

TAX DEPOSITION QUESTIONS: 4. 5th AMENDMENT

4. FIFTH AMENDMENT

Introduction

Using threats of criminal prosecution, financial penalties and incarceration, the government effectively forces citizens to "voluntarily" waive their Fifth Amendment by filing a return. The IRS & DOJ use these tax returns to initiate and investigate civil and criminal prosecutions against citizens. If you file, you have waived your 5th Amendment rights.

Findings and Conclusions

With the assistance of the following series of questions, we intend to prove that there is no income tax exception to the Fifth Amendment guarantee of the Peoples' unalienable right not to be compelled to be a witness against themselves.

- **The Fifth Amendment right against self-incrimination is absolute and unalienable.**
- **There is no 5th Amendment "exception" for tax matters.**
- **To avoid explicitly ruling that citizens are, in fact, protected by the 5th Amendment while filing tax returns, a federal Court of Appeals ruled, instead, that the 5th Amendment does not apply to tax returns because the 5th Amendment only applies to compelled testimony. Ergo, filing a tax return is not compelled, it is voluntary.**
- **Using the threats of criminal prosecution, financial penalties, and incarceration, the government effectively forces citizens to "voluntarily" waive their Fifth Amendment rights.**
- **The IRS & DOJ clearly uses tax return information to initiate and investigate civil and criminal prosecutions against citizens.**
- **The People do not have to tolerate an income tax system in which the government requires citizens to give up any Constitutional rights.**

Bottom Line: If you file, you have waived your 5th Amendment rights.

[Section Summary](#)

Witnesses:

- Larry BeCraft (Constitutional Attorney)
- Joseph Banister (Ex. IRS Criminal Investigator)
- Paul Chapel (Retired IRS Tax Court Attorney, 17years tax court clerk, Chief Counsel IRS)



[Transcript](#)



[Acrobat version of this section including questions and evidence](#) (large: 3.11 Mbytes)\

Further Study On Our Website:

- [Great IRS Hoax](#) book:
 - Section 3.10.8.3: Self Incrimination and Due Process Rights

-  [Sovereignty Forms and Instructions Manual](#) book:
 - Section 2.5.4.21: Challenge All Liens and Levies
 - Section 2.5.5.6: Claim the Fifth Whenever Questioned by the IRS
-

4.1. Admit that [26 U.S.C. § 6001](#) requires the keeping of records. (WTP #281)

-  [Click here for 26 U.S.C. §6001](#) (WTP Exhibit 007)

4.2. Admit that [26 U.S.C. § 7203](#) makes it a federal crime not to keep the records required under section 6001. (WTP #282)

-  [Click here for 26 U.S.C. §7203](#) (WTP Exhibit 150)

4.3. Admit that the records required under [26 U.S.C. § 6001](#) contain information that will appear on the tax returns pertaining to federal income taxes. (WTP #283)

-  [Click here for 26 U.S.C. §6001](#) (WTP Exhibit 007)

4.4. Admit that the [Fifth Amendment](#) prohibits the government from compelling an American to incriminate himself. (WTP #284)

-  [Click here for Fifth Amendment](#) (WTP Exhibit 179)

4.5. Admit that the IRS currently uses the following: Non-Custodial Miranda warning: (WTP #285)

"In connection with my investigation of your tax liability I would like to ask you some questions. However, first I advise you that under the fifth Amendment to the Constitution of the United States I cannot compel you to answer any questions or to submit any information. If such answers or information might tend to incriminate you in any way, I also advise you that anything which you say and any documents which you submit may be used against you in any criminal proceeding which may be undertaken. I advise you further that you may, if you wish, seek the assistance of an attorney before responding."

-  [Click here to see IRS Handbook for Special Agents](#) (WTP Exhibit 180)

4.6. Admit that the Privacy Act and Paperwork Reduction Act notices currently used by the IRS provides that the information provided in the preparation of a tax return can go to the Department of Justice who prosecutes criminal cases against the filers of tax returns. (WTP #286)

-  [Click here to see IRS Form 1040](#) (WTP Exhibit 138)
-  [Click here to see IRS 1040 Instruction Booklet](#) (WTP Exhibit 004)

4.7. Admit that the "United States Attorneys' Bulletin, April 1998 edition, contained an article written by Joan Bainbridge Safford, Deputy United States Attorney, Northern District of Illinois, entitled: "Follow That Lead! Obtaining and Using Tax Information in a Non-Tax Case," hereinafter "Follow that Lead!". (WTP #287a)

-  [Click here to see "Follow That Lead!"](#) (WTP Exhibit 181)

4.8. Further admit that the article states the following: (WTP #287b)

"In any criminal case where financial gain is the prominent motive, tax returns and return information can provide some of the most significant leads, corroborative evidence, and cross-examination material obtainable from any source."

-  [Click here to see "Follow That Lead!"](#) (WTP Exhibit 181)

4.9. Further admit that the article states the following; (WTP #287c)

"In even the most straightforward fraud case, the usefulness of tax returns should be apparent . . . the tax return information provides a statement under penalty of perjury which may either serve as circumstantial evidence of the target's misrepresentation of his economic status or as helpful cross-examination material . . . Disclosure of tax returns may also provide critical leads and impeachment material."

-  [Click here to see "Follow That Lead!"](#) (WTP Exhibit 181)

4.10. Admit that the Disclosure, Privacy Act, and Paperwork Reduction Act Notice set out in the [IRS Form 1040 Instruction Booklet](#) states the following: (WTP #288)

"[W]e may disclose your tax information to the Department of Justice, to enforce the tax laws, both civil and criminal, and to cities, states, the District of Columbia, U.S. Commonwealths or possessions, and certain foreign governments to carry out their tax laws."

-  [Click here for 2001 IRS Form 1040 Inst Booklet](#) (WTP Exhibit 004)

4.11. Admit that tax returns are used by the IRS to develop civil and criminal cases against the filers of the tax returns. (See Follow that Lead!) (WTP #289)

-  [Click here to see "Follow That Lead!"](#) (WTP Exhibit 181)

4.12. Admit that tax returns of a filer are used as evidence against the filer in both civil and criminal income tax cases. (See Annotations, Title 26, Sections 7201, 7203) (WTP #290)

- [Click here to see Annotations, Title 26, Sections 7201, 7203](#) (WTP Exhibit 182)

4.13. Admit that the United States Supreme Court has held that a [Fifth amendment](#) privilege exists against requiring a person to admit or deny he has documents which the government believes is related to the federal income tax. (WTP #291)

- [Click here for United States v. Doe, 465 U.S. 605 \(1984\) \(WTP Exhibit 183\)](#)

4.14. Admit that the [Fifth Amendment](#) provides an absolute defense to tax crimes. (WTP #292)

- [Click here for United States v. Heise, 709 F.2d 449, 450 \(6th Cir. 1983\) \(WTP Exhibit 184\)](#)

- [Click here for Garner v. United States, 424 U.S. 648, 662-63 \(1976\)](#) (WTP Exhibit 185)

4.15. Admit that the U.S. Court of Appeals for the 10th Circuit took the position in U.S. v. Conklin, (1994) WL 504211, that the filing of an income tax return (Form 1040) is not compelled and, therefore, the principle that no one may be forced to waive their 5th Amendment rights in order to comply with a law is not applicable to federal income tax returns. (WTP #292a)

-  [Click here to see U.S. v. Conklin, \(1994\), WL 504211](#) (WTP Exhibit 185a)

4.16. Admit that the Supreme Court has held that if one wants to assert the [Fifth Amendment](#) to an issue pertaining to a federal income tax return, once must make that claim on the form itself. (WTP #293)

- [Click here to see Sullivan v. United States, 274 U.S. 259 \(1927\)](#) (WTP Exhibit 186)

4.17. Admit that if one claims [Fifth Amendment](#) protection on an income tax form, that act can result in criminal prosecution for failure to file income tax returns, income tax evasion, or conspiracy to defraud. (WTP #294)

- [Click here to see United States v. Waldeck, 909 F.2d 555, 561 \(1st Cir. 1990\)](#) (WTP Exhibit 187)

4.18. Admit that the Paperwork Reduction Act Notice (the "Notice") set out in the IRS Form 730 instructions states that: (WTP #295a)

"You must file Form 730 and pay the tax on wagers under [section 4401\(a\)](#) if you: Are in the business of accepting wagers, or Conduct a wagering pool or lottery."

-  [Click here for IRS Form 730](#) (WTP Exhibit 188)

4.19. Further admit that the Notice states the following: (WTP #295b)

"[C]ertain documents related to wagering taxes and information obtained through them that relates to wagering taxes may not be used against the taxpayer in any criminal proceeding. See [section 4424](#) for more details."

-  [Click here for IRS Form 730](#) (WTP Exhibit 188)

4.20. Admit that in 1997, 5,335 tax audits resulted in criminal investigations of those tax filers. (Speculation: Tax Facts, etc., Ex. 099-104.) (WTP #296)

-  [Click here for Tax Facts](#) (WTP Exhibit 099)

4.21. Admit that Judge Learned Hand stated that: (WTP #297)

*"Logically, indeed, he (the taxpayer) is boxed in a paradox for he must prove the criminatory character of what it is his privilege to suppress just because it is criminatory. The only practicable solution is to be content with the door's being set a little ajar, AND WHILE AT TIMES THIS NO DOUBT PARTIALLY DESTROYS THE PRIVILEGE,...nothing better is available."
[United States v. Weisman, 111 F.2d 260, 262 (1947) (emphasis added)]*

- [Click here for United States v. Weisman, 111 F.2d 260, 262 \(1947\)](#)

4.22. Admit that the Constitution is the Supreme Law of the Land.

4.23. Admit that the American people do not have to tolerate an income tax system in which the federal government requires a citizen to give up any constitutional rights.

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SECTION 4-FIFTH AMENDMENT SUMMARY

Fundamental to our system of justice and due process is the right to not be compelled to provide testimony that may incriminate oneself.

This right is so fundamental that it is reiterated explicitly in the 5th Amendment to our Constitution. It applies to our papers as well as our spoken testimony.

The quandary in regard to the income tax system arises thus: How can a citizen be forced, *by law*, to file and sign a statement (i.e., a tax return) under penalties of perjury regarding one's income when that statement (and all associated documents and information) may be used in both civil and criminal actions against the citizen.

In fact, the government is well aware of this right and makes only meager efforts to disclose that you have been "advised of your rights" via watered-down versions of the Miranda warnings that appear in the 1040 instruction booklet and verbally if an agent "talks" with you.

Most Americans do not understand the full legal impact of the decision to voluntarily sign this form and send it to the government.

As the evidence will show, the IRS regularly encourages the official use of tax return information to bring civil and criminal charges against citizens.

As the evidence will and testimony will show, the taxpayer finds himself in a "Catch-22." If he provides his papers and sworn statements to the government he has "voluntarily" waived his 5th Amendment rights and his return can and will be used against him. If he fails to file or produce these records upon demand, he is also subject to criminal prosecution.

The final question in this section succinctly summarizes the point: "Admit that the American People do not have to tolerate an income tax system in which the federal government requires a citizen to give up any Constitutionally protected rights."

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is a secure document that has been embedded in this document. Double click the pushpin to view.



THE GREAT IRS HOAX: WHY WE DON'T OWE INCOME TAX



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["Who is John Galt?"](#)

Welcome to our free download page. The *Great IRS Hoax: Why We Don't Owe Income Tax* is an **amazing** documentary that exposes the lie that the IRS and our tyrannical government "servants" have foisted upon us all these years:

"That we are liable for IRC Subtitle A income tax as American Nationals living in the 50 states of the Union with earnings from within the 50 states of the Union that does not originate from the government."

Through a detailed and very thorough analysis of both enacted law and IRS behavior unrefuted by any of the 100,000 people who have downloaded the book, including present and former (after they learn the truth!) employees of the Treasury and IRS, it reveals why [Subtitle A of the Internal Revenue Code](#) is private law/[special law](#) that one only becomes subject to by engaging in an excise taxable activity such as a "[trade or business](#)", which is a type of federal employment and agency that puts people under federal jurisdiction who would not otherwise be subject. It proves using the government's own laws and publications and court rulings that for everyone in states of the Union who has not availed themselves of this excise taxable privilege of federal employment/agency, [Subtitle A of the I.R.C.](#) is not "[law](#)" and does not require the average American domiciled in states of the Union to pay a "[tax](#)" to the federal government. The book also explains how [Social Security](#) is the de facto mechanism by which "[taxpayers](#)" are recruited, and that the program is illegally administered in order to illegally expand federal jurisdiction into the states using private law. This book does not challenge or criticize the constitutionality of any part of the [Internal Revenue Code](#) nor any [state revenue code](#), but simply proves that these codes are being misrepresented and illegally enforced by the IRS and state revenue agencies against persons who are not their proper subject. This book might just as well be called *The Emperor Who Had No Clothes* because of the massive and blatant [fraud](#) that it exposes on the part of our public servants.



"But Dad, the emperor is naked!"

Five years of continuous research by the author(s) and their readers went into writing this very significant and incredible book. This book is *very different* from most other tax books because:

1. The book is written in part by our tens of thousands of readers and growing...***THAT'S YOU!*** We invite and frequently receive good new ideas and materials from legal researchers and ordinary people like YOU, and when we get them, we add them to the book after we research and verify them for ourselves to ensure their accuracy. Please keep your excellent ideas coming, because this is a team effort, guys!
2. *We use words right out of the government's own mouth, in most cases, as evidence of most assertions we make.* If the government calls the research and processes found in this book [frivolous](#), they would have to call the Supreme Court, the Statutes at Large, the Treasury Regulations (26 C.F.R.) and the U.S. Code frivolous, because everything derives from these sources.
3. Ever since the first version was published back in Nov. 2000, we have invited, and even *begged*, the government continually and repeatedly, both on our website and in our book and in correspondence with the IRS and the Senate Finance Committee ([click here to read our letter to Senator Grassley](#) under "Political Activism"), and in the [We The People Truth in Taxation Hearings](#) to provide a signed affidavit on government stationery along with supporting evidence that disproves *anything* in this book. We have even promised to post the government's rebuttal on our web site *unedited* because we are more interested in the truth than in our own agenda. Yet, some ***criminal public servants*** have consistently and steadfastly refused their legal duty under the [First Amendment Petition Clause](#) to answer our concerns and questions, thereby [hiding from the truth](#) and obstructing justice in violation of [18 U.S.C. Chapter 73](#). By their failure to answer they have defaulted and admitted to the complete truthfulness of this book pursuant to [Federal Rule of Civil Procedure 8\(d\)](#). If the "court of public opinion" really were a court, and if the public really were *fully educated* about the law as it is the purpose of this book to bring about, the IRS and our federal government would have been convicted long ago of the following crimes by their own treasonous words and actions thoroughly documented in this book ([click here for more details](#)):
 - o [Establishment of the U.S. government as a "religion"](#) in violation of [First Amendment](#) (see section 4.3.2 of this book and our article entitled: [Our Government has Become Idolatry and a False Religion](#))
 - o Obstruction of justice under [18 U.S.C. Chapter 73](#)
 - o Conspiracy against rights under [18 U.S.C. §241](#)
 - o Extortion under [18 U.S.C. §872](#).
 - o Wrongful actions of Revenue Officers under [26 U.S.C. §7214](#)
 - o Engaging in monetary transactions derived from unlawful activity under [18 U.S.C. §1957](#)
 - o Mailing threatening communications under [18 U.S.C. §876](#)
 - o False writings and fraud under [18 U.S.C. §1018](#)
 - o Taking of property without due process of law under [26 CFR §601.106\(f\)\(1\)](#)
 - o Fraud under [18 U.S.C. §1341](#)
 - o Continuing financial crimes enterprise (RICO) under [18 U.S.C. §225](#)
 - o Conflict of interest of federal judges under [28 U.S.C. §455](#)
 - o Treason under [Article III](#), Section 3, Clause 1 of the U.S. Constitution
 - o Breach of [fiduciary duty](#) in violation of 26 CFR 2635.101, Executive order order 12731, and Public Law 96-303
 - o Peonage and obstructing enforcement under [Thirteenth Amendment](#), [18 U.S.C. §1581](#) and [42 U.S.C. §1994](#)
 - o Bank robbery under [18 U.S.C. §2113](#) (in the case of fraudulent notice of levies)
4. We keep the level of the writing to where a person of average intelligence and no legal background can understand and substantiate the claims we are making for himself.
5. We show you how and where to go to substantiate every claim we make and we encourage you to check the facts for yourself so you will believe what we say is absolutely accurate and truthful.
6. All inferences made are backed up by extensive legal research and justification, and therefore tend to be more convincing and authoritative and understandable than most other tax books. We assume up front that you will

question *absolutely every assertion* that we make because we encourage you to do exactly that, so we try to defend every assertion in advance by answering the most important questions that we think will come up. We try to reach *no* unsubstantiated conclusions whatsoever and we avoid the use of personal opinions or anecdotes or misleading IRS publications. Instead, we always try to back up our conclusions with evidence or an authoritative government source such as a court cite or a regulation or statute or quotes from the authors of the law themselves, and we verify every cite so we don't destroy our credibility with irrelevant or erroneous data or conclusions. Frequent corrections and feedback from our 100,000 readers (and growing) also helps considerably to ensure continual improvements in the accuracy and authority and credibility of the document.

7. Absolutely everything in the book is consistent with itself and we try very hard not to put the reader into a state of "cognitive dissonance", which is a favorite obfuscation technique of our public dis-servants and legal profession. No part of this book conflicts with any other part and there is complete "cognitive unity". Every point made supports and enhances every other point. If the book is truthful, then this must be the case. A true statement cannot conflict with itself or it simply can't be truthful.
8. With every point we make, we try to answer the question of "why" things are the way they are so you can understand our reasoning. We don't flood you with a bunch of rote facts to memorize without explaining why they are important and how they fit in the big picture so you can decide for yourself whether you think it is worth your time to learn them. That way you can learn to think strategically, like most lawyers do.
9. We practice exactly what we preach and what we put in the book is based on lessons learned actually doing what is described. That way you will believe what we say and see by our example that we are very sincere about everything that we are telling you. Since we aren't trying to sell you anything, then there *can't* be any other agenda than to help you learn the truth and achieve personal freedom.
10. This is also the ONLY book that explains and compares all the major theories and tax honesty groups and sifts the wheat from the chaff to extract the "best of breed" approach from each advocate which has the best foundation in law and can most easily be defended in court.
11. The entire book, we believe, completely, truthfully, and convincingly answers the following very important question:

"How can we interpret and explain the [Internal Revenue Code](#) in a way that makes it completely lawful and Constitutional, both from the standpoint of current law and from a historical perspective?"

If you don't have a lot of time to read EVERYTHING, we recommend reading at least the following chapters in the order listed: 1, 3, 4, 5 (these are mandatory).

[TESTIMONIALS:](#) [Click here to hear what people are saying about this book!](#)

If you are from the government and think that this book might be encouraging some kind of illegal activity, [click here](#) to find a rebuttal of such an accusation and detailed research on why we are *not* subject to state or federal jurisdiction for anything related to this website or our ministry.

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<i>Chapter #</i>	<i>Title</i>	<i>Pages</i>	<i>Size (kbytes)</i>	<i>FAST Mirror Site #1</i>	<i>SLOW Main server</i>
	<i>WHOLE DOCUMENT</i> <i>(last revision 3JAN07, version 4.29!)</i>	1,974	19,876		
	Preface and Table of Contents	129	966		
<i>I</i>	Introduction	115	1,275		

2	U.S. Government Background	128	1,432		
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6	History of Federal Government Income Tax Fraud, Racketeering, and Extortion in the U.S.A.	179	1,864		
7	Case Studies	45	420		
8	Resources for Tax Freedom Fighters	9	97		
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The *Great IRS Hoax* book draws on works from several prominent sources and authors, such as:

1. The [U.S. Constitution](#).
2. The [Family Constitution](#)
3. Amendments to the U.S. Constitution.
4. The Declaration of Independence.
5. [The United States Code \(U.S.C.\)](#), Title 26 (Internal Revenue Code), both the current version and amended past versions.
6. [U.S. Supreme Court Cases](#).
7. U.S. Tax Court findings.
8. The [Code of Federal Regulations \(CFR\), Title 26](#), both the current version and amended past versions.
9. IRS Forms and Publications (directly from the IRS Website at <http://www.irs.gov>).
10. [U.S. Treasury Department Decisions](#).
11. Federal District Court cases.
12. Federal Appellate (circuit) court cases.
13. Several websites.
14. A book entitled *Losing Your Illusions* by Gordon Phillips of Private Arena (<http://privatearena.com/>).

15. A book entitled *IRS Humbug*, by Frank Kowalik.
 16. A book entitled *Federal Mafia*, by Irwin Schiff (<http://paynoincometax.com>).
 17. A book entitled *Constitutional Income*, by Phil Hart (<http://constitutionalincome.com/>).
 18. Case studies of IRS enforcement tactics (<http://www.neo-tech.com/irs-class-action/>).
 19. Case studies of various tax protester groups.
 20. The IRS' own publications about [Tax Protesters](#).
 21. A book entitled *Why No One is Required to File Tax Returns* by William Conklin (<http://www.anti-irs.com>)
 22. [Writings of Thomas Jefferson, the author of the Declaration of Independence](#).
 23. [Department of Justice, Tax Division, Criminal Tax Manual](#)
 24. Several other books mentioned on our [Recommended Reading](#) page.
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Below is a complete outline of the content of this very extensive work:

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- 2.9.1 Social Security is NOT a Contract!
- 2.9.2 Social Security is Voluntary Not Mandatory
- 2.9.3 A Legal Con Game (Forbes Magazine, March 27, 1995)
- 2.9.4 The Legal Ponzi Scheme (Forbes Magazine, October 9, 1995)
- 2.9.5 The Social Security Mess: A Way Out, (Reader's Digest, December 1995)

2.10 They Told The Truth!: Amazing Quotes About the U.S. Government

- 2.10.1 ...About The Internal Revenue Service
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- 3.9.2 26 USC Sec. 1: Tax Imposed
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- 3.9.4 26 USC Sec. 63: Taxable Income Defined
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- 3.12.4 Part 1, Subchapter N of the 26 Code of Federal Regulations
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- 3.12.7 26 CFR Sec. 1.861-8T(d)(2)(iii): Income Not Exempt from Taxation
- 3.12.8 26 CFR Sec. 1.861-8(f)1: Determination of Taxable Income
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3.13 Treasury Decisions and Orders

- 3.13.1 Treasury Delegation of Authority Order 150-37: Always Question Authority!
- 3.13.2 Treasury Decision Number 2313: March 21, 1916

3.14 Supreme Court Cases Related To Income Taxes in the United States

- 3.14.1 1818: U.S. v. Bevans (16 U.S. 336)
- 3.14.2 1883: Butchers' Union Co. v. Crescent City Co. (111 U.S. 746)
- 3.14.3 1894: Caha v. United States (152 U.S. 211)
- 3.14.4 1895: Pollack v. Farmer's Loan and Trust Company (157 U.S. 429, 158 U.S. 601)
- 3.14.5 1900: Knowlton v. Moore (178 U.S. 41)
- 3.14.6 1901: Downes v. Bidwell (182 U.S. 244)
- 3.14.7 1906: Hale v. Henkel (201 U.S. 43)
- 3.14.8 1911: Flint v. Stone Tracy Co. (220 U.S. 107)
- 3.14.9 1914: Weeks v. U.S. (232 U.S. 383)
- 3.14.10 1916: Brushaber vs. Union Pacific Railroad (240 U.S. 1)
- 3.14.11 1916: Stanton v. Baltic Mining (240 U.S. 103)
- 3.14.12 1918: Peck v. Lowe (247 U.S. 165)
- 3.14.13 1920: Evens v. Gore (253 U.S. 245)
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- 3.14.15 1922: Bailey v. Drexel Furniture Co. (259 U.S. 20)
- 3.14.16 1924: Cook v. Tait (265 U.S. 47)
- 3.14.17 1930: Lucas v. Earl (281 U.S. 111)
- 3.14.18 1935: Railroad Retirement Board v. Alton Railroad Company (295 U.S. 330)
- 3.14.19 1938: Hassett v. Welch (303 U.S. 303)
- 3.14.20 1945: Hooven & Allison Co. v. Evatt (324 U.S. 652)
- 3.14.21 1959: Flora v. U.S. (362 U.S. 145)
- 3.14.22 1960: U.S. v. Mersky (361 U.S. 431)
- 3.14.23 1961: James v. United States (366 US 213, p. 213, 6L Ed 2d 246)
- 3.14.24 1970: Brady v. U.S. (379 U.S. 742)
- 3.14.25 1974: California Bankers Association v. Shultz (416 U.S. 25)
- 3.14.26 1975: Garner v. U.S. (424 U.S. 648)
- 3.14.27 1976: Fisher v. United States (425 U.S. 391)
- 3.14.28 1978: Central Illinois Public Service Co. v. United States (435 U.S. 21)
- 3.14.29 1985: U.S. v. Doe (465 U.S. 605)
- 3.14.30 1991: Cheek v. United States (498 U.S. 192)
- 3.14.31 1992: United States v. Burke (504 U.S. 229, 119 L Ed 2d 34, 112 S Ct. 1867)
- 3.14.32 1995: U.S. v. Lopez (000 U.S. U10287)

3.15 Federal District and Circuit Court Cases

- 3.15.1 Commercial League Assoc. v. The People, 90 Ill. 166
- 3.15.2 Jack Cole Co. vs. Alfred McFarland, Sup. Ct. Tenn 337 S.W. 2d 453
- 3.15.3 1916: Edwards v. Keith 231 F 110, 113
- 3.15.4 1925: Sims v. Ahrens, 271 SW 720
- 3.15.5 1937: Stapler v. U.S., 21 F. Supp. AT 739
- 3.15.6 1937: White Packing Co. v. Robertson, 89 F.2d 775, 779 the 4th Circuit Court
- 3.15.7 1939: Graves v. People of State of New York (306 S.Ct. 466)

- 3.15.8 1943: Helvering v. Edison Brothers' Stores, 8 Cir. 133 F2d 575
- 3.15.9 1946: Lauderdale Cemetary Assoc. v. Mathews, 345 PA 239, 47 A. 2d 277, 280
- 3.15.10 1947: McCutchin v. Commissioner of IRS, 159 F2d 472 5th Cir. 02/07/1947
- 3.15.11 1952: Anderson Oldsmobile , Inc. vs Hofferbert, 102 F. Supp. 902
- 3.15.12 1955: Oliver v. Halstead, 196 VA 992, 86 S.E. 2d 858
- 3.15.13 1958: Lyddon Co. vs. U.S., 158 Fed. Supp 951
- 3.15.14 1960: Commissioner of IRS v. Duberstein, 80 5. Ct. 1190
- 3.15.15 1962: Simmons v. United States, 303 F.2d 160
- 3.15.16 1969: Conner v. U.S. 303 F. Supp. 1187 Federal District Court, Houston
- 3.15.17 1986: U.S. v. Stahl, 792 F.2d 1438

3.16 IRS Publications

3.17 Topical Legal Discussions

- 3.17.1 Uncertainty of the Federal Tax Laws
- 3.17.2 Reasonable Cause
- 3.17.3 The Collective Entity Rule
- 3.17.4 Due Process
 - 3.17.4.1 What is Due Process of Law?
 - 3.17.4.2 Due process principles and tax collection
 - 3.17.4.3 Substantive Rights and Essentials of Due Process
- 3.17.5 There's No Duty To Convert Money Into Income
- 3.17.6 What's Income and Why Does It Matter?
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- 4.2.2 What is the Difference Between a "Right" and a "Privilege"?
- 4.2.3 Fundamental Rights: Granted by God and Cannot be Regulated by the Government
- 4.2.4 The Two Classes of Rights: Civil and Political
- 4.2.5 Why we MUST know and assert our rights and can't depend on anyone to help us
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- 4.3.3 The purpose of government: Protection of the weak from harm and evil
- 4.3.4 Equal protection
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- 4.3.8 The purpose of income taxes: government protection of the assets of the wealthy
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- 4.3.10 The Unlimited Liability Universe
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- 4.3.13 Our Government has become idolatry and a false religion
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 - 4.3.16.1 Rigging government forms to prejudice our rights
 - 4.3.16.2 Misrepresenting the law in government publications
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 - 4.3.16.4 Concealing the real identities of government wrongdoers
 - 4.3.16.5 Making it difficult, inconvenient, or costly to obtain information about illegal government activities
 - 4.3.16.6 Ignoring correspondence and/or forcing all complaints through an unresponsive legal support staff that exasperates and terrorizes "customers"
 - 4.3.16.7 Deliberately dumbing down and propagandizing government support personnel who have to implement the law
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- 4.4.1 The Constitution does not bind citizens
- 4.4.2 The Constitution as a Legal Contract
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- 4.4.4 If the Constitution is a Contract, why don't we have to sign it and how can our predecessors bind us to it without our signature?
- 4.4.5 Authority delegated by the Constitution to Public Servants
- 4.4.6 Voting by Congressman
- 4.4.7 Our Government is a band of robbers and thieves, and murderers!
- 4.4.8 Oaths of Public Office
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- 4.11.5.7 Privileges and Immunities of U.S. citizens
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- 4.11.7.1 Voting
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- 5.1.2 You Don't Pay "Taxes" to the IRS: You are instead subsidizing socialism
- 5.1.3 Lawful Subjects of Constitutional Taxation within States of the Union
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- 5.1.7 The Income Tax: Constitutional or Unconstitutional?
- 5.1.8 Taxable persons and objects within the I.R.C. Subtitle A
- 5.1.9 The "Dual" nature of the Internal Revenue Code
- 5.1.10 Brief History of Court Rulings Which Establish Income Taxes on Citizens outside the "federal zone" as "Direct Taxes"
- 5.1.11 The "Elevator Speech" version of the federal income tax fraud

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- 5.2.1 Territorial Jurisdiction
- 5.2.2 Sovereignty: Key to Understanding Federal Jurisdiction
- 5.2.3 Dual Sovereignty
- 5.2.4 The TWO sources of federal jurisdiction: "Domicile" and "Contract"
- 5.2.5 "Public" v. "Private" employment: You really work for Uncle Sam and not Your Private Employer If You Receive Federal Benefits
- 5.2.6 Social Security: The legal vehicle for extending Federal Jurisdiction into the states using Private/contract law
- 5.2.7 Oaths of Allegiance: Source of ALL government jurisdiction over people
- 5.2.8 How Does the Federal Government Acquire Jurisdiction Over an Area?
- 5.2.9 Limitations on Federal Taxation Jurisdiction
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- 5.2.12 "foreign" means outside the federal zone and "foreign income" means outside the country in the context of the Internal Revenue Code
- 5.2.13 Background on State v. Federal Jurisdiction
- 5.2.14 Constitutional Federal Taxes under the I.R.C. apply to Imports (duties), Foreign Income of Aliens and Corporations, and Domiciliaries Living Abroad
- 5.2.15 "Employee" in the Internal Revenue Code means appointed or elected government officers
- 5.2.16 The 50 States are "Foreign Countries" and "foreign states" with Respect to the Federal Government
- 5.2.17 You're not a "citizen" under the Internal Revenue Code
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§ 6011. General requirement of return, statement, or list

How Current is This?

(a) General rule

When required by regulations prescribed by the Secretary any person made liable for any tax imposed by this title, or with respect to the collection thereof, shall make a return or statement according to the forms and regulations prescribed by the Secretary. Every person required to make a return or statement shall include therein the information required by such forms or regulations.

(b) Identification of taxpayer

The Secretary is authorized to require such information with respect to persons subject to the taxes imposed by chapter 21 or chapter 24 as is necessary or helpful in securing proper identification of such persons.

(c) Returns, etc., of DISCS and former DISCS and FSC's and former FSC's

(1) Records and information

A DISC or former DISC or a FSC or former FSC shall for the taxable year

—

(A) furnish such information to persons who were shareholders at any time during such taxable year, and to the Secretary, and

(B) keep such records, as may be required by regulations prescribed by the Secretary.

(2) Returns

A DISC shall file for the taxable year such returns as may be prescribed

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by the Secretary by forms or regulations.

(d) Authority to require information concerning section 912 allowances

The Secretary may by regulations require any individual who receives allowances which are excluded from gross income under section 912 for any taxable year to include on his return of the taxes imposed by subtitle A for such taxable year such information with respect to the amount and type of such allowances as the Secretary determines to be appropriate.

(e) Regulations requiring returns on magnetic media, etc.

(1) In general

The Secretary shall prescribe regulations providing standards for determining which returns must be filed on magnetic media or in other machine-readable form. The Secretary may not require returns of any tax imposed by subtitle A on individuals, estates, and trusts to be other than on paper forms supplied by the Secretary.

(2) Requirements of regulations

In prescribing regulations under paragraph (1), the Secretary—

(A) shall not require any person to file returns on magnetic media unless such person is required to file at least 250 returns during the calendar year, and

(B) shall take into account (among other relevant factors) the ability of the taxpayer to comply at reasonable cost with the requirements of such regulations.

Notwithstanding the preceding sentence, the Secretary shall require partnerships having more than 100 partners to file returns on magnetic media.

(f) Promotion of electronic filing

(1) In general

The Secretary is authorized to promote the benefits of and encourage the use of electronic tax administration programs, as they become available, through the use of mass communications and other means.

(2) Incentives

The Secretary may implement procedures to provide for the payment of appropriate incentives for electronically filed returns.

(g) Income, estate, and gift taxes

For requirement that returns of income, estate, and gift taxes be made whether or not there is tax liability, see subparts B and C.

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Sec. 6001. - Notice or regulations requiring records, statements, and special returns

Every person liable for any tax imposed by this title, or for the collection thereof, shall keep such records, render such statements, make such returns, and comply with such rules and regulations as the Secretary may from time to time prescribe. Whenever in the judgment of the Secretary it is necessary, he may require any person, by notice served upon such person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary deems sufficient to show whether or not such person is liable for tax under this title. The only records which an employer shall be required to keep under this section in connection with charged tips shall be charge receipts, records necessary to comply with section 6053(c), and copies of statements furnished by employees under section 6053(a)

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§ 7203. Willful failure to file return, supply information, or pay tax

How Current is This?

Any person required under this title to pay any estimated tax or tax, or required by this title or by regulations made under authority thereof to make a return, keep any records, or supply any information, who willfully fails to pay such estimated tax or tax, make such return, keep such records, or supply such information, at the time or times required by law or regulations, shall, in addition to other penalties provided by law, be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than \$25,000 (\$100,000 in the case of a corporation), or imprisoned not more than 1 year, or both, together with the costs of prosecution. In the case of any person with respect to whom there is a failure to pay any estimated tax, this section shall not apply to such person with respect to such failure if there is no addition to tax under section 6654 or 6655 with respect to such failure. In the case of a willful violation of any provision of section 6050I, the first sentence of this section shall be applied by substituting "felony" for "misdemeanor" and "5 years" for "1 year".

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Sec. 7203. - Willful failure to file return, supply information, or pay tax

Any person required under this title to pay any estimated tax or tax, or required by this title or by regulations made under authority thereof to make a return, keep any records, or supply any information, who willfully fails to pay such estimated tax or tax, make such return, keep such records, or supply such information, at the time or times required by law or regulations, shall, in addition to other penalties provided by law, be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than \$25,000 (\$100,000 in the case of a corporation), or imprisoned not more than 1 year, or both, together with the costs of prosecution. In the case of any person with respect to whom there is a failure to pay any estimated tax, this section shall not apply to such person with respect to such failure if there is no addition to tax under section 6654 or 6655 with respect to such failure. In the case of a willful violation of any provision of section 60501, the first sentence of this section shall be applied by substituting "felony" for "misdemeanor" and "5 years" for "1 year"

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**TITLE 26 > Subtitle F > CHAPTER 61 > Subchapter A > PART I > § 6001****§ 6001. Notice or regulations requiring records, statements, and special returns***How Current is This?*

Every person liable for any tax imposed by this title, or for the collection thereof, shall keep such records, render such statements, make such returns, and comply with such rules and regulations as the Secretary may from time to time prescribe. Whenever in the judgment of the Secretary it is necessary, he may require any person, by notice served upon such person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary deems sufficient to show whether or not such person is liable for tax under this title. The only records which an employer shall be required to keep under this section in connection with charged tips shall be charge receipts, records necessary to comply with section 6053 (c), and copies of statements furnished by employees under section 6053 (a).

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U.S. Constitution: Fifth Amendment

Fifth Amendment - Rights of Persons

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No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offence to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due

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process of law; nor shall private property be taken for public use, without just compensation.

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 - Administrative Proceedings: A Fair Hearing
 - Aliens: Entry and Deportation
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U.S. Constitution: Fifth Amendment

Fifth Amendment - Rights of Persons

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Non-custodial Interviews

(1) At the outset of the first official interview with the subject of an investigation, the special agent will properly identify himself/herself as a special agent of the Internal Revenue Service and will produce his/her authorized credentials to the subject for examination. He/she will also state "As a special agent, one of my functions is to investigate the possibility of criminal violations of the Internal Revenue laws, and related offenses."

(2) The special agent will then advise the subject of the investigation substantially as follows:

"In connection with my investigation of your tax liability (or other matter), I would like to ask you some questions. However, first I advise you that under the Fifth Amendment to the Constitution of the United States I cannot compel you to answer any questions or to submit any information if such answers or information might tend to incriminate you in any way. I also advise you that anything which you say and any documents which you submit may be used against you in any criminal proceeding which may be undertaken. I advise you further that you may, if you wish, seek the assistance of an attorney before responding."

(3) If the subject requests clarification, either as to his/her rights or the purpose of the investigation, the special agent will give such explanation as is necessary to clarify the matter for the subject.

Label

(See instructions on page 19.)

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

Presidential Election Campaign (See page 19.)

Label Here

For the year Jan. 1–Dec. 31, 2001, or other tax year beginning , 2001, ending , 20

OMB No. 1545-0074

Form fields for name, social security number, and address.

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

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

Filing Status

Check only one box.

- 1 Single
2 Married filing joint return (even if only one had income)
3 Married filing separate return. Enter spouse's social security no. above and full name here.
4 Head of household (with qualifying person). (See page 19.) If the qualifying person is a child but not your dependent, enter this child's name here.
5 Qualifying widow(er) with dependent child (year spouse died). (See page 19.)

Exemptions

If more than six dependents, see page 20.

Exemptions section including 6a Yourself, 6b Spouse, 6c Dependents table, and 6d Total number of exemptions claimed.

Income

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

If you did not get a W-2, see page 21.

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

Income section with lines 7 through 22 for various income types and taxable amounts.

Adjusted Gross Income

Adjusted Gross Income section with lines 23 through 33 for deductions and final adjusted gross income.

Tax and Credits

Standard Deduction for—
• People who checked any box on line 35a or 35b or who can be claimed as a dependent, see page 31.
• All others:
Single, \$4,550
Head of household, \$6,650
Married filing jointly or Qualifying widow(er), \$7,600
Married filing separately, \$3,800

34 Amount from line 33 (adjusted gross income)
35a Check if: [] You were 65 or older, [] Blind; [] Spouse was 65 or older, [] Blind.
Add the number of boxes checked above and enter the total here
b If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 31 and check here
36 Itemized deductions (from Schedule A) or your standard deduction (see left margin)
37 Subtract line 36 from line 34
38 If line 34 is \$99,725 or less, multiply \$2,900 by the total number of exemptions claimed on line 6d. If line 34 is over \$99,725, see the worksheet on page 32
39 Taxable income. Subtract line 38 from line 37. If line 38 is more than line 37, enter -0-
40 Tax (see page 33). Check if any tax is from a [] Form(s) 8814 b [] Form 4972
41 Alternative minimum tax (see page 34). Attach Form 6251
42 Add lines 40 and 41
43 Foreign tax credit. Attach Form 1116 if required
44 Credit for child and dependent care expenses. Attach Form 2441
45 Credit for the elderly or the disabled. Attach Schedule R
46 Education credits. Attach Form 8863
47 Rate reduction credit. See the worksheet on page 36
48 Child tax credit (see page 37)
49 Adoption credit. Attach Form 8839
50 Other credits from: a [] Form 3800 b [] Form 8396
c [] Form 8801 d [] Form (specify)
51 Add lines 43 through 50. These are your total credits
52 Subtract line 51 from line 42. If line 51 is more than line 42, enter -0-

Other Taxes

53 Self-employment tax. Attach Schedule SE
54 Social security and Medicare tax on tip income not reported to employer. Attach Form 4137
55 Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required
56 Advance earned income credit payments from Form(s) W-2
57 Household employment taxes. Attach Schedule H
58 Add lines 52 through 57. This is your total tax

Payments

If you have a qualifying child, attach Schedule EIC.

59 Federal income tax withheld from Forms W-2 and 1099
60 2001 estimated tax payments and amount applied from 2000 return
61a Earned income credit (EIC)
b Nontaxable earned income
62 Excess social security and RRTA tax withheld (see page 51)
63 Additional child tax credit. Attach Form 8812
64 Amount paid with request for extension to file (see page 51)
65 Other payments. Check if from a [] Form 2439 b [] Form 4136
66 Add lines 59, 60, 61a, and 62 through 65. These are your total payments

Refund

Direct deposit? See page 51 and fill in 68b, 68c, and 68d.

67 If line 66 is more than line 58, subtract line 58 from line 66. This is the amount you overpaid
68a Amount of line 67 you want refunded to you
b Routing number
c Type: [] Checking [] Savings
d Account number
69 Amount of line 67 you want applied to your 2002 estimated tax

Amount You Owe

70 Amount you owe. Subtract line 66 from line 58. For details on how to pay, see page 52
71 Estimated tax penalty. Also include on line 70

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 53)? [] Yes. Complete the following. [] No
Designee's name Phone no. Personal identification number (PIN)

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
Your signature Date Your occupation Daytime phone number
Spouse's signature. If a joint return, both must sign. Date Spouse's occupation

Paid Preparer's Use Only

Preparer's signature Date Check if self-employed []
Firm's name (or yours if self-employed), address, and ZIP code EIN Phone no.

