature page with the other parent's signature and the date of the agreement.



*The noncustodial parent must attach the required information even if it was filed with a return in an earlier year.*

**Remarried parent.** If you remarry, the support provided by your new spouse is treated as provided by you.

**Child support under pre-1985 agreement.** All child support payments actually received from the noncustodial parent under a pre-1985 agreement are considered used for the support of the child.

**Example.** Under a pre-1985 agreement, the noncustodial parent provides \$1,200 for the child's support. This amount is considered support provided by the noncustodial parent even if the \$1,200 was actually spent on things other than support.

**Alimony.** Payments to a spouse that are includible in the spouse's gross income as either alimony, separate maintenance payments, or similar payments from an estate or trust, are not treated as a payment for the support of a dependent.

**Parents who never married.** This special rule for divorced or separated parents also applies to parents who never married.

**Multiple support agreement.** If the support of the child is determined under a multiple support agreement, this special support test for divorced or separated parents does not apply.

## Phaseout of Exemptions

The amount you can claim as a deduction for exemptions is reduced once your adjusted gross income (AGI) goes above a certain level for your filing status. These levels are as follows:

<b>Filing Status</b>	<b>AGI Level That Reduces Exemption Amount</b>
Married filing separately . . . . .	\$ 112,875
Single . . . . .	150,500
Head of household . . . . .	188,150
Married filing jointly . . . . .	225,750
Qualifying widow(er) . . . . .	225,750

You must reduce the dollar amount of your exemptions by 2% for each \$2,500, or part of \$2,500 (\$1,250 if you are married filing separately), that your AGI exceeds the amount shown above for your filing status. However, beginning in 2006, you can lose no more than 2/3 of the dollar amount of your exemptions. In other words, each exemption cannot be reduced to less than \$1,100.

If your AGI exceeds the level for your filing status, use the Deduction for Exemptions Worksheet in the instructions for Form 1040 or Form 1040A to figure the amount of your deduction for exemptions. However, if you are claiming a

\$500 exemption for housing an individual displaced by Hurricane Katrina, use Form 8914 instead.

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## Social Security Numbers for Dependents

You must list the social security number (SSN) of any dependent for whom you claim an exemption in column (2) of line 6c of your Form 1040 or Form 1040A.



*If you do not list the dependent's SSN when required or if you list an incorrect SSN, the exemption may be disallowed.*

**No SSN.** If a person for whom you expect to claim an exemption on your return does not have an SSN, either you or that person should apply for an SSN as soon as possible by filing Form SS-5, Application for a Social Security Card, with the Social Security Administration (SSA). Information about applying for an SSN and Form SS-5 is available at your local SSA office.

It usually takes about 2 weeks to get an SSN. If you do not have a required SSN by the filing due date, you can file Form 4868 for an extension of time to file.

**Born and died in 2006.** If your child was born and died in 2006, and you do not have an SSN for the child, you may attach a copy of the child's birth certificate instead. If you do, enter "DIED" in column (2) of line 6c of your Form 1040 or Form 1040A.

**Alien or adoptee with no SSN.** If your dependent does not have and cannot get an SSN, you must list the individual taxpayer identification number (ITIN) or adoption taxpayer identification number (ATIN) instead of an SSN.

**Taxpayer identification numbers for aliens.** If your dependent is a resident or non-resident alien who does not have and is not eligible to get an SSN, your dependent must apply for an individual taxpayer identification number (ITIN). Write the number in column (2) of line 6c of your Form 1040 or Form 1040A. To apply for an ITIN, use Form W-7, Application for IRS Individual Taxpayer Identification Number.

**Taxpayer identification numbers for adoptees.** If you have a child who was placed with you by an authorized placement agency, you may be able to claim an exemption for the child. However, if you cannot get an SSN or an ITIN for the child, you must get an adoption taxpayer identification number (ATIN) for the child from the IRS. See Form W-7A, Application for Taxpayer Identification Number for Pending U.S. Adoptions, for details.

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## 4.

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# Tax Withholding and Estimated Tax

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## What's New for 2007

**Tax law changes for 2007.** When you figure how much income tax you want withheld from your pay and when you figure your estimated tax, consider tax law changes effective in 2007. See *What's New for 2007* in the front of this publication, or get Publication 553, Highlights of 2006 Tax Changes.

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## Reminders

**Estimated tax safe harbor for higher income taxpayers.** If your adjusted gross income was more than \$150,000 (\$75,000 if you are married filing a separate return), you will have to deposit the smaller of 90% of your expected tax for 2007 or 110% of the tax shown on your 2006 return to avoid an estimated tax penalty.

**Payment of estimated tax electronically.** You may be able to pay your estimated tax by electronic means. For more information, see *How To Pay Estimated Tax* in chapter 2 of Publication 505.

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## Introduction

This chapter discusses how to pay your tax as you earn or receive income during the year. In general, the federal income tax is a pay-as-you-go tax. There are two ways to pay as you go.

- **Withholding.** If you are an employee, your employer probably withholds income tax from your pay. Tax also may be withheld from certain other income, including pensions, bonuses, commissions, and gambling winnings. In each case, the amount withheld is paid to the IRS in your name.
- **Estimated tax.** If you do not pay your tax through withholding, or do not pay enough tax that way, you might have to pay estimated tax. People who are in business for themselves generally will have to pay their tax this way. You may have to pay estimated tax if you receive income such as dividends, interest, capital gains, rent, and royalties. Estimated tax is used to pay not only income tax, but self-employment tax and alternative minimum tax as well.

This chapter explains these methods. In addition, it also explains the following.

- **Credit for withholding and estimated tax.** When you file your 2006 income tax return, take credit for all the income tax withheld from your salary, wages, pensions, etc., and for the estimated tax you paid for 2006.
- **Underpayment penalty.** If you did not pay enough tax during the year, either through withholding or by making estimated tax payments, you may have to pay a penalty. In most cases, the IRS can figure this penalty for you. See *Underpayment Penalty* at the end of this chapter.

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## Useful Items

You may want to see:

### Publication

- 505** Tax Withholding and Estimated Tax
- 553** Highlights of 2006 Tax Changes
- 919** How Do I Adjust My Tax Withholding?

### Form (and Instructions)

- W-4** Employee's Withholding Allowance Certificate
- W-4P** Withholding Certificate for Pension or Annuity Payments
- W-4S** Request for Federal Income Tax Withholding From Sick Pay
- W-4V** Voluntary Withholding Request
- 1040-ES** Estimated Tax for Individuals
- 2210** Underpayment of Estimated Tax by Individuals, Estates, and Trusts

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## Withholding

This section discusses income tax withholding on these types of income:

- Salaries and wages,
- Tips,
- Taxable fringe benefits,
- Sick pay,
- Pensions and annuities,
- Gambling winnings,
- Unemployment compensation, and
- Certain federal payments, such as social security.

This section explains in detail the rules for withholding tax from each of these types of income.

This section also covers backup withholding on interest, dividends, and other payments.

## Salaries and Wages

Income tax is withheld from the pay of most employees. Your pay includes your regular pay, bonuses, commissions, and vacation allowances. It also includes reimbursements and other expense allowances paid under a nonaccountable plan. See *Supplemental Wages*, later, for more information about reimbursements and allowances paid under a nonaccountable plan.

If your income is low enough that you will not have to pay income tax for the year, you may be exempt from withholding. This is explained under *Exemption From Withholding*, later.

**Military retirees.** Military retirement pay is treated in the same manner as regular pay for income tax withholding purposes, even though it is treated as a pension or annuity for other tax purposes.

**Household workers.** If you are a household worker, you can ask your employer to withhold income tax from your pay.

Tax is withheld only if you want it withheld and your employer agrees to withhold it. If you do not have enough income tax withheld, you may have to pay estimated tax, as discussed later under *Estimated Tax*.

**Farmworkers.** Income tax generally is withheld from your cash wages for work on a farm unless your employer both:

- Pays you cash wages of less than \$150 during the year, and
- Has expenditures for agricultural labor totaling less than \$2,500 during the year.

You can ask your employer to withhold income tax from noncash wages and other wages not subject to withholding. If your employer does not agree to withhold tax, or if not enough is withheld, you may have to pay estimated tax, as discussed later under *Estimated Tax*.

## Determining Amount of Tax Withheld Using Form W-4

The amount of income tax your employer withholds from your regular pay depends on two things.

- The amount you earn.
- The information you give your employer on Form W-4.

Form W-4 includes three types of information that your employer will use to figure your withholding.

- Whether to withhold at the single rate or at the lower married rate.
- How many withholding allowances you claim. (Each allowance reduces the amount withheld.)
- Whether you want an additional amount withheld.

**Note.** You must specify a filing status and a number of withholding allowances on Form W-4. You cannot specify only a dollar amount of withholding.

## New Job

When you start a new job, you must fill out Form W-4 and give it to your employer. Your employer should have copies of the form. If you need to change the information later, you must fill out a new form.

If you work only part of the year (for example, you start working after the beginning of the year), too much tax may be withheld. You may

be able to avoid overwithholding if your employer agrees to use the part-year method. See *Part-Year Method* in chapter 1 of Publication 505 for more information.

## Changing Your Withholding

Events during the year may change your marital status or the exemptions, adjustments, deductions, or credits you expect to claim on your tax return. When this happens, you may need to give your employer a new Form W-4 to change your withholding status or number of allowances.

If the event changes your withholding status or the number of allowances you are claiming, you must give your employer a new Form W-4 within 10 days after either of the following.

- Your divorce, if you have been claiming married status.
- Any event that decreases the number of withholding allowances you can claim.

Generally, you can submit a new Form W-4 whenever you wish to change the number of your withholding allowances for any other reason.

**Changing your withholding for 2008.** If events in 2007 will decrease the number of your withholding allowances for 2008, you must give your employer a new Form W-4 by December 1, 2007. If the event occurs in December 2007, submit a new Form W-4 within 10 days.

## Checking Your Withholding

After you have given your employer a Form W-4, you can check to see whether the amount of tax withheld from your pay is too little or too much. See *Publication 919*, later. If too much or too little tax is being withheld, you should give your employer a new Form W-4 to change your withholding.

**Note.** You cannot give your employer a payment to cover withholding for past pay periods or a payment for estimated tax.

## Completing Form W-4 and Worksheets

Form W-4 has worksheets to help you figure how many withholding allowances you can claim. The worksheets are for your own records. Do not give them to your employer.

**Multiple jobs.** If you have income from more than one job at the same time, complete only one set of Form W-4 worksheets. Then split your allowances between the Forms W-4 for each job. You cannot claim the same allowances with more than one employer at the same time. You can claim all your allowances with one employer and none with the other(s), or divide them any other way.

**Married individuals.** If both you and your spouse are employed and expect to file a joint return, figure your withholding allowances using your combined income, adjustments, deductions, exemptions, and credits. Use only one set

of worksheets. You can divide your total allowances any way, but you cannot claim an allowance that your spouse also claims.

If you and your spouse expect to file separate returns, figure your allowances using separate worksheets based on your own individual income, adjustments, deductions, exemptions, and credits.

**Alternative method of figuring withholding allowances.** You do not have to use the Form W-4 worksheets if you use a more accurate method of figuring the number of withholding allowances. See *Alternative method of figuring withholding allowances* under *Completing Form W-4 and Worksheets* in chapter 1 of Publication 505 for more information.

**Personal Allowances Worksheet.** Use the Personal Allowances Worksheet on page 1 of Form W-4 to figure your withholding allowances based on exemptions and any special allowances that apply.

**Deductions and Adjustments Worksheet.** Use this worksheet if you plan to itemize your deductions or claim adjustments to the income on your 2007 tax return and you want to reduce your withholding.

Fill out this worksheet to adjust the number of your withholding allowances for deductions, adjustments to income, and tax credits. The Deductions and Adjustments Worksheet is on page 2 of Form W-4. Chapter 1 of Publication 505 explains this worksheet.

**Two-Earner/Multiple-Job Worksheet.** You may need to complete this worksheet if you have more than one job or a working spouse. You also can add to the amount, if any, on line 8 of this worksheet any additional withholding necessary to cover any amount you expect to owe other than income tax, such as self-employment tax.

## Getting the Right Amount of Tax Withheld

In most situations, the tax withheld from your pay will be close to the tax you figure on your return if you follow these two rules.