Note. This booklet does not contain any tax forms.



20011040

Instructions

Taxpayer News

So Easy, No Wonder 40 Million People Use It.



Delete the Paperwork. Hit **SEND**

For details, see page 3 or go to www.irs.gov.

Tax Rates Reduced!

Most of the tax rates have been reduced. Some people may also be able to claim the rate reduction credit. See page 14.

More Student Loan Interest Deductible!

You may be able to deduct up to \$2,500. See page 14.

Larger Child Tax Credits!

You may be able to claim credits of up to \$600 for each child under 17. Also, more people may now claim the additional child tax credit. See page 14.

You May Choose Someone Else To Deal Directly With the IRS!

You can now check a box on your return and provide certain identifying information if you want to allow another person to resolve certain issues with the IRS. See page 14.

The Internal Revenue Service • Working to put service first

A Message From the Commissioner

Dear Taxpayer:

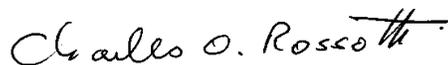
We know that preparing your tax return is not always an easy task. We at the IRS are working as hard as we can, within the limits of the law, to make filing simpler and easier for you.

Here are some of the things we have done that may help you file and pay your taxes more easily.

- If you have capital gains, we have made the tax computation on Schedule D easier for most taxpayers by removing 14 lines.
- You can designate another person (such as your preparer, relative, or friend) to discuss your return with the IRS to resolve questions that may arise in processing your return. Just fill out the Third Party Designee section on your return.
- If you have questions about how to fill out your return, you can get many of the answers 24 hours a day from our Frequently Asked Questions section on our popular web site at www.irs.gov/tax_edu/faq/index.html.
- If you need a form, you can download it directly from the IRS Web Site at www.irs.gov.
- In most cases, you can now file your return and pay your taxes electronically without any paper forms required. Just visit our web site and it will provide you a choice of many web sites on which you can prepare your return and file it with the IRS. You can use a credit or debit card to pay any balance due. Last year, over 40 million people filed electronically—and got the benefits of much faster refunds, much less chance of receiving an error notice from the IRS, and positive confirmation that their returns were received.
- If you cannot file by April 15 and need an extension to file, you can get one automatically by telephone by calling 1-888-796-1074. Remember, even if you get an extension, you still have to pay any taxes due by April 15 and you can do this by phone as well.

We know there is a lot more for us to do to serve you better and we plan many more improvements in the future. If you have specific suggestions how we can make it easier for you to file and pay your taxes, please e-mail them to us through the IRS Web Site at www.irs.gov/help/email2.html.

Sincerely,



Charles O. Rossotti

The IRS Mission

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



So Easy, No Wonder 40 Million People Love It.

- **Accuracy!** Your chance of getting an error notice from the IRS is significantly reduced.
- **Security!** Your privacy and security are assured.
- **Electronic Signatures!** Create your own Personal Identification Number (PIN) and file a completely paperless return through your tax preparation software or tax professional. There is nothing to mail!
- **Proof of Acceptance!** You receive an electronic acknowledgement within 48 hours that the IRS has accepted your return for processing.
- **Fast Refunds!** You get your refund in half the time, even faster and safer with Direct Deposit—in as few as 10 days.
- **FREE/Low-Cost Filing!** Check out the IRS Web Site at www.irs.gov for IRS *e-file* partners offering free or low-cost filing options to taxpayers who qualify.
- **Electronic Payment Options!** Convenient, safe, and secure electronic payment options are available. *e-file* and pay in a single step. Schedule an electronic funds withdrawal from your bank account (up to and including April 15, 2002) or pay by credit card.
- **Federal/State *e-file*!** Prepare and file your Federal and state returns together and double the benefits you get from *e-file*.

Get all the details on page 55 or
check out the IRS Web Site at www.irs.gov.



Delete the Paperwork. Hit



Tax Return Page Reference

Questions about what to put on a line? Help is on the page number in the circle.

Form

1040

Department of the Treasury—Internal Revenue Service

U.S. Individual Income Tax Return 2001

(99)

IRS Use Only—Do not write or staple in this space.

Label

(See instructions on page 19.)
Use the IRS label. Otherwise, please print or type.

For the year Jan. 1–Dec. 31, 2001, or other tax year beginning _____, 2001, ending _____, 20 Your first name and initial _____ Last name _____ If a joint return, spouse's first name and initial _____ Last name _____ Home address (number and street). If you have a P.O. box, see page 19. _____ Apt. no. _____ City, town or post office, state, and ZIP code. If you have a foreign address, see page 19. _____	OMB No. 1545-0074 Your social security number _____ Spouse's social security number _____
---	---

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

Presidential Election Campaign

Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want \$3 to go to this fund? Yes No Yes No

Filing Status

Check only one box.

- 1 Single
- 2 Married filing joint return (even if only one had income)
- 3 Married filing separate return. Enter spouse's social security no. above and full name here. ▶ _____
- 4 Head of household (with qualifying person). (See page 19.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ _____
- 5 Qualifying widow(er) with dependent child (year spouse died ▶ _____). (See page 19.)

Exemptions

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

b **Spouse**

c Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 20)
(1) First name	Last name			
				<input type="checkbox"/>
d Total number of exemptions claimed				

No. of boxes checked on 6a and 6b _____
 No. of your children on 6c who:
 • lived with you _____
 • did not live with you due to divorce or separation (see page 20) _____
 Dependents on 6c not entered above _____
 Add numbers entered on lines above ▶

Income

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

If you did not get a W-2, see page 21.

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

7 Wages, salaries, tips, etc. Attach Form(s) W-2		7 (21)	
8a Taxable interest. Attach Schedule B if required	8b	(21)	
b Tax-exempt interest. Do not include on line 8a			
9 Ordinary dividends. Attach Schedule B if required		(21)	
10 Taxable refunds, credits, or offsets of state and local income taxes (see page 22)		(22)	
11 Alimony received		(23)	
12 Business income or (loss). Attach Schedule C or C-EZ		(23)	
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>		(23)	
14 Other gains or (losses). Attach Form 4797		(23)	
15a Total IRA distributions	15a	(23)	
16a Total pensions and annuities	16a	(23)	
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			
18 Farm income or (loss). Attach Schedule F			
19 Unemployment compensation		(25)	
20a Social security benefits	20a	(25)	
21 Other income. List type and amount (see page 27)		(27)	
22 Add the amounts in the far right column for lines 7 through 21. This is your total income ▶			

Adjusted Gross Income

23 IRA deduction (see page 27)	23	(27)	
24 Student loan interest deduction (see page 28)	24	(28)	
25 Archer MSA deduction. Attach Form 8853	25	(29)	
26 Moving expenses. Attach Form 3903	26	(29)	
27 One-half of self-employment tax. Attach Schedule SE	27	(30)	
28 Self-employed health insurance deduction (see page 30)	28	(30)	
29 Self-employed SEP, SIMPLE, and qualified plans	29	(30)	
30 Penalty on early withdrawal of savings	30	(30)	
31a Alimony paid b Recipient's SSN ▶ _____	31a	(30)	
32 Add lines 23 through 31a	32		(30)
33 Subtract line 32 from line 22. This is your adjusted gross income ▶	33		(31)

IRS Customer Service Standards

At the IRS, our goal is to continually improve the quality of our services. To achieve that goal, we have developed customer service standards in the following areas:

- **Easier filing and payment options**
- **Access to information**
- **Accuracy**

- **Prompt refunds**
- **Initial contact resolution**
- **Canceling penalties**
- **Resolving problems**
- **Simpler forms**

If you would like information about the IRS standards and a report of our accomplishments, see **Pub. 2183**.

Help With Unresolved Tax Issues

Office of the Taxpayer Advocate

Contacting Your Taxpayer Advocate

If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels.

While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

Handling Your Tax Problems

Your assigned personal advocate will listen to your point of view and will work with you to address your concerns. You can expect the advocate to provide you with:

- A “fresh look” at your new or on-going problem
- Timely acknowledgment
- The name and phone number of the individual assigned to your case
- Updates on progress
- Timeframes for action
- Speedy resolution
- Courteous service

Information You Should Be Prepared To Provide

- Your name, address, and social security number (or employer identification number)
- Your telephone number and hours you can be reached
- The type of tax return and year(s) involved
- A detailed description of your problem
- Your previous attempts to solve the problem and the office you contacted, and
- Description of the hardship you are facing (if applicable)

How To Contact Your Taxpayer Advocate

- Call the Taxpayer Advocate’s toll-free number: **1-877-777-4778**
- Call, write, or fax the Taxpayer Advocate office in your area (see **Pub. 1546** for addresses and phone numbers)
- TTY/TDD help is available by calling 1-800-829-4059

Quick and Easy Access to Tax Help and Forms

Note. If you live outside the United States, see **Pub. 54** to find out how to get help and forms.



Personal Computer

You can access the IRS Web Site 24 hours a day, 7 days a week, at www.irs.gov to:

- Download forms, instructions, and publications
- See answers to frequently asked tax questions
- Search publications on-line by topic or keyword
- Figure your withholding allowances using our W-4 calculator
- Send us comments or request help by e-mail
- Sign up to receive local and national tax news by e-mail

You can also reach us using File Transfer Protocol at [ftp.irs.gov](ftp://ftp.irs.gov)



Fax

You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call **703-368-9694** from the telephone connected to the fax machine.

See pages 8 and 9 for a list of the items available.

For help with transmission problems, call the FedWorld Help Desk at **703-487-4608**.

Long-distance charges may apply.



Mail

You can order forms, instructions, and publications by completing the order blank on page 57. You should receive your order within 10 days after we receive your request.



Phone

You can order forms and publications and receive automated information 24 hours a day, 7 days a week, by phone.

Forms and Publications

Call **1-800-TAX-FORM** (1-800-829-3676) to order current year forms, instructions, and publications, and prior year forms and instructions. You should receive your order within 10 days.

TeleTax Topics

Call **1-800-829-4477** to listen to pre-recorded messages covering about 150 tax topics. See pages 11 and 12 for a list of the topics.

Refund Information

You can check the status of your 2001 refund using TeleTax's Refund Information service. See page 11.



Walk-In

You can pick up some of the most requested forms, instructions, and publications at many IRS offices, post offices, and libraries. Some IRS offices, libraries, city and county government

offices, credit unions, grocery stores, office supply stores, and copy centers have an extensive collection of products available to photocopy or print from a CD-ROM.



CD-ROM

Order **Pub. 1796**, Federal Tax Products on CD-ROM, and get:

- Current year forms, instructions, and publications
- Prior year forms, instructions, and publications
- Frequently requested tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping
- The Internal Revenue Bulletin

Buy the CD-ROM on the Internet at www.irs.gov/cdorders from the National Technical Information Service (NTIS) for \$21 (no handling fee) or call **1-877-CDFORMS** (1-877-233-6767) toll free to buy the CD-ROM for \$21 (plus a \$5 handling fee).

You can also get help in other ways—See page 56 for information.

Forms by Fax

The following forms and instructions are available through our **Tax Fax** service 24 hours a day, 7 days a week. Just call **703-368-9694** from the telephone connected to the fax machine. Long-distance charges may apply. When you call, you will hear instructions on how to use the service. Select the option for getting forms. Then, enter the **Catalog Number** (Cat. No.) shown below for each item you want. When you hang up the phone, the fax will begin.

Name of Form or Instructions	Title of Form or Instructions	Cat. No.	No. of Pages	Name of Form or Instructions	Title of Form or Instructions	Cat. No.	No. of Pages
Form SS-4	Application for Employer Identification Number	16055	2	Schedule A (Form 990 or 990-EZ)	Organization Exempt Under Section 501(c)(3)	11285	6
Instr. SS-4		62736	6	Instr. Sch. A		11294	14
Form SS-8	Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding	16106	5	Form 990-EZ	Short Form Return of Organization Exempt From Income Tax	10642	2
Form W-2c	Corrected Wage and Tax Statement	61437	8	Instr. 990-EZ	Specific Instructions for Form 990-EZ	50003	9
Form W-3c	Transmittal of Corrected Wage and Tax Statements	10164	2	Form 1040	U.S. Individual Income Tax Return	11320	2
Instr. W-2c and W-3c		25978	4	Instr. 1040	Line Instructions for Form 1040	11325	34
Form W-4	Employee's Withholding Allowance Certificate	10220	2	Instr. 1040	General Information for Form 1040	24811	26
Form W-4P	Withholding Certificate for Pension or Annuity Payments	10225	4	Tax Table and Tax Rate Sch.	Tax Table and Tax Rate Schedules (Form 1040)	24327	13
Form W-5	Earned Income Credit Advance Payment Certificate	10227	3	Schedules A&B (Form 1040)	Itemized Deductions & Interest and Ordinary Dividends	11330	2
Form W-7	Application for IRS Individual Taxpayer Identification Number	10229	3	Instr. Sch. A&B		24328	8
Form W-7A	Application for Taxpayer Identification Number for Pending U.S. Adoptions	24309	2	Schedule C (Form 1040)	Profit or Loss From Business (Sole Proprietorship)	11334	2
Form W-7P	Application for Preparer Tax Identification Number	26781	1	Instr. Sch. C		24329	8
Form W-9	Request for Taxpayer Identification Number and Certification	10231	2	Schedule C-EZ (Form 1040)	Net Profit From Business (Sole Proprietorship)	14374	2
Instr. W-9		20479	2	Schedule D (Form 1040)	Capital Gains and Losses	11338	2
Form W-9S	Request for Student's or Borrower's Taxpayer Identification Number and Certification	25240	2	Instr. Sch. D		24331	9
Form W-10	Dependent Care Provider's Identification and Certification	10437	1	Schedule D-1 (Form 1040)	Continuation Sheet for Schedule D	10424	2
Form 709	U.S. Gift (and Generation-Skipping Transfer) Tax Return	16783	4	Schedule E (Form 1040)	Supplemental Income and Loss	11344	2
Instr. 709		16784	12	Instr. Sch. E		24332	6
Form 709A	U.S. Short Form Gift Tax Return	10171	3	Schedule EIC (Form 1040A or 1040)	Earned Income Credit	13339	2
Form 843	Claim for Refund and Request for Abatement	10180	1	Schedule F (Form 1040)	Profit or Loss From Farming	11346	2
Instr. 843		11200	2	Instr. Sch. F		24333	6
Form 940	Employer's Annual Federal Unemployment (FUTA) Tax Return	11234	2	Schedule H (Form 1040)	Household Employment Taxes	12187	2
Instr. 940		13660	6	Instr. Sch. H		21451	8
Form 940-EZ	Employer's Annual Federal Unemployment (FUTA) Tax Return	10983	2	Schedule J (Form 1040)	Farm Income Averaging	25513	1
Instr. 940-EZ		25947	5	Instr. Sch. J		25514	7
Form 941	Employer's Quarterly Federal Tax Return	17001	4	Schedule R (Form 1040)	Credit for the Elderly or the Disabled	11359	2
Instr. 941		14625	4	Instr. Sch. R		11357	4
Form 941c	Supporting Statement To Correct Information	11242	4	Schedule SE (Form 1040)	Self-Employment Tax	11358	2
Form 990	Return of Organization Exempt From Income Tax	11282	6	Instr. Sch. SE		24334	4
Instr. 990 & 990-EZ	General Instructions for Forms 990 and 990-EZ	22386	14	Form 1040A	U.S. Individual Income Tax Return	11327	2
Instr. 990	Specific Instructions for Form 990	50002	18	Schedule 1 (Form 1040A)	Interest and Ordinary Dividends for Form 1040A Filers	12075	1
				Schedule 2 (Form 1040A)	Child and Dependent Care Expenses for Form 1040A Filers	10749	2
				Instr. Sch. 2		30139	3
				Schedule 3 (Form 1040A)	Credit for the Elderly or the Disabled for Form 1040A Filers	12064	2
				Instr. Sch. 3		12059	4
				Form 1040-ES	Estimated Tax for Individuals	11340	7
				Form 1040EZ	Income Tax Return for Single and Joint Filers With No Dependents	11329	2

Name of Form or Instructions	Title of Form or Instructions	Cat. No.	No. of Pages	Name of Form or Instructions	Title of Form or Instructions	Cat. No.	No. of Pages
Form 1040NR	U.S. Nonresident Alien Income Tax Return	11364	5	Form 6198	At-Risk Limitations	50012	1
Instr. 1040NR		11368	40	Instr. 6198		50013	8
Form 1040NR-EZ	U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents	21534	2	Form 6251	Alternative Minimum Tax—Individuals	13600	2
Instr. 1040NR-EZ		21718	16	Instr. 6251		64277	8
Form 1040-V	Payment Voucher	20975	2	Form 6252	Installment Sale Income	13601	4
Form 1040X	Amended U.S. Individual Income Tax Return	11360	2	Form 6781	Gains and Losses From Section 1256 Contracts and Straddles	13715	3
Instr. 1040X		11362	6	Form 8271	Investor Reporting of Tax Shelter Registration Number	61924	2
Form 1116	Foreign Tax Credit	11440	2	Form 8283	Noncash Charitable Contributions	62299	2
Instr. 1116		11441	12	Instr. 8283		62730	4
Form 1310	Statement of Person Claiming Refund Due a Deceased Taxpayer	11566	2	Form 8300	Report of Cash Payments Over \$10,000 Received in a Trade or Business	62133	4
Form 2106	Employee Business Expenses	11700	2	Form 8332	Release of Claim to Exemption for Child of Divorced or Separated Parents	13910	1
Instr. 2106		64188	4	Form 8379	Injured Spouse Claim and Allocation	62474	2
Form 2106-EZ	Unreimbursed Employee Business Expenses	20604	2	Form 8582	Passive Activity Loss Limitations	63704	3
Form 2120	Multiple Support Declaration	11712	1	Instr. 8582		64294	12
Form 2210	Underpayment of Estimated Tax by Individuals, Estates, and Trusts	11744	3	Form 8586	Low-Income Housing Credit	63987	2
Instr. 2210		63610	6	Form 8606	Nondeductible IRAs and Coverdell ESAs	63966	2
Form 2290	Heavy Highway Vehicle Use Tax Return	11250	3	Instr. 8606		25399	8
Instr. 2290		27231	8	Form 8615	Tax for Children Under Age 14 With Investment Income of More Than \$1,500	64113	1
Form 2441	Child and Dependent Care Expenses	11862	2	Instr. 8615		28914	2
Instr. 2441		10842	3	Form 8718	User Fee for Exempt Organization Determination Letter Request	64728	1
Form 2553	Election by a Small Business Corporation	18629	2	Form 8801	Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts	10002	4
Instr. 2553		49978	4	Form 8809	Request for Extension of Time To File Information Returns	10322	2
Form 2555-EZ	Foreign Earned Income Exclusion	13272	2	Form 8812	Additional Child Tax Credit	10644	2
Instr. 2555-EZ		14623	3	Form 8814	Parents' Election To Report Child's Interest and Dividends	10750	2
Form 2688	Application for Additional Extension of Time To File U.S. Individual Income Tax Return	11958	2	Form 8815	Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989	10822	2
Form 2848	Power of Attorney and Declaration of Representative	11980	2	Form 8822	Change of Address	12081	2
Instr. 2848		11981	4	Form 8824	Like-Kind Exchanges	12311	4
Form 3903	Moving Expenses	12490	2	Form 8829	Expenses for Business Use of Your Home	13232	1
Form 4136	Credit for Federal Tax Paid on Fuels	12625	4	Instr. 8829		15683	4
Form 4137	Social Security and Medicare Tax on Unreported Tip Income	12626	2	Form 8839	Qualified Adoption Expenses	22843	2
Form 4506	Request for Copy or Transcript of Tax Form	41721	2	Instr. 8839		23077	4
Form 4562	Depreciation and Amortization	12906	2	Form 8850	Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Credits	22851	2
Instr. 4562		12907	12	Instr. 8850		24833	2
Form 4684	Casualties and Thefts	12997	2	Form 8853	Archer MSAs and Long-Term Care Insurance Contracts	24091	2
Instr. 4684		12998	4	Instr. 8853		24188	8
Form 4797	Sales of Business Property	13086	2	Form 8857	Request for Innocent Spouse Relief	24647	4
Instr. 4797		13087	7	Form 8859	District of Columbia First-Time Homebuyer Credit	24779	2
Form 4835	Farm Rental Income and Expenses	13117	2	Form 8862	Information To Claim Earned Income Credit After Disallowance	25145	2
Form 4868	Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141	4	Instr. 8862		25343	2
Form 4952	Investment Interest Expense Deduction	13177	2	Form 8863	Education Credits	25379	3
Form 4972	Tax on Lump-Sum Distributions	13187	4	Form 9465	Installment Agreement Request	14842	2
Form 5329	Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts	13329	2				
Instr. 5329		13330	4				

Partial List of Publications

The following publications are available through the IRS Web Site 24 hours a day, 7 days a week, at www.irs.gov. You can also order publications by calling **1-800-TAX-FORM** (1-800-829-3676) or by completing the order blank on page 57. You should receive your order within 10 days after we receive your request. For a complete list of available publications, see **Pub. 910**.

Pub. No.	Title	Pub. No.	Title
1	Your Rights as a Taxpayer	570	Tax Guide for Individuals With Income From U.S. Possessions
3	Armed Forces' Tax Guide	575	Pension and Annuity Income
17	Your Federal Income Tax (For Individuals)	584	Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
225	Farmer's Tax Guide	587	Business Use of Your Home (Including Use by Day-Care Providers)
334	Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)	590	Individual Retirement Arrangements (IRAs)
378	Fuel Tax Credits and Refunds	593	Tax Highlights for U.S. Citizens and Residents Going Abroad
463	Travel, Entertainment, Gift, and Car Expenses	594	The IRS Collection Process
501	Exemptions, Standard Deduction, and Filing Information	595	Tax Highlights for Commercial Fishermen
502	Medical and Dental Expenses	596	Earned Income Credit (EIC)
503	Child and Dependent Care Expenses	721	Tax Guide to U.S. Civil Service Retirement Benefits
504	Divorced or Separated Individuals	901	U.S. Tax Treaties
505	Tax Withholding and Estimated Tax	907	Tax Highlights for Persons With Disabilities
508	Tax Benefits for Work-Related Education	908	Bankruptcy Tax Guide
509	Tax Calendars for 2002	910	Guide To Free Tax Services
514	Foreign Tax Credit for Individuals	911	Direct Sellers
516	U.S. Government Civilian Employees Stationed Abroad	915	Social Security and Equivalent Railroad Retirement Benefits
517	Social Security and Other Information for Members of the Clergy and Religious Workers	919	How Do I Adjust My Tax Withholding?
519	U.S. Tax Guide for Aliens	925	Passive Activity and At-Risk Rules
520	Scholarships and Fellowships	926	Household Employer's Tax Guide
521	Moving Expenses	929	Tax Rules for Children and Dependents
523	Selling Your Home	936	Home Mortgage Interest Deduction
524	Credit for the Elderly or the Disabled	946	How To Depreciate Property
525	Taxable and Nontaxable Income	947	Practice Before the IRS and Power of Attorney
526	Charitable Contributions	950	Introduction to Estate and Gift Taxes
527	Residential Rental Property	967	The IRS Will Figure Your Tax
529	Miscellaneous Deductions	968	Tax Benefits for Adoption
530	Tax Information for First-Time Homeowners	970	Tax Benefits for Higher Education
531	Reporting Tip Income	971	Innocent Spouse Relief
533	Self-Employment Tax	972	Child Tax Credit
534	Depreciating Property Placed in Service Before 1987	1542	Per Diem Rates
535	Business Expenses	1544	Reporting Cash Payments of Over \$10,000
537	Installment Sales	1546	The Taxpayer Advocate Service of the IRS
541	Partnerships	3920	Tax Relief for Victims of Terrorist Attacks
544	Sales and Other Dispositions of Assets		
547	Casualties, Disasters, and Thefts		
550	Investment Income and Expenses		
551	Basis of Assets		
552	Recordkeeping for Individuals		
553	Highlights of 2001 Tax Changes		
554	Older Americans' Tax Guide		
555	Community Property		
556	Examination of Returns, Appeal Rights, and Claims for Refund		
559	Survivors, Executors, and Administrators		
561	Determining the Value of Donated Property		
564	Mutual Fund Distributions		
		Spanish Language Publications	
		1SP	Your Rights as a Taxpayer
		579SP	How To Prepare Your Federal Income Tax Return
		594SP	The IRS Collection Process
		596SP	Earned Income Credit
		850	English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
		1544SP	Reporting Cash Payments of Over \$10,000

What Is TeleTax?

Call TeleTax at **1-800-829-4477** for:

- **Refund information.** Check the status of your **2001** refund.
- **Recorded tax information.** There are about 150 topics that answer many Federal tax questions.
- **2001 advance payment (rebate) information.** Find out the amount of your advance payment (before offset). You may need this information to complete the Rate Reduction Credit Worksheet on page 36.

How Do You Use TeleTax?

Refund Information

Refund information is not available until at least 4 weeks after you file your return (3 weeks if you file electronically), and sometimes is not available for up to 6 weeks. Please wait at least 4 weeks from the date you filed before calling to check the status of your refund. Do not send in a copy of your return unless asked to do so.

Be sure to have a copy of your 2001 tax return available because you will need to know the first social security number shown on your return, the filing status, and the **exact** whole-dollar amount of your refund. Then, call **1-800-829-4477** and follow the recorded instructions.



Refunds are sent out weekly on Fridays. If you call to check the status of your refund and are not given the date it will be issued, please wait until the next week before calling back.

Recorded Tax Information

Recorded tax information is available 24 hours a day, 7 days a week. Select the number of the topic you want to hear. Then, call **1-800-829-4477**. Have paper and pencil handy to take notes.

Topics by Personal Computer

TeleTax topics are also available using a personal computer and modem (go to www.irs.gov).

TeleTax Topics

All topics are available in Spanish.

Topic No.

Subject

- IRS Help Available**
- 101 IRS services—Volunteer tax assistance, toll-free telephone, walk-in assistance, and outreach programs
- 102 Tax assistance for individuals with disabilities and the hearing impaired
- 103 Intro. to Federal taxes for small businesses/self-employed
- 104 Taxpayer Advocate program—Help for problem situations
- 105 Public libraries—Tax information tapes and reproducible tax forms
- IRS Procedures**
- 151 Your appeal rights
- 152 Refunds—How long they should take
- 153 What to do if you haven't filed your tax return (Nonfilers)
- 154 Form W-2—What to do if not received
- 155 Forms and Publications—How to order
- 156 Copy of your tax return—How to get one
- 157 Change of address—How to notify IRS
- 158 Ensuring proper credit of payments

Topic No.

Subject

- Collection**
- 201 The collection process
- 202 What to do if you can't pay your tax
- 203 Failure to pay child support and Federal nontax and state income tax obligations
- 204 Offers in compromise
- 205 Innocent spouse relief
- Alternative Filing Methods**
- 251 Signing your return with a self-select PIN
- 252 Electronic filing
- 253 Substitute tax forms
- 254 How to choose a paid tax preparer
- 255 TeleFile
- General Information**
- 301 When, where, and how to file
- 302 Highlights of tax changes
- 303 Checklist of common errors when preparing your tax return
- 304 Extensions of time to file your tax return
- 305 Recordkeeping
- 306 Penalty for underpayment of estimated tax
- 307 Backup withholding
- 308 Amended returns
- 309 Roth IRA contributions
- 310 Coverdell education savings accounts
- 311 Power of attorney information

Topic No.

Subject

- Filing Requirements, Filing Status, and Exemptions**
- 351 Who must file?
- 352 Which form—1040, 1040A, or 1040EZ?
- 353 What is your filing status?
- 354 Dependents
- 355 Estimated tax
- 356 Decedents
- Types of Income**
- 401 Wages and salaries
- 402 Tips
- 403 Interest received
- 404 Dividends
- 405 Refunds of state and local taxes
- 406 Alimony received
- 407 Business income
- 408 Sole proprietorship
- 409 Capital gains and losses
- 410 Pensions and annuities
- 411 Pensions—The general rule and the simplified method
- 412 Lump-sum distributions
- 413 Rollovers from retirement plans
- 414 Rental income and expenses
- 415 Renting vacation property and renting to relatives
- 416 Farming and fishing income
- 417 Earnings for clergy
- 418 Unemployment compensation
- 419 Gambling income and expenses
- 420 Bartering income

(Continued on page 12)

TeleTax Topics

(Continued)

Topic No.	Subject
421	Scholarship and fellowship grants
422	Nontaxable income
423	Social security and equivalent railroad retirement benefits
424	401(k) plans
425	Passive activities—Losses and credits
426	Other income
427	Stock options
428	Roth IRA distributions
429	Traders
430	Demutualization
431	Sale of assets held for more than 5 years
Adjustments to Income	
451	Individual retirement arrangements (IRAs)
452	Alimony paid
453	Bad debt deduction
454	Tax shelters
455	Moving expenses
456	Student loan interest deduction
457	Deduction for higher education expenses (for 2002)
Itemized Deductions	
501	Should I itemize?
502	Medical and dental expenses
503	Deductible taxes
504	Home mortgage points
505	Interest expense
506	Contributions
507	Casualty and theft losses
508	Miscellaneous expenses
509	Business use of home
510	Business use of car
511	Business travel expenses
512	Business entertainment expenses
513	Educational expenses
514	Employee business expenses
515	Disaster area losses
Tax Computation	
551	Standard deduction
552	Tax and credits figured by the IRS
553	Tax on a child's investment income
554	Self-employment tax
555	Ten-year tax option for lump-sum distributions
556	Alternative minimum tax
557	Tax on early distributions from traditional and Roth IRAs
558	Tax on early distributions from retirement plans

Topic No.	Subject
Tax Credits	
601	Earned income credit (EIC)
602	Child and dependent care credit
603	Credit for the elderly or the disabled
604	Advance earned income credit
605	Education credits
606	Child tax credits
607	Adoption credit
608	Excess social security and RRTA tax withheld
609	Rate reduction credit
IRS Notices	
651	Notices—What to do
652	Notice of underreported income—CP 2000
653	IRS notices and bills, penalties, and interest charges
Basis of Assets, Depreciation, and Sale of Assets	
701	Sale of your home
703	Basis of assets
704	Depreciation
705	Installment sales
Employer Tax Information	
751	Social security and Medicare withholding rates
752	Form W-2—Where, when, and how to file
753	Form W-4—Employee's Withholding Allowance Certificate
754	Form W-5—Advance earned income credit
755	Employer identification number (EIN)—How to apply
756	Employment taxes for household employees
757	Form 941—Deposit requirements
758	Form 941—Employer's Quarterly Federal Tax Return
759	Form 940 and 940-EZ—Deposit requirements
760	Form 940 and Form 940-EZ—Employer's Annual Federal Unemployment Tax Returns
761	Tips—Withholding and reporting
762	Independent contractor vs. employee

Topic No.	Subject
Magnetic Media Filers—1099 Series and Related Information Returns	
801	Who must file magnetically
802	Applications, forms, and information
803	Waivers and extensions
804	Test files and combined Federal and state filing
805	Electronic filing of information returns
Tax Information for Aliens and U.S. Citizens Living Abroad	
851	Resident and nonresident aliens
852	Dual-status alien
853	Foreign earned income exclusion—General
854	Foreign earned income exclusion—Who qualifies?
855	Foreign earned income exclusion—What qualifies?
856	Foreign tax credit
857	Individual Taxpayer Identification Number—Form W-7
858	Alien tax clearance
Tax Information for Puerto Rico Residents (in Spanish only)	
901	Who must file a U.S. income tax return in Puerto Rico
902	Deductions and credits for Puerto Rico filers
903	Federal employment taxes in Puerto Rico
904	Tax assistance for Puerto Rico residents

**Topic numbers are effective
January 1, 2002.**

Calling the IRS

If you cannot answer your question by using one of the methods listed on page 7, please call us for assistance at **1-800-829-1040**. You will not be charged for the call unless your phone company charges you for local calls. Our normal hours of operation are Monday through Friday from 7:00 a.m. to 10:00 p.m. local time. Beginning December 31, 2001, through April 16, 2002, assistance will also be available on Saturday from 9:00 a.m. to 5:00 p.m. local time. Assistance provided to callers from Alaska and Hawaii will be based on the hours of operation in the Pacific Time zone.



If you want to check the status of your **2001 refund**, call **TeleTax** at **1-800-829-4477** (see page 11 for instructions).

Employee Plans. If you own a business and have questions about starting a pension or other employee plan, an existing plan, or filing **Form 5500**, call our **Tax Exempt/Government Entities Customer Account Services** at **1-877-829-5500**. Assistance is available Monday through Friday from 8:00 a.m. to 9:30 p.m. EST. If you have questions about an individual retirement arrangement (IRA), call **1-800-829-1040**.

Exempt Organizations. If you have questions about exempt organizations, including the types of tax-exempt organizations, or you want to verify an organization's charitable status, call our **Tax Exempt/Government Entities Customer Account Services** at **1-877-829-5500**. Assistance is available Monday through Friday from 8:00 a.m. to 9:30 p.m. EST.

Before You Call

IRS representatives care about the quality of the service we provide to you, our customer. You can help us provide accurate, complete answers to your questions by having the following information available.

- The tax form, schedule, or notice to which your question relates.
- The facts about your particular situation. The answer to the same question often varies from one taxpayer to another because of differences in their age, income, whether they can be claimed as a dependent, etc.
- The name of any IRS publication or other source of information that you used to look for the answer.

To maintain your account security, you may be asked for the following information, which you should also have available.

- Your social security number.
- The amount of refund and filing status shown on your tax return.
- The "Caller ID Number" shown at the top of any notice you received.
- Your personal identification number (PIN) if you have one.
- Your date of birth.
- The numbers in your street address.
- Your ZIP code.

If you are asking for an installment agreement to pay your tax, you will be asked for the highest amount you can pay each month and the date on which you can pay it.

Evaluation of Services Provided. The IRS uses several methods to evaluate the quality of this telephone service. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Making the Call

Call **1-800-829-1040** (for TTY/TDD help, call 1-800-829-4059). We have redesigned our menus to allow callers with pulse or rotary dial telephones to speak their responses when requested to do so. First, you will be provided a series of options that will request touch-tone responses. If a touch-tone response is not received, you will then hear a series of options and be asked to speak your selections. After your touch-tone or spoken response is received, the system will direct your call to the appropriate assistance. You can do the following within the system.

- Order tax forms and publications.
- Find out the status of your refund or what you owe.
- Determine if we have adjusted your account or received payments you made.
- Request a transcript of your account.
- Find out where to send your tax return or payment.
- Request more time to pay or set up a monthly installment agreement.

Before You Hang Up

If you do not fully understand the answer you receive, or you feel our representative may not fully understand your question, our representative needs to know this. He or she will be happy to take additional time to be sure your question is answered fully.

By law, you are responsible for paying your share of Federal income tax. If we should make an error in answering your question, you are still responsible for the payment of the correct tax. Should this occur, however, you will not be charged any penalty.

Before You Fill In Form 1040

See **How To Avoid Common Mistakes** on page 54.

If you were in the Kosovo or Persian Gulf area (for example, you supported operations in a qualified hazardous duty area), see **Pub. 3**.



For details on the changes for 2001 and 2002, see **Pub. 553**.

What's New for 2001?

Tax Rates Reduced. Most of the tax rates have been reduced and are reflected in the Tax Table that begins on page 59 and the Tax Rate Schedules on page 71. In addition, a new 10% tax rate applies to certain dependents. **Dependents** may be able to use the **Tax Computation Worksheet for Certain Dependents** to figure their tax. This worksheet gives the benefit of a new 10% rate. See the instructions for line 40 that begin on page 33. Dependents cannot take the rate reduction credit mentioned below.

Rate Reduction Credit. You may be able to take a new credit of up to the amount shown below for your 2001 filing status. But you cannot take this credit if you received (before offset) an advance payment of your 2001 taxes that was equal to or more than the amount shown below. See the worksheet on page 36.

- Single or married filing separately—\$300
- Head of household—\$500
- Married filing jointly or qualifying widow(er)—\$600

Advance Payment Not Taxable. Any amount you received as an advance payment of your 2001 taxes is not taxable and should not be reported on your return.

Larger Child Tax Credits. If you have at least one child who was under age 17 at the end of 2001, you may be able to take a credit on line 48 of up to \$600 for each qualifying child. You may also be able to take the additional child tax credit on line 63 if your credit on line 48 is less than \$600 for each qualifying child. See the instructions for line 48 that begin on page 37 and the instructions for line 63 on page 51.

Student Loan Interest Deduction. If you paid interest on a qualified student loan, you may be able to deduct up to \$2,500 of the interest. See the instructions for line 24 that begin on page 28.

Third Party Designee. If you want to allow the IRS to discuss your 2001 tax return with a family member, friend, or any other person you choose, check the "Yes" box in the Third Party Designee area of your return and

enter the requested information. See page 53 for details.

Schedule D Tax Computation Simplified. To make the tax computation easier for most people with capital gains, 14 lines have been removed from Part IV of Schedule D.

IRA Deduction. You may be able to take an IRA deduction if you were covered by a retirement plan and your modified adjusted gross income is less than \$43,000 (\$63,000 if married filing jointly or qualifying widow(er)). See the instructions for line 23 that begin on page 27.

Education (Ed) IRAs. Ed IRAs are now called Coverdell education savings accounts (ESAs).

Earned Income Credit (EIC). You may be able to take this credit if you earned less than \$32,121 (less than \$10,710 if you do not have any qualifying children). See the instructions for lines 61a and 61b that begin on page 41.

Alternative Minimum Tax (AMT). The AMT exemption amounts have been increased. See the instructions for line 41 that begin on page 34.

Standard Mileage Rates. The rate for business use of your vehicle is 34½ cents a mile. The rate for use of your vehicle to get medical care is 12 cents a mile.

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 You File?** on the back cover.

Tax Relief for Victims of Terrorist Attacks. See **Pub. 3920**.

Other Information

Did You Convert an IRA to a Roth IRA in 1998? If you did, see **1998 Roth IRA Conversions** on page 23 to find out the taxable amount you must report in 2001 on line 15b.

Parent of a Kidnapped Child. The parent of a child who is presumed by law enforcement authorities to have been kidnapped by someone who is not a family member may be able to take the child into account in determining his or her eligibility for the head of household or qualifying widow(er) filing status, deduction for dependents, child tax

credit, and the earned income credit (EIC). For details, see **Pub. 501 (Pub. 596 for the EIC)**.

Payments to Holocaust Victims. Restitution payments received by holocaust victims or their heirs after 1999 (and certain interest earned on the payments) are not taxable. If you reported these amounts on your 2000 return or used them to compute any amount affecting your 2000 tax liability, you may need to file **Form 1040X** to amend your 2000 return. For more details, see **Pub. 525**.

What To Look for in 2002

Reduced Tax Rates. Most of the tax rates will decrease by ½% and a new 10% tax rate will apply to all filers.

New Deduction for Higher Education Expenses. You may be able to deduct up to \$3,000 of the qualified education expenses you pay for yourself, your spouse, or your dependents if your 2002 modified AGI is \$130,000 or less.

New Credit for Elective Deferrals and IRA Contributions. You may be able to take a credit of up to \$1,000 for qualified retirement savings contributions if your 2002 modified AGI is \$50,000 or less.

IRA Deduction Expanded. You, and your spouse if filing jointly, may be able to take an IRA deduction of up to \$3,000 (\$3,500 if you will be age 50 or older at the end of 2002). If you are covered by a retirement plan, you may be able to take an IRA deduction if your 2002 modified AGI is less than \$44,000 (\$64,000 if married filing jointly or qualifying widow(er)).

Student Loan Interest Deduction. The 60-month limit will no longer apply and the modified AGI limit will increase.

Self-Employed Health Insurance Deduction. You may be able to deduct up to 70% of your health insurance expenses.

Adoption Credit. You may be able to take a credit of up to \$10,000 for the qualified adoption expenses you pay to adopt a child.

EIC Computation Simplified. Nontaxable earned income and modified AGI will not be taken into account in determining if you are eligible for the credit or the amount of your credit.

Coverdell ESAs. You may be able to contribute up to \$2,000 to a Coverdell ESA.

Filing Requirements

These rules apply to all U.S. citizens, regardless of where they live, and resident aliens.

Do You Have To File?

Use **Chart A, B, or C** to see if you must file a return. U.S. citizens who lived in or had income from a U.S. possession should see **Pub. 570**. Residents of Puerto Rico can use TeleTax topic 901 (see page 11) to see if they must file.



Even if you do not otherwise have to file a return, you should file one to get a refund of any Federal income tax withheld. You should also file if you are eligible for the earned income credit or the additional child tax credit.

Exception for Children Under Age 14. If you are planning to file a return for your child who was under age 14 on January 1, 2002, and certain other conditions apply, you may elect to report your child's income on your return. But you must use **Form 8814** to do so. If you make this election, your child does not have to file a return. For details, use TeleTax topic 553 (see page 11) or see Form 8814.

Nonresident Aliens and Dual-Status Aliens. These rules also apply to nonresident aliens and dual-status aliens who were married to U.S. citizens or residents at the

end of 2001 and who have elected to be taxed as resident aliens. Other nonresident aliens and dual-status aliens have different filing requirements. They may have to file **Form 1040NR** or **Form 1040NR-EZ**. Specific rules apply to determine if you are a resident or nonresident alien. See **Pub. 519** for details, including the rules for students and scholars who are aliens.

When Should You File?

Not later than **April 15, 2002**. If you file after this date, you may have to pay interest and penalties. See page 56.

What if You Cannot File on Time?