- You accurately complete all the Form W-4 worksheets that apply to you.
- You give your employer a new Form W-4 when changes occur.

But because the worksheets and withholding methods do not account for all possible situations, you may not be getting the right amount withheld. This is most likely to happen in the following situations.

- You are married and both you and your spouse work.
- You have more than one job at a time.
- You have nonwage income, such as interest, dividends, alimony, unemployment compensation, or self-employment income.
- You will owe additional amounts with your return, such as self-employment tax.
- Your withholding is based on obsolete Form W-4 information for a substantial part of the year.

- Your earnings are more than \$130,000 if you are single or \$180,000 if you are married.
- You work only part of the year.
- You change the number of your withholding allowances during the year.

**Cumulative wage method.** If you change the number of your withholding allowances during the year, too much or too little tax may have been withheld for the period before you made the change. You may be able to compensate for this if your employer agrees to use the cumulative wage withholding method for the rest of the year. You must ask in writing that your employer use this method.

To be eligible, you must have been paid for the same kind of payroll period (weekly, bi-weekly, etc.) since the beginning of the year.

## Publication 919

To make sure you are getting the right amount of tax withheld, get Publication 919. It will help you compare the total tax to be withheld during the year with the tax you can expect to figure on your return. It also will help you determine how much additional withholding, if any, is needed each payday to avoid owing tax when you file your return. If you do not have enough tax withheld, you may have to pay estimated tax, as explained under *Estimated Tax*, later.

## Rules Your Employer Must Follow

It may be helpful for you to know some of the withholding rules your employer must follow. These rules can affect how to fill out your Form W-4 and how to handle problems that may arise.

**New Form W-4.** When you start a new job, your employer should give you a Form W-4 to fill out. Beginning with your first payday, your employer will use the information you give on the form to figure your withholding.

If you later fill out a new Form W-4, your employer can put it into effect as soon as possible. The deadline for putting it into effect is the start of the first payroll period ending 30 or more days after you turn it in.

**No Form W-4.** If you do not give your employer a completed Form W-4, your employer must withhold at the highest rate, as if you were single and claimed no withholding allowances.

**Repaying withheld tax.** If you find you are having too much tax withheld because you did not claim all the withholding allowances you are entitled to, you should give your employer a new Form W-4. Your employer cannot repay any of the tax previously withheld. Instead, claim the full amount withheld when you file your tax return.

However, if your employer has withheld more than the correct amount of tax for the Form W-4 you have in effect, you do not have to fill out a new Form W-4 to have your withholding lowered to the correct amount. Your employer can repay the amount that was withheld incorrectly. If you are not repaid, your Form W-2 will reflect the full amount actually withheld.

## Exemption From Withholding

If you claim exemption from withholding, your employer will not withhold federal income tax from your wages. The exemption applies only to income tax, not to social security or Medicare tax.

You can claim exemption from withholding for 2007 only if both of the following situations apply.

- For 2006 you had a right to a refund of all federal income tax withheld because you had no tax liability.
- For 2007 you expect a refund of all federal income tax withheld because you expect to have no tax liability.

**Students.** If you are a student, you are not automatically exempt. See chapter 1 to see whether you must file a return. If you work only part time or only during the summer, you may qualify for exemption from withholding.

**Age 65 or older or blind.** If you are 65 or older or blind, use one of the worksheets in chapter 1 of Publication 505, under *Exemption From Withholding*, to help you decide whether you can claim exemption from withholding. Do not use either worksheet if you will itemize deductions, claim exemptions for dependents, or claim tax credits on your 2007 return. Instead, see *Itemizing deductions or claiming exemptions or credits* in chapter 1 of Publication 505.

**Claiming exemption from withholding.** To claim exemption, you must give your employer a Form W-4. Do not complete lines 5 and 6. Enter "exempt" on line 7.

If you claim exemption, but later your situation changes so that you will have to pay income tax after all, you must file a new Form W-4 within 10 days after the change. If you claim exemption in 2007, but you expect to owe income tax for 2008, you must file a new Form W-4 by December 1, 2007.

Your claim of exempt status may be reviewed by the IRS.

**An exemption is good for only 1 year.** You must give your employer a new Form W-4 by February 15 each year to continue your exemption.

## Supplemental Wages

Supplemental wages include bonuses, commissions, overtime pay, vacation allowances, certain sick pay, and expense allowances under certain plans. The payer can figure withholding on supplemental wages using the same method used for your regular wages. However, if these payments are identified separately from your regular wages, your employer or other payer of supplemental wages can withhold income tax from these wages at a flat rate.

**Expense allowances.** Reimbursements or other expense allowances paid by your employer under a nonaccountable plan are treated as supplemental wages.

Reimbursements or other expense allowances paid under an accountable plan that are more than your proven expenses are treated

as paid under a nonaccountable plan if you do not return the excess payments within a reasonable period of time.

For more information about accountable and nonaccountable expense allowance plans, see *Reimbursements* in chapter 26.

## Penalties

You may have to pay a penalty of \$500 if both of the following apply.

- You make statements or claim withholding allowances on your Form W-4 that reduce the amount of tax withheld.
- You have no reasonable basis for those statements or allowances at the time you prepare your Form W-4.

There is also a criminal penalty for willfully supplying false or fraudulent information on your Form W-4 or for willfully failing to supply information that would increase the amount withheld. The penalty upon conviction can be either a fine of up to \$1,000 or imprisonment for up to 1 year, or both.

These penalties will apply if you deliberately and knowingly falsify your Form W-4 in an attempt to reduce or eliminate the proper withholding of taxes. A simple error, an honest mistake, will not result in one of these penalties. For example, a person who has tried to figure the number of withholding allowances correctly, but claims seven when the proper number is six, will not be charged a W-4 penalty.

## Tips

The tips you receive while working on your job are considered part of your pay. You must include your tips on your tax return on the same line as your regular pay. However, tax is not withheld directly from tip income, as it is from your regular pay. Nevertheless, your employer will take into account the tips you report when figuring how much to withhold from your regular pay.

See chapter 6 for information on reporting your tips to your employer. For more information on the withholding rules for tip income, see Publication 531, Reporting Tip Income.

### How employer figures amount to withhold.

The tips you report to your employer are counted as part of your income for the month you report them. Your employer can figure your withholding in either of two ways.

- By withholding at the regular rate on the sum of your pay plus your reported tips.
- By withholding at the regular rate on your pay plus a percentage of your reported tips.

**Not enough pay to cover taxes.** If your regular pay is not enough for your employer to withhold all the tax (including income tax, social security tax, Medicare tax, or railroad retirement tax) due on your pay plus your tips, you can give your employer money to cover the shortage. See *Giving your employer money for taxes* in chapter 6.

**Allocated tips.** Your employer should not withhold income tax, social security tax, Medicare tax, or railroad retirement tax on any allocated tips. Withholding is based only on your pay plus your reported tips. Your employer should refund to you any incorrectly withheld tax. See *Allocated Tips* in chapter 6 for more information.

## Taxable Fringe Benefits

The value of certain noncash fringe benefits you receive from your employer is considered part of your pay. Your employer generally must withhold income tax on these benefits from your regular pay.

For information on fringe benefits, see *Fringe Benefits* under *Employee Compensation* in chapter 5.

Although the value of your personal use of an employer-provided car, truck, or other highway motor vehicle is taxable, your employer can choose not to withhold income tax on that amount. Your employer must notify you if this choice is made.

For more information on withholding on taxable fringe benefits, see chapter 1 of Publication 505.

## Sick Pay

Sick pay is a payment to you to replace your regular wages while you are temporarily absent from work due to sickness or personal injury. To qualify as sick pay, it must be paid under a plan to which your employer is a party.

If you receive sick pay from your employer or an agent of your employer, income tax must be withheld. An agent who does not pay regular wages to you may choose to withhold income tax at a flat rate.

However, if you receive sick pay from a third party who is not acting as an agent of your employer, income tax will be withheld only if you choose to have it withheld. See *Form W-4S*, later.

If you receive payments under a plan in which your employer does not participate (such as an accident or health plan where you paid all the premiums), the payments are not sick pay and usually are not taxable.

**Union agreements.** If you receive sick pay under a collective bargaining agreement between your union and your employer, the agreement may determine the amount of income tax withholding. See your union representative or your employer for more information.

**Form W-4S.** If you choose to have income tax withheld from sick pay paid by a third party, such as an insurance company, you must fill out Form W-4S. Its instructions contain a worksheet you can use to figure the amount you want withheld. They also explain restrictions that may apply.

Give the completed form to the payer of your sick pay. The payer must withhold according to your directions on the form.

**Estimated tax.** If you do not request withholding on Form W-4S, or if you do not have enough tax withheld, you may have to make estimated tax payments. If you do not pay enough estimated tax or have enough income tax withheld,

you may have to pay a penalty. See *Underpayment Penalty* at the end of this chapter.

## Pensions and Annuities

Income tax usually will be withheld from your pension or annuity distributions unless you choose not to have it withheld. This rule applies to distributions from:

- A traditional individual retirement arrangement (IRA),
- A life insurance company under an endowment, annuity, or life insurance contract,
- A pension, annuity, or profit-sharing plan,
- A stock bonus plan, and
- Any other plan that defers the time you receive compensation.

The amount withheld depends on whether you receive payments spread out over more than 1 year (periodic payments), within 1 year (nonperiodic payments), or as an eligible rollover distribution (ERD). You cannot choose not to have income tax withheld from an ERD.

**More information.** For more information on taxation of annuities and distributions (including eligible rollover distributions) from qualified retirement plans, see chapter 10. For information on IRAs, see chapter 17. For more information on withholding on pensions and annuities, including a discussion of Form W-4P, see *Pensions and Annuities* in chapter 1 of Publication 505.

## Gambling Winnings

Income tax is withheld at a flat 25% rate from certain kinds of gambling winnings.

Gambling winnings of more than \$5,000 from the following sources are subject to income tax withholding.

- Any sweepstakes, wagering pool, or lottery.
- Any other wager, if the proceeds are at least 300 times the amount of the bet.

It does not matter whether your winnings are paid in cash, in property, or as an annuity. Winnings not paid in cash are taken into account at their fair market value.

Gambling winnings from bingo, keno, and slot machines generally are not subject to income tax withholding. However, you may need to provide the payer with a social security number to avoid withholding. See *Backup withholding on gambling winnings* in chapter 1 of Publication 505. If you receive gambling winnings not subject to withholding, you may need to pay estimated tax. See *Estimated Tax*, later.

If you do not pay enough tax through withholding or estimated tax payments, you may have to pay a penalty. See *Underpayment Penalty*, later.

**Form W-2G.** If a payer withholds income tax from your gambling winnings, you should receive a Form W-2G, Certain Gambling Winnings, showing the amount you won and the amount withheld. Report the tax withheld on line 64 of Form 1040.

## Unemployment Compensation

You can choose to have income tax withheld from unemployment compensation. To make this choice, you will have to fill out Form W-4V (or a similar form provided by the payer) and give it to the payer.

Unemployment compensation is taxable. So, if you do not have income tax withheld, you may have to pay estimated tax. See *Estimated Tax*, later.

If you do not pay enough tax, either through withholding or estimated tax, you may have to pay a penalty. See *Underpayment Penalty*, later, for information.

## Federal Payments

You can choose to have income tax withheld from certain federal payments you receive. These payments are:

1. Social security benefits,
2. Tier 1 railroad retirement benefits,
3. Commodity credit loans you choose to include in your gross income, and
4. Payments under the Agricultural Act of 1949 (7 U.S.C. 1421 et. seq.), or title II of the Disaster Assistance Act of 1988, as amended, that are treated as insurance proceeds and that you receive because:
  - a. Your crops were destroyed or damaged by drought, flood, or any other natural disaster, or
  - b. You were unable to plant crops because of a natural disaster described in (a).

To make this choice, you will have to fill out Form W-4V (or a similar form provided by the payer) and give it to the payer.

If you do not choose to have income tax withheld, you may have to pay estimated tax. See *Estimated Tax*, later.

If you do not pay enough tax, either through withholding or estimated tax, you may have to pay a penalty. See *Underpayment Penalty*, at the end of this chapter, for information.

**More information.** For more information about the tax treatment of social security and railroad retirement benefits, see chapter 11. Get Publication 225, *Farmer's Tax Guide*, for information about the tax treatment of commodity credit loans or crop disaster payments.