You can get an automatic 4-month extension if, by April 15, 2002, you **either**:

- File **Form 4868** or
- File for an extension by phone, using tax software, or through a tax professional. If you expect to owe tax with your return, you can even pay part or all of it by electronic funds withdrawal or credit card (American Express® Card, Discover® Card, or MasterCard® card). See Form 4868 for details.



An automatic 4-month extension to file does not extend the time to pay your tax. See Form 4868.

If you are a U.S. citizen or resident, you may qualify for an automatic extension of time to file without filing Form 4868 or filing for an extension by phone, using tax software, or through a tax professional. You qualify if, on the due date of your return, you meet one of the following conditions.

- You live 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.
- You are in military or naval service on duty outside the United States and Puerto Rico.

This extension gives you an extra 2 months to file and pay the tax, but interest will be charged from the original due date of the return on any unpaid tax. You must attach a statement to your return showing that you meet the requirements.

Where Do You File?

See the back cover of this booklet for filing instructions and addresses. For details on using a private delivery service to mail your return or payment, see page 18.

Chart A—For Most People

IF your filing status is . . .	AND at the end of 2001 you were* . . .	THEN file a return if your gross income** was at least . . .
Single	under 65	\$7,450
	65 or older	8,550
Married filing jointly***	under 65 (both spouses)	\$13,400
	65 or older (one spouse)	14,300
	65 or older (both spouses)	15,200
Married filing separately	any age	\$2,900
Head of household (see page 19)	under 65	\$9,550
	65 or older	10,650
Qualifying widow(er) with dependent child (see page 19)	under 65	\$10,500
	65 or older	11,400

* If you turned 65 on January 1, 2002, you are considered to be age 65 at the end of 2001.

** **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 in 2001.

*** If you did not live with your spouse at the end of 2001 (or on the date your spouse died) and your gross income was at least \$2,900, you must file a return regardless of your age.

Chart B—For Children and Other Dependents (See the instructions for line 6c on page 20 to find out if someone can claim you as a dependent.)

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

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



If your gross income was \$2,900 or more, you usually cannot be claimed as a dependent unless you were under age 19 or a student under age 24. For details, see **Pub. 501**.

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

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

- Your **unearned income** was over \$750.
- Your **earned income** was over \$4,550.
- Your **gross income** was more than the **larger** of—
 - \$750 **or**
 - Your earned income (up to \$4,300) plus \$250.

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

- Your unearned income was over \$1,850 (\$2,950 if 65 or older **and** blind).
- Your earned income was over \$5,650 (\$6,750 if 65 or older **and** blind).
- Your gross income was more than—

The larger of:	Plus	This amount:
<ul style="list-style-type: none"> ● \$750 or ● Your earned income (up to \$4,300) plus \$250 	}	\$1,100 (\$2,200 if 65 or older and blind)

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

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

- Your unearned income was over \$750.
- Your earned income was over \$3,800.
- Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
- Your gross income was more than the **larger** of—
 - \$750 **or**
 - Your earned income (up to \$3,550) plus \$250.

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

- Your unearned income was over \$1,650 (\$2,550 if 65 or older **and** blind).
- Your earned income was over \$4,700 (\$5,600 if 65 or older **and** blind).
- Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
- Your gross income was more than—

The larger of:	Plus	This amount:
<ul style="list-style-type: none"> ● \$750 or ● Your earned income (up to \$3,550) plus \$250 	}	\$900 (\$1,800 if 65 or older and blind)

Chart C—Other Situations When You Must File

You must file a return if any of the four conditions below apply for 2001.

1. You owe any special taxes, such as:

- Social security and Medicare tax on tips you did not report to your employer,
- Uncollected social security and Medicare or RRTA tax on tips you reported to your employer or on group-term life insurance,
- Alternative minimum tax,
- Recapture taxes (see the instructions for lines 40 and 58 that begin on pages 33 and 39), or
- Tax on a qualified plan, including an individual retirement arrangement (IRA), or other tax-favored account. But if you are filing a return only because you owe this tax, you can file **Form 5329** by itself.

2. You received any advance earned income credit (EIC) payments from your employer. These payments are shown in box 9 of your W-2 form.

3. You had net earnings from self-employment of at least \$400.

4. You had wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes.

Where To Report Certain Items From 2001 Forms W-2, 1098, and 1099

Report on Form 1040, line 59, any amounts shown on these forms as **Federal income tax withheld**. If you itemize your deductions, report on Schedule A, line 5, any amounts shown on these forms as **state or local income tax withheld**.

Form	Item and Box in Which it Should Appear	Where To Report if Filing Form 1040
W-2	Wages, salaries, tips, etc. (box 1)	Form 1040, line 7
	Allocated tips (box 8)	See Tip income on page 21
	Advance EIC payment (box 9)	Form 1040, line 56
	Dependent care benefits (box 10)	Form 2441, line 10
	Adoption benefits (box 12, code T)	Form 8839, line 18
	Employer contributions to an MSA (box 12, code R)*	Form 8853, line 3b
W-2G	Gambling winnings (box 1)	Form 1040, line 21 (Schedule C or C-EZ for professional gamblers)
1098	Mortgage interest (box 1)	} Schedule A, line 10**
	Points (box 2)	
	Refund of overpaid interest (box 3)	Form 1040, line 21, but first see the instructions on Form 1098**
1098-E	Student loan interest (box 1)	See the instructions for Form 1040, line 24, that begin on page 28**
1099-A	Acquisition or abandonment of secured property	See Pub. 544
1099-B	Stocks, bonds, etc. (box 2)	Schedule D
	Bartering (box 3)	See Pub. 525
	Aggregate profit or (loss) on futures contracts (box 9)	Form 6781
1099-C	Canceled debt (box 2)	Form 1040, line 21, but first see the instructions on Form 1099-C**
1099-DIV	Ordinary dividends (box 1)	Form 1040, line 9
	Total capital gain distributions (box 2a)	Form 1040, line 13, or, if required, Schedule D, line 13, column (f)
	28% rate gain (box 2b)	Schedule D, line 13, column (g)
	Qualified 5-year gain (box 2c)	See the worksheet for Schedule D, line 29, on page D-8
	Unrecaptured section 1250 gain (box 2d)	See the worksheet for Schedule D, line 19, on page D-7
	Section 1202 gain (box 2e)	See the instructions for Schedule D
	Nontaxable distributions (box 3)	See the instructions for Form 1040, line 9, that begin on page 21
	Investment expenses (box 5)	Schedule A, line 22
Foreign tax paid (box 6)	Form 1040, line 43, or Schedule A, line 8	
1099-G	Unemployment compensation (box 1)	Form 1040, line 19. But if you repaid any unemployment compensation in 2001, see the instructions for line 19 on page 25
	State or local income tax refunds (box 2)	See the instructions for Form 1040, line 10, that begin on page 22**
	Qualified state tuition program earnings (box 5)	Form 1040, line 21
	Taxable grants (box 6)	Form 1040, line 21**
	Agriculture payments (box 7)	See the Schedule F instructions or Pub. 225

* MSAs were renamed Archer MSAs after Form W-2 was released for print.

** If the item relates to an activity for which you are required to file Schedule C, C-EZ, E, or F or Form 4835, report the taxable or deductible amount allocable to the activity on that schedule or form instead.

(Continued on page 18)

Form	Item and Box in Which it Should Appear	Where To Report if Filing Form 1040
1099-INT	Interest income (box 1)	Form 1040, line 8a
	Early withdrawal penalty (box 2)	Form 1040, line 30
	Interest on U.S. savings bonds and Treasury obligations (box 3)	See the instructions for Form 1040, line 8a, on page 21
	Investment expenses (box 5)	Schedule A, line 22
	Foreign tax paid (box 6)	Form 1040, line 43, or Schedule A, line 8
1099-LTC	Long-term care and accelerated death benefits	See Pub. 502 and the instructions for Form 8853
1099-MISC	Rents (box 1)	See the instructions for Schedule E
	Royalties (box 2)	Schedule E, line 4 (timber, coal, iron ore royalties, see Pub. 544)
	Other income (box 3)	Form 1040, line 21*
	Nonemployee compensation (box 7)	Schedule C, C-EZ, or F. But if you were not self-employed, see the instructions on Form 1099-MISC.
	Other (boxes 5, 6, 8, 9, 10, 13, and 14)	See the instructions on Form 1099-MISC
1099-MSA	Distributions from MSAs**	Form 8853
1099-OID	Original issue discount (box 1)	} See the instructions on Form 1099-OID
	Other periodic interest (box 2)	
	Early withdrawal penalty (box 3)	Form 1040, line 30
1099-PATR	Patronage dividends and other distributions from a cooperative (boxes 1, 2, 3, and 5)	Schedule C, C-EZ, or F or Form 4835, but first see the instructions on Form 1099-PATR
	Credits (boxes 7 and 8)	Form 3468 or Form 5884
	Patron's AMT adjustment (box 9)	Form 6251, line 14j
1099-R	Distributions from IRAs***	See the instructions for Form 1040, lines 15a and 15b, on page 23
	Distributions from pensions, annuities, etc.	See the instructions for Form 1040, lines 16a and 16b, that begin on page 23
	Capital gain (box 3)	See the instructions on Form 1099-R
1099-S	Gross proceeds from real estate transactions (box 2)	Form 4797, Form 6252, or Schedule D. But if the property was your home, see the instructions for Schedule D to find out if you must report the sale or exchange.
	Buyer's part of real estate tax (box 5)	See the instructions for Schedule A, line 6, on page A-2*
* If the item relates to an activity for which you are required to file Schedule C, C-EZ, E, or F or Form 4835, report the taxable or deductible amount allocable to the activity on that schedule or form instead.		
** This includes distributions from Archer and Medicare+Choice MSAs.		
*** This includes distributions from Roth, SEP, and SIMPLE IRAs; and Coverdell education savings accounts (ESAs).		

Private Delivery Services

You can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. The most recent list of designated private delivery services was published by the IRS in October 2001. The list includes only the following:

- Airborne Express (Airborne): Overnight Air Express Service, Next Afternoon Service, and Second Day Service.

- DHL Worldwide Express (DHL): DHL "Same Day" Service, and DHL USA Overnight.

- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, and FedEx 2Day.

- 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.

The private delivery service can tell you how to get written proof of the mailing date.



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.

Line Instructions for Form 1040

Name and Address

Use the Peel-Off Label

Using your peel-off name and address label in this booklet will speed the processing of your return. It also prevents common errors that can delay refunds or result in unnecessary notices. Put the label on your return **after** you have finished it. Cross out any errors and print the correct information. Add any missing items, such as your apartment number.

Address Change

If the address on your peel-off label is not your current address, cross out your old address and print your new address. If you plan to move after filing your return, see page 54.

Name Change

If you changed your name, be sure to report the change to your local Social Security Administration office **before** filing your return. This prevents delays in processing your return and issuing refunds. It also safeguards your future social security benefits. See page 54 for more details. If you received a peel-off label, cross out your former name and print your new name.

What If You Do Not Have a Label?

Print or type the information in the spaces provided. If you are married filing a separate return, enter your husband's or wife's name on line 3 instead of below your name.



If you filed a joint return for 2000 and you are filing a joint return for 2001 with the same spouse, be sure to enter your names and SSNs in the same order as on your 2000 return.

P.O. Box

Enter your box number **only** if your post office does not deliver mail to your home.

Foreign Address

Enter the information in the following order: City, province or state, and country. Follow the country's practice for entering the postal code. **Do not** abbreviate the country name.

Death of a Taxpayer

See page 55.

Social Security Number (SSN)

An incorrect or missing SSN may increase your tax or reduce your refund. **To apply for an SSN**, get **Form SS-5** from your local Social Security Administration (SSA) office or call the SSA at 1-800-772-1213. Fill in Form SS-5 and return it to the SSA. It usually takes about 2 weeks to get an SSN.

Check that your SSN is correct on your Forms W-2 and 1099. If not, see page 54 for more details.

IRS Individual Taxpayer Identification Numbers (ITINs) for Aliens

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. **To apply for an ITIN**, file **Form W-7** with the IRS. It usually takes about 4-6 weeks to get an ITIN. **Enter your ITIN wherever your SSN is requested on your tax return.**

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

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.

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 "Yes" box. If you are filing a joint return, your spouse may also have \$3 go to the fund. If you check "Yes," your tax or refund will not change.

Filing Status

Check **only** the filing status that applies to you. The ones that will usually give you the lowest tax are listed last.

- Married filing separately.
- Single.
- **Head of household.** This status is for unmarried people who paid over half the cost of keeping up a home for a qualifying person, such as a child who lived with you or your dependent parent. Certain married people who lived apart from their spouse for the last 6 months of 2001 may also be able to use this status.

• **Married filing jointly** or **Qualifying widow(er) with dependent child.** The **Qualifying widow(er)** status is for certain people whose spouse died in 1999 or 2000 and who had a child living with them whom they can claim as a dependent.

Joint and Several Tax Liability. If you file a joint return, both you and your spouse are generally responsible for the tax and any interest or penalties due on the return. This means that if one spouse does not pay the tax due, the other may have to. However, see **Innocent Spouse Relief** on page 54.



More than one filing status may apply to you. Choose the one that will give you the lowest tax. If you are not sure about your filing status, use TeleTax topic 353 (see page 11) or see **Pub. 501**.

Exemptions

You usually can deduct \$2,900 on line 38 for each exemption you can take.

Line 6b

Spouse

Check the box on line 6b if you file either (a) a joint return or (b) a separate return and your spouse had no income and is not filing a return. However, **do not** check the box if your spouse can be claimed as a dependent on another person's return.

Line 6c

Dependents

You can take an exemption for each of your dependents. The following is a brief description of the five tests that must be met for a person to qualify as your dependent. If you have **more than six** dependents, attach a statement to your return with the required information.

Relationship Test. The person must be either your relative or have lived in your home as a family member all year. If the person is not your relative, the relationship must not violate local law.

Joint Return Test. If the person is married, he or she cannot file a joint return. But the person can file a joint return if the return is filed only as a claim for refund **and** no tax liability would exist for either spouse if they had filed separate returns.

Citizen or Resident Test. The person must be a U.S. citizen or resident alien, or a resident of Canada or Mexico. There is an exception for certain adopted children. To find out who is a **resident alien**, use TeleTax topic 851 (see page 11) or see **Pub. 519**.

Income Test. The person's gross income must be less than \$2,900. But your child's gross income can be \$2,900 or more if he or she was either **(a) under age 19** at the end of 2001 or **(b) under age 24** at the end of 2001 and was a **student**.

Support Test. You must have provided over half of the person's total support in 2001. But there are two exceptions to this test: One for children of divorced or separated parents and one for persons supported by two or more taxpayers.



For more details about the tests, including any exceptions that apply, see **Pub. 501**.

Line 6c, Column (2)

You must enter each dependent's social security number (SSN). Be sure the name and SSN entered agree with the dependent's social security card. Otherwise, at the time we process your return, we may disallow the exemption claimed for the dependent and reduce or disallow any other tax benefits (such as the child tax credit and the earned income credit) based on that dependent. If the name or SSN on the dependent's social security card is not correct, call the Social Security Administration at 1-800-772-1213.



For details on how your dependent can get an SSN, see page 19. If your dependent will not have a number by April 15, 2002, see **What if You Cannot File on Time?** on page 15.

If your dependent child was born and died in 2001 and you do not have an SSN for the child, you may attach a copy of the child's birth certificate instead and enter "Died" in column (2).

Adoption Taxpayer Identification Numbers (ATINs). If you have a dependent who was placed with you by an authorized placement agency and you do not know his or her SSN, you must get an ATIN for the dependent from the IRS. An authorized placement agency includes any person authorized by state law to place children for legal adoption. See **Form W-7A** for details.

Line 6c, Column (4)

Check the box in this column if your dependent is a qualifying child for the child tax credit (defined below). If you have at least one qualifying child, you may be able to take the child tax credit on line 48 and the additional child tax credit on line 63.

Qualifying Child for Child Tax Credit. A qualifying child for purposes of the child tax credit is a child who:

- Is claimed as your dependent on line 6c, **and**
- Was **under age 17** at the end of 2001, **and**
- Is your son, daughter, adopted child, grandchild, stepchild, or foster child, **and**
- Is a U.S. citizen or resident alien.

Note. The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.

A child placed with you by an authorized placement agency for legal adoption is an **adopted child** even if the adoption is not final. An authorized placement agency includes any person authorized by state law to place children for legal adoption.

A **grandchild** is any descendant of your son, daughter, or adopted child and includes your great-grandchild, great-great-grandchild, etc.

A **foster child** is any child you cared for as your own child and who:

- Is **(a)** your brother, sister, stepbrother, or stepsister; **(b)** a descendant (such as a child, including an adopted child) of your brother, sister, stepbrother, or stepsister; **or**

(c) a child placed with you by an authorized placement agency **and**

- Lived with you for all of 2001. A child who was born or died in 2001 is considered to have lived with you for all of 2001 if your home was the child's home for the entire time he or she was alive during 2001.

Children Who Did Not Live With You Due to Divorce or Separation

If you are claiming a child who did not live with you under the rules explained in **Pub. 501** for children of divorced or separated parents, attach **Form 8332** or similar statement to your return. But see **Exception** below. If your divorce decree or separation agreement went into effect after 1984 and it states you can claim the child as your dependent without regard to any condition, such as payment of support, you may attach a copy of the following pages from the decree or agreement instead.

- Cover page (put the other parent's SSN on that page),
- The page that states you can claim the child as your dependent, and
- Signature page with the other parent's signature and date of agreement.

Note. You must attach the required information even if you filed it in an earlier year.

Exception. You do not have to attach Form 8332 or similar statement if your divorce decree or written separation agreement went into effect before 1985 and it states that you can claim the child as your dependent.

Other Dependent Children

Include the total number of children who did not live with you for reasons other than divorce or separation on the line labeled "Dependents on 6c not entered above." Include dependent children who lived in Canada or Mexico during 2001.

Income

Foreign-Source Income

You must report unearned income, such as interest, dividends, and pensions, from sources outside the United States unless exempt by law or a tax treaty. You must also report earned income, such as wages and tips, from sources outside the United States.

If you worked abroad, you may be able to exclude part or all of your earned income. For details, see **Pub. 54** and **Form 2555** or **2555-EZ**.

Community Property States

Community property states are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. If you and your spouse lived in a community property state, you must usually follow state law to determine what is community income and what is separate income. For details, see **Pub. 555**.

Rounding Off to Whole Dollars

To round off cents to the nearest whole dollar on your forms and schedules, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. If you do round off, do so for all amounts. But if you have to add two or more amounts to figure the amount to enter on a line, include cents when adding and only round off the total.

Line 7

Wages, Salaries, Tips, etc.

Enter the total of your wages, salaries, tips, etc. If a joint return, also include your spouse's income. For most people, the amount to enter on this line should be shown in box 1 of their **Form(s) W-2**. But the following types of income must also be included in the total on line 7.

- **Wages received as a household employee** for which you did not receive a **W-2** form because your employer paid you less than \$1,300 in 2001. Also, enter "HSH" and the amount not reported on a **W-2** form on the dotted line next to line 7.

- **Tip income** you did not report to your employer. Also include **allocated tips** shown on your **W-2** form(s) unless you can prove that you received less. Allocated tips should be shown in box 8 of your **W-2** form(s). They are not included as income in box 1. See **Pub. 531** for more details.



You may owe social security and Medicare tax on unreported or allocated tips. See the instructions for line 54 on page 39.

- **Dependent care benefits**, which should be shown in box 10 of your **W-2** form(s). But first complete **Form 2441** to see if you may exclude part or all of the benefits.

- **Employer-provided adoption benefits**, which should be shown in box 12 of your **W-2** form(s) with code **T**. But first complete **Form 8839** to see if you may exclude part or all of the benefits.

- **Scholarship and fellowship grants** not reported on a **W-2** form. Also, enter "SCH" and the amount on the dotted line next to line 7. **Exception.** If you were a degree candidate, include on line 7 **only** the amounts you used for expenses other than tuition and course-related expenses. For example, amounts used for room, board, and travel must be reported on line 7.

- **Excess salary deferrals.** The amount deferred should be shown in box 12 of your **W-2** form and the "Retirement plan" box in box 13 should be checked. If the total amount you (or your spouse if filing jointly) deferred for 2001 under **all** plans was more than \$10,500, include the excess on line 7. But a different limit may apply if amounts were deferred under a tax-sheltered annuity plan or an eligible plan of a state or local government or tax-exempt organization. See **Pub. 525** for details.



You may **not** deduct the amount deferred. It is not included as income in box 1 of your **W-2** form.

- **Disability pensions** shown on **Form 1099-R** if you have not reached the minimum retirement age set by your employer. Disability pensions received after you reach that age and other pensions shown on **Form 1099-R** (other than payments from an IRA* or a Coverdell education savings account (ESA)) are reported on lines 16a and 16b. Payments from an IRA or a Coverdell ESA are reported on lines 15a and 15b.

- **Corrective distributions** shown on **Form 1099-R** of (a) excess salary deferrals plus earnings and (b) excess contributions plus earnings to a retirement plan. But do not include distributions from an IRA* or a Coverdell ESA on line 7. Instead, report them on lines 15a and 15b.

**This includes a Roth, SEP, or SIMPLE IRA.*

Were You a Statutory Employee?

If you were, the "Statutory employee" box in box 13 of your **W-2** form should be checked. Statutory employees include full-time life insurance salespeople, certain agent or commission drivers and traveling salespeople, and certain homeworkers. If you have related business expenses to deduct, report the amount shown in box 1 of your **W-2** form on **Schedule C** or **C-EZ** along with your expenses.

Missing or Incorrect Form W-2?

If you do not get a **W-2** form from your employer by January 31, 2002, use TeleTax topic 154 (see page 11) to find out what to

do. Even if you do not get a **Form W-2**, you must still report your earnings on line 7. If you lose your **Form W-2** or it is incorrect, ask your employer for a new one.

Line 8a

Taxable Interest

Each payer should send you a **Form 1099-INT** or **Form 1099-OID**. Enter your total taxable interest income on line 8a. But you must fill in and attach **Schedule B** if the total is over \$400 or any of the other conditions listed at the beginning of the **Schedule B** instructions (see page B-1) apply to you.

Interest credited in 2001 on deposits that you could not withdraw because of the bankruptcy or insolvency of the financial institution may not have to be included in your 2001 income. For details, see **Pub. 550**.



If you get a 2001 **Form 1099-INT** for U.S. savings bond interest that includes amounts you reported before 2001, see **Pub. 550**.

Line 8b

Tax-Exempt Interest

If you received any tax-exempt interest, such as from municipal bonds, report it on line 8b. Include any exempt-interest dividends from a mutual fund or other regulated investment company. **Do not** include interest earned on your IRA or Coverdell education savings account.

Line 9

Ordinary Dividends

Each payer should send you a **Form 1099-DIV**. Enter your total ordinary dividends on line 9. But you must fill in and attach **Schedule B** if the total is over \$400 or you received, as a nominee, ordinary dividends that actually belong to someone else.

Capital Gain Distributions

If you received any capital gain distributions, see the instructions for line 13 on page 23.

(Continued on page 22)

Nontaxable Distributions

Some distributions are nontaxable because they are a return of your cost (or other basis). They will not be taxed until you recover your cost (or other basis). You must reduce your cost (or other basis) by these distributions. After you get back all of your cost (or other basis), you must report these distributions as capital gains on **Schedule D**. For details, see **Pub. 550**.

TIP Dividends on insurance policies are a partial return of the premiums you paid. **Do not** report them as dividends. Include them in income only if they exceed the total of all net premiums you paid for the contract.

If you received a refund, credit, or offset of state or local income taxes in 2001, you may receive a **Form 1099-G**. If you chose to apply part or all of the refund to your 2001 estimated state or local income tax, the amount applied is treated as received in 2001. If the refund was for a tax you paid in 2000 and you itemized deductions for 2000, use the worksheet below to see if any of your refund is taxable.

Exception. See **Recoveries** in **Pub. 525** instead of using the worksheet below if **any** of the following apply.

- You received a refund in 2001 that is for a tax year other than 2000.
- You received a refund other than an income tax refund, such as a real property tax refund, in 2001 of an amount deducted or credit claimed in an earlier year.
 - Your 2000 taxable income was less than zero.
 - You made your last payment of 2000 estimated state or local income tax in 2001.
 - You owed alternative minimum tax in 2000.

- You could not deduct the full amount of credits you were entitled to in 2000 because the total credits exceeded the amount shown on your 2000 Form 1040, line 42, minus any foreign tax credit shown on line 43 of that form.

- You could be claimed as a dependent by someone else in 2000.

Also, see **Tax Benefit Rule** in **Pub. 525** instead of using the worksheet below if **all three** of the following apply.

1. You had to use the Itemized Deductions Worksheet in the 2000 Schedule A instructions because your 2000 adjusted gross income was over: \$128,950 if single, married filing jointly, head of household, or qualifying widow(er); \$64,475 if married filing separately.

(Continued on page 23)

Line 10

Taxable Refunds, Credits, or Offsets of State and Local Income Taxes

TIP None of your refund is taxable if, in the year you paid the tax, you **did not** itemize deductions.

State and Local Income Tax Refund Worksheet—Line 10

Keep for Your Records



<p>1. Enter the income tax refund from Form(s) 1099-G (or similar statement). But do not enter more than the amount on your 2000 Schedule A (Form 1040), line 5</p> <p>2. Enter your total allowable itemized deductions from your 2000 Schedule A (Form 1040), line 28</p> <p>Note. If the filing status on your 2000 Form 1040 was married filing separately and your spouse itemized deductions in 2000, skip lines 3, 4, and 5, and enter the amount from line 2 on line 6.</p> <p>3. Enter the amount shown below for the filing status claimed on your 2000 Form 1040.</p> <table style="border: none;"> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> • Single—\$4,400 • Married filing jointly or qualifying widow(er)—\$7,350 • Married filing separately—\$3,675 • Head of household—\$6,450 </td> <td style="font-size: 3em; vertical-align: middle; padding: 0 10px;">}</td> <td style="vertical-align: middle;">. . . 3. _____</td> </tr> </table> <p>4. Did you fill in line 35a on your 2000 Form 1040?</p> <table style="border: none;"> <tr> <td style="vertical-align: top;"> <input type="checkbox"/> No. Enter -0-. <input type="checkbox"/> Yes. Multiply the number on line 35a of your 2000 Form 1040 by: \$850 if your 2000 filing status was married filing jointly or separately or qualifying widow(er); \$1,100 if your 2000 filing status was single or head of household </td> <td style="font-size: 3em; vertical-align: middle; padding: 0 10px;">}</td> <td style="vertical-align: middle;">. . . 4. _____</td> </tr> </table> <p>5. Add lines 3 and 4</p> <p>6. Is the amount on line 5 less than the amount on line 2?</p> <table style="border: none;"> <tr> <td style="vertical-align: top;"> <input type="checkbox"/> No. None of your refund is taxable. <input type="checkbox"/> Yes. Subtract line 5 from line 2 </td> <td style="vertical-align: middle;">. 6. _____</td> </tr> </table> <p>7. Taxable part of your refund. Enter the smaller of line 1 or line 6 here and on Form 1040, line 10</p>	<ul style="list-style-type: none"> • Single—\$4,400 • Married filing jointly or qualifying widow(er)—\$7,350 • Married filing separately—\$3,675 • Head of household—\$6,450 	}	. . . 3. _____	<input type="checkbox"/> No. Enter -0-. <input type="checkbox"/> Yes. Multiply the number on line 35a of your 2000 Form 1040 by: \$850 if your 2000 filing status was married filing jointly or separately or qualifying widow(er); \$1,100 if your 2000 filing status was single or head of household	}	. . . 4. _____	<input type="checkbox"/> No. None of your refund is taxable. <input type="checkbox"/> Yes. Subtract line 5 from line 2 6. _____	<p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p> <p>5. _____</p> <p>6. _____</p> <p>7. _____</p>
<ul style="list-style-type: none"> • Single—\$4,400 • Married filing jointly or qualifying widow(er)—\$7,350 • Married filing separately—\$3,675 • Head of household—\$6,450 	}	. . . 3. _____							
<input type="checkbox"/> No. Enter -0-. <input type="checkbox"/> Yes. Multiply the number on line 35a of your 2000 Form 1040 by: \$850 if your 2000 filing status was married filing jointly or separately or qualifying widow(er); \$1,100 if your 2000 filing status was single or head of household	}	. . . 4. _____							
<input type="checkbox"/> No. None of your refund is taxable. <input type="checkbox"/> Yes. Subtract line 5 from line 2 6. _____								

2. You could not deduct all of the amount on line 1 of the 2000 Itemized Deductions Worksheet.

3. The amount on line 8 of that 2000 worksheet would be more than the amount on line 4 of that worksheet if the amount on line 4 were reduced by 80% of the refund you received in 2001.

Line 11

Alimony Received

Enter amounts received as alimony or separate maintenance. You must let the person who made the payments know your social security number. If you do not, you may have to pay a \$50 penalty. For more details, use TeleTax topic 406 (see page 11) or see **Pub. 504**.

Line 12

Business Income or (Loss)

If you operated a business or practiced your profession as a sole proprietor, report your income and expenses on **Schedule C** or **C-EZ**.

Line 13

Capital Gain or (Loss)

If you had a capital gain or loss, including any **capital gain distributions** from a mutual fund, you **must** complete and attach **Schedule D**.

Exception. You do not have to file Schedule D if **all three** of the following apply.

1. The only amounts you have to report on Schedule D are capital gain distributions from box 2a of **Forms 1099-DIV** or substitute statements.

2. None of the Forms 1099-DIV or substitute statements have an amount in box 2b (28% rate gain), box 2c (qualified 5-year gain), box 2d (unrecaptured section 1250 gain), or box 2e (section 1202 gain).

3. You are not filing **Form 4952** (relating to investment interest expense deduction) or the amount on line 4e of that form is zero or blank.

If all three of the above apply, enter your capital gain distributions on line 13 and check the box on that line. Also, be sure you use the **Capital Gain Tax Worksheet** on page 34 to figure your tax.

Line 14

Other Gains or (Losses)

If you sold or exchanged assets used in a trade or business, see the Instructions for **Form 4797**.

Lines 15a and 15b

IRA Distributions

Note. If you converted part or all of an individual retirement arrangement (IRA) to a Roth IRA in 1998 and you chose to report the taxable amount over 4 years, see **1998 Roth IRA Conversions** on this page.

You should receive a **Form 1099-R** showing the amount of any distribution from your IRA or Coverdell education savings account (ESA). Unless otherwise noted in the line 15a and 15b instructions, an IRA includes a traditional IRA, Roth IRA, simplified employee pension (SEP) IRA, and a savings incentive match plan for employees (SIMPLE) IRA. Except as provided below, leave line 15a blank and enter the total distribution on line 15b.

Exception 1. Enter the total distribution on line 15a if you rolled over part or all of the distribution from one:

- IRA to another IRA of the same type (for example, from one traditional IRA to another traditional IRA),
- Coverdell ESA to another, or
- SEP or SIMPLE IRA to a traditional IRA.

Also, put "Rollover" next to line 15b. If the total distribution was rolled over, enter zero on line 15b. If the total was not rolled over, enter the part not rolled over on line 15b unless **Exception 2** applies to the part not rolled over.

If you rolled over the distribution (a) in 2002 or (b) from a conduit IRA into a qualified plan, attach a statement explaining what you did.

Exception 2. If **any** of the following apply, enter the total distribution on line 15a and use **Form 8606** and its instructions to figure the amount to enter on line 15b.

- You received a distribution from an IRA (other than a Roth IRA) and you made nondeductible contributions to any of your traditional or SEP IRAs for 2001 or an earlier year. If you made nondeductible contributions to these IRAs for 2001, also see **Pub. 590**.

- You received a distribution from a Roth IRA or Coverdell ESA.

- You converted part or all of a traditional, SEP, or SIMPLE IRA to a Roth IRA in 2001.

- You had a 2000 or 2001 IRA or Coverdell ESA contribution returned to you, with the related earnings or less any loss, by the due date (including extensions) of your tax return for that year.

- You made excess contributions to your IRA for an earlier year and had them returned to you in 2001.

- You recharacterized part or all of a contribution to a Roth IRA as a traditional IRA contribution, or vice versa.

Note. If you received more than one distribution, figure the taxable amount of each distribution and enter the total of the taxable amounts on line 15b. Enter the total amount of those distributions on line 15a.



You may have to pay an additional tax if (a) you received an early distribution from your IRA and the total was not rolled over or (b) you were born before July 1, 1930, and received less than the minimum required distribution from your traditional, SEP, and SIMPLE IRAs. See the instructions for line 55 on page 39 for details.

1998 Roth IRA Conversions. If you converted an IRA to a Roth IRA in 1998 and you chose to report the taxable amount over 4 years, leave line 15a blank and enter on line 15b the amount from your **1998 Form 8606**, line 17. **But** see the 2001 Instructions for Form 8606 for the amount to enter on line 15b if (a) you rounded the amount on line 17 of your 1998 Form 8606 to the next higher whole dollar or (b) you received a distribution from a Roth IRA in 1998, 1999, or 2000.

Lines 16a and 16b

Pensions and Annuities

You should receive a **Form 1099-R** showing the amount of your pension and annuity payments. See page 25 for details on rollovers and lump-sum distributions. **Do not** include the following payments on lines 16a and 16b. Instead, report them on line 7.

- Disability pensions received before you reach the minimum retirement age set by your employer.
- Corrective distributions of excess salary deferrals or excess contributions to retirement plans.

(Continued on page 24)



Attach Form(s) 1099-R to Form 1040 if any Federal income tax was withheld.

Fully Taxable Pensions and Annuities

If your pension or annuity is fully taxable, enter it on line 16b; **do not** make an entry on line 16a. Your payments are fully taxable if **either** of the following applies.

- You did not contribute to the cost (see page 25) of your pension or annuity **or**

- You got your entire cost back tax free before 2001.

Fully taxable pensions and annuities also include military retirement pay shown on Form 1099-R. For details on military disability pensions, see **Pub. 525**. If you received a **Form RRB-1099-R**, see **Pub. 575** to find out how to report your benefits.

Partially Taxable Pensions and Annuities

Enter the total pension or annuity payments you received in 2001 on line 16a. If your

Form 1099-R does not show the taxable amount, you must use the General Rule explained in **Pub. 939** to figure the taxable part to enter on line 16b. But if your annuity starting date (defined on page 25) was **after** July 1, 1986, see page 25 to find out if you must use the Simplified Method to figure the taxable part.

You can ask the IRS to figure the taxable part for you for an \$85 fee. For details, see **Pub. 939**.

(Continued on page 25)

Simplified Method Worksheet—Lines 16a and 16b

Keep for Your Records

Before you begin: ✓ If you are the beneficiary of a deceased employee or former employee who died **before** August 21, 1996, see **Pub. 939** to find out if you are entitled to a death benefit exclusion of up to \$5,000. If you are, include the exclusion in the amount entered on line 2 below.



Note. If you had more than one partially taxable pension or annuity, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 16b. Enter the total pension or annuity payments received in 2001 on Form 1040, line 16a.

1. Enter the total pension or annuity payments received in 2001. Also, enter this amount on Form 1040, line 16a **1.** _____
2. Enter your cost in the plan at the annuity starting date **2.** _____
3. Enter the appropriate number from **Table 1** below. **But** if your annuity starting date was **after 1997 and** the payments are for your life and that of your beneficiary, enter the appropriate number from **Table 2** below **3.** _____
4. Divide line 2 by the number on line 3 **4.** _____
5. Multiply line 4 by the number of months for which this year's payments were made. If your annuity starting date was **before 1987**, skip lines 6 and 7 and enter this amount on line 8. Otherwise, go to line 6 **5.** _____
6. Enter the amount, if any, recovered tax free in years after 1986 **6.** _____
7. Subtract line 6 from line 2 **7.** _____
8. Enter the **smaller** of line 5 or line 7. **8.** _____
9. **Taxable amount.** Subtract line 8 from line 1. Enter the result, but not less than zero. Also, enter this amount on Form 1040, line 16b. If your Form 1099-R shows a larger amount, use the amount on this line instead of the amount from Form 1099-R **9.** _____

Table 1 for Line 3 Above

AND your annuity starting date was—

IF the age at annuity starting date (see page 25) was . . .	before November 19, 1996, enter on line 3 . . .	after November 18, 1996, enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

Table 2 for Line 3 Above

IF the combined ages at annuity starting date (see page 25) were . . .	THEN enter on line 3 . . .
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

If your Form 1099-R shows a taxable amount, you may report that amount on line 16b. But you may be able to report a lower taxable amount by using the General Rule or the Simplified Method.

Annuity Starting Date

Your annuity starting date is the later of the first day of the first period for which you received a payment, or the date the plan's obligations became fixed.

Simplified Method

You **must** use the Simplified Method if (a) your annuity starting date (defined above) was **after** July 1, 1986, and you used this method last year to figure the taxable part or (b) your annuity starting date was **after** November 18, 1996, and **all three** of the following apply.

1. The payments are for (a) your life or (b) your life and that of your beneficiary.
2. The payments are from a qualified employee plan, a qualified employee annuity, or a tax-sheltered annuity.
3. On your annuity starting date, either you were under age 75 or the number of years of guaranteed payments was fewer than 5. See Pub. 575 for the definition of guaranteed payments.

If you must use the Simplified Method, complete the worksheet on page 24 to figure the taxable part of your pension or annuity. For more details on the Simplified Method, see Pub. 575 or **Pub. 721** for U.S. Civil Service retirement.



If you received U.S. Civil Service retirement benefits and you chose the alternative annuity option, use the worksheet in Pub. 721. **Do not** use the worksheet on page 24.

Age (or Combined Ages) at Annuity Starting Date

If you are the retiree, use your age on the annuity starting date. If you are the survivor of a retiree, use the retiree's age on his or her annuity starting date. **But** if your annuity starting date was after 1997 and the payments are for your life and that of your beneficiary, use your combined ages on the annuity starting date.

If you are the beneficiary of an employee who died, see Pub. 575. If there is more than one beneficiary, see Pub. 575 or Pub. 721 to figure each beneficiary's taxable amount.

Cost

Your cost is generally your net investment in the plan as of the annuity starting date. It does not include pre-tax contributions.

Your net investment should be shown in box 9b of Form 1099-R for the first year you received payments from the plan.

Rollovers

A rollover is a tax-free distribution of cash or other assets from one retirement plan that is contributed to another plan. Use lines 16a and 16b to report a rollover, including a direct rollover, from one qualified employer's plan to another or to an IRA or SEP.

Enter on line 16a the total distribution before income tax or other deductions were withheld. This amount should be shown in box 1 of **Form 1099-R**. From the total on line 16a, subtract any contributions (usually shown in box 5) that were taxable to you when made. From that result, subtract the amount that was rolled over either directly or within 60 days of receiving the distribution. Enter the remaining amount, even if zero, on line 16b. Also, put "Rollover" next to line 16b.

Special rules apply to partial rollovers of property. For more details on rollovers, including distributions under qualified domestic relations orders, see Pub. 575.

Lump-Sum Distributions

If you received a lump-sum distribution from a profit-sharing or retirement plan, your Form 1099-R should have the "Total distribution" box in box 2b checked. You may owe an additional tax if you received an early distribution from a qualified retirement plan and the total amount was not rolled over. For details, see the instructions for line 55 on page 39.

Enter the total distribution on line 16a and the taxable part on line 16b.



You may be able to pay less tax on the distribution if you were born before 1936, you meet certain other conditions, and you choose to use **Form 4972** to figure the tax on any part of the distribution. You may also be able to use Form 4972 if you are the beneficiary of a deceased employee who was born before 1936. For details, see Form 4972.

Line 19

Unemployment Compensation

You should receive a **Form 1099-G** showing the total unemployment compensation paid to you in 2001.

If you received an overpayment of unemployment compensation in 2001 and you

repaid any of it in 2001, subtract the amount you repaid from the total amount you received. Enter the result on line 19. Also, enter "Repaid" and the amount you repaid on the dotted line next to line 19. If, in 2001, you repaid unemployment compensation that you included in gross income in an earlier year, you may deduct the amount repaid on **Schedule A**, line 22. But if you repaid more than \$3,000, see **Repayments** in **Pub. 525** for details on how to report the repayment.

Lines 20a and 20b

Social Security Benefits

You should receive a **Form SSA-1099** showing in box 3 the total social security benefits paid to you. Box 4 will show the amount of any benefits you repaid in 2001. If you received railroad retirement benefits treated as social security, you should receive a **Form RRB-1099**.

Use the worksheet on page 26 to see if any of your benefits are taxable.

Exception. Do not use the worksheet on page 26 if **any** of the following apply.

- You made contributions to a traditional IRA for 2001 and you were covered by a retirement plan at work or through self-employment. Instead, use the worksheets in **Pub. 590** to see if any of your social security benefits are taxable and to figure your IRA deduction.
- You repaid any benefits in 2001 and your total repayments (box 4) were more than your total benefits for 2001 (box 3). **None** of your benefits are taxable for 2001. In addition, you may be able to take an itemized deduction for part of the excess repayments if they were for benefits you included in gross income in an earlier year. For more details, see **Pub. 915**.
- You file **Form 2555**, **2555-EZ**, **4563**, or **8815**, or you exclude employer-provided adoption benefits or income from sources within Puerto Rico. Instead, use the worksheet in Pub. 915.

Social Security Benefits Worksheet—Lines 20a and 20b

Keep for Your Records

Before you begin:

- ✓ Complete Form 1040, lines 21, 23, and 25 through 31a, if they apply to you.
- ✓ Figure any amount to be entered on the dotted line next to line 32 (see page 30).
- ✓ If you are married filing separately and you **lived apart** from your spouse for all of 2001, enter “D” to the right of the word “benefits” on line 20a.
- ✓ Be sure you have read the **Exception** on page 25 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.



1. Enter the total amount from **box 5** of **all** your **Forms SSA-1099** and **RRB-1099** **1.** _____
2. Is the amount on line 1 more than zero?
 - No.** None of your social security benefits are taxable.
 - Yes.** Enter one-half of line 1 **2.** _____
3. Add the amounts on Form 1040, lines 7, 8a, 9 through 14, 15b, 16b, 17 through 19, and 21. Do not include amounts from box 5 of Forms SSA-1099 or RRB-1099 **3.** _____
4. Enter the amount, if any, from Form 1040, line 8b **4.** _____
5. Add lines 2, 3, and 4 **5.** _____
6. Add the amounts on Form 1040, lines 23, and 25 through 31a, and any amount you entered on the dotted line next to line 32 **6.** _____
7. Subtract line 6 from line 5. If zero or less, **stop here.** None of your social security benefits are taxable **7.** _____
8. Enter: \$25,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2001; \$32,000 if married filing jointly; -0- if married filing separately and you lived with your spouse at any time in 2001. **8.** _____
9. Is the amount on line 8 less than the amount on line 7?
 - No.** None of your social security benefits are taxable. You do not have to enter any amounts on lines 20a or 20b of Form 1040. **But** if you are married filing separately and you **lived apart** from your spouse for all of 2001, enter -0- on line 20b. Be sure you entered “D” to the right of the word “benefits” on line 20a.
 - Yes.** Subtract line 8 from line 7 **9.** _____
10. Enter: \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2001; \$12,000 if married filing jointly; -0- if married filing separately and you lived with your spouse at any time in 2001. **10.** _____
11. Subtract line 10 from line 9. If zero or less, enter -0- **11.** _____
12. Enter the **smaller** of line 9 or line 10. **12.** _____
13. Enter one-half of line 12 **13.** _____
14. Enter the **smaller** of line 2 or line 13. **14.** _____
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- **15.** _____
16. Add lines 14 and 15. **16.** _____
17. Multiply line 1 by 85% (.85). **17.** _____
18. **Taxable social security benefits.** Enter the **smaller** of line 16 or line 17 **18.** _____
 - Enter the amount from line 1 above on Form 1040, line 20a.
 - Enter the amount from line 18 above on Form 1040, line 20b.



If part of your benefits are taxable for 2001 **and** they include benefits paid in 2001 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

Line 21**Other Income**

Do not report on this line any income from **self-employment** or fees received as a notary public. Instead, you **must** use **Schedule C, C-EZ, or F**, even if you do not have any business expenses. Also, **do not** report on line 21 any nonemployee compensation shown on **Form 1099-MISC**. Instead, see the chart on page 18 to find out where to report that income.

Use line 21 to report any other income not reported on your return or other schedules. See examples below. List the type and amount of income. If necessary, show the required information on an attached statement. For more details, see **Miscellaneous Taxable Income** in **Pub. 525**.



Do not report any nontaxable income on line 21, such as an advance payment of your 2001 taxes; child support; money or property that was inherited, willed to you, or received as a gift; or life insurance proceeds received because of a person's death.

Examples of **income to report** on line 21 are:

- Prizes and awards.
- Gambling winnings, including lotteries, raffles, a lump-sum payment from the sale of a right to receive future lottery payments, etc. For details on gambling losses, see the instructions for **Schedule A**, line 27, on page A-6.
- Jury duty fees. Also, see the instructions for line 32 on page 30.
- Alaska Permanent Fund dividends.
- Qualified state tuition program earnings.
- Reimbursements or other amounts received for items deducted in an earlier year, such as medical expenses, real estate taxes, or home mortgage interest. See **Recoveries** in **Pub. 525** for details on how to figure the amount to report.
- Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property. Also, see the instructions for line 32 on page 30.
- Income from an activity not engaged in for profit. See **Pub. 535**.
- Loss on certain corrective distributions of excess deferrals. See **Pub. 525**.

Adjusted Gross Income**Line 23****IRA Deduction**

If you made any nondeductible contributions to a traditional individual retirement arrangement (IRA) for 2001, you **must** report them on **Form 8606**.

If you made contributions to a traditional IRA for 2001, you may be able to take an IRA deduction. But you, or your spouse if filing a joint return, must have had earned income to do so. For IRA purposes, earned income includes certain alimony received. See **Pub. 590** for details. You should receive a statement by May 31, 2002, that shows all contributions to your traditional IRA for 2001.

Use the worksheet on page 28 to figure the amount, if any, of your IRA deduction. **But read the following list before you fill in the worksheet.**

- If you were age 70½ or older at the end of 2001, you **cannot** deduct any contributions made to your traditional IRA for 2001 or treat them as nondeductible contributions.
- You **cannot** deduct contributions to a Roth IRA or a Coverdell education savings account.



If you made contributions to both a traditional IRA and a Roth IRA for 2001, **do not** use the worksheet on page 28. Instead, use the worksheet in **Pub. 590** to figure the amount, if any, of your IRA deduction.

• You **cannot** deduct contributions to a 401(k) plan, section 457 plan, SIMPLE plan, or the Federal Thrift Savings Plan. These amounts are not included as income in box 1 of your W-2 form.

• If you made contributions to your IRA in 2001 that you deducted for 2000, **do not** include them in the worksheet.

• If you received a distribution from a nonqualified deferred compensation plan or section 457 plan that is included in box 1 of your W-2 form, **do not** include that distribution on line 8 of the worksheet. The distribution should be shown in box 11 of your W-2 form. If it is not, contact your employer for the amount of the distribution.

• You must file a joint return to deduct contributions to your spouse's IRA. Enter the total IRA deduction for you and your spouse on line 23.

• Do not include rollover contributions in figuring your deduction. Instead, see the instructions for lines 15a and 15b on page 23.

• Do not include trustees' fees that were billed separately and paid by you for your IRA. These fees can be deducted only as an itemized deduction on **Schedule A**.

• If the total of your IRA deduction on line 23 plus any nondeductible contribution to your traditional IRAs shown on **Form 8606** is less than your total traditional IRA contributions for 2001, see **Pub. 590** for special rules.



By April 1 of the year after the year in which you turn age 70½, you must start taking minimum required distributions from your traditional IRA. If you do not, you may have to pay a 50% additional tax on the amount that should have been distributed. For details, including how to figure the minimum required distribution, see **Pub. 590**.

Were You Covered by a Retirement Plan?

If you were covered by a retirement plan (qualified pension, profit-sharing (including 401(k)), annuity, SEP, SIMPLE, etc.) at work or through self-employment, your IRA deduction may be reduced or eliminated. But you can still make contributions to an IRA even if you cannot deduct them. In any case, the income earned on your IRA contributions is not taxed until it is paid to you.

The "Retirement plan" box in box 13 of your W-2 form should be checked if you were covered by a plan at work even if you were not vested in the plan. You are also covered by a plan if you were self-employed and had a SEP, SIMPLE, or qualified retirement plan.

If you were covered by a retirement plan and you file **Form 2555, 2555-EZ, or 8815**, or you exclude employer-provided adoption benefits, see **Pub. 590** to figure the amount, if any, of your IRA deduction.

Married Persons Filing Separately. If you were not covered by a retirement plan but your spouse was, **you** are considered covered by a plan unless you **lived apart** from your spouse for all of 2001.

Line 24

Student Loan Interest Deduction

Use the worksheet on page 29 to figure your student loan interest deduction if **all five** of the following apply.

1. You paid interest in 2001 on a qualified student loan (see page 29).

2. At least part of the interest paid in 2001 was paid during the first 60 months that interest payments were required to be made. See **Example** on page 29.

3. Your filing status is any status **except** married filing separately.

4. Your modified adjusted gross income (AGI) is less than: \$55,000 if single, head of household, or qualifying widow(er); \$75,000 if married filing jointly. Use lines

3 through 5 of the worksheet on page 29 to figure your modified AGI.

5. You are not claimed as a dependent on someone's (such as your parent's) 2001 tax return.

Exception. Use **Pub. 970** instead of the worksheet on page 29 to figure your student loan interest deduction if you file **Form 2555, 2555-EZ, or 4563**, or you exclude income from sources within Puerto Rico.

IRA Deduction Worksheet—Line 23

Keep for Your Records

Before you begin:

- ✓ Complete Form 1040, lines 25 through 31a, if they apply to you.
- ✓ Figure any amount to be entered on the dotted line next to line 32 (see page 30).
- ✓ Be sure you have read the list on page 27.



	Your IRA	Spouse's IRA
1a. Were you covered by a retirement plan (see page 27)?	1a. <input type="checkbox"/> Yes <input type="checkbox"/> No	
1b. If married filing jointly, was your spouse covered by a retirement plan?		1b. <input type="checkbox"/> Yes <input type="checkbox"/> No
Next. If you checked "No" on line 1a, and, if married filing jointly, "No" on line 1b, skip lines 2–6, enter \$2,000 on line 7a (and 7b if applicable), and go to line 8. Otherwise, go to line 2.		
2. Enter the amount shown below that applies to you.		
<ul style="list-style-type: none"> • Single, head of household, or married filing separately and you lived apart from your spouse for all of 2001, enter \$43,000 • Qualifying widow(er), enter \$63,000 • Married filing jointly, enter \$63,000 in both columns. But if you checked "No" on either line 1a or 1b, enter \$160,000 for the person who was not covered by a plan • Married filing separately and you lived with your spouse at any time in 2001, enter \$10,000 	} 2a. _____	} 2b. _____
3. Enter the amount from Form 1040, line 22	3. _____	
4. Add amounts on Form 1040, lines 25 through 31a, and any amount you entered on the dotted line next to line 32	4. _____	
5. Subtract line 4 from line 3. Enter the result in both columns	5a. _____	5b. _____
6. Is the amount on line 5 less than the amount on line 2?		
<input type="checkbox"/> No. None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606.		
<input type="checkbox"/> Yes. Subtract line 5 from line 2 in each column. If the result is \$10,000 or more, enter \$2,000 on line 7 for that column	6a. _____	6b. _____
7. Multiply lines 6a and 6b by 20% (.20). If the result is not a multiple of \$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200	7a. _____	7b. _____
8. Enter your wages, and your spouse's if filing jointly, and other earned income from Form 1040, minus any deductions on Form 1040, lines 27 and 29. Do not reduce wages by any loss from self-employment	8. _____	
<div style="border: 1px solid black; padding: 5px; display: inline-block; margin-bottom: 10px;"> </div> If married filing jointly and line 8 is less than \$4,000, stop here and see Pub. 590 to figure your IRA deduction.		
9. Enter traditional IRA contributions made, or that will be made by April 15, 2002, for 2001 to your IRA on line 9a and to your spouse's IRA on line 9b	9a. _____	9b. _____
10. On line 10a, enter the smallest of line 7a, 8, or 9a. On line 10b, enter the smallest of line 7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b and enter the total on Form 1040, line 23. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)	10a. _____	10b. _____

Example. You took out a qualified student loan in 1994 while in college. You had 6 years to repay the loan and your first monthly payment was due July 1996, after you graduated. You made a payment every month as required. If you meet items 3 through 5 listed on page 28, you may use only the interest you paid for January through June 2001 to figure your deduction. June is the end of the 60-month period (July 1996–June 2001).

Qualified Student Loan. This is any loan you took out to pay the qualified higher education expenses for yourself, your spouse, or anyone who was your dependent when the loan was taken out. The person for whom the expenses were paid must have been an eligible student (defined on this page). However, a loan is not a qualified student loan if (a) any of the proceeds were used for other purposes or (b) the loan was from either a related person or a person who borrowed the proceeds under a qualified employer plan or a contract purchased under such a plan. To find out who is a related person, see Pub. 970.

Qualified higher education expenses generally include tuition, fees, room and board, and related expenses such as books and supplies. The expenses must be for ed-

ucation in a degree, certificate, or similar program at an eligible educational institution. An eligible educational institution includes most colleges, universities, and certain vocational schools. You must reduce the expenses by the following nontaxable benefits.

- Employer-provided educational assistance benefits that are not included in box 1 of your W-2 form(s).
- Excludable U.S. series EE and I savings bond interest from **Form 8815**.
- Qualified distributions from a Coverdell education savings account.
- Any scholarship, educational assistance allowance, or other payment (but **not** gifts, inheritances, etc.) excluded from income.

For more details on these expenses, see Pub. 970.

An **eligible student** is a person who:

- Was enrolled in a degree, certificate, or other program (including a program of study abroad that was approved for credit by the institution at which the student was enrolled) leading to a recognized educational credential at an eligible educational institution **and**

- Carried at least half the normal full-time workload for the course of study he or she was pursuing.

Line 25

Archer MSA Deduction

If you made a contribution to an Archer MSA for 2001, you may be able to take this deduction. See **Form 8853**.

Line 26

Moving Expenses

If you moved in connection with your job or business or started a new job, you may be able to take this deduction. But your new workplace must be at least 50 miles farther from your old home than your old home was from your old workplace. If you had no former workplace, your new workplace must be at least 50 miles from your old home. Use TeleTax topic 455 (see page 11) or see **Form 3903**.

Student Loan Interest Deduction Worksheet—Line 24

Keep for Your Records

Before you begin:

- ✓ Complete Form 1040, lines 25 through 31a, if they apply to you.
- ✓ Figure any amount to be entered on the dotted line next to line 32 (see page 30).
- ✓ See the instructions for line 24 that begin on page 28.
- ✓ Be sure you have read the **Exception** on page 28 to see if you can use this worksheet instead of Pub. 970 to figure your deduction.



1. Enter the total interest you paid in 2001 on qualified student loans (defined above). Do not include interest that was required to be paid after the first 60 months		1. _____
2. Enter the smaller of line 1 or \$2,500		2. _____
3. Enter the amount from Form 1040, line 22	3.	_____
4. Enter the total of the amounts from Form 1040, line 23, lines 25 through 31a, plus any amount you entered on the dotted line next to line 32	4.	_____
5. Subtract line 4 from line 3	5.	_____
6. Enter the amount shown below for your filing status.		
<ul style="list-style-type: none"> • Single, head of household, or qualifying widow(er)—\$40,000 • Married filing jointly—\$60,000 	}	6. _____
7. Is the amount on line 5 more than the amount on line 6?		
<input type="checkbox"/> No. Skip lines 7 and 8, enter -0- on line 9, and go to line 10.		
<input type="checkbox"/> Yes. Subtract line 6 from line 5	7.	_____
8. Divide line 7 by \$15,000. Enter the result as a decimal (rounded to at least three places). Do not enter more than “1.000”		8. . _____
9. Multiply line 2 by line 8		9. _____
10. Student loan interest deduction. Subtract line 9 from line 2. Enter the result here and on Form 1040, line 24. Do not include this amount in figuring any other deduction on your return (such as on Schedule A, C, E, etc.)		10. _____

Line 27

One-Half of Self-Employment Tax

If you were self-employed and owe self-employment tax, fill in **Schedule SE** to figure the amount of your deduction.

Line 28

Self-Employed Health Insurance Deduction

You may be able to deduct part of the amount paid for health insurance for yourself, your spouse, and dependents if **either** of the following applies.

- You were self-employed and had a net profit for the year.
- You received wages in 2001 from an S corporation in which you were a more-than-2% shareholder. Health insurance benefits paid for you may be shown in box 14 of your W-2 form.

The insurance plan must be established under your business. But if you were also eligible to participate in any subsidized health plan maintained by your or your spouse's employer for any month or part of a month in 2001, amounts paid for health insurance coverage for that month cannot be used to figure the deduction. For example, if you were eligible to participate in a subsidized health plan maintained by your spouse's employer from September 30 through December 31, you cannot use amounts paid for health insurance coverage for September through December to figure your deduction. For more details, see **Pub. 535**.

If you qualify to take the deduction, use the worksheet below to figure the amount you can deduct.

Exception. Use Pub. 535 instead of the worksheet below to find out how to figure your deduction if **any** of the following apply.

- You had more than one source of income subject to self-employment tax.
- You file **Form 2555** or **2555-EZ**.
- You are using amounts paid for qualified long-term care insurance to figure the deduction.

Line 29

Self-Employed SEP, SIMPLE, and Qualified Plans

If you were self-employed or a partner, you may be able to take this deduction. See **Pub. 560** or, if you were a minister, **Pub. 517**.

Line 30

Penalty on Early Withdrawal of Savings

The **Form 1099-INT** or **Form 1099-OID** you received will show the amount of any penalty you were charged.

Lines 31a and 31b

Alimony Paid

If you made payments to or for your spouse or former spouse under a divorce or separation instrument, you may be able to take this deduction. Use TeleTax topic 452 (see page 11) or see **Pub. 504**.

If you made payments to or for your spouse or former spouse under a divorce or separation instrument, you may be able to take this deduction. Use TeleTax topic 452 (see page 11) or see **Pub. 504**.

Line 32

Include in the total on line 32 any of the following adjustments. To find out if you can take the deduction, see the form or publication indicated. On the dotted line next to line 32, enter the amount of your deduction and identify it as indicated.

- Performing-arts-related expenses (see **Form 2106** or **2106-EZ**). Identify as "QPA."
- Jury duty pay given to your employer (see **Pub. 525**). Identify as "Jury Pay."
- Deductible expenses related to income reported on line 21 from the rental of personal property engaged in for profit. Identify as "PPR."
- Reforestation amortization (see **Pub. 535**). Identify as "RFST."
- Repayment of supplemental unemployment benefits under the Trade Act of 1974 (see **Pub. 525**). Identify as "Sub-Pay TRA."
- Contributions to section 501(c)(18) pension plans (see **Pub. 525**). Identify as "501(c)(18)."
- Contributions by certain chaplains to section 403(b) plans (see **Pub. 517**). Identify as "403(b)."
- Deduction for clean-fuel vehicles (see **Pub. 535**). Identify as "Clean-Fuel."
- Employee business expenses of fee-basis state or local government officials (see **Form 2106** or **2106-EZ**). Identify as "FBO."

Self-Employed Health Insurance Deduction Worksheet—Line 28

Keep for Your Records

- Before you begin:**
- ✓ Complete Form 1040, line 29, if it applies to you.
 - ✓ Be sure you have read the **Exception** above to see if you can use this worksheet instead of Pub. 535 to figure your deduction.



1. Enter the total amount paid in 2001 for health insurance coverage established under your business for 2001 for you, your spouse, and dependents. But do not include amounts for any month you were eligible to participate in an employer-sponsored health plan **1.** _____
2. Multiply line 1 by 60% (.60) **2.** _____
3. Enter your net profit and any other earned income* from the business under which the insurance plan is established, minus any deductions you claim on Form 1040, lines 27 and 29 **3.** _____
4. **Self-employed health insurance deduction.** Enter the **smaller** of line 2 or line 3 here and on Form 1040, line 28. **Do not** include this amount in figuring any medical expense deduction on Schedule A (Form 1040) **4.** _____

* **Earned income** includes net earnings and gains from the sale, transfer, or licensing of property you created. It does not include capital gain income. If you were a more-than-2% shareholder in the S corporation under which the insurance plan is established, earned income is your wages from that corporation.

Line 33

If line 33 is less than zero, you may have a net operating loss that you can carry to another tax year. See **Pub. 536**.

Tax and Credits

Line 35a

If you were age 65 or older or blind, check the appropriate box(es) on line 35a. If you were married and checked the box on line 6b of Form 1040 and your spouse was age 65 or older or blind, also check the appropriate box(es) for your spouse. Be sure to enter the total number of boxes checked.

Age

If you were age 65 or older on January 1, 2002, check the “65 or older” box on your 2001 return.

Blindness

If you were partially blind as of December 31, 2001, you must get a statement certified by your eye doctor or registered optometrist that:

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

- Your field of vision is 20 degrees or less.

If your eye condition is not likely to improve beyond the conditions listed above, you can get a statement certified by your eye doctor or registered optometrist to this effect instead.

You must keep the statement for your records.

Line 35b

If your spouse itemizes deductions on a separate return or if you were a dual-status alien, check the box on line 35b. But if you were a dual-status alien and you file a joint return with your spouse who was a U.S. citizen or resident at the end of 2001 and you and your spouse agree to be taxed on your combined worldwide income, **do not** check the box.

Line 36

Itemized Deductions or Standard Deduction

In most cases, your Federal income tax will be less if you take the **larger** of:

- Your itemized deductions or
- Your standard deduction.



If you checked the box on **line 35b**, your standard deduction is zero.

Itemized Deductions

To figure your itemized deductions, fill in **Schedule A**.

Standard Deduction

Most people can find their standard deduction by looking at the amounts listed under “All others” to the left of line 36 of Form 1040. But if you checked **any** box on **line 35a**, or you (or your spouse if filing jointly) can be claimed as a dependent on someone’s 2001 return, use the worksheet below or the chart on page 32, whichever applies, to figure your standard deduction. Also, if you checked the box on **line 35b**, your standard deduction is zero, even if you were age 65 or older or blind.

Electing To Itemize for State Tax or Other Purposes

If you itemize even though your itemized deductions are less than your standard deduction, enter “IE” on the dotted line next to line 36.

Standard Deduction Worksheet for Dependents—Line 36

Keep for Your Records

Use this worksheet only if someone can claim you, or your spouse if filing jointly, as a dependent.		
1.	Add \$250 to your earned income* . Enter the total	1. _____
2.	Minimum standard deduction	2. <u>750.00</u>
3.	Enter the larger of line 1 or line 2	3. _____
4.	Enter the amount shown below for your filing status.	4. _____
	<ul style="list-style-type: none"> • Single—\$4,550 • Married filing separately—\$3,800 • Married filing jointly or qualifying widow(er)—\$7,600 • Head of household—\$6,650 	
5.	Standard deduction.	
a.	Enter the smaller of line 3 or line 4. If under 65 and not blind, stop here and enter this amount on Form 1040, line 36. Otherwise , go to line 5b	5a. _____
b.	If 65 or older or blind, multiply the number on Form 1040, line 35a, by: \$1,100 if single or head of household; \$900 if married filing jointly or separately, or qualifying widow(er)	5b. _____
c.	Add lines 5a and 5b. Enter the total here and on Form 1040, line 36	5c. _____
* Earned income includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income. Generally, your earned income is the total of the amount(s) you reported on Form 1040, lines 7, 12, and 18, minus the amount, if any, on line 27.		

Standard Deduction Chart for People Age 65 or Older or Blind—Line 36

Do not use this chart if someone can claim you, or your spouse if filing jointly, as a dependent. Instead use the worksheet on page 31.

Enter the number from the box on line 35a of Form 1040



Do not use the number of exemptions from line 6d.

IF your filing status is . . .	AND the number in the box above is . . .	THEN your standard deduction is . . .
Single	1	\$5,650
	2	6,750
Married filing jointly or Qualifying widow(er)	1	\$8,500
	2	9,400
	3	10,300
	4	11,200
Married filing separately	1	\$4,700
	2	5,600
	3	6,500
	4	7,400
Head of household	1	\$7,750
	2	8,850

Deduction for Exemptions Worksheet—Line 38

Keep for Your Records



- Is the amount on Form 1040, line 34, more than the amount shown on line 4 below for your filing status?
 - No.** Multiply \$2,900 by the total number of exemptions claimed on Form 1040, line 6d, and enter the result on line 38.
 - Yes.** *Continue*
 - Multiply \$2,900 by the total number of exemptions claimed on Form 1040, line 6d **2.** _____
 - Enter the amount from Form 1040, line 34 **3.** _____
 - Enter the amount shown below for your filing status.
 - Single—\$132,950
 - Married filing jointly or qualifying widow(er)—\$199,450
 - Married filing separately—\$99,725
 - Head of household—\$166,200
 } . . . **4.** _____
 - Subtract line 4 from line 3 **5.** _____
- Note.** If line 5 is more than: \$122,500 if single, married filing jointly, head of household, or qualifying widow(er); \$61,250 if married filing separately, **stop here.** You **cannot** take a deduction for exemptions.
- Divide line 5 by: \$2,500 if single, married filing jointly, head of household, or qualifying widow(er); \$1,250 if married filing separately. If the result is not a whole number, increase it to the next higher whole number (for example, increase 0.0004 to 1) **6.** _____
 - Multiply line 6 by 2% (.02) and enter the result as a decimal **7.** _____
 - Multiply line 2 by line 7 **8.** _____
 - Deduction for exemptions.** Subtract line 8 from line 2. Enter the result here and on Form 1040, line 38 **9.** _____

Line 40

Tax

Do you want the IRS to figure your tax for you?

Yes. See **Pub. 967** for details, including who is eligible and what to do. If you have paid too much, we will send you a refund. If you did not pay enough, we will send you a bill.

No. Use one of the following methods to figure your tax. Also include in the total on line 40 any of the following taxes.

- Tax from **Forms 8814** and **4972**. Be sure to check the appropriate box(es).

- Tax from recapture of an education credit. You may owe this tax if (a) you claimed an education credit in an earlier year and (b) you, your spouse if filing jointly, or your dependent received in 2001 either tax-free educational assistance or a refund of qualified expenses. See **Form 8863** for more details. If you owe this tax, enter the amount and "ECR" on the dotted line next to line 40.

Tax Table or Tax Rate Schedules. If your taxable income is less than \$100,000, you **must** use the Tax Table, which starts on page 59, to figure your tax. Be sure you use the correct column. If your taxable income is \$100,000 or more, use the Tax Rate Schedules on page 71.

Exception. Do not use the Tax Table or Tax Rate Schedules to figure your tax if **either 1 or 2** below applies.

1. You are required to figure your tax using the **Tax Computation Worksheet for Certain Dependents** below, **Form 8615, Schedule D**, or the **Capital Gain Tax Worksheet** on page 34.

2. You use **Schedule J** (for farm income) to figure your tax.

Tax Computation Worksheet for Certain Dependents. If you, or your spouse if filing jointly, can be claimed as a dependent on someone's 2001 return, you must use the worksheet below to figure your tax unless you received (before offset) an advance payment of your 2001 taxes. If any of the other methods listed in item **1** or **2** above apply to you, follow the **Special Rules** on the

worksheet to figure your tax. Your tax may be less if this worksheet applies.

Form 8615. Form 8615 must generally be used to figure the tax for any child who was under age 14 on January 1, 2002, and who had more than \$1,500 of investment income, such as taxable interest, ordinary dividends, or capital gains (including capital gain distributions). But if neither of the child's parents was alive on December 31, 2001, do not use Form 8615 to figure the child's tax.

Schedule D. If you had a net capital gain on Schedule D (both lines 16 and 17 of Schedule D are gains) and the amount on Form 1040, line 39, is more than zero, use Part IV of Schedule D to figure your tax.

Capital Gain Tax Worksheet. If you received capital gain distributions but you are not required to file Schedule D, use the worksheet on page 34 to figure your tax.

Schedule J. If you had income from farming, your tax may be less if you choose to figure it using income averaging on Schedule J.

Tax Computation Worksheet for Certain Dependents—Line 40

Keep for Your Records

Before you begin:

- ✓ Be sure you can use this worksheet (see **Tax Computation Worksheet for Certain Dependents** above).
- ✓ **Do not** use this worksheet if you, or your spouse if filing jointly, received (before offset) an advance payment of your 2001 taxes.
- ✓ Be sure you read the **Special Rules** below.



1. Figure the tax on the amount on Form 1040, line 39 (or the applicable line of the worksheet, schedule, or form listed below). Use the Tax Table or Tax Rate Schedules, whichever applies **1.** _____
2. Is the amount on line 1 more than the amount shown below for your filing status?
 - Single or married filing separately—\$900
 - Married filing jointly or qualifying widow(er)—\$1,800
 - Head of household—\$1,500

Yes. Enter: \$300 if single or married filing separately; \$500 if head of household; \$600 if married filing jointly or qualifying widow(er). } **2.** _____

No. Divide the amount on line 1 by 3.0.
3. Subtract line 2 from line 1. Enter the result here and on Form 1040, line 40 (or the applicable line of the worksheet, schedule, or form listed below) **3.** _____

Special Rules. If you use:

- The **Capital Gain Tax Worksheet** on page 34, use the worksheet above to figure the tax on lines 4 and 14 of the Capital Gain Tax Worksheet.
- **Schedule D, Part IV**, use the worksheet above to figure the tax on lines 25 and 39 of Part IV. If you use the **Schedule D Tax Worksheet** on page D-9, use the worksheet above to figure the tax on lines 15 and 36 of the Schedule D Tax Worksheet.
- **Schedule J**, use the worksheet above to figure the tax on line 4 of Schedule J.
- **Form 8615**, use the worksheet above to figure the tax on lines 15 and 17 of Form 8615 (and line 9 if the parent used this worksheet).
- **Other forms or worksheets** that require you to figure the tax using the 2001 Tax Table or Tax Rate Schedules, use the worksheet above to figure the tax on any line that would otherwise be figured using the 2001 Tax Table or Tax Rate Schedules.

Line 41

Alternative Minimum Tax

Use the worksheet on page 35 to see if you should fill in **Form 6251**.

Exception. Fill in Form 6251 instead of using the worksheet on page 35 if you claimed or received **any** of the following items.

1. Accelerated depreciation.
2. Stock by exercising an incentive stock option and you did not dispose of the stock in the same year.
3. Tax-exempt interest from private activity bonds.
4. Intangible drilling, circulation, research, experimental, or mining costs.
5. Amortization of pollution-control facilities or depletion.
6. Income or (loss) from tax-shelter farm activities or passive activities.
7. Percentage-of-completion income from long-term contracts.

8. Interest paid on a home mortgage **not** used to buy, build, or substantially improve your home.

9. Investment interest expense reported on **Form 4952**.

10. Net operating loss deduction.

11. Alternative minimum tax adjustments from an estate, trust, electing large partnership, or cooperative.

12. Section 1202 exclusion.



Form 6251 should be filled in for a child under age 14 if the child's adjusted gross income from Form 1040, line 34, exceeds the child's earned income by more than \$5,350.

Exception. You do not have to file Form 1116 to take this credit if **all five** of the following apply.

1. All of your gross foreign-source income is from interest and dividends and all of that income and the foreign tax paid on it is reported to you on **Form 1099-INT** or **Form 1099-DIV** (or substitute statement).

2. If you have dividend income from shares of stock, you held those shares for at least 16 days.

3. You are not filing **Form 4563** or excluding income from sources within Puerto Rico.

4. The total of your foreign taxes is not more than \$300 (not more than \$600 if married filing jointly).

5. All of your foreign taxes were:

- Legally owed and not eligible for a refund and
- Paid to countries that are recognized by the United States and do not support terrorism.

(Continued on page 35)

Line 43

Foreign Tax Credit

If you paid income tax to a foreign country, you may be able to take this credit. Generally, you must complete and attach **Form 1116** to do so.

Capital Gain Tax Worksheet—Line 40

Keep for Your Records

- Before you begin:**
- ✓ Be sure you do not have to file Schedule D (see the instructions for Form 1040, line 13, on page 23).
 - ✓ Be sure you checked the box on line 13 of Form 1040.



1. Enter the amount from Form 1040, line 39	1. _____	
2. Enter the amount from Form 1040, line 13	2. _____	
3. Subtract line 2 from line 1. If zero or less, enter -0-	3. _____	
4. Figure the tax on the amount on line 3. Use the Tax Table or Tax Rate Schedules, whichever applies	4. _____	
5. Enter the smaller of:		
• The amount on line 1 or		
• \$27,050 if single; \$45,200 if married filing jointly or qualifying widow(er); \$22,600 if married filing separately; or \$36,250 if head of household.	5. _____	
6. Is the amount on line 3 equal to or more than the amount on line 5?		
<input type="checkbox"/> Yes. Leave lines 6 through 8 blank; go to line 9 and check the "No" box.		
<input type="checkbox"/> No. Enter the amount from line 3	6. _____	
7. Subtract line 6 from line 5	7. _____	
8. Multiply line 7 by 10% (.10)	8. _____	
9. Are the amounts on lines 2 and 7 the same?		
<input type="checkbox"/> Yes. Leave lines 9 through 12 blank; go to line 13.		
<input type="checkbox"/> No. Enter the smaller of line 1 or line 2	9. _____	
10. Enter the amount, if any, from line 7	10. _____	
11. Subtract line 10 from line 9. If zero or less, enter -0-	11. _____	
12. Multiply line 11 by 20% (.20)	12. _____	
13. Add lines 4, 8, and 12	13. _____	
14. Figure the tax on the amount on line 1. Use the Tax Table or Tax Rate Schedules, whichever applies	14. _____	
15. Tax on all taxable income (including capital gain distributions). Enter the smaller of line 13 or line 14 here and on Form 1040, line 40	15. _____	

For more details on these requirements, see the Instructions for Form 1116.

Do you meet all five requirements on page 34?

Yes. Enter on line 43 the **smaller** of your total foreign taxes or the amount on Form 1040, line 40.

No. See Form 1116 to find out if you can take the credit and, if you can, if you have to file Form 1116.

Line 44

Credit for Child and Dependent Care Expenses

You may be able to take this credit if you paid someone to care for your child **under age 13** or your dependent or spouse who could not care for himself or herself. For details, use TeleTax topic 602 (see page 11) or see **Form 2441**.

Line 45

Credit for the Elderly or the Disabled

You may be able to take this credit if by the end of 2001 (a) you were age 65 or older or (b) you retired on **permanent and total disability** and you had taxable disability income. But you usually **cannot** take the credit if the amount on Form 1040, line 34, is \$17,500 or more (\$20,000 if married filing jointly and only one spouse is eligible for

Worksheet To See if You Should Fill in Form 6251—Line 41

Keep for Your Records

Before you begin:

- ✓ Be sure you have read the **Exception** on page 34 to see if you must fill in Form 6251 instead of using this worksheet.
- ✓ If you are claiming the foreign tax credit (see the instructions for Form 1040, line 43, that begin on page 34), enter that credit on line 43.



1.	Enter the amount from Form 1040, line 37	1.	<u> </u>
2.	Are you filing Schedule A ?		
	<input type="checkbox"/> Yes. Leave line 2 blank and go to line 3.		
	<input type="checkbox"/> No. Enter your standard deduction from Form 1040, line 36, and go to line 5.	2.	<u> </u>
3.	Enter the smaller of the amount on Schedule A, line 4, or 2.5% (.025) of the amount on Form 1040, line 34.	3.	<u> </u>
4.	Add lines 9 and 26 of Schedule A and enter the total.	4.	<u> </u>
5.	Add lines 1 through 4 above.	5.	<u> </u>
6.	Enter the amount shown below for your filing status.		
	<ul style="list-style-type: none"> • Single or head of household—\$35,750 • Married filing jointly or qualifying widow(er)—\$49,000 • Married filing separately—\$24,500 	}	6. <u> </u>
7.	Is the amount on line 5 more than the amount on line 6?		
	<input type="checkbox"/> No. You do not need to fill in Form 6251.		
	<input type="checkbox"/> Yes. Subtract line 6 from line 5	7.	<u> </u>
8.	Enter the amount shown below for your filing status.		
	<ul style="list-style-type: none"> • Single or head of household—\$112,500 • Married filing jointly or qualifying widow(er)—\$150,000 • Married filing separately—\$75,000 	}	8. <u> </u>
9.	Is the amount on line 5 more than the amount on line 8?		
	<input type="checkbox"/> No. Enter -0- here and on line 10 and go to line 11.		
	<input type="checkbox"/> Yes. Subtract line 8 from line 5.	}	9. <u> </u>
10.	Multiply line 9 by 25% (.25) and enter the result but do not enter more than line 6 above	10.	<u> </u>
11.	Add lines 7 and 10	11.	<u> </u>
12.	Is the amount on line 11 more than the amount shown below for your filing status?		
	<ul style="list-style-type: none"> • Single, married filing jointly, head of household, or qualifying widow(er)—\$175,000 • Married filing separately—\$87,500 		
	<input type="checkbox"/> Yes. Fill in Form 6251 to see if you owe the alternative minimum tax.		
	<input type="checkbox"/> No. Multiply line 11 by 26% (.26)	12.	<u> </u>
13.	Enter the amount from Form 1040, line 40, minus the total of any tax from Form 4972 and any amount on Form 1040, line 43.	13.	<u> </u>
Next.	Is the amount on line 12 more than the amount on line 13?		
	<input type="checkbox"/> Yes. Fill in Form 6251 to see if you owe the alternative minimum tax.		
	<input type="checkbox"/> No. You do not need to fill in Form 6251.		

the credit; \$25,000 if married filing jointly and both spouses are eligible; \$12,500 if married filing separately). See **Schedule R** and its instructions for details.

Credit Figured by the IRS. If you can take this credit and you want us to figure it for you, see the Instructions for Schedule R.

Line 46

Education Credits

If you (or your dependent) paid qualified expenses in 2001 for yourself, your spouse, or your dependent to enroll in or attend an

eligible educational institution, you may be able to take an education credit. See **Form 8863** for details. However, you **cannot** take an education credit if **any** of the following apply.

- You are claimed as a dependent on someone's (such as your parent's) 2001 tax return.
- Your filing status is married filing separately.
- The amount on Form 1040, line 34, is \$50,000 or more (\$100,000 or more if married filing jointly).
- You (or your spouse) were a nonresident alien for any part of 2001 unless your filing status is married filing jointly.

Rate Reduction Credit Worksheet—Line 47

Keep for Your Records

Before you begin:

- ✓ If you received (before offset) an advance payment of your 2001 taxes equal to the amount shown below for your 2001 filing status, **stop**. You cannot take the credit because you have received the maximum amount of the credit.
 - Single or married filing separately — \$300
 - Head of household — \$500
 - Married filing jointly or qualifying widow(er) — \$600
- ✓ If you, or your spouse if filing a joint return, can be claimed as a dependent on another person's return, **stop**. You cannot take the credit.
- ✓ If you received (before offset) an advance payment and you filed a joint return for 2000, you and your spouse are each considered to have received one-half of the payment.



If you received Notice 1275, 1277, or 1278 have it available. The notice shows the amount of your advance payment (before offset).

1. Enter the amount from Form 1040, line 39. If line 39 is zero or blank, **stop**; you cannot take the credit **1.** _____
2. Enter the amount shown below for your filing status.
 - Single or married filing separately — \$6,000
 - Head of household — \$10,000
 - Married filing jointly or qualifying widow(er) — \$12,000
 } **2.** _____
3. Is the amount on line 1 less than the amount on line 2?
 - No.** Enter: \$300 if single or married filing separately; \$500 if head of household; \$600 if married filing jointly or qualifying widow(er).
 - Yes.** Multiply the amount on line 1 by 5% (.05). Enter the result.
 } **3.** _____
4. Enter the amount from Form 1040, line 42 **4.** _____
5. Add the amounts from Form 1040, lines 43 through 46. Enter the total . . . **5.** _____
6. Subtract line 5 from line 4. If the result is zero or less, **stop**; you cannot take the credit **6.** _____
7. Enter the **smaller** of line 3 or line 6 **7.** _____
8. Enter the amount, if any, of your advance payment (before offset). If filing a joint return, include your spouse's advance payment with yours **8.** _____
9. **Rate reduction credit.** Subtract line 8 from line 7. Enter the result here and, if more than zero, on Form 1040, line 47. If line 8 is more than line 7, you do not have to pay back the difference **9.** _____

Line 48—Child Tax Credit

What Is the Child Tax Credit?

This credit is for people who have a qualifying child as defined in the instructions for line 6c, column (4), on page 20. It is in addition to the credit for child and dependent care expenses on Form 1040, line 44, and the earned income credit on Form 1040, line 61a.

Three Steps To Take the Child Tax Credit!

- Step 1.** Make sure you have a qualifying child for the child tax credit. See the instructions for line 6c, column (4), on page 20.
- Step 2.** Make sure you checked the box in column (4) of line 6c on Form 1040 for each qualifying child.
- Step 3.** Answer the questions on this page to see if you may use the worksheet on page 38 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 7.

Questions

Who Must Use Pub. 972



- Are you excluding income from Puerto Rico **or** are you filing any of the following forms?
 - Form 2555 or 2555-EZ (relating to foreign earned income)
 - Form 4563 (exclusion of income for residents of American Samoa)

No. *Continue* 

Yes.  You must use Pub. 972 to figure your credit.

- Is the amount on Form 1040, line 34, more than the amount shown below for your filing status?
 - Married filing jointly – \$110,000
 - Single, head of household, or qualifying widow(er) – \$75,000
 - Married filing separately – \$55,000

No. *Continue* 

Yes.  You must use Pub. 972 to figure your credit.

- Are you claiming any of the following credits?
 - Adoption credit, Form 8839 (see the instructions for Form 1040, line 49, on page 39)
 - Mortgage interest credit, Form 8396 (see the instructions for Form 1040, line 50, on page 39)
 - District of Columbia first-time homebuyer credit, Form 8859

No. Use the worksheet on page 38 to figure your child tax credit.

Yes. You must use Pub. 972 to figure your child tax credit. You will also need the form(s) listed above for any credit(s) you are claiming.

Child Tax Credit Worksheet—Line 48

Keep for Your Records



Do not use this worksheet if you answered “Yes” to question 1, 2, or 3 on page 37. Instead, use Pub. 972.



1. Number of qualifying children: _____ × \$600. Enter the result. 1

2. Enter the amount from Form 1040, line 42. 2

3. Add the amounts from Form 1040:

Line 43 _____

Line 44 + _____

Line 45 + _____

Line 46 + _____

Line 47 + _____ Enter the total. 3

4. Are the amounts on lines 2 and 3 the same?

Yes.

You cannot take this credit because there is no tax to reduce. However, see the **TIP** below before completing the rest of your Form 1040.

No. Subtract line 3 from line 2. 4

5. Is the amount on line 1 more than the amount on line 4?

Yes. Enter the amount from line 4. Also, see the **TIP** below.

No. Enter the amount from line 1.

This is your child tax credit.

5

Enter this amount on Form 1040, line 48.



You may be able to take the **additional child tax credit** on Form 1040, line 63, if you answered “Yes” on line 4 or line 5 above.