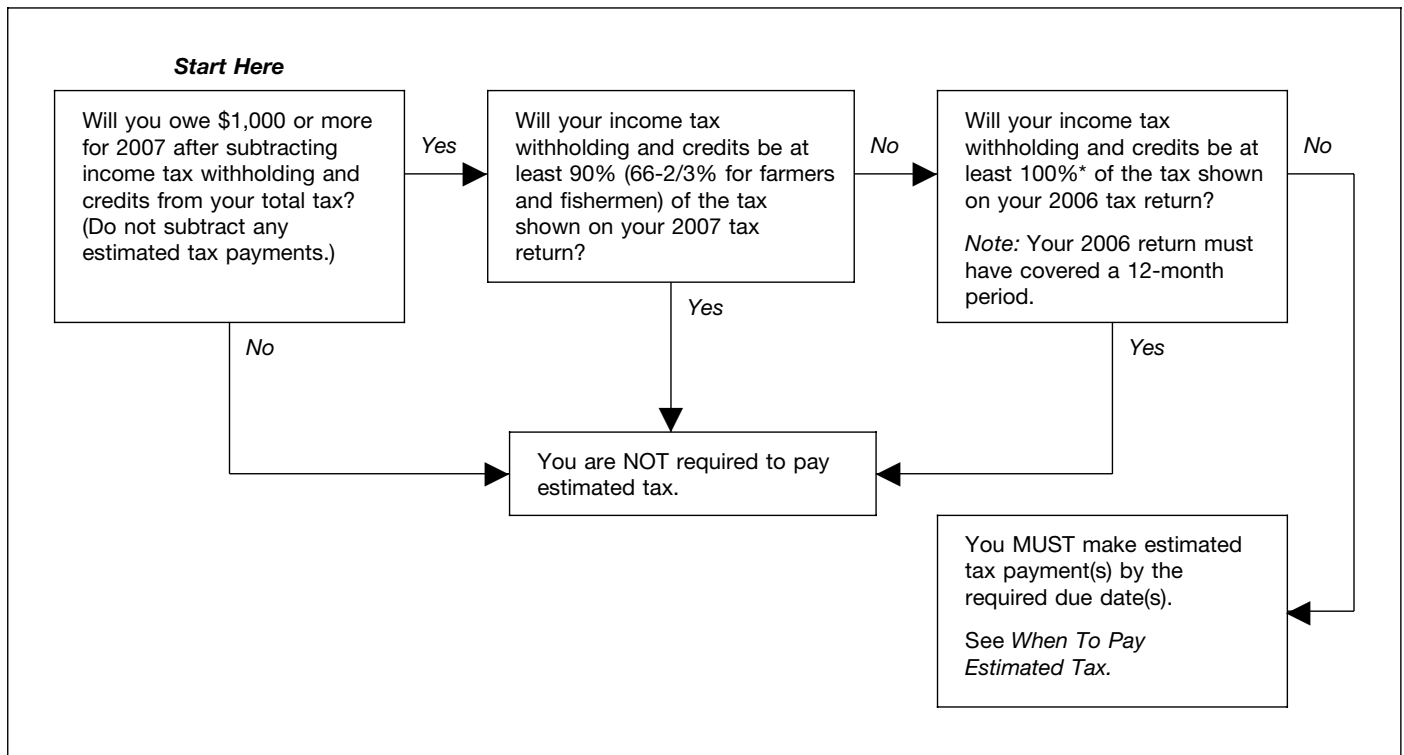
## Backup Withholding

Banks and other businesses that pay you certain kinds of income must file an information return (Form 1099) with the IRS. The information return shows how much you were paid during the year. It also includes your name and taxpayer identification number (TIN). TINs are explained in chapter 1.

These payments generally are not subject to withholding. However, "backup" withholding is required in certain situations. Backup withholding can apply to most kinds of payments that are reported on Form 1099.

The payer must withhold at a flat 28% rate in the following situations.

Figure 4-A. Do You Have To Pay Estimated Tax?



\* 110% if less than two-thirds of your gross income for 2006 and 2007 is from farming or fishing and your 2006 adjusted gross income was more than \$150,000 (\$75,000 if your filing status for 2007 is married filing a separate return).

- You do not give the payer your TIN in the required manner.
- The IRS notifies the payer that the TIN you gave is incorrect.
- You are required, but fail, to certify that you are not subject to backup withholding.
- The IRS notifies the payer to start withholding on interest or dividends because you have underreported interest or dividends on your income tax return. The IRS will do this only after it has mailed you four notices over at least a 210-day period.

See *Backup Withholding* in chapter 1 of Publication 505 for more information.

**Penalties.** There are civil and criminal penalties for giving false information to avoid backup withholding. The civil penalty is \$500. The criminal penalty, upon conviction, is a fine of up to \$1,000 or imprisonment of up to 1 year, or both.

## Estimated Tax

Estimated tax is the method used to pay tax on income that is not subject to withholding. This includes income from self-employment, interest, dividends, alimony, rent, gains from the sale of assets, prizes, and awards. You also may have to pay estimated tax if the amount of income tax being withheld from your salary, pension, or other income is not enough.

Estimated tax is used to pay both income tax and self-employment tax, as well as other taxes and amounts reported on your tax return. If you

do not pay enough through withholding or estimated tax payments, you may have to pay a penalty. If you do not pay enough by the due date of each payment period (see *When To Pay Estimated Tax*, later), you may be charged a penalty even if you are due a refund when you file your tax return. For information on when the penalty applies, see *Underpayment Penalty*, at the end of this chapter.

## Who Does Not Have To Pay Estimated Tax

If you receive salaries or wages, you can avoid having to pay estimated tax by asking your employer to take more tax out of your earnings. To do this, give a new Form W-4 to your employer. See chapter 1 of Publication 505.

**Estimated tax not required.** You do not have to pay estimated tax for 2007 if you meet all three of the following conditions.

- You had no tax liability for 2006.
- You were a U.S. citizen or resident for the whole year.
- Your 2006 tax year covered a 12-month period.

You had no tax liability for 2006 if your total tax was zero or you did not have to file an income tax return.