- First, complete your Form 1040 through line 62.
- Then, use Form 8812 to figure any additional child tax credit.

Line 49**Adoption Credit**

You may be able to take this credit if you paid expenses in 2001 to adopt a child. See **Form 8839** for details.

Line 50**Other Credits**

Include in the total on line 50 any of the following credits and check the appropriate box(es). If box **d** is checked, also enter the form number. To find out if you can take the credit, see the form or publication indicated.

- Mortgage interest credit. If a state or local government gave you a mortgage credit certificate, see **Form 8396**.
- Credit for prior year minimum tax. If you paid alternative minimum tax in a prior year, see **Form 8801**.
- Qualified electric vehicle credit. If you placed a new electric vehicle in service in 2001, see **Form 8834**.
- General business credit. This credit consists of a number of credits that usually apply only to individuals who are partners, shareholders in an S corporation, self-employed, or who have rental property. See **Form 3800** or **Pub. 334**.
- Empowerment zone employment credit. See **Form 8844**.
- District of Columbia first-time home-buyer credit. See **Form 8859**.

Line 51

If you sold fuel produced from a nonconventional source, see Internal Revenue Code section 29 to find out if you can take the **nonconventional source fuel credit**. If you can, attach a schedule showing how you figured the credit. Include the credit in the total on line 51. Enter the amount and "FNS" on the dotted line next to line 51.

Other Taxes

Line 54**Social Security and Medicare Tax on Tip Income Not Reported to Employer**

If you received tips of \$20 or more in any month and you did not report the full amount to your employer, you must pay the social security and Medicare or railroad retirement (RRTA) tax on the unreported tips. You must also pay this tax if your W-2 form(s) shows allocated tips that you are including in your income on Form 1040, line 7.

To figure the tax, use **Form 4137**. To pay the RRTA tax, contact your employer. Your employer will figure and collect the tax.



You may be charged a penalty equal to 50% of the social security and Medicare tax due on tips you received but did not report to your employer.

Line 55**Tax on Qualified Plans Including IRAs, and Other Tax-Favored Accounts**

If **any** of the following apply, see **Form 5329** and its instructions to find out if you owe this tax and if you must file Form 5329.

1. You received any early distributions from (a) an IRA or other qualified retirement plan, (b) an annuity, or (c) a modified endowment contract entered into after June 20, 1988.
2. Excess contributions were made to your IRAs, Coverdell ESAs, or Archer MSAs.
3. You received distributions from Coverdell ESAs in excess of your qualified higher education expenses.
4. You were born before July 1, 1930, and did not take the minimum required distribution from your IRA or other qualified retirement plan.

Exception. If **only** item 1 applies to you and distribution code 1 is correctly shown in box 7 of your **Form 1099-R**, you do not have to file Form 5329. Instead, multiply the taxable amount of the distribution by 10% (.10) and enter the result on line 55. The taxable amount of the distribution is the part of the distribution you reported on line 15b or line 16b of Form 1040 or on

Form 4972. Also, put "No" under the heading "Other Taxes" to the left of line 55 to indicate that you do not have to file Form 5329. **But** if distribution code 1 is incorrectly shown in box 7 of Form 1099-R, you must file Form 5329.

Line 56**Advance Earned Income Credit Payments**

Enter the total amount of advance earned income credit (EIC) payments you received. These payments are shown in box 9 of your W-2 form(s).

Line 57**Household Employment Taxes**

If **any** of the following apply, see **Schedule H** and its instructions to find out if you owe these taxes.

1. You paid **any one** household employee (defined below) cash wages of \$1,300 or more in 2001. Cash wages include wages paid by checks, money orders, etc.
2. You withheld Federal income tax during 2001 at the request of any household employee.
3. You paid **total** cash wages of \$1,000 or more in **any** calendar **quarter** of 2000 or 2001 to household employees.



For item 1, do not count amounts paid to an employee who was under age 18 at any time in 2001 and was a student.

Household Employee. Any person who does household work is a household employee if you can control what will be done and how it will be done. Household work includes work done in or around your home by babysitters, nannies, health aides, maids, yard workers, and similar domestic workers.

Line 58**Total Tax**

Include in the total on line 58 any of the following taxes. To find out if you owe the tax, see the form or publication indicated. On the dotted line next to line 58, enter the amount of the tax and identify it as indicated.

(Continued on page 40)

Recapture of the Following Credits.

- Investment credit (see **Form 4255**). Identify as “ICR.”
- Low-income housing credit (see **Form 8611**). Identify as “LIHCR.”
- Qualified electric vehicle credit (see **Pub. 535**). Identify as “QEVCR.”
- Indian employment credit. Identify as “IECR.”

Recapture of Federal Mortgage Subsidy. If you sold your home in 2001 and it was financed (in whole or in part) from the proceeds of any tax-exempt qualified mortgage bond or you claimed the mortgage interest credit, see **Form 8828**. Identify as “FMSR.”

Section 72(m)(5) Excess Benefits Tax (see **Pub. 560**). Identify as “Sec. 72(m)(5).”

Uncollected Social Security and Medicare or RRTA Tax on Tips or Group-Term Life Insurance. This tax should be shown in box 12 of your Form W-2 with codes **A** and **B** or **M** and **N**. Identify as “UT.”

Golden Parachute Payments. If you received an excess parachute payment (EPP), you must pay a 20% tax on it. This tax should be shown in box 12 of your W-2 form with code **K**. If you received a **Form 1099-MISC**, the tax is 20% of the EPP shown in box 13. Identify as “EPP.”

Tax on Accumulation Distribution of Trusts. Enter the amount from **Form 4970** and identify as “ADT.”

Payments

Line 59**Federal Income Tax Withheld**

Add the amounts shown as Federal income tax withheld on your **Forms W-2, W-2G, and 1099-R**. Enter the total on line 59. The amount withheld should be shown in box 2 of Form W-2 or W-2G, and in box 4 of Form 1099-R. If line 59 includes amounts withheld as shown on Form 1099-R, attach the Form 1099-R to the front of your return.

If you received a 2001 Form 1099 showing Federal income tax withheld on dividends, interest income, unemployment compensation, social security benefits, or other income you received, include the amount withheld in the total on line 59. This should be shown in box 4 of the 1099 form or box 6 of **Form SSA-1099**.

Line 60

2001 Estimated Tax Payments

Enter any payments you made on your estimated Federal income tax (**Form 1040-ES**) for 2001. Include any overpayment from your 2000 return that you applied to your 2001 estimated tax.

If you and your spouse paid joint estimated tax but are now filing separate income tax returns, you can divide the amount paid in any way you choose as long as you both agree. If you cannot agree, you must divide the payments in proportion to each spouse's individual tax as shown on your separate returns for 2001. For an example of how to do this, see **Pub. 505**. Be sure to show both social security numbers (SSNs) in the space provided on the separate returns. If you or your spouse paid separate estimated tax but you are now filing a joint return, add the amounts you each paid. Follow these instructions even if your spouse died in 2001 or in 2002 before filing a 2001 return.

Divorced Taxpayers

If you got divorced in 2001 and you made joint estimated tax payments with your former spouse, put your former spouse's SSN in the space provided on the front of Form 1040. If you were divorced and remarried in 2001, put your present spouse's SSN in the space provided on the front of Form 1040. Also, under the heading “Payments” to the left of line 60, put your former spouse's SSN, followed by “DIV.”

Name Change

If you changed your name because of marriage, divorce, etc., and you made estimated tax payments using your former name, attach a statement to the front of Form 1040. On the statement, explain all the payments you and your spouse made in 2001 and the name(s) and SSN(s) under which you made them.

Lines 61a and 61b— Earned Income Credit (EIC)

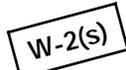
What Is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you **or** let the IRS figure the credit for you.
- If you have a qualifying child, complete and attach Schedule EIC.

You Will Need:



If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1 All Filers

1. Is the amount on Form 1040, line 34, less than \$32,121 (or \$10,710 if a child did not live with you in 2001)?
 Yes. *Continue* → **No.** You cannot take the credit.
2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 44)?
 Yes. *Continue* → **No.** You cannot take the credit. Put "No" directly to the right of line 61a.
3. Is your filing status married filing separately?
 Yes. You cannot take the credit. **No.** *Continue* →
4. Are you filing Form 2555 or 2555-EZ (relating to foreign earned income)?
 Yes. You cannot take the credit. **No.** *Continue* →
5. Were you a nonresident alien for any part of 2001?
 Yes. See *Nonresident Aliens* on page 44. **No.** Go to Step 2.

Step 2 Investment Income

1. Add the amounts from Form 1040:
 Line 8a _____
 Line 8b + _____
 Line 9 + _____
 Line 13 + _____
Investment Income =

2. Is your investment income more than \$2,450?
 Yes. *Continue* → **No.** *Skip the next question; go to Step 3.*
3. Are you filing Form 4797 (relating to sales of business property)?
 Yes. See *Form 4797 Filers* on page 44. **No.** You cannot take the credit.

Step 3 Who Must Use Pub. 596

Some people must use Pub. 596, Earned Income Credit, to see if they can take the credit and how to figure it. To see if you must use Pub. 596, answer the following questions.

1. Are you filing Schedule E?
 No. *Continue* → **Yes.** →
2. Are you claiming a loss on Form 1040, line 12, 13, or 18?
 No. *Continue* → **Yes.** →
3. Are you reporting income or a loss from the rental of personal property not used in a trade or business?
 No. *Continue* → **Yes.** →
4. Did you, or your spouse if filing a joint return, receive a distribution from a pension, annuity, IRA, or Coverdell ESA that is not fully taxable?
 No. *Continue* → **Yes.** →
5. Are you reporting income on Form 1040, line 21, from Form 8814 (relating to election to report child's interest and dividends)?
 No. *Continue* → **Yes.** →
6. Did you enter an amount other than zero on Form 1040, line 41?
 No. *Continue* → **Yes.** →
7. Did a child live with you in 2001?
 Yes. Go to Step 4 on page 42. **No.** Go to Step 5 on page 42.

You must use Pub. 596 to see if you can take the credit and how to figure it.



To get Pub. 596, see page 7.

Continued from page 42

Step 7 Nontaxable and Taxable Earned Income

- Add all your nontaxable earned income, including your spouse's if filing a joint return. This includes anything of value (money, goods, or services) that is not taxable that you received from your employer for your work. Types of nontaxable earned income are listed below.
 - Salary deferrals, such as a 401(k) plan or the Federal Thrift Savings Plan, shown in box 12 of your W-2 form. See page 44.
 - Salary reductions, such as under a cafeteria plan, unless they are included in box 1 of your W-2 form. See page 44.
 - Mandatory contributions to a state or local retirement plan.
 - Military employee basic housing, subsistence, and combat zone compensation. These amounts are shown in box 12 of your W-2 form with code Q.
 - Meals and lodging provided for the convenience of your employer.
 - Housing allowances or rental value of a parsonage for clergy members. If filing Schedule SE, see Clergy on this page.
 - Excludable dependent care benefits from Form 2441, line 18, employer-provided adoption benefits from Form 8839, line 26, and educational assistance benefits (these benefits may be shown in box 14 of your W-2 form).
 - Certain amounts received by Native Americans. See Pub. 596.
- Note.** Nontaxable earned income does not include welfare benefits or workfare payments (see page 44), or qualified foster care payments.

Nontaxable Earned Income =

Box B	
----------	--

Enter this amount on Form 1040, line 61b.



- Are you filing Schedule SE because you had church employee income of \$108.28 or more?
 - Yes.** See *Church Employees on this page.*
 - No.** Continue

- Figure taxable earned income:
 - Form 1040, line 7 _____

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a W-2 form
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted on the dotted line next to line 7 of Form 1040)
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a section 457 plan (put "DFC" and the amount subtracted on the dotted line next to line 7 of Form 1040). This amount may be shown in box 11 of your W-2 form. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Taxable Earned Income =

Box C	
----------	--

Go to question 4.

- Were you self-employed, or are you filing Schedule SE because you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?
 - Yes.** Skip Steps 8 and 9; go to Worksheet B on page 46.
 - No.** Go to Step 8.

Step 8 Total Earned Income

- Nontaxable Earned Income (Step 7, Box B) _____
Taxable Earned Income (Step 7, Box C) + _____

Total Earned Income =

Box D	
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- If you have:
 - 2 or more qualifying children, is Box D less than \$32,121?
 - 1 qualifying child, is Box D less than \$28,281?
 - No qualifying children, is Box D less than \$10,710?

Yes. Go to Step 9. **No.** You cannot take the credit. Put "No" directly to the right of line 61a.

Step 9 How To Figure the Credit

- Do you want the IRS to figure the credit for you?
 - Yes.** See *Credit Figured by the IRS below.*
 - No.** Go to Worksheet A on page 45.

Definitions and Special Rules (listed in alphabetical order)

Adopted Child. Any child placed with you by an authorized placement agency for legal adoption. An authorized placement agency includes any person authorized by state law to place children for legal adoption. The adoption does not have to be final.

Church Employees. Determine how much of the amount on Form 1040, line 7, was also reported on Schedule SE, line 5a. Subtract that amount from the amount on Form 1040, line 7, and enter the result in the first space of Step 7, line 3. Be sure to answer "Yes" on line 4 of Step 7.

Clergy. If you are filing Schedule SE and the amount on line 2 of that schedule includes an amount that was also reported on Form 1040, line 7:

- Put "Clergy" directly to the right of line 61a of Form 1040.
- Do not include any housing allowance or rental value of the parsonage as nontaxable earned income in Box B if it is required to be included on Schedule SE, line 2.
- Determine how much of the amount on Form 1040, line 7, was also reported on Schedule SE, line 2.
- Subtract that amount from the amount on Form 1040, line 7. Enter the result in the first space of Step 7, line 3.
- Be sure to answer "Yes" on line 4 of Step 7.

Credit Figured by the IRS. To have the IRS figure the credit for you:

- Put "EIC" directly to the right of line 61a of Form 1040.
- Be sure you entered the amount of any nontaxable earned income (Step 7, Box B, on this page) on Form 1040, line 61b.

(Continued on page 44)

Continued from page 43

3. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to “Time Lived With You” Condition. A child is considered to have lived with you for all of 2001 if the child was born or died in 2001 and your home was this child’s home for the entire time he or she was alive in 2001. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military below.

Form 4797 Filers. If the amount on Form 1040, line 13, includes an amount from Form 4797, you must use Pub. 596 to see if you can take the EIC and how to figure it. To get Pub. 596, see page 7. Otherwise, stop; you cannot take the EIC.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But do not file Form 8862 if, after your EIC was reduced or disallowed in an earlier year:

- You filed Form 8862 (or other documents) and your EIC was then allowed and
- Your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

Foster Child. Any child you cared for as your own child **and** who is (a) your brother, sister, stepbrother, or stepsister; (b) a descendant (such as a child, including an adopted child) of your brother, sister, stepbrother, or stepsister; or (c) a child placed with you by an authorized placement agency. For example, if you acted as the parent of your niece or nephew, this child is considered your foster child.

Grandchild. Any descendant of your son, daughter, or adopted child. For example, a grandchild includes your great-grandchild, great-great-grandchild, etc.

Married Child. A child who was married at the end of 2001 is a qualifying child only if (a) you can claim him or her as your dependent on Form 1040, line 6c, or (b) this child’s other parent claims him or her as a dependent under the rules in Pub. 501 for children of divorced or separated parents.

Members of the Military. If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

Nonresident Aliens. If your filing status is married filing jointly, go to Step 2 on page 41. Otherwise, stop; you cannot take the EIC.

Permanently and Totally Disabled Child. A child who cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition:

- Has lasted or can be expected to last continuously for at least a year or
- Can lead to death.

Qualifying Child of More Than One Person. If the child meets the conditions to be a qualifying child of more than one person, only the person who had the **highest** modified adjusted gross income (AGI) for 2001 may treat that child as a qualifying child. The other person(s) cannot take the EIC for people who do not have a qualifying child. If the other person is your spouse and you are filing a joint return, this rule does not apply. If you have the highest modified AGI, this child is

your qualifying child. The child must have a social security number as defined below unless the child was born and died in 2001. Skip Step 5; go to Step 6 on page 42. If you do not have the highest modified AGI, stop; you cannot take the EIC. Put “No” directly to the right of line 61a.

Modified AGI is the total of the amounts on Form 1040, lines 8b and 34, increased by:

- Any loss claimed on Form 1040, line 13,
- Any loss from the rental of personal property not used in a trade or business,
- 75% of any losses on Form 1040, lines 12 and 18,
- Certain nontaxable distributions from a pension, annuity, or IRA (see Pub. 596), and
- Certain amounts reported on Schedule E (see Pub. 596).

Example. You and your 5-year-old daughter moved in with your mother in April 2001. You are not a qualifying child of your mother. Your daughter meets the conditions to be a qualifying child for both you and your mother. Your modified AGI for 2001 was \$8,000 and your mother’s was \$14,000. Because your mother’s modified AGI was higher, your daughter is your mother’s qualifying child. You **cannot** take any EIC even if your mother does not claim the credit. You would put “No” directly to the right of line 61a.

Salary Deferrals. Contributions from your pay to certain retirement plans, such as a 401(k) plan or the Federal Thrift Savings Plan, shown in box 12 of your W-2 form. The “Retirement plan” box in box 13 of your W-2 form should be checked.

Salary Reductions. Amounts you could have been paid but chose instead to have your employer contribute to certain benefit plans, such as a cafeteria plan. A cafeteria plan is a plan that allows you to choose to receive either cash or certain benefits that are not taxed (such as accident and health insurance).

Social Security Number (SSN). For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless “Not Valid for Employment” is printed on the social security card and the number was issued solely to apply for or receive a Federally funded benefit.

To find out how to get an SSN, see page 19. If you will not have an SSN by April 15, 2002, see What if You Cannot File on Time? on page 15.

Student. A child who during any 5 months of 2001:

- Was enrolled as a full-time student at a school or
- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

A **school** includes technical, trade, and mechanical schools. It does not include on-the-job training courses, correspondence schools, or night schools.

Welfare Benefits, Effect of Credit on. Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs, or how much you can receive from them.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

Workfare Payments. Cash payments certain people receive from a state or local agency that administers public assistance programs funded under the Federal Temporary Assistance for Needy Families (TANF) program in return for certain work activities such as:

- Work experience activities (including work associated with remodeling or repairing publicly assisted housing) if sufficient private sector employment is not available or
- Community service program activities.

Worksheet **A**—Earned Income Credit (EIC)—Lines 61a and 61b

Keep for Your Records

Before you begin: ✓ Be sure you are using the correct worksheet. **Do not** use this worksheet if you were self-employed, or you are filing Schedule SE because you had church employee income, or you are filing Schedule C or C-EZ as a statutory employee. Instead, use Worksheet B on page 46.



Part 1

All Filers Using Worksheet A

1. Enter your total earned income from Step 8, Box D, on page 43. 1

2. Look up the amount on line 1 above in the EIC Table on pages 48–50 to find the credit. Enter the credit here. 2

If line 2 is zero, You cannot take the credit. Put “No” directly to the right of line 61a.

3. Enter your modified adjusted gross income from Step 6, Box A, on page 42. 3

4. Are the amounts on lines 3 and 1 the same?
 Yes. Skip line 5; enter the amount from line 2 on line 6.
 No. Go to line 5.

Part 2

Filers Who Answered “No” on Line 4

5. Is the amount on line 3 less than:
 • \$5,950 if you do not have a qualifying child **or**
 • \$13,100 if you have one or more qualifying children?
 Yes. Leave line 5 blank; enter the amount from line 2 on line 6.

No. Look up the amount on line 3 in the EIC Table on pages 48–50 to find the credit. Enter the credit here. 5
 Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.

Part 3

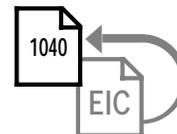
Your Earned Income Credit

6. **This is your earned income credit.** 6

Reminder—

- ✓ Be sure you entered the amount of any nontaxable earned income (Step 7, Box B, on page 43) on Form 1040, line 61b.
- ✓ If you have a qualifying child, complete and attach Schedule EIC.

Enter this amount on Form 1040, line 61a.



If your EIC for a year after 1996 was reduced or disallowed, see page 44 to find out if you must file Form 8862 to take the credit for 2001.

Worksheet B—Earned Income Credit (EIC)—Lines 61a and 61b

Keep for Your Records 

Use this worksheet if you were self-employed, or you are filing Schedule SE because you had church employee income, or you are filing Schedule C or C-EZ as a statutory employee.

- ✓ Complete the parts below (Parts 1 through 3) that apply to you. Then, continue to Part 4.
- ✓ If you are married filing a joint return, include your spouse's amounts, if any, with yours to figure the amounts to enter in Parts 1 through 3.

Part 1

Self-Employed and People With Church Employee Income Filing Schedule SE

1a. Enter the amount from Schedule SE, Section A, line 3, or Section B, line 3, whichever applies.		1a	
b. Enter any amount from Schedule SE, Section B, line 4b, and line 5a.	+	1b	
c. Add lines 1a and 1b.	=	1c	
d. Enter the amount from Schedule SE, Section A, line 6, or Section B, line 13, whichever applies.	-	1d	
e. Subtract line 1d from 1c.	=	1e	

Part 2

Self-Employed NOT Required To File Schedule SE

For example, your net earnings from self-employment were less than \$400.

2. Do not include on these lines any statutory employee income or any amount exempt from self-employment tax as the result of the filing and approval of Form 4029 or Form 4361.			
a. Enter any net farm profit or (loss) from Schedule F, line 36, and from farm partnerships, Schedule K-1 (Form 1065), line 15a*.		2a	
b. Enter any net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9*.	+	2b	
c. Add lines 2a and 2b.	=	2c	

*If you have any Schedule K-1 amounts, complete the appropriate line(s) of Schedule SE, Section A. Put your name and social security number on Schedule SE and attach it to your return.

Part 3

Statutory Employees Filing Schedule C or C-EZ

3. Enter the amount from Schedule C, line 1, or Schedule C-EZ, line 1, that you are filing as a statutory employee.		3	
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Part 4

All Filers Using Worksheet B

Note. If line 4d includes income on which you should have paid self-employment tax but did not, we may reduce your credit by the amount of self-employment tax not paid.

4a. Add lines 1e, 2c, and 3.		4a	
b. Enter your nontaxable earned income from Step 7, Box B, on page 43.	+	4b	
c. Enter your taxable earned income from Step 7, Box C, on page 43.	+	4c	
d. Add lines 4a, 4b, and 4c. This is your total earned income.	=	4d	

- 5.** If you have:
- 2 or more qualifying children, is line 4d less than \$32,121?
 - 1 qualifying child, is line 4d less than \$28,281?
 - No qualifying children, is line 4d less than \$10,710?
- Yes.** If you want the IRS to figure your credit, see page 43. *If you want to figure the credit yourself, enter the amount from line 4d on line 6 (page 47).*
- No.**  You cannot take the credit. Put "No" directly to the right of line 61a.

(Continued on page 47)

Worksheet **B**—Continued from page 46

Keep for Your Records

Part 5

All Filers Using Worksheet B

6. Enter your total earned income from Part 4, line 4d, on page 46. 6

7. Look up the amount on line 6 above in the EIC Table on pages 48–50 to find the credit. Enter the credit here. 7

If line 7 is zero,  You cannot take the credit. Put “No” directly to the right of line 61a.

8. Enter your modified adjusted gross income from Step 6, Box A, on page 42. 8

9. Are the amounts on lines 8 and 6 the same?
- Yes.** Skip line 10; enter the amount from line 7 on line 11.
- No.** Go to line 10.

10. Is the amount on line 8 less than:

- \$5,950 if you do not have a qualifying child **or**
- \$13,100 if you have one or more qualifying children?

Yes. Leave line 10 blank; enter the amount from line 7 on line 11.

No. Look up the amount on line 8 in the EIC Table on pages 48–50 to find the credit. Enter the credit here. 10

Look at the amounts on lines 10 and 7. Then, enter the **smaller** amount on line 11.

Part 6

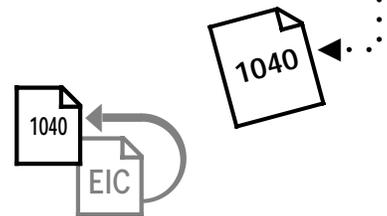
Your Earned Income Credit

11. **This is your earned income credit.** 11

Reminder—

- ✓ Be sure you entered the amount of any nontaxable earned income (Step 7, Box B, on page 43) on Form 1040, line 61b.
- ✓ If you have a qualifying child, complete and attach Schedule EIC.

Enter this amount on Form 1040, line 61a.



If your EIC for a year after 1996 was reduced or disallowed, see page 44 to find out if you must file Form 8862 to take the credit for 2001.

2001 Earned Income Credit (EIC) Table



This is not a tax table.

1. To find your credit, read down the "At least - But less than" columns and find the line that includes the amount you were told to look up from your EIC Worksheet.

2. Then, read across to the column that includes the number of qualifying children you have. Enter the credit from that column on your EIC Worksheet.

Example. If you have one qualifying child and the amount you are looking up from your EIC Worksheet is \$4,875, you would enter \$1,658.

If the amount you are looking up from the worksheet is—		And you have—		
		No children	One child	Two children
At least	But less than	Your credit is—		
4,800	4,850	364	1,641	1,930
4,850	4,900	364	1,658	1,950
4,900	4,950	364	1,675	1,970
4,950	5,000	364	1,692	1,990

If the amount you are looking up from the worksheet is—		And you have—			If the amount you are looking up from the worksheet is—		And you have—			If the amount you are looking up from the worksheet is—		And you have—							
		No children	One child	Two children			No children	One child	Two children			No children	One child	Two children					
At least	But less than	Your credit is—			At least	But less than	Your credit is—			At least	But less than	Your credit is—							
\$1	\$50	\$2	\$9	\$10	2,200	2,250	170	757	890	4,400	4,450	339	1,505	1,770	6,600	6,650	313	2,253	2,650
50	100	6	26	30	2,250	2,300	174	774	910	4,450	4,500	342	1,522	1,790	6,650	6,700	309	2,270	2,670
100	150	10	43	50	2,300	2,350	178	791	930	4,500	4,550	346	1,539	1,810	6,700	6,750	305	2,287	2,690
150	200	13	60	70	2,350	2,400	182	808	950	4,550	4,600	350	1,556	1,830	6,750	6,800	301	2,304	2,710
200	250	17	77	90	2,400	2,450	186	825	970	4,600	4,650	354	1,573	1,850	6,800	6,850	297	2,321	2,730
250	300	21	94	110	2,450	2,500	189	842	990	4,650	4,700	358	1,590	1,870	6,850	6,900	293	2,338	2,750
300	350	25	111	130	2,500	2,550	193	859	1,010	4,700	4,750	361	1,607	1,890	6,900	6,950	290	2,355	2,770
350	400	29	128	150	2,550	2,600	197	876	1,030	4,750	4,800	364	1,624	1,910	6,950	7,000	286	2,372	2,790
400	450	33	145	170	2,600	2,650	201	893	1,050	4,800	4,850	364	1,641	1,930	7,000	7,050	282	2,389	2,810
450	500	36	162	190	2,650	2,700	205	910	1,070	4,850	4,900	364	1,658	1,950	7,050	7,100	278	2,406	2,830
500	550	40	179	210	2,700	2,750	208	927	1,090	4,900	4,950	364	1,675	1,970	7,100	7,150	274	2,423	2,850
550	600	44	196	230	2,750	2,800	212	944	1,110	4,950	5,000	364	1,692	1,990	7,150	7,200	270	2,440	2,870
600	650	48	213	250	2,800	2,850	216	961	1,130	5,000	5,050	364	1,709	2,010	7,200	7,250	267	2,457	2,890
650	700	52	230	270	2,850	2,900	220	978	1,150	5,050	5,100	364	1,726	2,030	7,250	7,300	263	2,474	2,910
700	750	55	247	290	2,900	2,950	224	995	1,170	5,100	5,150	364	1,743	2,050	7,300	7,350	259	2,491	2,930
750	800	59	264	310	2,950	3,000	228	1,012	1,190	5,150	5,200	364	1,760	2,070	7,350	7,400	255	2,508	2,950
800	850	63	281	330	3,000	3,050	231	1,029	1,210	5,200	5,250	364	1,777	2,090	7,400	7,450	251	2,525	2,970
850	900	67	298	350	3,050	3,100	235	1,046	1,230	5,250	5,300	364	1,794	2,110	7,450	7,500	247	2,542	2,990
900	950	71	315	370	3,100	3,150	239	1,063	1,250	5,300	5,350	364	1,811	2,130	7,500	7,550	244	2,559	3,010
950	1,000	75	332	390	3,150	3,200	243	1,080	1,270	5,350	5,400	364	1,828	2,150	7,550	7,600	240	2,576	3,030
1,000	1,050	78	349	410	3,200	3,250	247	1,097	1,290	5,400	5,450	364	1,845	2,170	7,600	7,650	236	2,593	3,050
1,050	1,100	82	366	430	3,250	3,300	251	1,114	1,310	5,450	5,500	364	1,862	2,190	7,650	7,700	232	2,610	3,070
1,100	1,150	86	383	450	3,300	3,350	254	1,131	1,330	5,500	5,550	364	1,879	2,210	7,700	7,750	228	2,627	3,090
1,150	1,200	90	400	470	3,350	3,400	258	1,148	1,350	5,550	5,600	364	1,896	2,230	7,750	7,800	225	2,644	3,110
1,200	1,250	94	417	490	3,400	3,450	262	1,165	1,370	5,600	5,650	364	1,913	2,250	7,800	7,850	221	2,661	3,130
1,250	1,300	98	434	510	3,450	3,500	266	1,182	1,390	5,650	5,700	364	1,930	2,270	7,850	7,900	217	2,678	3,150
1,300	1,350	101	451	530	3,500	3,550	270	1,199	1,410	5,700	5,750	364	1,947	2,290	7,900	7,950	213	2,695	3,170
1,350	1,400	105	468	550	3,550	3,600	273	1,216	1,430	5,750	5,800	364	1,964	2,310	7,950	8,000	209	2,712	3,190
1,400	1,450	109	485	570	3,600	3,650	277	1,233	1,450	5,800	5,850	364	1,981	2,330	8,000	8,050	205	2,729	3,210
1,450	1,500	113	502	590	3,650	3,700	281	1,250	1,470	5,850	5,900	364	1,998	2,350	8,050	8,100	202	2,746	3,230
1,500	1,550	117	519	610	3,700	3,750	285	1,267	1,490	5,900	5,950	364	2,015	2,370	8,100	8,150	198	2,763	3,250
1,550	1,600	120	536	630	3,750	3,800	289	1,284	1,510	5,950	6,000	362	2,032	2,390	8,150	8,200	194	2,780	3,270
1,600	1,650	124	553	650	3,800	3,850	293	1,301	1,530	6,000	6,050	358	2,049	2,410	8,200	8,250	190	2,797	3,290
1,650	1,700	128	570	670	3,850	3,900	296	1,318	1,550	6,050	6,100	355	2,066	2,430	8,250	8,300	186	2,814	3,310
1,700	1,750	132	587	690	3,900	3,950	300	1,335	1,570	6,100	6,150	351	2,083	2,450	8,300	8,350	182	2,831	3,330
1,750	1,800	136	604	710	3,950	4,000	304	1,352	1,590	6,150	6,200	347	2,100	2,470	8,350	8,400	179	2,848	3,350
1,800	1,850	140	621	730	4,000	4,050	308	1,369	1,610	6,200	6,250	343	2,117	2,490	8,400	8,450	175	2,865	3,370
1,850	1,900	143	638	750	4,050	4,100	312	1,386	1,630	6,250	6,300	339	2,134	2,510	8,450	8,500	171	2,882	3,390
1,900	1,950	147	655	770	4,100	4,150	316	1,403	1,650	6,300	6,350	335	2,151	2,530	8,500	8,550	167	2,899	3,410
1,950	2,000	151	672	790	4,150	4,200	319	1,420	1,670	6,350	6,400	332	2,168	2,550	8,550	8,600	163	2,916	3,430
2,000	2,050	155	689	810	4,200	4,250	323	1,437	1,690	6,400	6,450	328	2,185	2,570	8,600	8,650	160	2,933	3,450
2,050	2,100	159	706	830	4,250	4,300	327	1,454	1,710	6,450	6,500	324	2,202	2,590	8,650	8,700	156	2,950	3,470
2,100	2,150	163	723	850	4,300	4,350	331	1,471	1,730	6,500	6,550	320	2,219	2,610	8,700	8,750	152	2,967	3,490
2,150	2,200	166	740	870	4,350	4,400	335	1,488	1,750	6,550	6,600	316	2,236	2,630	8,750	8,800	148	2,984	3,510

(Continued on page 49)

2001 Earned Income Credit (EIC) Table *Continued* (Caution. This is not a tax table.)

If the amount you are looking up from the worksheet is—		And you have—			If the amount you are looking up from the worksheet is—		And you have—			If the amount you are looking up from the worksheet is—		And you have—							
		No children	One child	Two children			No children	One child	Two children			No children	One child	Two children	No children	One child	Two children		
At least	But less than	Your credit is—			At least	But less than	Your credit is—			At least	But less than	Your credit is—							
8,800	8,850	144	2,428	3,530	13,900	13,950	0	2,294	3,832	16,700	16,750	0	1,847	3,242	19,500	19,550	0	1,399	2,653
8,850	8,900	140	2,428	3,550	13,950	14,000	0	2,286	3,822	16,750	16,800	0	1,839	3,232	19,550	19,600	0	1,391	2,642
8,900	8,950	137	2,428	3,570	14,000	14,050	0	2,278	3,811	16,800	16,850	0	1,831	3,221	19,600	19,650	0	1,383	2,632
8,950	9,000	133	2,428	3,590	14,050	14,100	0	2,270	3,801	16,850	16,900	0	1,823	3,211	19,650	19,700	0	1,375	2,621
9,000	9,050	129	2,428	3,610	14,100	14,150	0	2,262	3,790	16,900	16,950	0	1,815	3,200	19,700	19,750	0	1,367	2,611
9,050	9,100	125	2,428	3,630	14,150	14,200	0	2,254	3,779	16,950	17,000	0	1,807	3,190	19,750	19,800	0	1,359	2,600
9,100	9,150	121	2,428	3,650	14,200	14,250	0	2,246	3,769	17,000	17,050	0	1,799	3,179	19,800	19,850	0	1,351	2,590
9,150	9,200	117	2,428	3,670	14,250	14,300	0	2,238	3,758	17,050	17,100	0	1,791	3,169	19,850	19,900	0	1,343	2,579
9,200	9,250	114	2,428	3,690	14,300	14,350	0	2,230	3,748	17,100	17,150	0	1,783	3,158	19,900	19,950	0	1,335	2,569
9,250	9,300	110	2,428	3,710	14,350	14,400	0	2,222	3,737	17,150	17,200	0	1,775	3,148	19,950	20,000	0	1,327	2,558
9,300	9,350	106	2,428	3,730	14,400	14,450	0	2,214	3,727	17,200	17,250	0	1,767	3,137	20,000	20,050	0	1,319	2,547
9,350	9,400	102	2,428	3,750	14,450	14,500	0	2,206	3,716	17,250	17,300	0	1,759	3,127	20,050	20,100	0	1,311	2,537
9,400	9,450	98	2,428	3,770	14,500	14,550	0	2,198	3,706	17,300	17,350	0	1,751	3,116	20,100	20,150	0	1,303	2,526
9,450	9,500	94	2,428	3,790	14,550	14,600	0	2,190	3,695	17,350	17,400	0	1,743	3,106	20,150	20,200	0	1,295	2,516
9,500	9,550	91	2,428	3,810	14,600	14,650	0	2,182	3,685	17,400	17,450	0	1,735	3,095	20,200	20,250	0	1,287	2,505
9,550	9,600	87	2,428	3,830	14,650	14,700	0	2,174	3,674	17,450	17,500	0	1,727	3,085	20,250	20,300	0	1,279	2,495
9,600	9,650	83	2,428	3,850	14,700	14,750	0	2,166	3,664	17,500	17,550	0	1,719	3,074	20,300	20,350	0	1,271	2,484
9,650	9,700	79	2,428	3,870	14,750	14,800	0	2,158	3,653	17,550	17,600	0	1,711	3,063	20,350	20,400	0	1,263	2,474
9,700	9,750	75	2,428	3,890	14,800	14,850	0	2,150	3,643	17,600	17,650	0	1,703	3,053	20,400	20,450	0	1,255	2,463
9,750	9,800	72	2,428	3,910	14,850	14,900	0	2,142	3,632	17,650	17,700	0	1,695	3,042	20,450	20,500	0	1,247	2,453
9,800	9,850	68	2,428	3,930	14,900	14,950	0	2,134	3,622	17,700	17,750	0	1,687	3,032	20,500	20,550	0	1,239	2,442
9,850	9,900	64	2,428	3,950	14,950	15,000	0	2,126	3,611	17,750	17,800	0	1,679	3,021	20,550	20,600	0	1,231	2,432
9,900	9,950	60	2,428	3,970	15,000	15,050	0	2,118	3,600	17,800	17,850	0	1,671	3,011	20,600	20,650	0	1,224	2,421
9,950	10,000	56	2,428	3,990	15,050	15,100	0	2,110	3,590	17,850	17,900	0	1,663	3,000	20,650	20,700	0	1,216	2,411
10,000	10,050	52	2,428	4,008	15,100	15,150	0	2,102	3,579	17,900	17,950	0	1,655	2,990	20,700	20,750	0	1,208	2,400
10,050	10,100	49	2,428	4,008	15,150	15,200	0	2,094	3,569	17,950	18,000	0	1,647	2,979	20,750	20,800	0	1,200	2,390
10,100	10,150	45	2,428	4,008	15,200	15,250	0	2,086	3,558	18,000	18,050	0	1,639	2,969	20,800	20,850	0	1,192	2,379
10,150	10,200	41	2,428	4,008	15,250	15,300	0	2,078	3,548	18,050	18,100	0	1,631	2,958	20,850	20,900	0	1,184	2,368
10,200	10,250	37	2,428	4,008	15,300	15,350	0	2,070	3,537	18,100	18,150	0	1,623	2,948	20,900	20,950	0	1,176	2,358
10,250	10,300	33	2,428	4,008	15,350	15,400	0	2,062	3,527	18,150	18,200	0	1,615	2,937	20,950	21,000	0	1,168	2,347
10,300	10,350	29	2,428	4,008	15,400	15,450	0	2,054	3,516	18,200	18,250	0	1,607	2,927	21,000	21,050	0	1,160	2,337
10,350	10,400	26	2,428	4,008	15,450	15,500	0	2,046	3,506	18,250	18,300	0	1,599	2,916	21,050	21,100	0	1,152	2,326
10,400	10,450	22	2,428	4,008	15,500	15,550	0	2,038	3,495	18,300	18,350	0	1,591	2,906	21,100	21,150	0	1,144	2,316
10,450	10,500	18	2,428	4,008	15,550	15,600	0	2,030	3,485	18,350	18,400	0	1,583	2,895	21,150	21,200	0	1,136	2,305
10,500	10,550	14	2,428	4,008	15,600	15,650	0	2,022	3,474	18,400	18,450	0	1,575	2,884	21,200	21,250	0	1,128	2,295
10,550	10,600	10	2,428	4,008	15,650	15,700	0	2,015	3,464	18,450	18,500	0	1,567	2,874	21,250	21,300	0	1,120	2,284
10,600	10,650	7	2,428	4,008	15,700	15,750	0	2,007	3,453	18,500	18,550	0	1,559	2,863	21,300	21,350	0	1,112	2,274
10,650	10,700	3	2,428	4,008	15,750	15,800	0	1,999	3,443	18,550	18,600	0	1,551	2,853	21,350	21,400	0	1,104	2,263
10,700	10,750	*	2,428	4,008	15,800	15,850	0	1,991	3,432	18,600	18,650	0	1,543	2,842	21,400	21,450	0	1,096	2,253
10,750	13,100	0	2,428	4,008	15,850	15,900	0	1,983	3,421	18,650	18,700	0	1,535	2,832	21,450	21,500	0	1,088	2,242
13,100	13,150	0	2,422	4,001	15,900	15,950	0	1,975	3,411	18,700	18,750	0	1,527	2,821	21,500	21,550	0	1,080	2,232
13,150	13,200	0	2,414	3,990	15,950	16,000	0	1,967	3,400	18,750	18,800	0	1,519	2,811	21,550	21,600	0	1,072	2,221
13,200	13,250	0	2,406	3,980	16,000	16,050	0	1,959	3,390	18,800	18,850	0	1,511	2,800	21,600	21,650	0	1,064	2,211
13,250	13,300	0	2,398	3,969	16,050	16,100	0	1,951	3,379	18,850	18,900	0	1,503	2,790	21,650	21,700	0	1,056	2,200
13,300	13,350	0	2,390	3,959	16,100	16,150	0	1,943	3,369	18,900	18,950	0	1,495	2,779	21,700	21,750	0	1,048	2,189
13,350	13,400	0	2,382	3,948	16,150	16,200	0	1,935	3,358	18,950	19,000	0	1,487	2,769	21,750	21,800	0	1,040	2,179
13,400	13,450	0	2,374	3,937	16,200	16,250	0	1,927	3,348	19,000	19,050	0	1,479	2,758	21,800	21,850	0	1,032	2,168
13,450	13,500	0	2,366	3,927	16,250	16,300	0	1,919	3,337	19,050	19,100	0	1,471	2,748	21,850	21,900	0	1,024	2,158
13,500	13,550	0	2,358	3,916	16,300	16,350	0	1,911	3,327	19,100	19,150	0	1,463	2,737	21,900	21,950	0	1,016	2,147
13,550	13,600	0	2,350	3,906	16,350	16,400	0	1,903	3,316	19,150	19,200	0	1,455	2,726	21,950	22,000	0	1,008	2,137
13,600	13,650	0	2,342	3,895	16,400	16,450	0	1,895	3,306	19,200	19,250	0	1,447	2,716	22,000	22,050	0	1,000	2,126
13,650	13,700	0	2,334	3,885	16,450	16,500	0	1,887	3,295	19,250	19,300	0	1,439	2,705	22,050	22,100	0	992	2,116
13,700	13,750	0	2,326	3,874	16,500	16,550	0	1,879	3,285	19,300	19,350	0	1,431	2,695	22,100	22,150	0	984	2,105
13,750	13,800	0	2,318	3,864	16,550	16,600	0	1,871	3,274	19,350	19,400	0	1,423	2,684	22,150	22,200	0	976	2,095
13,800	13,850	0	2,310	3,853	16,600	16,650	0	1,863	3,264	19,400	19,450	0	1,415	2,674	22,200	22,250	0	968	2,084
13,850	13,900	0	2,302	3,843	16,650	16,700	0	1,855	3,253	19,450	19,500	0	1,407	2,663	22,250	22,300	0	960	2,074

*If the amount you are looking up from the worksheet is at least \$10,700 but less than \$10,710, your credit is \$1. Otherwise, you cannot take the credit.

(Continued on page 50)

2001 Earned Income Credit (EIC) Table *Continued* (Caution. This is not a tax table.)

If the amount you are looking up from the worksheet is—		And you have—			If the amount you are looking up from the worksheet is—		And you have—			If the amount you are looking up from the worksheet is—		And you have—							
		No children	One child	Two children			No children	One child	Two children			No children	One child	Two children	No children	One child	Two children		
At least	But less than	Your credit is—			At least	But less than	Your credit is—			At least	But less than	Your credit is—							
22,300	22,350	0	952	2,063	24,900	24,950	0	536	1,516	27,500	27,550	0	121	968	30,100	30,150	0	0	420
22,350	22,400	0	944	2,053	24,950	25,000	0	528	1,505	27,550	27,600	0	113	957	30,150	30,200	0	0	410
22,400	22,450	0	936	2,042	25,000	25,050	0	520	1,494	27,600	27,650	0	105	947	30,200	30,250	0	0	399
22,450	22,500	0	928	2,032	25,050	25,100	0	512	1,484	27,650	27,700	0	97	936	30,250	30,300	0	0	389
22,500	22,550	0	920	2,021	25,100	25,150	0	504	1,473	27,700	27,750	0	89	926	30,300	30,350	0	0	378
22,550	22,600	0	912	2,010	25,150	25,200	0	496	1,463	27,750	27,800	0	81	915	30,350	30,400	0	0	368
22,600	22,650	0	904	2,000	25,200	25,250	0	488	1,452	27,800	27,850	0	73	905	30,400	30,450	0	0	357
22,650	22,700	0	896	1,989	25,250	25,300	0	480	1,442	27,850	27,900	0	65	894	30,450	30,500	0	0	347
22,700	22,750	0	888	1,979	25,300	25,350	0	472	1,431	27,900	27,950	0	57	884	30,500	30,550	0	0	336
22,750	22,800	0	880	1,968	25,350	25,400	0	464	1,421	27,950	28,000	0	49	873	30,550	30,600	0	0	326
22,800	22,850	0	872	1,958	25,400	25,450	0	456	1,410	28,000	28,050	0	41	863	30,600	30,650	0	0	315
22,850	22,900	0	864	1,947	25,450	25,500	0	448	1,400	28,050	28,100	0	33	852	30,650	30,700	0	0	305
22,900	22,950	0	856	1,937	25,500	25,550	0	440	1,389	28,100	28,150	0	25	842	30,700	30,750	0	0	294
22,950	23,000	0	848	1,926	25,550	25,600	0	432	1,379	28,150	28,200	0	17	831	30,750	30,800	0	0	284
23,000	23,050	0	840	1,916	25,600	25,650	0	425	1,368	28,200	28,250	0	9	821	30,800	30,850	0	0	273
23,050	23,100	0	832	1,905	25,650	25,700	0	417	1,358	28,250	28,300	0	**	810	30,850	30,900	0	0	262
23,100	23,150	0	824	1,895	25,700	25,750	0	409	1,347	28,300	28,350	0	0	800	30,900	30,950	0	0	252
23,150	23,200	0	816	1,884	25,750	25,800	0	401	1,337	28,350	28,400	0	0	789	30,950	31,000	0	0	241
23,200	23,250	0	808	1,874	25,800	25,850	0	393	1,326	28,400	28,450	0	0	778	31,000	31,050	0	0	231
23,250	23,300	0	800	1,863	25,850	25,900	0	385	1,315	28,450	28,500	0	0	768	31,050	31,100	0	0	220
23,300	23,350	0	792	1,853	25,900	25,950	0	377	1,305	28,500	28,550	0	0	757	31,100	31,150	0	0	210
23,350	23,400	0	784	1,842	25,950	26,000	0	369	1,294	28,550	28,600	0	0	747	31,150	31,200	0	0	199
23,400	23,450	0	776	1,831	26,000	26,050	0	361	1,284	28,600	28,650	0	0	736	31,200	31,250	0	0	189
23,450	23,500	0	768	1,821	26,050	26,100	0	353	1,273	28,650	28,700	0	0	726	31,250	31,300	0	0	178
23,500	23,550	0	760	1,810	26,100	26,150	0	345	1,263	28,700	28,750	0	0	715	31,300	31,350	0	0	168
23,550	23,600	0	752	1,800	26,150	26,200	0	337	1,252	28,750	28,800	0	0	705	31,350	31,400	0	0	157
23,600	23,650	0	744	1,789	26,200	26,250	0	329	1,242	28,800	28,850	0	0	694	31,400	31,450	0	0	147
23,650	23,700	0	736	1,779	26,250	26,300	0	321	1,231	28,850	28,900	0	0	684	31,450	31,500	0	0	136
23,700	23,750	0	728	1,768	26,300	26,350	0	313	1,221	28,900	28,950	0	0	673	31,500	31,550	0	0	126
23,750	23,800	0	720	1,758	26,350	26,400	0	305	1,210	28,950	29,000	0	0	663	31,550	31,600	0	0	115
23,800	23,850	0	712	1,747	26,400	26,450	0	297	1,200	29,000	29,050	0	0	652	31,600	31,650	0	0	105
23,850	23,900	0	704	1,737	26,450	26,500	0	289	1,189	29,050	29,100	0	0	642	31,650	31,700	0	0	94
23,900	23,950	0	696	1,726	26,500	26,550	0	281	1,179	29,100	29,150	0	0	631	31,700	31,750	0	0	83
23,950	24,000	0	688	1,716	26,550	26,600	0	273	1,168	29,150	29,200	0	0	620	31,750	31,800	0	0	73
24,000	24,050	0	680	1,705	26,600	26,650	0	265	1,158	29,200	29,250	0	0	610	31,800	31,850	0	0	62
24,050	24,100	0	672	1,695	26,650	26,700	0	257	1,147	29,250	29,300	0	0	599	31,850	31,900	0	0	52
24,100	24,150	0	664	1,684	26,700	26,750	0	249	1,136	29,300	29,350	0	0	589	31,900	31,950	0	0	41
24,150	24,200	0	656	1,673	26,750	26,800	0	241	1,126	29,350	29,400	0	0	578	31,950	32,000	0	0	31
24,200	24,250	0	648	1,663	26,800	26,850	0	233	1,115	29,400	29,450	0	0	568	32,000	32,050	0	0	20
24,250	24,300	0	640	1,652	26,850	26,900	0	225	1,105	29,450	29,500	0	0	557	32,050	32,100	0	0	10
24,300	24,350	0	632	1,642	26,900	26,950	0	217	1,094	29,500	29,550	0	0	547	32,100	32,121	0	0	2
24,350	24,400	0	624	1,631	26,950	27,000	0	209	1,084	29,550	29,600	0	0	536	32,121 or more		0	0	0
24,400	24,450	0	616	1,621	27,000	27,050	0	201	1,073	29,600	29,650	0	0	526					
24,450	24,500	0	608	1,610	27,050	27,100	0	193	1,063	29,650	29,700	0	0	515					
24,500	24,550	0	600	1,600	27,100	27,150	0	185	1,052	29,700	29,750	0	0	505					
24,550	24,600	0	592	1,589	27,150	27,200	0	177	1,042	29,750	29,800	0	0	494					
24,600	24,650	0	584	1,579	27,200	27,250	0	169	1,031	29,800	29,850	0	0	484					
24,650	24,700	0	576	1,568	27,250	27,300	0	161	1,021	29,850	29,900	0	0	473					
24,700	24,750	0	568	1,558	27,300	27,350	0	153	1,010	29,900	29,950	0	0	463					
24,750	24,800	0	560	1,547	27,350	27,400	0	145	1,000	29,950	30,000	0	0	452					
24,800	24,850	0	552	1,537	27,400	27,450	0	137	989	30,000	30,050	0	0	441					
24,850	24,900	0	544	1,526	27,450	27,500	0	129	979	30,050	30,100	0	0	431					

**If the amount you are looking up from the worksheet is at least \$28,250 but less than \$28,281, your credit is \$3. Otherwise, you cannot take the credit.

Line 62**Excess Social Security and RRTA Tax Withheld**

If you, or your spouse if filing a joint return, had more than one employer for 2001 and total wages of more than \$80,400, too much social security tax may have been withheld. You can take a credit on this line for the amount withheld in excess of \$4,984.80. But if any one employer withheld more than \$4,984.80, you must ask that employer to refund the excess to you. You cannot claim it on your return. Figure this amount separately for you and your spouse.

If you had more than one railroad employer for 2001 and your total compensation was over \$59,700, too much railroad retirement (RRTA) tax may have been withheld.

For more details, see **Pub. 505**.

Line 63**Additional Child Tax Credit****What Is the Additional Child Tax Credit?**

This credit is for certain people who have at least one qualifying child as defined in the instructions for line 6c, column (4), on page 20. The additional child tax credit may give you a refund even if you do not owe any tax.

Two Steps To Take the Additional Child Tax Credit!

Step 1. Be sure you figured the amount, if any, of your child tax credit. See the instructions for line 48 that begin on page 37.

Step 2. Read the **TIP** at the end of your Child Tax Credit Worksheet. Use Form 8812 to see if you can take the additional child tax credit only if you meet the condition given in that **TIP**.

Line 64**Amount Paid With Request for Extension To File**

If you filed **Form 4868** to get an automatic extension of time to file Form 1040, enter any amount you paid with that form or by electronic funds withdrawal or credit card. If you paid by credit card, do not include on line 64 the convenience fee you were charged. Also, include any amounts paid with **Form 2688** or **2350**.

Line 65**Other Payments**

Check the box(es) on line 65 to report any credit from **Form 2439** or **4136**.

Refund

Line 67**Amount Overpaid**

If line 67 is under \$1, we will send a refund only on written request.

If you want to check the status of your refund, please wait at least 4 weeks from the date you filed your return to do so. See page 11 for details.



If the amount you overpaid is large, you may want to decrease the amount of income tax withheld from your pay by filing a new **Form W-4**. See **Income Tax Withholding and Estimated Tax Payments for 2002** on page 54.

Refund Offset

If you owe past-due Federal tax, state income tax, child support, spousal support, or certain Federal nontax debts, such as student loans, all or part of the overpayment on line 67 may be used (offset) to pay the past-due amount. Offsets for Federal taxes are made by the IRS. All other offsets are made by the Treasury Department's Financial Management Service (FMS). You will receive a notice from FMS showing the amount of the offset and the agency receiving it. To find out if you may have an offset or if you have any questions about it, contact the agency(ies) you owe the debt to.

Injured Spouse Claim

If you file a joint return and your spouse has not paid past-due Federal tax, state income tax, child support, spousal support, or a Federal nontax debt, such as a student loan, part or all of the overpayment on line 67 may be used (offset) to pay the past-due amount. But **your** part of the overpayment may be refunded to you after the offset occurs if certain conditions apply and you complete **Form 8379**. For details, use TeleTax topic 203 (see page 11) or see Form 8379.

Lines 68b Through 68d**Direct Deposit of Refund**

Complete lines 68b through 68d if you want us to directly deposit the amount shown on line 68a into your account at a bank or other financial institution (such as a mutual fund, brokerage firm, or credit union) instead of sending you a check.

Why Use Direct Deposit?

- You get your refund fast—even faster if you *e-file!*
- Payment is more secure—there is no check to get lost.
- More convenient. No trip to the bank to deposit your check.
- Saves tax dollars. A refund by direct deposit costs less than a check.



You can check with your financial institution to make sure your deposit will be accepted and to get the correct routing and account numbers. The IRS is not responsible for a lost refund if you enter the wrong account information.

If you file a joint return and fill in lines 68b through 68d, you are appointing your spouse as an agent to receive the refund. This appointment cannot be changed later.

Line 68b

The routing number **must** be **nine** digits. The first two digits must be 01 through 12 or 21 through 32. Otherwise, the direct deposit will be rejected and a check sent instead. On the sample check on page 52, the routing number is 250250025.

Your check may state that it is payable through a financial institution different from the one at which you have your checking account. If so, **do not** use the routing number on that check. Instead, contact your financial institution for the correct routing number to enter on line 68b.

Line 68d

The account number can be up to 17 characters (both numbers and letters). Include hyphens but omit spaces and special symbols. Enter the number from left to right and leave any unused boxes blank. On the sample check on page 52, the account number is 20202086. Be sure **not** to include the check number.

(Continued on page 52)



Some financial institutions will not allow a joint refund to be deposited into an individual account. If the direct deposit is rejected, a check will be sent instead. The IRS is not responsible if a financial institution rejects a direct deposit.

Line 69

Applied to Your 2002 Estimated Tax

Enter on line 69 the amount, if any, of the overpayment on line 67 you want applied to your 2002 estimated tax. We will apply this amount to your account unless you attach a statement requesting us to apply it to your spouse's account. Include your spouse's social security number in the attached statement.



This election to apply part or all of the amount overpaid to your 2002 estimated tax cannot be changed later.

Amount You Owe

Line 70

Amount You Owe



You do not have to pay if line 70 is under \$1.

Include any estimated tax penalty from line 71 in the amount you enter on line 70.

Sample Check—Lines 68b Through 68d

CURT MAPLE
ANNE MAPLE
123 Pear Lane
Anyplace, VA 20000

PAY TO THE ORDER OF _____ \$ 1234.00
DOLLARS

ANYPLACE BANK
Anyplace, VA 20000

Routing number (line 68b): 250250025
Account number (line 68d): 2020201186

For _____

1:250250025:2020201186:1234

Do not include the check number.

Note. The routing and account numbers may be in different places on your check.

You can pay by check, money order, or credit card. **Do not** include any estimated tax payment in your check, money order, or amount you charge. Instead, make the estimated tax payment separately.

To Pay by Check or Money Order. Make your check or money order payable to the “United States Treasury” for the full amount due. **Do not** send cash. **Do not** attach the payment to your return. Write “2001 Form 1040” and your name, address, daytime phone number, and social security number (SSN) on your payment. If you are filing a joint return, enter the SSN shown first on your tax return.

To help us process your payment, enter the amount on the right side of the check like this: \$ XXX.XX. Do not use dashes or lines (for example, do not enter “\$ XXX—” or “\$ XXX $\frac{XX}{100}$ ”).

Then, please complete **Form 1040-V** following the instructions on that form and enclose it in the envelope with your tax return and payment. Although you do not have to use Form 1040-V, doing so allows us to process your payment more accurately and efficiently.

To Pay by Credit Card. You may use your American Express® Card, Discover® Card, or MasterCard® card. To pay by credit card, call toll free or access by Internet one of the service providers listed on this page and follow the instructions. A convenience fee will be charged by the service provider 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 you will have the option to either continue or cancel the transaction. You can also find out what the fee will be by calling the provider's toll-free automated customer

service number or visiting the provider's Web Site shown below. **If you paid by credit card**, enter on page 1 of Form 1040 in the upper left corner the confirmation number you were given at the end of the transaction and the amount you charged (not including the convenience fee).

PhoneCharge, Inc.
1-888-ALLTAXX (1-888-255-8299)
1-877-851-9964 (Customer Service)
www.1888ALLTAXX.com

Official Payments Corporation
1-800-2PAY-TAX (1-800-272-9829)
1-877-754-4413 (Customer Service)
www.officialpayments.com



You may need to (a) increase the amount of income tax withheld from your pay by filing a new **Form W-4** or (b) make estimated tax payments for 2002. See **Income Tax Withholding and Estimated Tax Payments for 2002** on page 54.

What if You Cannot Pay?

If you cannot pay the full amount shown on line 70 when you file, you may ask to make monthly **installment payments**. You may have up to 60 months to pay. However, you will be charged interest and may be charged a late payment penalty on the tax not paid by April 15, 2002, even if your request to pay in installments is granted. You must also pay a fee. To limit the interest and penalty charges, pay as much of the tax as possible when you file. 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**. You should receive a response to your request for installments within 30 days. But if you file your return after March 31, it may take us longer to reply.

Line 71

Estimated Tax Penalty



You must include household employment taxes reported on line 57 to see if you owe the penalty if line 59 is more than zero or you would owe the penalty even if you did not include those taxes. But if you entered an amount on Schedule H, line 7, include the total of that amount plus the amount on Form 1040, line 57.

(Continued on page 53)

You may owe this penalty if:

- Line 70 is at least \$1,000 and it is more than 10% of the tax shown on your return or
- You did not pay enough estimated tax by any of the due dates. This is true even if you are due a refund.

For most people, the “tax shown on your return” is the amount on line 58 minus the total of any amounts shown on lines 61a and 63 and Forms 8828, 4137, 4136, and 5329 (Parts III, IV, V, VI, and VII only).

Exception. You will not owe the penalty if your 2000 tax return was for a tax year of 12 full months **and either** of the following applies.

1. You had no tax liability for 2000 and you were a U.S. citizen or resident for all of 2000 **or**
2. The total of lines 59, 60, and 62 on your 2001 return is at least as much as the tax liability shown on your 2000 return. Your estimated tax payments for 2001 must have been made on time and for the required amount.



If your 2000 adjusted gross income was over \$150,000 (over \$75,000 if your 2001 filing status is married filing separately), item 2 above applies only if the total of lines 59, 60, and 62 on your 2001 return is at least 110% of the tax liability shown on your 2000 return. This rule does not apply to farmers and fishermen.

Figuring the Penalty

If the **Exception** above does not apply and you choose to figure the penalty yourself, see **Form 2210** (or **2210-F** for farmers and fishermen) to find out if you owe the penalty. If you do, you can use the form to figure the amount. In certain situations, you may be able to lower your penalty. For details, see the Instructions for Form 2210 (or 2210-F).

Enter the penalty on line 71. Add the penalty to any tax due and enter the total on line 70. If you are due a refund, subtract the penalty from the overpayment you show on line 67. **Do not** file Form 2210 with your return unless Form 2210 indicates that you must do so. Instead, keep it for your records.



Because Form 2210 is complicated, if you want to, you can leave line 71 blank and the IRS will figure the penalty and send you a bill. We will not charge you interest on the penalty if you pay by the date specified on the bill.

Third Party Designee

If you want to allow a friend, family member, or any other person you choose to discuss your 2001 tax return with the IRS, check the “Yes” box in the “Third Party Designee” area of your return. Also, enter the designee’s name, phone number, and any five numbers the designee chooses as his or her personal identification number (PIN). **But** 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. You do not have to provide the other information requested.

If you check the “Yes” box, you, and your spouse if filing a joint return, are authorizing the IRS to call the designee to answer any questions that may arise during the processing of your return. You are also authorizing the designee to:

- Give the IRS any information that is missing from your return,
- Call the IRS for information about the processing of your return or the status of your refund or payment(s), and
- Respond to certain IRS notices that you have shared with the designee about math errors, offsets, and return preparation. The notices will not be sent to the designee.

You are not authorizing the designee to receive any refund check, bind you to anything (including any additional tax liability), or otherwise represent you before the IRS. If you want to expand the designee’s authorization, see **Pub. 947**.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing your 2002 tax return. This is April 15, 2003, for most people.

Sign Your Return

Form 1040 is not considered a valid return unless you sign it. If you are filing a joint return, your spouse must also sign. If your spouse cannot sign the return, see **Pub. 501**. If you have someone prepare your return, you are still responsible for the correctness of the return. If you are filing a joint return as a surviving spouse, see **Death of a Taxpayer** on page 55.

Child’s Return

If your child cannot sign the return, either parent may sign the child’s name in the

space provided. Then, add “By (your signature), parent for minor child.”

Daytime Phone Number

Providing your daytime phone number may help speed the processing of your return. We may have questions about items on your return, such as the earned income credit, credit for child and dependent care expenses, etc. By answering our questions over the phone, we may be able to continue processing your return without mailing you a letter. If you are filing a joint return, you may enter either your or your spouse’s daytime phone number.

Paid Preparer Must Sign Your Return

Generally, anyone you pay to prepare your return must sign it by hand in the space provided. Signature stamps or labels cannot be used. The preparer must give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign your return.

Assemble Your Return

Assemble any schedules and forms behind Form 1040 in order of the “Attachment Sequence No.” shown in the upper right corner of the schedule or form. If you have supporting statements, arrange them in the same order as the schedules or forms they support and attach them last. **Do not** attach correspondence or other items unless required to do so. Attach a copy of Forms W-2, W-2G, and 2439 to the front of Form 1040. Also attach Form(s) 1099-R to the front of Form 1040 if tax was withheld.

General Information

How To Avoid Common Mistakes

Mistakes may delay your refund or result in notices being sent to you.

1. Make sure you entered the correct name and social security number (SSN) for each dependent you claim on line 6c. Also, make sure you check the box in column (4) of line 6c for each dependent under age 17 who is also a qualifying child for the child tax credit.

2. Check your math, especially for the child tax credit, earned income credit, taxable social security benefits, total income, itemized deductions or standard deduction, deduction for exemptions, taxable income, total tax, Federal income tax withheld, and refund or amount you owe.

3. Be sure you use the correct method to figure your tax. See the instructions for line 40 that begin on page 33.

4. Be sure to enter your SSN in the space provided on page 1 of Form 1040. If you are married filing a joint or separate return, also enter your spouse's SSN. Be sure to enter your SSN in the space next to your name.

5. Make sure your name and address are correct on the peel-off label. If not, enter the correct information. If you did not get a peel-off label, enter your (and your spouse's) name in the same order as shown on your last return.

6. If you are taking the standard deduction and you checked any box on line 35a or you (or your spouse if filing jointly) can be claimed as a dependent on someone else's 2001 return, see page 31 to be sure you entered the correct amount on line 36.

7. If you received capital gain distributions but were not required to file Schedule D, make sure you check the box on line 13.

8. Remember to **sign** and date Form 1040 and enter your occupation.

9. Attach your W-2 form(s) and other required forms and schedules. Put all forms and schedules in the proper order. See **Assemble Your Return** on page 53.

10. If you owe tax and are paying by check or money order, be sure to include all the required information on your payment. See the instructions for line 70 on page 52 for details.

What Are Your Rights as a Taxpayer?

You have the right to be treated fairly, professionally, promptly, and courteously by

IRS employees. Our goal at the IRS is to protect your rights so that you will have the highest confidence in the integrity, efficiency, and fairness of our tax system. To ensure that you always receive such treatment, you should know about the many rights you have at each step of the tax process. For details, see **Pub. 1**.

Innocent Spouse Relief

You may qualify for relief from liability for tax on a joint return if (a) there is an understatement of tax because your spouse omitted income or claimed false deductions or credits, (b) you are divorced, separated, or no longer living with your spouse, or (c) given all the facts and circumstances, it would not be fair to hold you liable. See **Form 8857** or **Pub. 971** for more details.

Income Tax Withholding and Estimated Tax Payments for 2002

If the amount you owe or the amount you overpaid is large, you may want to file a new **Form W-4** with your employer to change the amount of income tax withheld from your 2002 pay. For details on how to complete Form W-4, see **Pub. 919** or visit the IRS Web Site at www.irs.gov/prod/ind_info/webw4/index.html.

In general, you do not have to make estimated tax payments if you expect that your 2002 Form 1040 will show a tax refund or a tax balance due the IRS of less than \$1,000. If your total estimated tax (including any household employment taxes or alternative minimum tax) for 2002 is \$1,000 or more, see **Form 1040-ES**. It has a worksheet you can use to see if you have to make estimated tax payments. For more details, see **Pub. 505**.

Do Both the Name and SSN on Your Tax Forms Agree With Your Social Security Card?

If not, certain deductions and credits may be reduced or disallowed, your refund may be delayed, and you may not receive credit for your social security earnings. If your Form W-2, Form 1099, or other tax document shows an incorrect SSN or name, notify your employer or the form-issuing agent as soon as possible to make sure your earnings are credited to your social security record. If the name or SSN on your social security card is incorrect, call the Social Security Administration at 1-800-772-1213.

How Do You Make a Gift To Reduce the Public Debt?

If you wish to do so, make a check payable to "Bureau of the Public Debt." You can send it to: Bureau of the Public Debt, Department G, P.O. Box 2188, Parkersburg, WV 26106-2188. Or you can enclose the check with your income tax return when you file. Do not add your gift to any tax you may owe. See page 52 for details on how to pay any tax you owe.



If you itemize your deductions for 2002, you may be able to deduct this gift.

Address Change

If you move after you file, always notify the IRS in writing of your new address. To do this, you can use **Form 8822**.

How Long Should Records Be Kept?

Keep a copy of your tax return, worksheets you used, and records of all items appearing on it (such as W-2 and 1099 forms) until the statute of limitations runs out for that return. Usually, this is 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever is later. You should keep some records longer. For example, keep property records (including those on your home) as long as they are needed to figure the basis of the original or replacement property. For more details, see **Pub. 552**.

Amended Return

File **Form 1040X** to change a return you already filed. Generally, Form 1040X must be filed within 3 years after the date the original return was filed, or within 2 years after the date the tax was paid, whichever is later. But you may have more time to file Form 1040X if you are physically or mentally unable to manage your financial affairs. See **Pub. 556** for details.

Need a Copy of Your Tax Return?

If you need a copy of your tax return, use **Form 4506**. If you have questions about your account, call or write your local IRS office. If you want a printed copy of your account, it will be mailed to you free of charge.

Death of a Taxpayer

If a taxpayer died before filing a return for 2001, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. A personal representative can be an executor, administrator, or anyone who is in charge of the deceased taxpayer's property. If the deceased taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund. The person who files the return should enter "DECEASED," the deceased taxpayer's name, and the date of death across the top of the return.

If your spouse died in 2001 and you did not remarry in 2001, you can file a joint return. You can also file a joint return if your spouse died in 2002 before filing a return for 2001. A joint return should show your spouse's 2001 income before death and your income for all of 2001. Enter "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign.

The surviving spouse or personal representative should promptly notify all payers of income, including financial institutions, of the taxpayer's death. This will ensure the proper reporting of income earned by the taxpayer's estate or heirs. A deceased taxpayer's social security number should not be used for tax years after the year of death, except for estate tax return purposes.

Claiming a Refund for a Deceased Taxpayer

If you are filing a joint return as a surviving spouse, you only need to file the tax return to claim the refund. If you are a court-appointed representative, file the return and attach a copy of the certificate that shows your appointment. All other filers requesting the deceased taxpayer's refund must file the return and attach **Form 1310**.

For more details, use TeleTax topic 356 (see page 11) or see **Pub. 559**.



Delete the Paperwork. Hit

SEND

So easy, no wonder 40 million people use it! You can file electronically, sign electronically, and get your refund or even pay electronically. IRS *e-file* offers accurate, safe, and fast alternatives to filing on paper. IRS computers quickly and automatically check for errors or other missing information. This year, almost all forms and schedules can be

e-filed. Even returns with a foreign address can be *e-filed*! The chance of an audit of an *e-filed* tax return is no greater than with a paper filed return. Forty million taxpayers just like you filed their tax returns electronically using an IRS *e-file* option because of the many benefits:

- Accuracy!
- Security!
- Electronic Signatures!
- Proof of Acceptance!
- Fast Refunds!
- FREE/Low-Cost Filing!
- Electronic Payment Options!
- Federal/State *e-file*!



Use an Authorized IRS *e-file* Provider. Many tax professionals can electronically file paperless returns for their clients. As a taxpayer, you have two options: **1.** You can prepare your return, take it to a tax professional, ask to sign it electronically using a five-digit self-selected Personal Identification Number (PIN) and then have the tax professional transmit it electronically to the IRS, or **2.** You can have a tax professional prepare your return, you can sign it electronically using a five-digit self-selected PIN, and have your preparer transmit it for you electronically.

Depending on the tax professional and the specific services requested, a fee may be charged. Look for the "Authorized IRS *e-file* Provider" sign or check the IRS Web Site at www.irs.gov for an "Authorized IRS *e-file* Provider" near you.

Use Your Personal Computer. A computer with a modem and/or Internet access is all you need to file your tax return using IRS *e-file*. You can buy tax preparation software at various electronics stores or computer and office supply stores. You can download software from the Internet or prepare and file your return completely on-line by using a tax preparation software package on the Internet (nothing to buy or install). Best of all, you can *e-file* your tax return from the comfort of your home any time of the day or night. Sign your return electronically using a five-digit self-selected PIN to complete the process. There is no signature form to submit or Forms W-2 to send in. IRS *e-file* is totally paperless! Within 48 hours of filing, you will receive confirmation that the IRS has received your return. To find free and low-cost *e-file* opportunities for taxpayers who qualify or a list of all software companies that participate in the IRS *e-file* program, visit our Web Site at www.irs.gov. Once your return is prepared, you will need a modem and/or Internet access to file it electronically.



Use a Telephone. For millions of eligible taxpayers, TeleFile is the easiest way to file. TeleFile allows you to file your simple Federal income tax return using a touch-tone telephone. Only taxpayers who met the qualifications for Form 1040EZ in the prior year are eligible to receive the TeleFile Tax Package for the current year. A TeleFile Tax Package is automatically mailed to you if you are eligible. **Parents: If your children receive a TeleFile Tax Package, please encourage them to use TeleFile.**

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.

Visit a VITA or TCE Site. Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites are open to low-income individuals, others who need help with their tax returns, and the elderly. Both programs are free and can be found at many libraries, colleges, universities, shopping malls, and retirement and senior centers. Find the closest VITA or TCE site by calling 1-800-829-1040. Remember to take your spouse's, your dependent's, and your own social security cards and other identifying documents. Ask for IRS *e-file* at these sites.

DIRECT DEPOSIT
Simple. Safe. Secure.

Fast Refunds!

Choose Direct Deposit—a fast, simple, safe, secure way to have your Federal income tax refund deposited automatically into your checking or savings account. To choose Direct Deposit, taxpayers are prompted by the tax preparation software to indicate on the refund portion of the electronic return the financial institution's routing number, account number, and type of account—either checking or savings. Taxpayers who file electronically receive their refunds in less than half the time paper filers do and with Direct Deposit—in as few as 10 days!

Electronic Signatures! Paperless filing is easier than you think and it's available to most taxpayers who file electronically—including those first-time filers who were 16 or older on December 31, 2001. It's available to individuals preparing their own returns using tax preparation software or those who use a tax professional. Regardless of the *e-filing* method you choose, you may be able to participate in the Self-Select PIN program. If you are married filing a joint return, you and your spouse will each need to create a PIN and enter it as your electronic signature.

If using tax preparation software, the process includes completing your income tax return on your personal computer and when prompted, signing electronically. You will enter a five-digit PIN that will serve as your electronic signature.

For more details on qualifications and required taxpayer information for the Self-Select PIN or on IRS *e-file*, please visit the IRS Web Site at www.irs.gov.

Forms 8453 and 8453-OL. Your return is not complete without your signature. If you are not eligible or choose not to participate in the Self-Select PIN program for signing your return electronically, you must complete and sign **Form 8453** or **Form 8453-OL**, whichever applies.

Electronic Payment Options! If you owe tax, you can make your payment electronically.

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. This option is available using tax software packages, tax professionals, and TeleFile.

Credit Card. You can also *e-file* and pay in a single step by authorizing a credit card payment. This option is available through some tax preparation software packages and tax professionals. Two other ways to pay by credit card are by telephone or Internet (see **Amount You Owe** on page 52 for details). Service providers charge a convenience fee for credit card payments.

Federal/State *e-file*! File Federal and state tax returns together using *e-file* and double the benefits of *e-file*! The tax preparation software automatically transfers relevant data from the Federal income tax return to the state income tax return as the information is entered. Currently, 37 states and the District of Columbia participate in the Federal/State *e-file* program. To see a complete list of states, check the IRS Web Site at www.irs.gov.

Delete the Paperwork. Hit

SEND

All tax returns prepared electronically should be filed electronically. It's just a matter of clicking Send instead of Print! **Remember!** You get automatic confirmation within 48 hours that the IRS received your *e-filed* income tax return for processing.



Is Also Available! IRS

for Business *e-file* for Business is an electronic method to file business returns. For details, visit the IRS Web Site at www.irs.gov.



EFTPS™ **Electronic Federal Tax Payment System** offers another way to pay your Federal taxes. It's available to business and individual taxpayers. For details, visit www.EFTPS.gov or call EFTPS Customer Service at **1-800-555-4477** or **1-800-945-8400**.

Other Ways To Get Help

Send Your Written Tax Questions to the IRS. You should get an answer in about 30 days. If you do not have the address, call us. See page 13 for the number. Do not send questions with your return.

Assistance With Your Return. IRS offices can help you prepare your return. An assister will explain a Form 1040EZ, 1040A, or 1040 with Schedules A and B to you and other taxpayers in a group setting. You may also be able to file your return electronically by computer free of charge at some IRS offices. To find the IRS office nearest you, look in the phone book under "United States Government, Internal Revenue Service" or call us. See page 13 for the number.

VITA and TCE. These programs help older, disabled, low-income, and non-English-speaking people fill in their returns. For details, call us. See page 13 for the number. If you received a Federal income tax package in the mail, take it with you when you go for help. Also take a copy of your 2000 tax return if you have it. **Or** to find the nearest AARP Tax-Aide site, visit AARP's Web Site at www.aarp.org/taxaide or call **1-877-227-7844**.

On-Line Services. If you subscribe to an on-line service, ask about on-line filing or tax information.

Large-Print Forms and Instructions. **Pub. 1614** has large-print copies of Form 1040, Schedules A, B, D, E, EIC, and R, and Forms 1040-V and 8812, and their instructions. You can use the large-print forms and schedules as worksheets to figure your tax, but you cannot file them. You can get **Pub. 1614** by phone or mail. See pages 7 and 57.

Help for People With Disabilities. Telephone help is available using TTY/TDD equipment. See page 13 for the number. Braille materials are available at libraries that have special services for people with disabilities.

Interest and Penalties

Note. You do not have to figure the amount of any interest or penalties you may owe. Because figuring these amounts can be complicated, we will do it for you if you want. We will send you a bill for any amount due.

If you include interest or penalties (other than the estimated tax penalty) with your payment, identify and enter the amount in the bottom margin of Form 1040, page 2. **Do not** include interest or penalties (other than the estimated tax penalty) in the **amount you owe** on line 70.

Interest

We will charge you interest on taxes not paid by their due date, even if an extension of time to file is granted. We will also charge you interest on penalties imposed for failure to file, negligence, fraud, substantial valuation misstatements, and substantial understatements of tax. Interest is charged on the penalty from the due date of the return (including extensions).

Penalties

Late Filing. If you do not file your return by the due date (including extensions), the penalty is usually 5% of the amount due for each month or part of a month your return is late, unless you have a reasonable explanation. If you do, attach it to your return. The penalty can be as much as 25% (more in some cases) of the tax due. If your return is more than 60 days late, the minimum penalty will be \$100 or the amount of any tax you owe, whichever is smaller.

Late Payment of Tax. If you pay your taxes late, the penalty is usually ½ of 1% of the unpaid amount for each month or part of a month the tax is not paid. The penalty can be as much as 25% of the unpaid amount. It applies to any unpaid tax on the return. This penalty is in addition to interest charges on late payments.

Frivolous Return. In addition to any other penalties, the law imposes a penalty of \$500 for filing a frivolous return. A frivolous return is one that does not contain information needed to figure the correct tax or shows a substantially incorrect tax because you take a frivolous position or desire to delay or interfere with the tax laws. This includes altering or striking out the preprinted language above the space where you sign.

Other. Other penalties can be imposed for negligence, substantial understatement of tax, and fraud. Criminal penalties may be imposed for willful failure to file, tax evasion, or making a false statement. See **Pub. 17** for details on some of these penalties.

Order Blank for Forms and Publications

The most frequently ordered forms and publications are listed on the order blank below. See pages 8 through 10 for the titles of the forms and publications. We will mail you two copies of each form and one copy of each publication you order. To help reduce waste, please order only the items you need to prepare your return.



For faster ways of getting the items you need, such as by computer or fax, see page 7.

How To Use the Order Blank

Circle the items you need on the order blank below. Use the blank spaces to order items not listed. If you need more space, attach a separate sheet of paper.

Print or type your name and address accurately in the space provided below. An accurate address will ensure delivery of your order. Cut the order blank on the dotted line. Enclose the order blank in your own envelope and send it to the IRS address shown below that applies to you. You should

receive your order within 10 days after we receive your request.

Do not send your tax return to any of the addresses listed on this page. Instead, see the back cover.



Where To Mail Your Order Blank for Free Forms and Publications

IF you live in the . . .	THEN mail to . . .	AT this address . . .
Western United States	Western Area Distribution Center	Rancho Cordova, CA 95743-0001
Central United States	Central Area Distribution Center	P.O. Box 8903 Bloomington, IL 61702-8903
Eastern United States or a foreign country	Eastern Area Distribution Center	P.O. Box 85074 Richmond, VA 23261-5074

▲ Cut here ▲

Order Blank

Fill in your name and address.

Name		
Postal mailing address		Apt./Suite/Room
City	State	ZIP code
Foreign country		International postal code
Daytime phone number ()		

The items in bold may be picked up at many IRS offices, post offices, and libraries. You may also download all these items from the Internet at www.irs.gov or place an electronic order for them.

Circle the forms and publications you need. The instructions for any form you order will be included.

1040	Schedule F (1040)	Schedule 3 (1040A)	2441	8812	Pub. 463	Pub. 527	Pub. 910
Schedules A&B (1040)	Schedule H (1040)	1040EZ	3903	8822	Pub. 501	Pub. 529	Pub. 926
Schedule C (1040)	Schedule J (1040)	1040-ES (2002)	4562	8829	Pub. 502	Pub. 535	Pub. 929
Schedule C-EZ (1040)	Schedule R (1040)	1040-V	4868	8863	Pub. 505	Pub. 550	Pub. 936
Schedule D (1040)	Schedule SE (1040)	1040X	5329	9465	Pub. 508	Pub. 554	Pub. 970
Schedule D-1 (1040)	1040A	2106	8283	Pub. 1	Pub. 521	Pub. 575	Pub. 972
Schedule E (1040)	Schedule 1 (1040A)	2106-EZ	8582	Pub. 17	Pub. 523	Pub. 590	
Schedule EIC (1040A or 1040)	Schedule 2 (1040A)	2210	8606	Pub. 334	Pub. 525	Pub. 596	

N

2001 Tax Table

Caution. Dependents, see the worksheet on page 33.

Use if your taxable income is less than \$100,000.
If \$100,000 or more, use the Tax Rate Schedules.

Example. Mr. and Mrs. Brown are filing a joint return. Their taxable income on line 39 of Form 1040 is \$25,300. First, they find the \$25,300–25,350 income line. Next, they find the column for married filing jointly and read down the column. The amount shown where the income line and filing status column meet is \$3,799. This is the tax amount they should enter on line 40 of their Form 1040.