## Who Must Pay Estimated Tax

If you had a tax liability for 2006, you may have to pay estimated tax for 2007.

**General rule.** You must pay estimated tax for 2007 if both of the following apply.

1. You expect to owe at least \$1,000 in tax for 2007 after subtracting your withholding and credits.
2. You expect your withholding and credits to be less than the smaller of:
  - a. 90% of the tax to be shown on your 2007 tax return, or
  - b. 100% of the tax shown on your 2006 tax return. Your 2006 tax return must cover all 12 months.

**Special rules for farmers, fishermen, and higher income taxpayers.** There are exceptions to the general rule for farmers, fishermen, and certain higher income taxpayers. See Figure 4-A and chapter 2 of Publication 505 for more information.

**Aliens.** Resident and nonresident aliens also may have to pay estimated tax. Resident aliens should follow the rules in this chapter unless noted otherwise. Nonresident aliens should get Form 1040-ES(NR), U.S. Estimated Tax for Nonresident Alien Individuals.

You are an alien if you are not a citizen or national of the United States. You are a resident alien if you either have a green card or meet the substantial presence test. For more information about the substantial presence test, see Publication 519.

**Married taxpayers.** To figure whether you must pay estimated tax, apply the rules discussed here to your separate estimated income. If you can make joint estimated tax payments, you can apply these rules on a joint basis.

You and your spouse can make joint estimated tax payments even if you are not living together.

However, you and your spouse cannot make joint estimated tax payments if:

- You are legally separated under a decree of divorce or separate maintenance,
- You and your spouse have different tax years, or
- Either spouse is a nonresident alien (unless you elected to be treated as a resident alien (see chapter 1 of Publication 519)).

Whether you and your spouse make joint estimated tax payments or separate payments will not affect your choice of filing a joint tax return or separate returns for 2007.

**2006 separate returns and 2007 joint return.** If you plan to file a joint return with your spouse for 2007, but you filed separate returns for 2006, your 2006 tax is the total of the tax shown on your separate returns. You filed a separate return if you filed as single, head of household, or married filing separately.

**2006 joint return and 2007 separate returns.** If you plan to file a separate return for 2007, but you filed a joint return for 2006, your 2006 tax is your share of the tax on the joint return. You file a separate return if you file as single, head of household, or married filing separately.

To figure your share of the tax on the joint return, first figure the tax both you and your spouse would have paid had you filed separate returns for 2006 using the same filing status as for 2007. Then multiply the tax on the joint return by the following fraction.

The tax you would have paid had you filed a separate return

The total tax you and your spouse would have paid had you filed separate returns

**Example.** Joe and Heather filed a joint return for 2006 showing taxable income of \$48,500 and a tax of \$6,524. Of the \$48,500 taxable income, \$40,100 was Joe's and the rest was Heather's. For 2007, they plan to file married filing separately. Joe figures his share of the tax on the 2006 joint return as follows.

Tax on \$40,100 based on a separate return	\$6,589
Tax on \$8,400 based on a separate return	886
Total	\$ 7,475
Joe's percentage of total (\$6,589 + \$7,475)	88%
Joe's share of tax on joint return (\$6,524 × 88%)	<u>\$ 5,741</u>

## How To Figure Estimated Tax

To figure your estimated tax, you must figure your expected adjusted gross income (AGI), taxable income, taxes, deductions, and credits for the year.

When figuring your 2007 estimated tax, it may be helpful to use your income, deductions,

and credits for 2006 as a starting point. Use your 2006 federal tax return as a guide. You can use Form 1040-ES to figure your estimated tax. Nonresident aliens use Form 1040-ES(NR) to figure estimated tax.

You must make adjustments both for changes in your own situation and for recent changes in the tax law. For 2007, there are several changes in the law. For a discussion of these changes, see Publication 553, Highlights of 2006 Tax Changes, or visit the IRS website at [www.irs.gov](http://www.irs.gov).

Form 1040-ES includes a worksheet to help you figure your estimated tax. Keep the worksheet for your records.

For more complete information and examples of how to figure your estimated tax for 2007, see chapter 2 of Publication 505.

## When To Pay Estimated Tax

For estimated tax purposes, the year is divided into four payment periods. Each period has a specific payment due date. If you do not pay enough tax by the due date of each of the payment periods, you may be charged a penalty even if you are due a refund when you file your income tax return. The following chart gives the payment periods and due dates for estimated tax payments.

For the period:	Due date:
Jan. 1* through Mar. 31	Apr. 15
April 1 through May 31	June 15
June 1 through Aug. 31	Sept. 15
Sept. 1 through Dec. 31	Jan. 15 next year**

\*If your tax year does not begin on January 1, see the Form 1040-ES instructions.

\*\*See *January payment*, later.

**Saturday, Sunday, holiday rule.** If the due date for an estimated tax payment falls on a Saturday, Sunday, or legal holiday, the payment will be on time if you make it on the next day that is not a Saturday, Sunday, or legal holiday. For example, a payment due September 15, 2007, will be on time if you make it by September 17, 2007. September 15, 2007, is a Saturday.

**January payment.** If you file your 2007 Form 1040 or Form 1040A by January 31, 2008, and pay the rest of the tax you owe, you do not need to make the payment due on January 15, 2008.

**Fiscal year taxpayers.** If your tax year does not start on January 1, see the Form 1040-ES instructions for your payment due dates.

## When To Start

You do not have to make estimated tax payments until you have income on which you will owe the tax. If you have income subject to estimated tax during the first payment period, you must make your first payment by the due date for the first payment period. You can pay all your estimated tax at that time, or you can pay it in

installments. If you choose to pay in installments, make your first payment by the due date for the first payment period. Make your remaining installment payments by the due dates for the later periods.

**No income subject to estimated tax during first period.** If you do not have income subject to estimated tax until a later payment period, you can make your first payment by the due date for that period. You can pay your entire estimated tax by the due date for that period, or you can pay it in installments by the due date for that period and the due dates for the remaining periods. The following chart shows when to make installment payments.

If you first have income on which you must pay estimated tax:	Make a payment by:	Make later installments by:*
Before Apr. 1	Apr. 15	June 15 Sept. 15 Jan. 15 next year
April 1–May 31	June 15	Sept. 15 Jan. 15 next year
June 1–Aug. 31	Sept. 15	Jan. 15 next year
After Aug. 31	Jan. 15 next year*	(None)

\*See *January payment*, and *Saturday, Sunday, holiday rule* under *When To Pay Estimated Tax*, earlier.