Sample Table

At least	But less than	Single	Married filing jointly*	Married filing separately	Head of a household
Your tax is—					
25,200	25,250	3,784	3,784	4,112	3,784
25,250	25,300	3,791	3,791	4,126	3,791
25,300	25,350	3,799	3,799	4,139	3,799
25,350	25,400	3,806	3,806	4,153	3,806

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly*	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly*	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly*	Married filing separately	Head of a household
Your tax is—		Your tax is—				Your tax is—		Your tax is—				Your tax is—		Your tax is—			
0	5	0	0	0	0	1,300	1,325	197	197	197	197	2,700	2,725	407	407	407	407
5	15	2	2	2	2	1,325	1,350	201	201	201	201	2,725	2,750	411	411	411	411
15	25	3	3	3	3	1,350	1,375	204	204	204	204	2,750	2,775	414	414	414	414
25	50	6	6	6	6	1,375	1,400	208	208	208	208	2,775	2,800	418	418	418	418
50	75	9	9	9	9	1,400	1,425	212	212	212	212	2,800	2,825	422	422	422	422
75	100	13	13	13	13	1,425	1,450	216	216	216	216	2,825	2,850	426	426	426	426
100	125	17	17	17	17	1,450	1,475	219	219	219	219	2,850	2,875	429	429	429	429
125	150	21	21	21	21	1,475	1,500	223	223	223	223	2,875	2,900	433	433	433	433
150	175	24	24	24	24	1,500	1,525	227	227	227	227	2,900	2,925	437	437	437	437
175	200	28	28	28	28	1,525	1,550	231	231	231	231	2,925	2,950	441	441	441	441
200	225	32	32	32	32	1,550	1,575	234	234	234	234	2,950	2,975	444	444	444	444
225	250	36	36	36	36	1,575	1,600	238	238	238	238	2,975	3,000	448	448	448	448
250	275	39	39	39	39	1,600	1,625	242	242	242	242	3,000					
275	300	43	43	43	43	1,625	1,650	246	246	246	246	3,000	3,050	454	454	454	454
300	325	47	47	47	47	1,650	1,675	249	249	249	249	3,050	3,100	461	461	461	461
325	350	51	51	51	51	1,675	1,700	253	253	253	253	3,100	3,150	469	469	469	469
350	375	54	54	54	54	1,700	1,725	257	257	257	257	3,150	3,200	476	476	476	476
375	400	58	58	58	58	1,725	1,750	261	261	261	261	3,200	3,250	484	484	484	484
400	425	62	62	62	62	1,750	1,775	264	264	264	264	3,250	3,300	491	491	491	491
425	450	66	66	66	66	1,775	1,800	268	268	268	268	3,300	3,350	499	499	499	499
450	475	69	69	69	69	1,800	1,825	272	272	272	272	3,350	3,400	506	506	506	506
475	500	73	73	73	73	1,825	1,850	276	276	276	276	3,400	3,450	514	514	514	514
500	525	77	77	77	77	1,850	1,875	279	279	279	279	3,450	3,500	521	521	521	521
525	550	81	81	81	81	1,875	1,900	283	283	283	283	3,500	3,550	529	529	529	529
550	575	84	84	84	84	1,900	1,925	287	287	287	287	3,550	3,600	536	536	536	536
575	600	88	88	88	88	1,925	1,950	291	291	291	291	3,600	3,650	544	544	544	544
600	625	92	92	92	92	1,950	1,975	294	294	294	294	3,650	3,700	551	551	551	551
625	650	96	96	96	96	1,975	2,000	298	298	298	298	3,700	3,750	559	559	559	559
650	675	99	99	99	99	2,000						3,750	3,800	566	566	566	566
675	700	103	103	103	103	2,000	2,025	302	302	302	302	3,800	3,850	574	574	574	574
700	725	107	107	107	107	2,025	2,050	306	306	306	306	3,850	3,900	581	581	581	581
725	750	111	111	111	111	2,050	2,075	309	309	309	309	3,900	3,950	589	589	589	589
750	775	114	114	114	114	2,075	2,100	313	313	313	313	3,950	4,000	596	596	596	596
775	800	118	118	118	118	2,100	2,125	317	317	317	317	4,000					
800	825	122	122	122	122	2,125	2,150	321	321	321	321	4,000	4,050	604	604	604	604
825	850	126	126	126	126	2,150	2,175	324	324	324	324	4,050	4,100	611	611	611	611
850	875	129	129	129	129	2,175	2,200	328	328	328	328	4,100	4,150	619	619	619	619
875	900	133	133	133	133	2,200	2,225	332	332	332	332	4,150	4,200	626	626	626	626
900	925	137	137	137	137	2,225	2,250	336	336	336	336	4,200	4,250	634	634	634	634
925	950	141	141	141	141	2,250	2,275	339	339	339	339	4,250	4,300	641	641	641	641
950	975	144	144	144	144	2,275	2,300	343	343	343	343	4,300	4,350	649	649	649	649
975	1,000	148	148	148	148	2,300	2,325	347	347	347	347	4,350	4,400	656	656	656	656
1,000						2,325	2,350	351	351	351	351	4,400	4,450	664	664	664	664
1,000	1,025	152	152	152	152	2,350	2,375	354	354	354	354	4,450	4,500	671	671	671	671
1,025	1,050	156	156	156	156	2,375	2,400	358	358	358	358	4,500	4,550	679	679	679	679
1,050	1,075	159	159	159	159	2,400	2,425	362	362	362	362	4,550	4,600	686	686	686	686
1,075	1,100	163	163	163	163	2,425	2,450	366	366	366	366	4,600	4,650	694	694	694	694
1,100	1,125	167	167	167	167	2,450	2,475	369	369	369	369	4,650	4,700	701	701	701	701
1,125	1,150	171	171	171	171	2,475	2,500	373	373	373	373	4,700	4,750	709	709	709	709
1,150	1,175	174	174	174	174	2,500	2,525	377	377	377	377	4,750	4,800	716	716	716	716
1,175	1,200	178	178	178	178	2,525	2,550	381	381	381	381	4,800	4,850	724	724	724	724
1,200	1,225	182	182	182	182	2,550	2,575	384	384	384	384	4,850	4,900	731	731	731	731
1,225	1,250	186	186	186	186	2,575	2,600	388	388	388	388	4,900	4,950	739	739	739	739
1,250	1,275	189	189	189	189	2,600	2,625	392	392	392	392	4,950	5,000	746	746	746	746
1,275	1,300	193	193	193	193	2,625	2,650	396	396	396	396	<i>(Continued on page 60)</i>					
						2,650	2,675	399	399	399	399						
						2,675	2,700	403	403	403	403						

* This column must also be used by a qualifying widow(er).

2001 Tax Table—Continued **Caution.** Dependents, see the worksheet on page 33.

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
5,000						8,000						11,000					
5,000	5,050	754	754	754	754	8,000	8,050	1,204	1,204	1,204	1,204	11,000	11,050	1,654	1,654	1,654	1,654
5,050	5,100	761	761	761	761	8,050	8,100	1,211	1,211	1,211	1,211	11,050	11,100	1,661	1,661	1,661	1,661
5,100	5,150	769	769	769	769	8,100	8,150	1,219	1,219	1,219	1,219	11,100	11,150	1,669	1,669	1,669	1,669
5,150	5,200	776	776	776	776	8,150	8,200	1,226	1,226	1,226	1,226	11,150	11,200	1,676	1,676	1,676	1,676
5,200	5,250	784	784	784	784	8,200	8,250	1,234	1,234	1,234	1,234	11,200	11,250	1,684	1,684	1,684	1,684
5,250	5,300	791	791	791	791	8,250	8,300	1,241	1,241	1,241	1,241	11,250	11,300	1,691	1,691	1,691	1,691
5,300	5,350	799	799	799	799	8,300	8,350	1,249	1,249	1,249	1,249	11,300	11,350	1,699	1,699	1,699	1,699
5,350	5,400	806	806	806	806	8,350	8,400	1,256	1,256	1,256	1,256	11,350	11,400	1,706	1,706	1,706	1,706
5,400	5,450	814	814	814	814	8,400	8,450	1,264	1,264	1,264	1,264	11,400	11,450	1,714	1,714	1,714	1,714
5,450	5,500	821	821	821	821	8,450	8,500	1,271	1,271	1,271	1,271	11,450	11,500	1,721	1,721	1,721	1,721
5,500	5,550	829	829	829	829	8,500	8,550	1,279	1,279	1,279	1,279	11,500	11,550	1,729	1,729	1,729	1,729
5,550	5,600	836	836	836	836	8,550	8,600	1,286	1,286	1,286	1,286	11,550	11,600	1,736	1,736	1,736	1,736
5,600	5,650	844	844	844	844	8,600	8,650	1,294	1,294	1,294	1,294	11,600	11,650	1,744	1,744	1,744	1,744
5,650	5,700	851	851	851	851	8,650	8,700	1,301	1,301	1,301	1,301	11,650	11,700	1,751	1,751	1,751	1,751
5,700	5,750	859	859	859	859	8,700	8,750	1,309	1,309	1,309	1,309	11,700	11,750	1,759	1,759	1,759	1,759
5,750	5,800	866	866	866	866	8,750	8,800	1,316	1,316	1,316	1,316	11,750	11,800	1,766	1,766	1,766	1,766
5,800	5,850	874	874	874	874	8,800	8,850	1,324	1,324	1,324	1,324	11,800	11,850	1,774	1,774	1,774	1,774
5,850	5,900	881	881	881	881	8,850	8,900	1,331	1,331	1,331	1,331	11,850	11,900	1,781	1,781	1,781	1,781
5,900	5,950	889	889	889	889	8,900	8,950	1,339	1,339	1,339	1,339	11,900	11,950	1,789	1,789	1,789	1,789
5,950	6,000	896	896	896	896	8,950	9,000	1,346	1,346	1,346	1,346	11,950	12,000	1,796	1,796	1,796	1,796
6,000						9,000						12,000					
6,000	6,050	904	904	904	904	9,000	9,050	1,354	1,354	1,354	1,354	12,000	12,050	1,804	1,804	1,804	1,804
6,050	6,100	911	911	911	911	9,050	9,100	1,361	1,361	1,361	1,361	12,050	12,100	1,811	1,811	1,811	1,811
6,100	6,150	919	919	919	919	9,100	9,150	1,369	1,369	1,369	1,369	12,100	12,150	1,819	1,819	1,819	1,819
6,150	6,200	926	926	926	926	9,150	9,200	1,376	1,376	1,376	1,376	12,150	12,200	1,826	1,826	1,826	1,826
6,200	6,250	934	934	934	934	9,200	9,250	1,384	1,384	1,384	1,384	12,200	12,250	1,834	1,834	1,834	1,834
6,250	6,300	941	941	941	941	9,250	9,300	1,391	1,391	1,391	1,391	12,250	12,300	1,841	1,841	1,841	1,841
6,300	6,350	949	949	949	949	9,300	9,350	1,399	1,399	1,399	1,399	12,300	12,350	1,849	1,849	1,849	1,849
6,350	6,400	956	956	956	956	9,350	9,400	1,406	1,406	1,406	1,406	12,350	12,400	1,856	1,856	1,856	1,856
6,400	6,450	964	964	964	964	9,400	9,450	1,414	1,414	1,414	1,414	12,400	12,450	1,864	1,864	1,864	1,864
6,450	6,500	971	971	971	971	9,450	9,500	1,421	1,421	1,421	1,421	12,450	12,500	1,871	1,871	1,871	1,871
6,500	6,550	979	979	979	979	9,500	9,550	1,429	1,429	1,429	1,429	12,500	12,550	1,879	1,879	1,879	1,879
6,550	6,600	986	986	986	986	9,550	9,600	1,436	1,436	1,436	1,436	12,550	12,600	1,886	1,886	1,886	1,886
6,600	6,650	994	994	994	994	9,600	9,650	1,444	1,444	1,444	1,444	12,600	12,650	1,894	1,894	1,894	1,894
6,650	6,700	1,001	1,001	1,001	1,001	9,650	9,700	1,451	1,451	1,451	1,451	12,650	12,700	1,901	1,901	1,901	1,901
6,700	6,750	1,009	1,009	1,009	1,009	9,700	9,750	1,459	1,459	1,459	1,459	12,700	12,750	1,909	1,909	1,909	1,909
6,750	6,800	1,016	1,016	1,016	1,016	9,750	9,800	1,466	1,466	1,466	1,466	12,750	12,800	1,916	1,916	1,916	1,916
6,800	6,850	1,024	1,024	1,024	1,024	9,800	9,850	1,474	1,474	1,474	1,474	12,800	12,850	1,924	1,924	1,924	1,924
6,850	6,900	1,031	1,031	1,031	1,031	9,850	9,900	1,481	1,481	1,481	1,481	12,850	12,900	1,931	1,931	1,931	1,931
6,900	6,950	1,039	1,039	1,039	1,039	9,900	9,950	1,489	1,489	1,489	1,489	12,900	12,950	1,939	1,939	1,939	1,939
6,950	7,000	1,046	1,046	1,046	1,046	9,950	10,000	1,496	1,496	1,496	1,496	12,950	13,000	1,946	1,946	1,946	1,946
7,000						10,000						13,000					
7,000	7,050	1,054	1,054	1,054	1,054	10,000	10,050	1,504	1,504	1,504	1,504	13,000	13,050	1,954	1,954	1,954	1,954
7,050	7,100	1,061	1,061	1,061	1,061	10,050	10,100	1,511	1,511	1,511	1,511	13,050	13,100	1,961	1,961	1,961	1,961
7,100	7,150	1,069	1,069	1,069	1,069	10,100	10,150	1,519	1,519	1,519	1,519	13,100	13,150	1,969	1,969	1,969	1,969
7,150	7,200	1,076	1,076	1,076	1,076	10,150	10,200	1,526	1,526	1,526	1,526	13,150	13,200	1,976	1,976	1,976	1,976
7,200	7,250	1,084	1,084	1,084	1,084	10,200	10,250	1,534	1,534	1,534	1,534	13,200	13,250	1,984	1,984	1,984	1,984
7,250	7,300	1,091	1,091	1,091	1,091	10,250	10,300	1,541	1,541	1,541	1,541	13,250	13,300	1,991	1,991	1,991	1,991
7,300	7,350	1,099	1,099	1,099	1,099	10,300	10,350	1,549	1,549	1,549	1,549	13,300	13,350	1,999	1,999	1,999	1,999
7,350	7,400	1,106	1,106	1,106	1,106	10,350	10,400	1,556	1,556	1,556	1,556	13,350	13,400	2,006	2,006	2,006	2,006
7,400	7,450	1,114	1,114	1,114	1,114	10,400	10,450	1,564	1,564	1,564	1,564	13,400	13,450	2,014	2,014	2,014	2,014
7,450	7,500	1,121	1,121	1,121	1,121	10,450	10,500	1,571	1,571	1,571	1,571	13,450	13,500	2,021	2,021	2,021	2,021
7,500	7,550	1,129	1,129	1,129	1,129	10,500	10,550	1,579	1,579	1,579	1,579	13,500	13,550	2,029	2,029	2,029	2,029
7,550	7,600	1,136	1,136	1,136	1,136	10,550	10,600	1,586	1,586	1,586	1,586	13,550	13,600	2,036	2,036	2,036	2,036
7,600	7,650	1,144	1,144	1,144	1,144	10,600	10,650	1,594	1,594	1,594	1,594	13,600	13,650	2,044	2,044	2,044	2,044
7,650	7,700	1,151	1,151	1,151	1,151	10,650	10,700	1,601	1,601	1,601	1,601	13,650	13,700	2,051	2,051	2,051	2,051
7,700	7,750	1,159	1,159	1,159	1,159	10,700	10,750	1,609	1,609	1,609	1,609	13,700	13,750	2,059	2,059	2,059	2,059
7,750	7,800	1,166	1,166	1,166	1,166	10,750	10,800	1,616	1,616	1,616	1,616	13,750	13,800	2,066	2,066	2,066	2,066
7,800	7,850	1,174	1,174	1,174	1,174	10,800	10,850	1,624	1,624	1,624	1,624	13,800	13,850	2,074	2,074	2,074	2,074
7,850	7,900	1,181	1,181	1,181	1,181	10,850	10,900	1,631	1,631	1,631	1,631	13,850	13,900	2,081	2,081	2,081	2,081
7,900	7,950	1,189	1,189	1,189	1,189	10,900	10,950	1,639	1,639	1,639	1,639	13,900	13,950	2,089	2,089	2,089	2,089
7,950	8,000	1,196	1,196	1,196	1,196	10,950	11,000	1,646	1,646	1,646	1,646	13,950	14,000	2,096	2,096	2,096	2,096

* This column must also be used by a qualifying widow(er).

(Continued on page 61)

Caution. Dependents, see the worksheet on page 33. **2001 Tax Table—Continued**

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—																					
		Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household																		
At least	But less than	Your tax is—				At least	But less than	Your tax is—				At least	But less than	Your tax is—																					
14,000		17,000				20,000				15,000		18,000				21,000																			
14,000	14,050	2,104	2,104	2,104	2,104	17,000	17,050	2,554	2,554	2,554	2,554	20,000	20,050	3,004	3,004	3,004	3,004	15,000	15,050	2,254	2,254	2,254	2,254	18,000	18,050	2,704	2,704	2,704	2,704	21,000	21,050	3,154	3,154	3,154	3,154
14,050	14,100	2,111	2,111	2,111	2,111	17,050	17,100	2,561	2,561	2,561	2,561	20,050	20,100	3,011	3,011	3,011	3,011	15,050	15,100	2,261	2,261	2,261	2,261	18,050	18,100	2,711	2,711	2,711	2,711	21,050	21,100	3,161	3,161	3,161	3,161
14,100	14,150	2,119	2,119	2,119	2,119	17,100	17,150	2,569	2,569	2,569	2,569	20,100	20,150	3,019	3,019	3,019	3,019	15,100	15,150	2,269	2,269	2,269	2,269	18,100	18,150	2,719	2,719	2,719	2,719	21,100	21,150	3,169	3,169	3,169	3,169
14,150	14,200	2,126	2,126	2,126	2,126	17,150	17,200	2,576	2,576	2,576	2,576	20,150	20,200	3,026	3,026	3,026	3,026	15,150	15,200	2,276	2,276	2,276	2,276	18,150	18,200	2,726	2,726	2,726	2,726	21,150	21,200	3,176	3,176	3,176	3,176
14,200	14,250	2,134	2,134	2,134	2,134	17,200	17,250	2,584	2,584	2,584	2,584	20,200	20,250	3,034	3,034	3,034	3,034	15,200	15,250	2,284	2,284	2,284	2,284	18,200	18,250	2,734	2,734	2,734	2,734	21,200	21,250	3,184	3,184	3,184	3,184
14,250	14,300	2,141	2,141	2,141	2,141	17,250	17,300	2,591	2,591	2,591	2,591	20,250	20,300	3,041	3,041	3,041	3,041	15,250	15,300	2,291	2,291	2,291	2,291	18,250	18,300	2,741	2,741	2,741	2,741	21,250	21,300	3,191	3,191	3,191	3,191
14,300	14,350	2,149	2,149	2,149	2,149	17,300	17,350	2,599	2,599	2,599	2,599	20,300	20,350	3,049	3,049	3,049	3,049	15,300	15,350	2,299	2,299	2,299	2,299	18,300	18,350	2,749	2,749	2,749	2,749	21,300	21,350	3,199	3,199	3,199	3,199
14,350	14,400	2,156	2,156	2,156	2,156	17,350	17,400	2,606	2,606	2,606	2,606	20,350	20,400	3,056	3,056	3,056	3,056	15,350	15,400	2,306	2,306	2,306	2,306	18,350	18,400	2,756	2,756	2,756	2,756	21,350	21,400	3,206	3,206	3,206	3,206
14,400	14,450	2,164	2,164	2,164	2,164	17,400	17,450	2,614	2,614	2,614	2,614	20,400	20,450	3,064	3,064	3,064	3,064	15,400	15,450	2,314	2,314	2,314	2,314	18,400	18,450	2,764	2,764	2,764	2,764	21,400	21,450	3,214	3,214	3,214	3,214
14,450	14,500	2,171	2,171	2,171	2,171	17,450	17,500	2,621	2,621	2,621	2,621	20,450	20,500	3,071	3,071	3,071	3,071	15,450	15,500	2,321	2,321	2,321	2,321	18,450	18,500	2,771	2,771	2,771	2,771	21,450	21,500	3,221	3,221	3,221	3,221
14,500	14,550	2,179	2,179	2,179	2,179	17,500	17,550	2,629	2,629	2,629	2,629	20,500	20,550	3,079	3,079	3,079	3,079	15,500	15,550	2,329	2,329	2,329	2,329	18,500	18,550	2,779	2,779	2,779	2,779	21,500	21,550	3,229	3,229	3,229	3,229
14,550	14,600	2,186	2,186	2,186	2,186	17,550	17,600	2,636	2,636	2,636	2,636	20,550	20,600	3,086	3,086	3,086	3,086	15,550	15,600	2,336	2,336	2,336	2,336	18,550	18,600	2,786	2,786	2,786	2,786	21,550	21,600	3,236	3,236	3,236	3,236
14,600	14,650	2,194	2,194	2,194	2,194	17,600	17,650	2,644	2,644	2,644	2,644	20,600	20,650	3,094	3,094	3,094	3,094	15,600	15,650	2,344	2,344	2,344	2,344	18,600	18,650	2,794	2,794	2,794	2,794	21,600	21,650	3,244	3,244	3,244	3,244
14,650	14,700	2,201	2,201	2,201	2,201	17,650	17,700	2,651	2,651	2,651	2,651	20,650	20,700	3,101	3,101	3,101	3,101	15,650	15,700	2,351	2,351	2,351	2,351	18,650	18,700	2,801	2,801	2,801	2,801	21,650	21,700	3,251	3,251	3,251	3,251
14,700	14,750	2,209	2,209	2,209	2,209	17,700	17,750	2,659	2,659	2,659	2,659	20,700	20,750	3,109	3,109	3,109	3,109	15,700	15,750	2,359	2,359	2,359	2,359	18,700	18,750	2,809	2,809	2,809	2,809	21,700	21,750	3,259	3,259	3,259	3,259
14,750	14,800	2,216	2,216	2,216	2,216	17,750	17,800	2,666	2,666	2,666	2,666	20,750	20,800	3,116	3,116	3,116	3,116	15,750	15,800	2,366	2,366	2,366	2,366	18,750	18,800	2,816	2,816	2,816	2,816	21,750	21,800	3,266	3,266	3,266	3,266
14,800	14,850	2,224	2,224	2,224	2,224	17,800	17,850	2,674	2,674	2,674	2,674	20,800	20,850	3,124	3,124	3,124	3,124	15,800	15,850	2,374	2,374	2,374	2,374	18,800	18,850	2,824	2,824	2,824	2,824	21,800	21,850	3,274	3,274	3,274	3,274
14,850	14,900	2,231	2,231	2,231	2,231	17,850	17,900	2,681	2,681	2,681	2,681	20,850	20,900	3,131	3,131	3,131	3,131	15,850	15,900	2,381	2,381	2,381	2,381	18,850	18,900	2,831	2,831	2,831	2,831	21,850	21,900	3,281	3,281	3,281	3,281
14,900	14,950	2,239	2,239	2,239	2,239	17,900	17,950	2,689	2,689	2,689	2,689	20,900	20,950	3,139	3,139	3,139	3,139	15,900	15,950	2,389	2,389	2,389	2,389	18,900	18,950	2,839	2,839	2,839	2,839	21,900	21,950	3,289	3,289	3,289	3,289
14,950	15,000	2,246	2,246	2,246	2,246	17,950	18,000	2,696	2,696	2,696	2,696	20,950	21,000	3,146	3,146	3,146	3,146	15,950	16,000	2,396	2,396	2,396	2,396	18,950	19,000	2,846	2,846	2,846	2,846	21,950	22,000	3,296	3,296	3,296	3,296
16,000		19,000				22,000				16,000		19,000				22,000																			
16,000	16,050	2,404	2,404	2,404	2,404	19,000	19,050	2,854	2,854	2,854	2,854	22,000	22,050	3,304	3,304	3,304	3,304	16,000	16,050	2,404	2,404	2,404	2,404	19,000	19,050	2,854	2,854	2,854	2,854	22,000	22,050	3,304	3,304	3,304	3,304
16,050	16,100	2,411	2,411	2,411	2,411	19,050	19,100	2,861	2,861	2,861	2,861	22,050	22,100	3,311	3,311	3,311	3,311	16,050	16,100	2,411	2,411	2,411	2,411	19,050	19,100	2,861	2,861	2,861	2,861	22,050	22,100	3,311	3,311	3,311	3,311
16,100	16,150	2,419	2,419	2,419	2,419	19,100	19,150	2,869	2,869	2,869	2,869	22,100	22,150	3,319	3,319	3,319	3,319	16,100	16,150	2,419	2,419	2,419	2,419	19,100	19,150	2,869	2,869	2,869	2,869	22,100	22,150	3,319	3,319	3,319	3,319
16,150	16,200	2,426	2,426	2,426	2,426	19,150	19,200	2,876	2,876	2,876	2,876	22,150	22,200	3,326	3,326	3,326	3,326	16,150	16,200	2,426	2,426	2,426	2,426	19,150	19,200	2,876	2,876	2,876	2,876	22,150	22,200	3,326	3,326	3,326	3,326
16,200	16,250	2,434	2,434	2,434	2,434	19,200	19,250	2,884	2,884	2,884	2,884	22,200	22,250	3,334	3,334	3,334	3,334	16,200	16,250	2,434	2,434	2,434	2,434	19,200	19,250	2,884	2,884	2,884	2,884	22,200	22,250	3,334	3,334	3,334	3,334
16,250	16,300	2,441	2,441	2,441	2,441	19,250	19,300	2,891	2,891	2,891	2,891	22,250	22,300	3,341	3,341	3,341	3,341	16,250	16,300	2,441	2,441	2,441	2,441	19,250	19,300	2,891	2,891	2,891	2,891	22,250	22,300	3,341	3,341	3,341	3,341
16,300	16,350	2,449	2,449	2,449	2,449	19,300	19,350	2,899	2,899	2,899	2,899	22,300	22,350	3,349	3,349	3,349	3,349	16,300	16,350	2,449	2,449	2,449	2,449	19,300	19,350	2,899	2,899	2,899	2,899	22,300	22,350	3,349	3,349	3,349	3,349
16,350	16,400	2,456	2,456	2,456	2,456	19,350	19,400	2,906	2,906	2,906	2,906	22,350	22,400	3,356	3,356	3,356	3,356	16,350	16,400	2,456	2,456	2,456	2,456	19,350	19,400	2,906	2,906	2,906	2,906	22,350	22,400	3,356	3,356	3,356	3,356
16,400	16,450	2,464	2,464	2,464	2,464	19,400	19,450	2,914	2,914	2,914	2,914	22,400	22,450	3,364	3,364	3,364	3,364	16,400	16,450	2,464	2,464	2,464	2,464	19,400	19,450	2,914	2,914	2,914	2,914	22,400	22,450	3,364	3,364	3,364	3,364
16,450	16,500	2,471	2,471	2,471	2,471	19,450	19,500	2,921	2,921	2,921	2,921	22,450	22,500	3,371	3,371	3,371	3,371	16,450	16,500	2,471	2,471	2,471	2,471	19,450	19,500	2,921	2,921	2,921	2,921	22,450	22,500	3,371	3,371	3,371	3,371
16,500	16,550	2,479	2,479	2,479	2,479	19,500	19,550	2,929	2,929	2,929	2,929	22,500</																							

2001 Tax Table—Continued **Caution.** Dependents, see the worksheet on page 33.

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
23,000						26,000						29,000					
23,000	23,050	3,454	3,454	3,507	3,454	26,000	26,050	3,904	3,904	4,332	3,904	29,000	29,050	4,601	4,354	5,157	4,354
23,050	23,100	3,461	3,461	3,521	3,461	26,050	26,100	3,911	3,911	4,346	3,911	29,050	29,100	4,614	4,361	5,171	4,361
23,100	23,150	3,469	3,469	3,534	3,469	26,100	26,150	3,919	3,919	4,359	3,919	29,100	29,150	4,628	4,369	5,184	4,369
23,150	23,200	3,476	3,476	3,548	3,476	26,150	26,200	3,926	3,926	4,373	3,926	29,150	29,200	4,642	4,376	5,198	4,376
23,200	23,250	3,484	3,484	3,562	3,484	26,200	26,250	3,934	3,934	4,387	3,934	29,200	29,250	4,656	4,384	5,212	4,384
23,250	23,300	3,491	3,491	3,576	3,491	26,250	26,300	3,941	3,941	4,401	3,941	29,250	29,300	4,669	4,391	5,226	4,391
23,300	23,350	3,499	3,499	3,589	3,499	26,300	26,350	3,949	3,949	4,414	3,949	29,300	29,350	4,683	4,399	5,239	4,399
23,350	23,400	3,506	3,506	3,603	3,506	26,350	26,400	3,956	3,956	4,428	3,956	29,350	29,400	4,697	4,406	5,253	4,406
23,400	23,450	3,514	3,514	3,617	3,514	26,400	26,450	3,964	3,964	4,442	3,964	29,400	29,450	4,711	4,414	5,267	4,414
23,450	23,500	3,521	3,521	3,631	3,521	26,450	26,500	3,971	3,971	4,456	3,971	29,450	29,500	4,724	4,421	5,281	4,421
23,500	23,550	3,529	3,529	3,644	3,529	26,500	26,550	3,979	3,979	4,469	3,979	29,500	29,550	4,738	4,429	5,294	4,429
23,550	23,600	3,536	3,536	3,658	3,536	26,550	26,600	3,986	3,986	4,483	3,986	29,550	29,600	4,752	4,436	5,308	4,436
23,600	23,650	3,544	3,544	3,672	3,544	26,600	26,650	3,994	3,994	4,497	3,994	29,600	29,650	4,766	4,444	5,322	4,444
23,650	23,700	3,551	3,551	3,686	3,551	26,650	26,700	4,001	4,001	4,511	4,001	29,650	29,700	4,779	4,451	5,336	4,451
23,700	23,750	3,559	3,559	3,699	3,559	26,700	26,750	4,009	4,009	4,524	4,009	29,700	29,750	4,793	4,459	5,349	4,459
23,750	23,800	3,566	3,566	3,713	3,566	26,750	26,800	4,016	4,016	4,538	4,016	29,750	29,800	4,807	4,466	5,363	4,466
23,800	23,850	3,574	3,574	3,727	3,574	26,800	26,850	4,024	4,024	4,552	4,024	29,800	29,850	4,821	4,474	5,377	4,474
23,850	23,900	3,581	3,581	3,741	3,581	26,850	26,900	4,031	4,031	4,566	4,031	29,850	29,900	4,834	4,481	5,391	4,481
23,900	23,950	3,589	3,589	3,754	3,589	26,900	26,950	4,039	4,039	4,579	4,039	29,900	29,950	4,848	4,489	5,404	4,489
23,950	24,000	3,596	3,596	3,768	3,596	26,950	27,000	4,046	4,046	4,593	4,046	29,950	30,000	4,862	4,496	5,418	4,496
24,000						27,000						30,000					
24,000	24,050	3,604	3,604	3,782	3,604	27,000	27,050	4,054	4,054	4,607	4,054	30,000	30,050	4,876	4,504	5,432	4,504
24,050	24,100	3,611	3,611	3,796	3,611	27,050	27,100	4,064	4,061	4,621	4,061	30,050	30,100	4,889	4,511	5,446	4,511
24,100	24,150	3,619	3,619	3,809	3,619	27,100	27,150	4,078	4,069	4,634	4,069	30,100	30,150	4,903	4,519	5,459	4,519
24,150	24,200	3,626	3,626	3,823	3,626	27,150	27,200	4,092	4,076	4,648	4,076	30,150	30,200	4,917	4,526	5,473	4,526
24,200	24,250	3,634	3,634	3,837	3,634	27,200	27,250	4,106	4,084	4,662	4,084	30,200	30,250	4,931	4,534	5,487	4,534
24,250	24,300	3,641	3,641	3,851	3,641	27,250	27,300	4,119	4,091	4,676	4,091	30,250	30,300	4,944	4,541	5,501	4,541
24,300	24,350	3,649	3,649	3,864	3,649	27,300	27,350	4,133	4,099	4,689	4,099	30,300	30,350	4,958	4,549	5,514	4,549
24,350	24,400	3,656	3,656	3,878	3,656	27,350	27,400	4,147	4,106	4,703	4,106	30,350	30,400	4,972	4,556	5,528	4,556
24,400	24,450	3,664	3,664	3,892	3,664	27,400	27,450	4,161	4,114	4,717	4,114	30,400	30,450	4,986	4,564	5,542	4,564
24,450	24,500	3,671	3,671	3,906	3,671	27,450	27,500	4,174	4,121	4,731	4,121	30,450	30,500	4,999	4,571	5,556	4,571
24,500	24,550	3,679	3,679	3,919	3,679	27,500	27,550	4,188	4,129	4,744	4,129	30,500	30,550	5,013	4,579	5,569	4,579
24,550	24,600	3,686	3,686	3,933	3,686	27,550	27,600	4,202	4,136	4,758	4,136	30,550	30,600	5,027	4,586	5,583	4,586
24,600	24,650	3,694	3,694	3,947	3,694	27,600	27,650	4,216	4,144	4,772	4,144	30,600	30,650	5,041	4,594	5,597	4,594
24,650	24,700	3,701	3,701	3,961	3,701	27,650	27,700	4,229	4,151	4,786	4,151	30,650	30,700	5,054	4,601	5,611	4,601
24,700	24,750	3,709	3,709	3,974	3,709	27,700	27,750	4,243	4,159	4,799	4,159	30,700	30,750	5,068	4,609	5,624	4,609
24,750	24,800	3,716	3,716	3,988	3,716	27,750	27,800	4,257	4,166	4,813	4,166	30,750	30,800	5,082	4,616	5,638	4,616
24,800	24,850	3,724	3,724	4,002	3,724	27,800	27,850	4,271	4,174	4,827	4,174	30,800	30,850	5,096	4,624	5,652	4,624
24,850	24,900	3,731	3,731	4,016	3,731	27,850	27,900	4,284	4,181	4,841	4,181	30,850	30,900	5,109	4,631	5,666	4,631
24,900	24,950	3,739	3,739	4,029	3,739	27,900	27,950	4,298	4,189	4,854	4,189	30,900	30,950	5,123	4,639	5,679	4,639
24,950	25,000	3,746	3,746	4,043	3,746	27,950	28,000	4,312	4,196	4,868	4,196	30,950	31,000	5,137	4,646	5,693	4,646
25,000						28,000						31,000					
25,000	25,050	3,754	3,754	4,057	3,754	28,000	28,050	4,326	4,204	4,882	4,204	31,000	31,050	5,151	4,654	5,707	4,654
25,050	25,100	3,761	3,761	4,071	3,761	28,050	28,100	4,339	4,211	4,896	4,211	31,050	31,100	5,164	4,661	5,721	4,661
25,100	25,150	3,769	3,769	4,084	3,769	28,100	28,150	4,353	4,219	4,909	4,219	31,100	31,150	5,178	4,669	5,734	4,669
25,150	25,200	3,776	3,776	4,098	3,776	28,150	28,200	4,367	4,226	4,923	4,226	31,150	31,200	5,192	4,676	5,748	4,676
25,200	25,250	3,784	3,784	4,112	3,784	28,200	28,250	4,381	4,234	4,937	4,234	31,200	31,250	5,206	4,684	5,762	4,684
25,250	25,300	3,791	3,791	4,126	3,791	28,250	28,300	4,394	4,241	4,951	4,241	31,250	31,300	5,219	4,691	5,776	4,691
25,300	25,350	3,799	3,799	4,139	3,799	28,300	28,350	4,408	4,249	4,964	4,249	31,300	31,350	5,233	4,699	5,789	4,699
25,350	25,400	3,806	3,806	4,153	3,806	28,350	28,400	4,422	4,256	4,978	4,256	31,350	31,400	5,247	4,706	5,803	4,706
25,400	25,450	3,814	3,814	4,167	3,814	28,400	28,450	4,436	4,264	4,992	4,264	31,400	31,450	5,261	4,714	5,817	4,714
25,450	25,500	3,821	3,821	4,181	3,821	28,450	28,500	4,449	4,271	5,006	4,271	31,450	31,500	5,274	4,721	5,831	4,721
25,500	25,550	3,829	3,829	4,194	3,829	28,500	28,550	4,463	4,279	5,019	4,279	31,500	31,550	5,288	4,729	5,844	4,729
25,550	25,600	3,836	3,836	4,208	3,836	28,550	28,600	4,477	4,286	5,033	4,286	31,550	31,600	5,302	4,736	5,858	4,736
25,600	25,650	3,844	3,844	4,222	3,844	28,600	28,650	4,491	4,294	5,047	4,294	31,600	31,650	5,316	4,744	5,872	4,744
25,650	25,700	3,851	3,851	4,236	3,851	28,650	28,700	4,504	4,301	5,061	4,301	31,650	31,700	5,329	4,751	5,886	4,751
25,700	25,750	3,859	3,859	4,249	3,859	28,700	28,750	4,518	4,309	5,074	4,309	31,700	31,750	5,343	4,759	5,899	4,759
25,750	25,800	3,866	3,866	4,263	3,866	28,750	28,800	4,532	4,316	5,088	4,316	31,750	31,800	5,357	4,766	5,913	4,766
25,800	25,850	3,874	3,874	4,277	3,874	28,800	28,850	4,546	4,324	5,102	4,324	31,800	31,850	5,371	4,774	5,927	4,774
25,850	25,900	3,881	3,881	4,291	3,881	28,850	28,900	4,559	4,331	5,116	4,331	31,850	31,900	5,384	4,781	5,941	4,781
25,900	25,950	3,889	3,889	4,304	3,889	28,900	28,950	4,573	4,339	5,129	4,339	31,900	31,950	5,398	4,789	5,954	4,789
25,950	26,000	3,896	3,896	4,318	3,896	28,950	29,000	4,587									

Caution. Dependents, see the worksheet on page 33. **2001 Tax Table—Continued**

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
32,000						35,000						38,000					
32,000	32,050	5,426	4,804	5,982	4,804	35,000	35,050	6,251	5,254	6,807	5,254	38,000	38,050	7,076	5,704	7,632	5,926
32,050	32,100	5,439	4,811	5,996	4,811	35,050	35,100	6,264	5,261	6,821	5,261	38,050	38,100	7,089	5,711	7,646	5,939
32,100	32,150	5,453	4,819	6,009	4,819	35,100	35,150	6,278	5,269	6,834	5,269	38,100	38,150	7,103	5,719	7,659	5,953
32,150	32,200	5,467	4,826	6,023	4,826	35,150	35,200	6,292	5,276	6,848	5,276	38,150	38,200	7,117	5,726	7,673	5,967
32,200	32,250	5,481	4,834	6,037	4,834	35,200	35,250	6,306	5,284	6,862	5,284	38,200	38,250	7,131	5,734	7,687	5,981
32,250	32,300	5,494	4,841	6,051	4,841	35,250	35,300	6,319	5,291	6,876	5,291	38,250	38,300	7,144	5,741	7,701	5,994
32,300	32,350	5,508	4,849	6,064	4,849	35,300	35,350	6,333	5,299	6,889	5,299	38,300	38,350	7,158	5,749	7,714	6,008
32,350	32,400	5,522	4,856	6,078	4,856	35,350	35,400	6,347	5,306	6,903	5,306	38,350	38,400	7,172	5,756	7,728	6,022
32,400	32,450	5,536	4,864	6,092	4,864	35,400	35,450	6,361	5,314	6,917	5,314	38,400	38,450	7,186	5,764	7,742	6,036
32,450	32,500	5,549	4,871	6,106	4,871	35,450	35,500	6,374	5,321	6,931	5,321	38,450	38,500	7,199	5,771	7,756	6,049
32,500	32,550	5,563	4,879	6,119	4,879	35,500	35,550	6,388	5,329	6,944	5,329	38,500	38,550	7,213	5,779	7,769	6,063
32,550	32,600	5,577	4,886	6,133	4,886	35,550	35,600	6,402	5,336	6,958	5,336	38,550	38,600	7,227	5,786	7,783	6,077
32,600	32,650	5,591	4,894	6,147	4,894	35,600	35,650	6,416	5,344	6,972	5,344	38,600	38,650	7,241	5,794	7,797	6,091
32,650	32,700	5,604	4,901	6,161	4,901	35,650	35,700	6,429	5,351	6,986	5,351	38,650	38,700	7,254	5,801	7,811	6,104
32,700	32,750	5,618	4,909	6,174	4,909	35,700	35,750	6,443	5,359	6,999	5,359	38,700	38,750	7,268	5,809	7,824	6,118
32,750	32,800	5,632	4,916	6,188	4,916	35,750	35,800	6,457	5,366	7,013	5,366	38,750	38,800	7,282	5,816	7,838	6,132
32,800	32,850	5,646	4,924	6,202	4,924	35,800	35,850	6,471	5,374	7,027	5,374	38,800	38,850	7,296	5,824	7,852	6,146
32,850	32,900	5,659	4,931	6,216	4,931	35,850	35,900	6,484	5,381	7,041	5,381	38,850	38,900	7,309	5,831	7,866	6,159
32,900	32,950	5,673	4,939	6,229	4,939	35,900	35,950	6,498	5,389	7,054	5,389	38,900	38,950	7,323	5,839	7,879	6,173
32,950	33,000	5,687	4,946	6,243	4,946	35,950	36,000	6,512	5,396	7,068	5,396	38,950	39,000	7,337	5,846	7,893	6,187
33,000						36,000						39,000					
33,000	33,050	5,701	4,954	6,257	4,954	36,000	36,050	6,526	5,404	7,082	5,404	39,000	39,050	7,351	5,854	7,907	6,201
33,050	33,100	5,714	4,961	6,271	4,961	36,050	36,100	6,539	5,411	7,096	5,411	39,050	39,100	7,364	5,861	7,921	6,214
33,100	33,150	5,728	4,969	6,284	4,969	36,100	36,150	6,553	5,419	7,109	5,419	39,100	39,150	7,378	5,869	7,934	6,228
33,150	33,200	5,742	4,976	6,298	4,976	36,150	36,200	6,567	5,426	7,123	5,426	39,150	39,200	7,392	5,876	7,948	6,242
33,200	33,250	5,756	4,984	6,312	4,984	36,200	36,250	6,581	5,434	7,137	5,434	39,200	39,250	7,406	5,884	7,962	6,256
33,250	33,300	5,769	4,991	6,326	4,991	36,250	36,300	6,594	5,441	7,151	5,444	39,250	39,300	7,419	5,891	7,976	6,269
33,300	33,350	5,783	4,999	6,339	4,999	36,300	36,350	6,608	5,449	7,164	5,458	39,300	39,350	7,433	5,899	7,989	6,283
33,350	33,400	5,797	5,006	6,353	5,006	36,350	36,400	6,622	5,456	7,178	5,472	39,350	39,400	7,447	5,906	8,003	6,297
33,400	33,450	5,811	5,014	6,367	5,014	36,400	36,450	6,636	5,464	7,192	5,486	39,400	39,450	7,461	5,914	8,017	6,311
33,450	33,500	5,824	5,021	6,381	5,021	36,450	36,500	6,649	5,471	7,206	5,499	39,450	39,500	7,474	5,921	8,031	6,324
33,500	33,550	5,838	5,029	6,394	5,029	36,500	36,550	6,663	5,479	7,219	5,513	39,500	39,550	7,488	5,929	8,044	6,338
33,550	33,600	5,852	5,036	6,408	5,036	36,550	36,600	6,677	5,486	7,233	5,527	39,550	39,600	7,502	5,936	8,058	6,352
33,600	33,650	5,866	5,044	6,422	5,044	36,600	36,650	6,691	5,494	7,247	5,541	39,600	39,650	7,516	5,944	8,072	6,366
33,650	33,700	5,879	5,051	6,436	5,051	36,650	36,700	6,704	5,501	7,261	5,554	39,650	39,700	7,529	5,951	8,086	6,379
33,700	33,750	5,893	5,059	6,449	5,059	36,700	36,750	6,718	5,509	7,274	5,568	39,700	39,750	7,543	5,959	8,099	6,393
33,750	33,800	5,907	5,066	6,463	5,066	36,750	36,800	6,732	5,516	7,288	5,582	39,750	39,800	7,557	5,966	8,113	6,407
33,800	33,850	5,921	5,074	6,477	5,074	36,800	36,850	6,746	5,524	7,302	5,596	39,800	39,850	7,571	5,974	8,127	6,421
33,850	33,900	5,934	5,081	6,491	5,081	36,850	36,900	6,759	5,531	7,316	5,609	39,850	39,900	7,584	5,981	8,141	6,434
33,900	33,950	5,948	5,089	6,504	5,089	36,900	36,950	6,773	5,539	7,329	5,623	39,900	39,950	7,598	5,989	8,154	6,448
33,950	34,000	5,962	5,096	6,518	5,096	36,950	37,000	6,787	5,546	7,343	5,637	39,950	40,000	7,612	5,996	8,168	6,462
34,000						37,000						40,000					
34,000	34,050	5,976	5,104	6,532	5,104	37,000	37,050	6,801	5,554	7,357	5,651	40,000	40,050	7,626	6,004	8,182	6,476
34,050	34,100	5,989	5,111	6,546	5,111	37,050	37,100	6,814	5,561	7,371	5,664	40,050	40,100	7,639	6,011	8,196	6,489
34,100	34,150	6,003	5,119	6,559	5,119	37,100	37,150	6,828	5,569	7,384	5,678	40,100	40,150	7,653	6,019	8,209	6,503
34,150	34,200	6,017	5,126	6,573	5,126	37,150	37,200	6,842	5,576	7,398	5,692	40,150	40,200	7,667	6,026	8,223	6,517
34,200	34,250	6,031	5,134	6,587	5,134	37,200	37,250	6,856	5,584	7,412	5,706	40,200	40,250	7,681	6,034	8,237	6,531
34,250	34,300	6,044	5,141	6,601	5,141	37,250	37,300	6,869	5,591	7,426	5,719	40,250	40,300	7,694	6,041	8,251	6,544
34,300	34,350	6,058	5,149	6,614	5,149	37,300	37,350	6,883	5,599	7,439	5,733	40,300	40,350	7,708	6,049	8,264	6,558
34,350	34,400	6,072	5,156	6,628	5,156	37,350	37,400	6,897	5,606	7,453	5,747	40,350	40,400	7,722	6,056	8,278	6,572
34,400	34,450	6,086	5,164	6,642	5,164	37,400	37,450	6,911	5,614	7,467	5,761	40,400	40,450	7,736	6,064	8,292	6,586
34,450	34,500	6,099	5,171	6,656	5,171	37,450	37,500	6,924	5,621	7,481	5,774	40,450	40,500	7,749	6,071	8,306	6,599
34,500	34,550	6,113	5,179	6,669	5,179	37,500	37,550	6,938	5,629	7,494	5,788	40,500	40,550	7,763	6,079	8,319	6,613
34,550	34,600	6,127	5,186	6,683	5,186	37,550	37,600	6,952	5,636	7,508	5,802	40,550	40,600	7,777	6,086	8,333	6,627
34,600	34,650	6,141	5,194	6,697	5,194	37,600	37,650	6,966	5,644	7,522	5,816	40,600	40,650	7,791	6,094	8,347	6,641
34,650	34,700	6,154	5,201	6,711	5,201	37,650	37,700	6,979	5,651	7,536	5,829	40,650	40,700	7,804	6,101	8,361	6,654
34,700	34,750	6,168	5,209	6,724	5,209	37,700	37,750	6,993	5,659	7,549	5,843	40,700	40,750	7,818	6,109	8,374	6,668
34,750	34,800	6,182	5,216	6,738	5,216	37,750	37,800	7,007	5,666	7,563	5,857	40,750	40,800	7,832	6,116	8,388	6,682
34,800	34,850	6,196	5,224	6,752	5,224	37,800	37,850	7,021	5,674	7,577	5,871	40,800	40,850	7,846	6,124	8,402	6,696
34,850	34,900	6,209	5,231	6,766	5,231	37,850	37,900	7,034	5,681	7,591	5,884	40,850	40,900	7,859	6,131	8,416	6,709
34,900	34,950	6,223	5,239	6,779	5,239	37,900	37,950	7,048	5,689	7,604	5,898	40,900	40,950	7,873	6,139	8,429	6,723
34,950	35,000	6,237	5,246	6,793	5,246	37,950	38,000										