**How much to pay to avoid a penalty.** To determine how much you should pay by each payment due date, see *How To Figure Each Payment*, next. If the earlier discussion of *No income subject to estimated tax during first period* or the later discussion of *Change in estimated tax* applies to you, you may need to read *Annualized Income Installment Method* in chapter 2 of Publication 505 for information on how to avoid a penalty.

## How To Figure Each Payment

You should pay enough estimated tax by the due date of each payment period to avoid a penalty for that period. You can figure your required payment for each period by using either the regular installment method or the annualized income installment method. These methods are described in chapter 2 of Publication 505. If you do not pay enough each payment period, you may be charged a penalty even if you are due a refund when you file your tax return.

**Underpayment penalty.** Under the regular method, if your estimated tax payment for any period is less than one-fourth of your estimated

tax, you may be charged a penalty for underpayment of estimated tax for that period when you file your tax return. See chapter 4 of Publication 505 for more information.

**Change in estimated tax.** After you make an estimated tax payment, changes in your income, adjustments, deductions, credits, or exemptions may make it necessary for you to refigure your estimated tax. Pay the unpaid balance of your amended estimated tax by the next payment due date after the change or in installments by that date and the due dates for the remaining payment periods.

## Estimated Tax Payments Not Required

You do not have to pay estimated tax if your withholding in each payment period is at least as much as:

- One-fourth of your required annual payment, or
- Your required annualized income installment for that period.

You also do not have to pay estimated tax if you will pay enough through withholding to keep the amount you owe with your return under \$1,000.

## How To Pay Estimated Tax

There are five ways to pay estimated tax.

- By crediting an overpayment on your 2006 return to your 2007 estimated tax.
- By sending in your payment with a payment voucher from Form 1040-ES.
- By using the Electronic Federal Tax Payment System (EFTPS). For EFTPS information, see chapter 1.
- By electronic funds withdrawal if you are filing Form 1040 or Form 1040A electronically.
- By credit card using a pay-by-phone system or the Internet.

## Crediting an Overpayment

If you show an overpayment of tax after completing your Form 1040 or Form 1040A for 2006, you can apply part or all of it to your estimated tax for 2007. On line 75 of Form 1040, or line 46 of Form 1040A, enter the amount you want credited to your estimated tax rather than refunded. The amount you have credited should be taken into account when figuring your estimated tax payments.

The credit will be applied to your payments in the order necessary to avoid the penalty for underpayment of estimated tax. You cannot have any of that amount refunded to you until the close of that tax year. You also cannot use that overpayment in any other way.

## Using the Payment Vouchers

Each payment of estimated tax by check or money order must be accompanied by a payment voucher from Form 1040-ES. If you made estimated tax payments last year, you should receive a copy of the 2007 Form 1040-ES in the mail. It will have payment vouchers preprinted

with your name, address, and social security number. Using the preprinted vouchers will speed processing, reduce the chance of error, and help save processing costs.

If you did not pay estimated tax last year, you will have to get Form 1040-ES. After you make your first payment, a Form 1040-ES package with the preprinted vouchers will be mailed to you. Follow the instructions in the package to make sure you use the vouchers correctly.

Use the window envelopes that came with your Form 1040-ES package. If you use your own envelopes, make sure you mail your payment vouchers to the address shown in the Form 1040-ES instructions for the place where you live.



*Do not use the address shown in the Form 1040 or Form 1040A instructions.*

If you file a joint return and you are making joint estimated tax payments, please enter the names and social security numbers on the payment voucher in the same order as they will appear on the joint return.

**Change of address.** You must notify the IRS if you are making estimated tax payments and you changed your address during the year. You must send a clear and concise written statement to the Internal Revenue Service Center where you filed your last return and provide all of the following:

- Your full name (and spouse's full name),
- Your signature (and spouse's signature),
- Your old address (and spouse's old address if different),
- Your new address, and
- Your social security number (and spouse's social security number).

You can use Form 8822, Change of Address, for this purpose.

Continue to use your old preprinted payment vouchers until the IRS sends you new ones. However, do not correct the address on the old voucher.

## Paying Electronically

If you want to make estimated payments by using EFTPS, by electronic funds withdrawal, or by credit card, see the Form 1040-ES instructions or *How To Pay Estimated Tax* in Publication 505.

## Credit for Withholding and Estimated Tax

When you file your 2006 income tax return, take credit for all the income tax and excess social security or railroad retirement tax withheld from your salary, wages, pensions, etc. Also, take credit for the estimated tax you paid for 2006. These credits are subtracted from your tax. You should file a return and claim these credits, even if you do not owe tax.

**Two or more employers.** If you had two or more employers and were paid wages of more

than \$94,200 during 2006, too much social security or railroad retirement tax may have been withheld from your wages. You may be able to claim the excess as a credit against your income tax when you file your return. See *Credit for Excess Social Security Tax or Railroad Retirement Tax Withheld* in chapter 37.

## Withholding

If you had income tax withheld during 2006, you should be sent a statement by January 31, 2007, showing your income and the tax withheld. Depending on the source of your income, you will receive:

- Form W-2, Wage and Tax Statement,
- Form W-2G, Certain Gambling Winnings, or
- A form in the 1099 series.

**Forms W-2 and W-2G.** File Form W-2 with your income tax return. File Form W-2G with your return if it shows any federal income tax withheld from your winnings.

You should get at least two copies of each form you receive. Attach one copy to the front of your federal income tax return. Keep one copy for your records. You also should receive copies to file with your state and local returns.

## Form W-2

Your employer should send you a Form W-2 for 2006 by January 31, 2007. You should receive a separate Form W-2 from each employer you worked for.

If you stopped working before the end of the year, your employer could have given you your Form W-2 at any time after you stopped working. However, your employer must give it to you by January 31, 2007.

If you ask for the form, your employer must send it to you within 30 days after receiving your written request or within 30 days after your final wage payment, whichever is later.

If you have not received your Form W-2 on time, you should ask your employer for it. If you do not receive it by February 15, call the IRS.

Form W-2 shows your total pay and other compensation and the income tax, social security tax, and Medicare tax that was withheld during the year. Include the federal income tax withheld (as shown on Form W-2) on:

- Line 64 if you file Form 1040,
- Line 38 if you file Form 1040A, or
- Line 7 if you file Form 1040EZ.

In addition, Form W-2 is used to report any taxable sick pay you received and any income tax withheld from your sick pay.

## Form W-2G

If you had gambling winnings in 2006, the payer may have withheld income tax. If tax was withheld, the payer will give you a Form W-2G showing the amount you won and the amount of tax withheld.

Report the amounts you won on line 21 of Form 1040. Take credit for the tax withheld on line 64 of Form 1040. If you had gambling winnings, you must use Form 1040; you cannot use Form 1040A or Form 1040EZ.

## The 1099 Series

Most forms in the 1099 series are not filed with your return. You should be sent these forms by January 31, 2007. Unless instructed to file any of these forms with your return, keep them for your records. There are several different forms in this series, including:

- Form 1099-B, Proceeds From Broker and Barter Exchange Transactions,
- Form 1099-C, Cancellation of Debt,
- Form 1099-DIV, Dividends and Distributions,
- Form 1099-G, Certain Government Payments,
- Form 1099-INT, Interest Income,
- Form 1099-MISC, Miscellaneous Income,
- Form 1099-OID, Original Issue Discount,
- Form 1099-Q, Payments From Qualified Education Programs
- Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.,
- Form SSA-1099, Social Security Benefit Statement, and
- Form RRB-1099, Payments by the Railroad Retirement Board.

If you received the types of income reported on some forms in the 1099 series, you may not be able to use Form 1040A or Form 1040EZ. See the instructions to these forms for details.

**Form 1099-R.** Attach Form 1099-R to your return if box 4 shows federal income tax withheld. Include the amount withheld in the total on line 64 of Form 1040 or line 38 of Form 1040A. You cannot use Form 1040EZ if you received payments reported on Form 1099-R.

**Backup withholding.** If you were subject to backup withholding on income you received during 2006, include the amount withheld, as shown in box 4 of your Form 1099, in the total on line 64 of Form 1040, line 38 of Form 1040A, or line 7 of Form 1040EZ.

## Form Not Correct

If you receive a form with incorrect information on it, you should ask the payer for a corrected form. Call the telephone number or write to the address given for the payer on the form. The corrected Form W-2G or Form 1099 you receive will have an "X" in the "CORRECTED" box at the top of the form. A special form, Form W-2c, Corrected Wage and Tax Statement, is used to correct a Form W-2.

## Form Received After Filing

If you file your return and you later receive a form for income that you did not include on your return, you should report the income and take credit for any income tax withheld by filing Form 1040X, Amended U.S. Individual Income Tax Return.

## Separate Returns

If you are married but file a separate return, you can take credit only for the tax withheld from your own income. Do not include any amount withheld from your spouse's income. However, different rules may apply if you live in a community property state.

Community property states are listed in chapter 2. For more information on these rules, and some exceptions, see Publication 555, Community Property.

## Fiscal Years

If you file your tax return on the basis of a fiscal year (a 12-month period ending on the last day of any month except December), you must follow special rules to determine your credit for federal income tax withholding. For a discussion of how to take credit for withholding on a fiscal year return, see *Fiscal Years* in chapter 3 of Publication 505.

## Estimated Tax

Take credit for all your estimated tax payments for 2006 on line 65 of Form 1040 or line 39 of Form 1040A. Include any overpayment from 2005 that you had credited to your 2006 estimated tax. You must use Form 1040 or Form 1040A if you paid estimated tax. You cannot use Form 1040EZ.

**Name changed.** If you changed your name, and you made estimated tax payments using your old name, attach a brief statement to the front of your tax return indicating:

- When you made the payments,
- The amount of each payment,
- The IRS address to which you sent the payments,
- Your name when you made the payments, and
- Your social security number.

The statement should cover payments you made jointly with your spouse as well as any you made separately.

## Separate Returns

If you and your spouse made separate estimated tax payments for 2006 and you file separate returns, you can take credit only for your own payments.

If you made joint estimated tax payments, you must decide how to divide the payments between your returns. One of you can claim all of the estimated tax paid and the other none, or you can divide it in any other way you agree on. If you cannot agree, you must divide the payments in proportion to each spouse's individual tax as shown on your separate returns for 2006.

## Divorced Taxpayers

If you made joint estimated tax payments for 2006, and you were divorced during the year, either you or your former spouse can claim all of the joint payments, or you each can claim part of them. If you cannot agree on how to divide the payments, you must divide them in proportion to each spouse's individual tax as shown on your separate returns for 2006.

If you claim any of the joint payments on your tax return, enter your former spouse's social security number (SSN) in the space provided on the front of Form 1040 or Form 1040A. If you divorced and remarried in 2006, enter your present spouse's SSN in that space and write your former spouse's SSN, followed by "DIV," to the left of line 65, Form 1040, or line 39, Form 1040A.

## Underpayment Penalty

If you did not pay enough tax, either through withholding or by making estimated tax payments, you will have an underpayment of estimated tax and you may have to pay a penalty.

Generally, you will not have to pay a penalty for 2006 if any of the following situations applies.

- The total of your withholding and estimated tax payments was at least as much as your 2005 tax (or 110% of your 2005 tax if your AGI was more than \$150,000, \$75,000 if your 2006 filing status is married filing separately) and you paid all required estimated tax payments on time.
- The tax balance due on your return is no more than 10% of your total 2006 tax, and you paid all required estimated tax payments on time.
- Your total 2006 tax minus your withholding is less than \$1,000.
- You did not have a tax liability for 2005.
- You did not have any withholding taxes and your current year tax less any household employment taxes is less than \$1,000.

Special rules apply if you are a farmer or fisherman. See *Farmers and Fishermen* in chapter 4 of Publication 505 for more information.

**IRS can figure the penalty for you.** If you think you owe the penalty but you do not want to figure it yourself when you file your tax return, you may not have to. Generally, the IRS will figure the penalty for you and send you a bill. However, you must complete Form 2210 or Form 2210-F and attach it to your return if you think you are able to lower or eliminate your penalty. See chapter 4 of Publication 505.