2001 Tax Table—Continued **Caution.** Dependents, see the worksheet on page 33.

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
41,000						44,000						47,000					
41,000	41,050	7,901	6,154	8,457	6,751	44,000	44,050	8,726	6,604	9,282	7,576	47,000	47,050	9,551	7,282	10,107	8,401
41,050	41,100	7,914	6,161	8,471	6,764	44,050	44,100	8,739	6,611	9,296	7,589	47,050	47,100	9,564	7,296	10,121	8,414
41,100	41,150	7,928	6,169	8,484	6,778	44,100	44,150	8,753	6,619	9,309	7,603	47,100	47,150	9,578	7,309	10,134	8,428
41,150	41,200	7,942	6,176	8,498	6,792	44,150	44,200	8,767	6,626	9,323	7,617	47,150	47,200	9,592	7,323	10,148	8,442
41,200	41,250	7,956	6,184	8,512	6,806	44,200	44,250	8,781	6,634	9,337	7,631	47,200	47,250	9,606	7,337	10,162	8,456
41,250	41,300	7,969	6,191	8,526	6,819	44,250	44,300	8,794	6,641	9,351	7,644	47,250	47,300	9,619	7,351	10,176	8,469
41,300	41,350	7,983	6,199	8,539	6,833	44,300	44,350	8,808	6,649	9,364	7,658	47,300	47,350	9,633	7,364	10,189	8,483
41,350	41,400	7,997	6,206	8,553	6,847	44,350	44,400	8,822	6,656	9,378	7,672	47,350	47,400	9,647	7,378	10,203	8,497
41,400	41,450	8,011	6,214	8,567	6,861	44,400	44,450	8,836	6,664	9,392	7,686	47,400	47,450	9,661	7,392	10,217	8,511
41,450	41,500	8,024	6,221	8,581	6,874	44,450	44,500	8,849	6,671	9,406	7,699	47,450	47,500	9,674	7,406	10,231	8,524
41,500	41,550	8,038	6,229	8,594	6,888	44,500	44,550	8,863	6,679	9,419	7,713	47,500	47,550	9,688	7,419	10,244	8,538
41,550	41,600	8,052	6,236	8,608	6,902	44,550	44,600	8,877	6,686	9,433	7,727	47,550	47,600	9,702	7,433	10,258	8,552
41,600	41,650	8,066	6,244	8,622	6,916	44,600	44,650	8,891	6,694	9,447	7,741	47,600	47,650	9,716	7,447	10,272	8,566
41,650	41,700	8,079	6,251	8,636	6,929	44,650	44,700	8,904	6,701	9,461	7,754	47,650	47,700	9,729	7,461	10,286	8,579
41,700	41,750	8,093	6,259	8,649	6,943	44,700	44,750	8,918	6,709	9,474	7,768	47,700	47,750	9,743	7,474	10,299	8,593
41,750	41,800	8,107	6,266	8,663	6,957	44,750	44,800	8,932	6,716	9,488	7,782	47,750	47,800	9,757	7,488	10,313	8,607
41,800	41,850	8,121	6,274	8,677	6,971	44,800	44,850	8,946	6,724	9,502	7,796	47,800	47,850	9,771	7,502	10,327	8,621
41,850	41,900	8,134	6,281	8,691	6,984	44,850	44,900	8,959	6,731	9,516	7,809	47,850	47,900	9,784	7,516	10,341	8,634
41,900	41,950	8,148	6,289	8,704	6,998	44,900	44,950	8,973	6,739	9,529	7,823	47,900	47,950	9,798	7,529	10,354	8,648
41,950	42,000	8,162	6,296	8,718	7,012	44,950	45,000	8,987	6,746	9,543	7,837	47,950	48,000	9,812	7,543	10,368	8,662
42,000						45,000						48,000					
42,000	42,050	8,176	6,304	8,732	7,026	45,000	45,050	9,001	6,754	9,557	7,851	48,000	48,050	9,826	7,557	10,382	8,676
42,050	42,100	8,189	6,311	8,746	7,039	45,050	45,100	9,014	6,761	9,571	7,864	48,050	48,100	9,839	7,571	10,396	8,689
42,100	42,150	8,203	6,319	8,759	7,053	45,100	45,150	9,028	6,769	9,584	7,878	48,100	48,150	9,853	7,584	10,409	8,703
42,150	42,200	8,217	6,326	8,773	7,067	45,150	45,200	9,042	6,776	9,598	7,892	48,150	48,200	9,867	7,598	10,423	8,717
42,200	42,250	8,231	6,334	8,787	7,081	45,200	45,250	9,056	6,787	9,612	7,906	48,200	48,250	9,881	7,612	10,437	8,731
42,250	42,300	8,244	6,341	8,801	7,094	45,250	45,300	9,069	6,801	9,626	7,919	48,250	48,300	9,894	7,626	10,451	8,744
42,300	42,350	8,258	6,349	8,814	7,108	45,300	45,350	9,083	6,814	9,639	7,933	48,300	48,350	9,908	7,639	10,464	8,758
42,350	42,400	8,272	6,356	8,828	7,122	45,350	45,400	9,097	6,828	9,653	7,947	48,350	48,400	9,922	7,653	10,478	8,772
42,400	42,450	8,286	6,364	8,842	7,136	45,400	45,450	9,111	6,842	9,667	7,961	48,400	48,450	9,936	7,667	10,492	8,786
42,450	42,500	8,299	6,371	8,856	7,149	45,450	45,500	9,124	6,856	9,681	7,974	48,450	48,500	9,949	7,681	10,506	8,799
42,500	42,550	8,313	6,379	8,869	7,163	45,500	45,550	9,138	6,869	9,694	7,988	48,500	48,550	9,963	7,694	10,519	8,813
42,550	42,600	8,327	6,386	8,883	7,177	45,550	45,600	9,152	6,883	9,708	8,002	48,550	48,600	9,977	7,708	10,533	8,827
42,600	42,650	8,341	6,394	8,897	7,191	45,600	45,650	9,166	6,897	9,722	8,016	48,600	48,650	9,991	7,722	10,547	8,841
42,650	42,700	8,354	6,401	8,911	7,204	45,650	45,700	9,179	6,911	9,736	8,029	48,650	48,700	10,004	7,736	10,561	8,854
42,700	42,750	8,368	6,409	8,924	7,218	45,700	45,750	9,193	6,924	9,749	8,043	48,700	48,750	10,018	7,749	10,574	8,868
42,750	42,800	8,382	6,416	8,938	7,232	45,750	45,800	9,207	6,938	9,763	8,057	48,750	48,800	10,032	7,763	10,588	8,882
42,800	42,850	8,396	6,424	8,952	7,246	45,800	45,850	9,221	6,952	9,777	8,071	48,800	48,850	10,046	7,777	10,602	8,896
42,850	42,900	8,409	6,431	8,966	7,259	45,850	45,900	9,234	6,966	9,791	8,084	48,850	48,900	10,059	7,791	10,616	8,909
42,900	42,950	8,423	6,439	8,979	7,273	45,900	45,950	9,248	6,979	9,804	8,098	48,900	48,950	10,073	7,804	10,629	8,923
42,950	43,000	8,437	6,446	8,993	7,287	45,950	46,000	9,262	6,993	9,818	8,112	48,950	49,000	10,087	7,818	10,643	8,937
43,000						46,000						49,000					
43,000	43,050	8,451	6,454	9,007	7,301	46,000	46,050	9,276	7,007	9,832	8,126	49,000	49,050	10,101	7,832	10,657	8,951
43,050	43,100	8,464	6,461	9,021	7,314	46,050	46,100	9,289	7,021	9,846	8,139	49,050	49,100	10,114	7,846	10,671	8,964
43,100	43,150	8,478	6,469	9,034	7,328	46,100	46,150	9,303	7,034	9,859	8,153	49,100	49,150	10,128	7,859	10,684	8,978
43,150	43,200	8,492	6,476	9,048	7,342	46,150	46,200	9,317	7,048	9,873	8,167	49,150	49,200	10,142	7,873	10,698	8,992
43,200	43,250	8,506	6,484	9,062	7,356	46,200	46,250	9,331	7,062	9,887	8,181	49,200	49,250	10,156	7,887	10,712	9,006
43,250	43,300	8,519	6,491	9,076	7,369	46,250	46,300	9,344	7,076	9,901	8,194	49,250	49,300	10,169	7,901	10,726	9,019
43,300	43,350	8,533	6,499	9,089	7,383	46,300	46,350	9,358	7,089	9,914	8,208	49,300	49,350	10,183	7,914	10,739	9,033
43,350	43,400	8,547	6,506	9,103	7,397	46,350	46,400	9,372	7,103	9,928	8,222	49,350	49,400	10,197	7,928	10,753	9,047
43,400	43,450	8,561	6,514	9,117	7,411	46,400	46,450	9,386	7,117	9,942	8,236	49,400	49,450	10,211	7,942	10,767	9,061
43,450	43,500	8,574	6,521	9,131	7,424	46,450	46,500	9,399	7,131	9,956	8,249	49,450	49,500	10,224	7,956	10,781	9,074
43,500	43,550	8,588	6,529	9,144	7,438	46,500	46,550	9,413	7,144	9,969	8,263	49,500	49,550	10,238	7,969	10,794	9,088
43,550	43,600	8,602	6,536	9,158	7,452	46,550	46,600	9,427	7,158	9,983	8,277	49,550	49,600	10,252	7,983	10,808	9,102
43,600	43,650	8,616	6,544	9,172	7,466	46,600	46,650	9,441	7,172	9,997	8,291	49,600	49,650	10,266	7,997	10,822	9,116
43,650	43,700	8,629	6,551	9,186	7,479	46,650	46,700	9,454	7,186	10,011	8,304	49,650	49,700	10,279	8,011	10,836	9,129
43,700	43,750	8,643	6,559	9,199	7,493	46,700	46,750	9,468	7,199	10,024	8,318	49,700	49,750	10,293	8,024	10,849	9,143
43,750	43,800	8,657	6,566	9,213	7,507	46,750	46,800	9,482	7,213	10,038	8,332	49,750	49,800	10,307	8,038	10,863	9,157
43,800	43,850	8,671	6,574	9,227	7,521	46,800	46,850	9,496	7,227	10,052	8,346	49,800	49,850	10,321	8,052	10,877	9,171
43,850	43,900	8,684	6,581	9,241	7,534	46,850	46,900	9,509	7,241	10,066	8,359	49,850	49,900	10,334	8,066	10,891	9,184
43,900	43,950	8,698	6,589	9,254	7,548	46,900	46,950	9,523	7,254	10,079	8,373	49,900	49,950	10,348	8,079	10,904	9,198
43,																	

Caution. Dependents, see the worksheet on page 33. **2001 Tax Table—Continued**

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
		Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household
At least	But less than	Your tax is—				At least	But less than	Your tax is—				At least	But less than	Your tax is—			
50,000						53,000						56,000					
50,000	50,050	10,376	8,107	10,932	9,226	53,000	53,050	11,201	8,932	11,757	10,051	56,000	56,050	12,026	9,757	12,624	10,876
50,050	50,100	10,389	8,121	10,946	9,239	53,050	53,100	11,214	8,946	11,771	10,064	56,050	56,100	12,039	9,771	12,639	10,889
50,100	50,150	10,403	8,134	10,959	9,253	53,100	53,150	11,228	8,959	11,784	10,078	56,100	56,150	12,053	9,784	12,654	10,903
50,150	50,200	10,417	8,148	10,973	9,267	53,150	53,200	11,242	8,973	11,798	10,092	56,150	56,200	12,067	9,798	12,670	10,917
50,200	50,250	10,431	8,162	10,987	9,281	53,200	53,250	11,256	8,987	11,812	10,106	56,200	56,250	12,081	9,812	12,685	10,931
50,250	50,300	10,444	8,176	11,001	9,294	53,250	53,300	11,269	9,001	11,826	10,119	56,250	56,300	12,094	9,826	12,700	10,944
50,300	50,350	10,458	8,189	11,014	9,308	53,300	53,350	11,283	9,014	11,839	10,133	56,300	56,350	12,108	9,839	12,715	10,958
50,350	50,400	10,472	8,203	11,028	9,322	53,350	53,400	11,297	9,028	11,853	10,147	56,350	56,400	12,122	9,853	12,731	10,972
50,400	50,450	10,486	8,217	11,042	9,336	53,400	53,450	11,311	9,042	11,867	10,161	56,400	56,450	12,136	9,867	12,746	10,986
50,450	50,500	10,499	8,231	11,056	9,349	53,450	53,500	11,324	9,056	11,881	10,174	56,450	56,500	12,149	9,881	12,761	10,999
50,500	50,550	10,513	8,244	11,069	9,363	53,500	53,550	11,338	9,069	11,894	10,188	56,500	56,550	12,163	9,894	12,776	11,013
50,550	50,600	10,527	8,258	11,083	9,377	53,550	53,600	11,352	9,083	11,908	10,202	56,550	56,600	12,177	9,908	12,792	11,027
50,600	50,650	10,541	8,272	11,097	9,391	53,600	53,650	11,366	9,097	11,922	10,216	56,600	56,650	12,191	9,922	12,807	11,041
50,650	50,700	10,554	8,286	11,111	9,404	53,650	53,700	11,379	9,111	11,936	10,229	56,650	56,700	12,204	9,936	12,822	11,054
50,700	50,750	10,568	8,299	11,124	9,418	53,700	53,750	11,393	9,124	11,949	10,243	56,700	56,750	12,218	9,949	12,837	11,068
50,750	50,800	10,582	8,313	11,138	9,432	53,750	53,800	11,407	9,138	11,963	10,257	56,750	56,800	12,232	9,963	12,853	11,082
50,800	50,850	10,596	8,327	11,152	9,446	53,800	53,850	11,421	9,152	11,977	10,271	56,800	56,850	12,246	9,977	12,868	11,096
50,850	50,900	10,609	8,341	11,166	9,459	53,850	53,900	11,434	9,166	11,991	10,284	56,850	56,900	12,259	9,991	12,883	11,109
50,900	50,950	10,623	8,354	11,179	9,473	53,900	53,950	11,448	9,179	12,004	10,298	56,900	56,950	12,273	10,004	12,898	11,123
50,950	51,000	10,637	8,368	11,193	9,487	53,950	54,000	11,462	9,193	12,018	10,312	56,950	57,000	12,287	10,018	12,914	11,137
51,000						54,000						57,000					
51,000	51,050	10,651	8,382	11,207	9,501	54,000	54,050	11,476	9,207	12,032	10,326	57,000	57,050	12,301	10,032	12,929	11,151
51,050	51,100	10,664	8,396	11,221	9,514	54,050	54,100	11,489	9,221	12,046	10,339	57,050	57,100	12,314	10,046	12,944	11,164
51,100	51,150	10,678	8,409	11,234	9,528	54,100	54,150	11,503	9,234	12,059	10,353	57,100	57,150	12,328	10,059	12,959	11,178
51,150	51,200	10,692	8,423	11,248	9,542	54,150	54,200	11,517	9,248	12,073	10,367	57,150	57,200	12,342	10,073	12,975	11,192
51,200	51,250	10,706	8,437	11,262	9,556	54,200	54,250	11,531	9,262	12,087	10,381	57,200	57,250	12,356	10,087	12,990	11,206
51,250	51,300	10,719	8,451	11,276	9,569	54,250	54,300	11,544	9,276	12,101	10,394	57,250	57,300	12,369	10,101	13,005	11,219
51,300	51,350	10,733	8,464	11,289	9,583	54,300	54,350	11,558	9,289	12,114	10,408	57,300	57,350	12,383	10,114	13,020	11,233
51,350	51,400	10,747	8,478	11,303	9,597	54,350	54,400	11,572	9,303	12,128	10,422	57,350	57,400	12,397	10,128	13,036	11,247
51,400	51,450	10,761	8,492	11,317	9,611	54,400	54,450	11,586	9,317	12,142	10,436	57,400	57,450	12,411	10,142	13,051	11,261
51,450	51,500	10,774	8,506	11,331	9,624	54,450	54,500	11,599	9,331	12,156	10,449	57,450	57,500	12,424	10,156	13,066	11,274
51,500	51,550	10,788	8,519	11,344	9,638	54,500	54,550	11,613	9,344	12,169	10,463	57,500	57,550	12,438	10,169	13,081	11,288
51,550	51,600	10,802	8,533	11,358	9,652	54,550	54,600	11,627	9,358	12,183	10,477	57,550	57,600	12,452	10,183	13,097	11,302
51,600	51,650	10,816	8,547	11,372	9,666	54,600	54,650	11,641	9,372	12,197	10,491	57,600	57,650	12,466	10,197	13,112	11,316
51,650	51,700	10,829	8,561	11,386	9,679	54,650	54,700	11,654	9,386	12,212	10,504	57,650	57,700	12,479	10,211	13,127	11,329
51,700	51,750	10,843	8,574	11,399	9,693	54,700	54,750	11,668	9,399	12,227	10,518	57,700	57,750	12,493	10,224	13,142	11,343
51,750	51,800	10,857	8,588	11,413	9,707	54,750	54,800	11,682	9,413	12,243	10,532	57,750	57,800	12,507	10,238	13,158	11,357
51,800	51,850	10,871	8,602	11,427	9,721	54,800	54,850	11,696	9,427	12,258	10,546	57,800	57,850	12,521	10,252	13,173	11,371
51,850	51,900	10,884	8,616	11,441	9,734	54,850	54,900	11,709	9,441	12,273	10,559	57,850	57,900	12,534	10,266	13,188	11,384
51,900	51,950	10,898	8,629	11,454	9,748	54,900	54,950	11,723	9,454	12,288	10,573	57,900	57,950	12,548	10,279	13,203	11,398
51,950	52,000	10,912	8,643	11,468	9,762	54,950	55,000	11,737	9,468	12,304	10,587	57,950	58,000	12,562	10,293	13,219	11,412
52,000						55,000						58,000					
52,000	52,050	10,926	8,657	11,482	9,776	55,000	55,050	11,751	9,482	12,319	10,601	58,000	58,050	12,576	10,307	13,234	11,426
52,050	52,100	10,939	8,671	11,496	9,789	55,050	55,100	11,764	9,496	12,334	10,614	58,050	58,100	12,589	10,321	13,249	11,439
52,100	52,150	10,953	8,684	11,509	9,803	55,100	55,150	11,778	9,509	12,349	10,628	58,100	58,150	12,603	10,334	13,264	11,453
52,150	52,200	10,967	8,698	11,523	9,817	55,150	55,200	11,792	9,523	12,365	10,642	58,150	58,200	12,617	10,348	13,280	11,467
52,200	52,250	10,981	8,712	11,537	9,831	55,200	55,250	11,806	9,537	12,380	10,656	58,200	58,250	12,631	10,362	13,295	11,481
52,250	52,300	10,994	8,726	11,551	9,844	55,250	55,300	11,819	9,551	12,395	10,669	58,250	58,300	12,644	10,376	13,310	11,494
52,300	52,350	11,008	8,739	11,564	9,858	55,300	55,350	11,833	9,564	12,410	10,683	58,300	58,350	12,658	10,389	13,325	11,508
52,350	52,400	11,022	8,753	11,578	9,872	55,350	55,400	11,847	9,578	12,426	10,697	58,350	58,400	12,672	10,403	13,341	11,522
52,400	52,450	11,036	8,767	11,592	9,886	55,400	55,450	11,861	9,592	12,441	10,711	58,400	58,450	12,686	10,417	13,356	11,536
52,450	52,500	11,049	8,781	11,606	9,899	55,450	55,500	11,874	9,606	12,456	10,724	58,450	58,500	12,699	10,431	13,371	11,549
52,500	52,550	11,063	8,794	11,619	9,913	55,500	55,550	11,888	9,619	12,471	10,738	58,500	58,550	12,713	10,444	13,386	11,563
52,550	52,600	11,077	8,808	11,633	9,927	55,550	55,600	11,902	9,633	12,487	10,752	58,550	58,600	12,727	10,458	13,402	11,577
52,600	52,650	11,091	8,822	11,647	9,941	55,600	55,650	11,916	9,647	12,502	10,766	58,600	58,650	12,741	10,472	13,417	11,591
52,650	52,700	11,104	8,836	11,661	9,954	55,650	55,700	11,929	9,661	12,517	10,779	58,650	58,700	12,754	10,486	13,432	11,604
52,700	52,750	11,118	8,849	11,674	9,968	55,700	55,750	11,943	9,674	12,532	10,793	58,700	58,750	12,768	10,499	13,447	11,618
52,750	52,800	11,132	8,863	11,688	9,982	55,750	55,800	11,957	9,688	12,548	10,807	58,750	58,800	12,782	10,513	13,463	11,632
52,800	52,850	11,146	8,877	11,702	9,996	55,800	55,850	11,971	9,702	12,563	10,821	58,800	58,850	12,796	10,527	13,478	11,646

2001 Tax Table—Continued **Caution.** Dependents, see the worksheet on page 33.

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
59,000						62,000						65,000					
59,000	59,050	12,851	10,582	13,539	11,701	62,000	62,050	13,676	11,407	14,454	12,526	65,000	65,050	14,501	12,232	15,369	13,351
59,050	59,100	12,864	10,596	13,554	11,714	62,050	62,100	13,689	11,421	14,469	12,539	65,050	65,100	14,514	12,246	15,384	13,364
59,100	59,150	12,878	10,609	13,569	11,728	62,100	62,150	13,703	11,434	14,484	12,553	65,100	65,150	14,528	12,259	15,399	13,378
59,150	59,200	12,892	10,623	13,585	11,742	62,150	62,200	13,717	11,448	14,500	12,567	65,150	65,200	14,542	12,273	15,415	13,392
59,200	59,250	12,906	10,637	13,600	11,756	62,200	62,250	13,731	11,462	14,515	12,581	65,200	65,250	14,556	12,287	15,430	13,406
59,250	59,300	12,919	10,651	13,615	11,769	62,250	62,300	13,744	11,476	14,530	12,594	65,250	65,300	14,569	12,301	15,445	13,419
59,300	59,350	12,933	10,664	13,630	11,783	62,300	62,350	13,758	11,489	14,545	12,608	65,300	65,350	14,583	12,314	15,460	13,433
59,350	59,400	12,947	10,678	13,646	11,797	62,350	62,400	13,772	11,503	14,561	12,622	65,350	65,400	14,597	12,328	15,476	13,447
59,400	59,450	12,961	10,692	13,661	11,811	62,400	62,450	13,786	11,517	14,576	12,636	65,400	65,450	14,611	12,342	15,491	13,461
59,450	59,500	12,974	10,706	13,676	11,824	62,450	62,500	13,799	11,531	14,591	12,649	65,450	65,500	14,624	12,356	15,506	13,474
59,500	59,550	12,988	10,719	13,691	11,838	62,500	62,550	13,813	11,544	14,606	12,663	65,500	65,550	14,638	12,369	15,521	13,488
59,550	59,600	13,002	10,733	13,707	11,852	62,550	62,600	13,827	11,558	14,622	12,677	65,550	65,600	14,653	12,383	15,537	13,502
59,600	59,650	13,016	10,747	13,722	11,866	62,600	62,650	13,841	11,572	14,637	12,691	65,600	65,650	14,668	12,397	15,552	13,516
59,650	59,700	13,029	10,761	13,737	11,879	62,650	62,700	13,854	11,586	14,652	12,704	65,650	65,700	14,683	12,411	15,567	13,529
59,700	59,750	13,043	10,774	13,752	11,893	62,700	62,750	13,868	11,599	14,667	12,718	65,700	65,750	14,698	12,424	15,582	13,543
59,750	59,800	13,057	10,788	13,768	11,907	62,750	62,800	13,882	11,613	14,683	12,732	65,750	65,800	14,714	12,438	15,598	13,557
59,800	59,850	13,071	10,802	13,783	11,921	62,800	62,850	13,896	11,627	14,698	12,746	65,800	65,850	14,729	12,452	15,613	13,571
59,850	59,900	13,084	10,816	13,798	11,934	62,850	62,900	13,909	11,641	14,713	12,759	65,850	65,900	14,744	12,466	15,628	13,584
59,900	59,950	13,098	10,829	13,813	11,948	62,900	62,950	13,923	11,654	14,728	12,773	65,900	65,950	14,759	12,479	15,643	13,598
59,950	60,000	13,112	10,843	13,829	11,962	62,950	63,000	13,937	11,668	14,744	12,787	65,950	66,000	14,775	12,493	15,659	13,612
60,000						63,000						66,000					
60,000	60,050	13,126	10,857	13,844	11,976	63,000	63,050	13,951	11,682	14,759	12,801	66,000	66,050	14,790	12,507	15,674	13,626
60,050	60,100	13,139	10,871	13,859	11,989	63,050	63,100	13,964	11,696	14,774	12,814	66,050	66,100	14,805	12,521	15,689	13,639
60,100	60,150	13,153	10,884	13,874	12,003	63,100	63,150	13,978	11,709	14,789	12,828	66,100	66,150	14,820	12,534	15,704	13,653
60,150	60,200	13,167	10,898	13,890	12,017	63,150	63,200	13,992	11,723	14,805	12,842	66,150	66,200	14,836	12,548	15,720	13,667
60,200	60,250	13,181	10,912	13,905	12,031	63,200	63,250	14,006	11,737	14,820	12,856	66,200	66,250	14,851	12,562	15,735	13,681
60,250	60,300	13,194	10,926	13,920	12,044	63,250	63,300	14,019	11,751	14,835	12,869	66,250	66,300	14,866	12,576	15,750	13,694
60,300	60,350	13,208	10,939	13,935	12,058	63,300	63,350	14,033	11,764	14,850	12,883	66,300	66,350	14,881	12,589	15,765	13,708
60,350	60,400	13,222	10,953	13,951	12,072	63,350	63,400	14,047	11,778	14,866	12,897	66,350	66,400	14,897	12,603	15,781	13,722
60,400	60,450	13,236	10,967	13,966	12,086	63,400	63,450	14,061	11,792	14,881	12,911	66,400	66,450	14,912	12,617	15,796	13,736
60,450	60,500	13,249	10,981	13,981	12,099	63,450	63,500	14,074	11,806	14,896	12,924	66,450	66,500	14,927	12,631	15,811	13,749
60,500	60,550	13,263	10,994	13,996	12,113	63,500	63,550	14,088	11,819	14,911	12,938	66,500	66,550	14,942	12,644	15,826	13,763
60,550	60,600	13,277	11,008	14,012	12,127	63,550	63,600	14,102	11,833	14,927	12,952	66,550	66,600	14,958	12,658	15,842	13,777
60,600	60,650	13,291	11,022	14,027	12,141	63,600	63,650	14,116	11,847	14,942	12,966	66,600	66,650	14,973	12,672	15,857	13,791
60,650	60,700	13,304	11,036	14,042	12,154	63,650	63,700	14,129	11,861	14,957	12,979	66,650	66,700	14,988	12,686	15,872	13,804
60,700	60,750	13,318	11,049	14,057	12,168	63,700	63,750	14,143	11,874	14,972	12,993	66,700	66,750	15,003	12,699	15,887	13,818
60,750	60,800	13,332	11,063	14,073	12,182	63,750	63,800	14,157	11,888	14,988	13,007	66,750	66,800	15,019	12,713	15,903	13,832
60,800	60,850	13,346	11,077	14,088	12,196	63,800	63,850	14,171	11,902	15,003	13,021	66,800	66,850	15,034	12,727	15,918	13,846
60,850	60,900	13,359	11,091	14,103	12,209	63,850	63,900	14,184	11,916	15,018	13,034	66,850	66,900	15,049	12,741	15,933	13,859
60,900	60,950	13,373	11,104	14,118	12,223	63,900	63,950	14,198	11,929	15,033	13,048	66,900	66,950	15,064	12,754	15,948	13,873
60,950	61,000	13,387	11,118	14,134	12,237	63,950	64,000	14,212	11,943	15,049	13,062	66,950	67,000	15,080	12,768	15,964	13,887
61,000						64,000						67,000					
61,000	61,050	13,401	11,132	14,149	12,251	64,000	64,050	14,226	11,957	15,064	13,076	67,000	67,050	15,095	12,782	15,979	13,901
61,050	61,100	13,414	11,146	14,164	12,264	64,050	64,100	14,239	11,971	15,079	13,089	67,050	67,100	15,110	12,796	15,994	13,914
61,100	61,150	13,428	11,159	14,179	12,278	64,100	64,150	14,253	11,984	15,094	13,103	67,100	67,150	15,125	12,809	16,009	13,928
61,150	61,200	13,442	11,173	14,195	12,292	64,150	64,200	14,267	11,998	15,110	13,117	67,150	67,200	15,141	12,823	16,025	13,942
61,200	61,250	13,456	11,187	14,210	12,306	64,200	64,250	14,281	12,012	15,125	13,131	67,200	67,250	15,156	12,837	16,040	13,956
61,250	61,300	13,469	11,201	14,225	12,319	64,250	64,300	14,294	12,026	15,140	13,144	67,250	67,300	15,171	12,851	16,055	13,969
61,300	61,350	13,483	11,214	14,240	12,333	64,300	64,350	14,308	12,039	15,155	13,158	67,300	67,350	15,186	12,864	16,070	13,983
61,350	61,400	13,497	11,228	14,256	12,347	64,350	64,400	14,322	12,053	15,171	13,172	67,350	67,400	15,202	12,878	16,086	13,997
61,400	61,450	13,511	11,242	14,271	12,361	64,400	64,450	14,336	12,067	15,186	13,186	67,400	67,450	15,217	12,892	16,101	14,011
61,450	61,500	13,524	11,256	14,286	12,374	64,450	64,500	14,349	12,081	15,201	13,199	67,450	67,500	15,232	12,906	16,116	14,024
61,500	61,550	13,538	11,269	14,301	12,388	64,500	64,550	14,363	12,094	15,216	13,213	67,500	67,550	15,247	12,919	16,131	14,038
61,550	61,600	13,552	11,283	14,317	12,402	64,550	64,600	14,377	12,108	15,232	13,227	67,550	67,600	15,263	12,933	16,147	14,052
61,600	61,650	13,566	11,297	14,332	12,416	64,600	64,650	14,391	12,122	15,247	13,241	67,600	67,650	15,278	12,947	16,162	14,066
61,650	61,700	13,579	11,311	14,347	12,429	64,650	64,700	14,404	12,136	15,262	13,254	67,650	67,700	15,293	12,961	16,177	14,079
61,700	61,750	13,593	11,324	14,362	12,443	64,700	64,750	14,418	12,149	15,277	13,268	67,700	67,750	15,308	12,974	16,192	14,093
61,750	61,800	13,607	11,338	14,378	12,457	64,750	64,800	14,432	12,163	15,293	13,282	67,750	67,800	15,324	12,988	16,208	14,107
61,800																	

Caution. Dependents, see the worksheet on page 33. **2001 Tax Table—Continued**

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
		Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household
At least	But less than	Your tax is—				At least	But less than	Your tax is—				At least	But less than	Your tax is—			
68,000						71,000						74,000					
68,000	68,050	15,400	13,057	16,284	14,176	71,000	71,050	16,315	13,882	17,199	15,001	74,000	74,050	17,230	14,707	18,114	15,826
68,050	68,100	15,415	13,071	16,299	14,189	71,050	71,100	16,330	13,896	17,214	15,014	74,050	74,100	17,245	14,721	18,129	15,839
68,100	68,150	15,430	13,084	16,314	14,203	71,100	71,150	16,345	13,909	17,229	15,028	74,100	74,150	17,260	14,734	18,144	15,853
68,150	68,200	15,446	13,098	16,330	14,217	71,150	71,200	16,361	13,923	17,245	15,042	74,150	74,200	17,276	14,748	18,160	15,867
68,200	68,250	15,461	13,112	16,345	14,231	71,200	71,250	16,376	13,937	17,260	15,056	74,200	74,250	17,291	14,762	18,175	15,881
68,250	68,300	15,476	13,126	16,360	14,244	71,250	71,300	16,391	13,951	17,275	15,069	74,250	74,300	17,306	14,776	18,190	15,894
68,300	68,350	15,491	13,139	16,375	14,258	71,300	71,350	16,406	13,964	17,290	15,083	74,300	74,350	17,321	14,789	18,205	15,908
68,350	68,400	15,507	13,153	16,391	14,272	71,350	71,400	16,422	13,978	17,306	15,097	74,350	74,400	17,337	14,803	18,221	15,922
68,400	68,450	15,522	13,167	16,406	14,286	71,400	71,450	16,437	13,992	17,321	15,111	74,400	74,450	17,352	14,817	18,236	15,936
68,450	68,500	15,537	13,181	16,421	14,299	71,450	71,500	16,452	14,006	17,336	15,124	74,450	74,500	17,367	14,831	18,251	15,949
68,500	68,550	15,552	13,194	16,436	14,313	71,500	71,550	16,467	14,019	17,351	15,138	74,500	74,550	17,382	14,844	18,266	15,963
68,550	68,600	15,568	13,208	16,452	14,327	71,550	71,600	16,483	14,033	17,367	15,152	74,550	74,600	17,398	14,858	18,282	15,977
68,600	68,650	15,583	13,222	16,467	14,341	71,600	71,650	16,498	14,047	17,382	15,166	74,600	74,650	17,413	14,872	18,297	15,991
68,650	68,700	15,598	13,236	16,482	14,354	71,650	71,700	16,513	14,061	17,397	15,179	74,650	74,700	17,428	14,886	18,312	16,004
68,700	68,750	15,613	13,249	16,497	14,368	71,700	71,750	16,528	14,074	17,412	15,193	74,700	74,750	17,443	14,899	18,327	16,018
68,750	68,800	15,629	13,263	16,513	14,382	71,750	71,800	16,544	14,088	17,428	15,207	74,750	74,800	17,459	14,913	18,343	16,032
68,800	68,850	15,644	13,277	16,528	14,396	71,800	71,850	16,559	14,102	17,443	15,221	74,800	74,850	17,474	14,927	18,358	16,046
68,850	68,900	15,659	13,291	16,543	14,409	71,850	71,900	16,574	14,116	17,458	15,234	74,850	74,900	17,489	14,941	18,373	16,059
68,900	68,950	15,674	13,304	16,558	14,423	71,900	71,950	16,589	14,129	17,473	15,248	74,900	74,950	17,504	14,954	18,388	16,073
68,950	69,000	15,690	13,318	16,574	14,437	71,950	72,000	16,605	14,143	17,489	15,262	74,950	75,000	17,520	14,968	18,404	16,087
69,000						72,000						75,000					
69,000	69,050	15,705	13,332	16,589	14,451	72,000	72,050	16,620	14,157	17,504	15,276	75,000	75,050	17,535	14,982	18,419	16,101
69,050	69,100	15,720	13,346	16,604	14,464	72,050	72,100	16,635	14,171	17,519	15,289	75,050	75,100	17,550	14,996	18,434	16,114
69,100	69,150	15,735	13,359	16,619	14,478	72,100	72,150	16,650	14,184	17,534	15,303	75,100	75,150	17,565	15,009	18,449	16,128
69,150	69,200	15,751	13,373	16,635	14,492	72,150	72,200	16,666	14,198	17,550	15,317	75,150	75,200	17,581	15,023	18,465	16,142
69,200	69,250	15,766	13,387	16,650	14,506	72,200	72,250	16,681	14,212	17,565	15,331	75,200	75,250	17,596	15,037	18,480	16,156
69,250	69,300	15,781	13,401	16,665	14,519	72,250	72,300	16,696	14,226	17,580	15,344	75,250	75,300	17,611	15,051	18,495	16,169
69,300	69,350	15,796	13,414	16,680	14,533	72,300	72,350	16,711	14,239	17,595	15,358	75,300	75,350	17,626	15,064	18,510	16,183
69,350	69,400	15,812	13,428	16,696	14,547	72,350	72,400	16,727	14,253	17,611	15,372	75,350	75,400	17,642	15,078	18,526	16,197
69,400	69,450	15,827	13,442	16,711	14,561	72,400	72,450	16,742	14,267	17,626	15,386	75,400	75,450	17,657	15,092	18,541	16,211
69,450	69,500	15,842	13,456	16,726	14,574	72,450	72,500	16,757	14,281	17,641	15,399	75,450	75,500	17,672	15,106	18,556	16,224
69,500	69,550	15,857	13,469	16,741	14,588	72,500	72,550	16,772	14,294	17,656	15,413	75,500	75,550	17,687	15,119	18,571	16,238
69,550	69,600	15,873	13,483	16,757	14,602	72,550	72,600	16,788	14,308	17,672	15,427	75,550	75,600	17,703	15,133	18,587	16,252
69,600	69,650	15,888	13,497	16,772	14,616	72,600	72,650	16,803	14,322	17,687	15,441	75,600	75,650	17,718	15,147	18,602	16,266
69,650	69,700	15,903	13,511	16,787	14,629	72,650	72,700	16,818	14,336	17,702	15,454	75,650	75,700	17,733	15,161	18,617	16,279
69,700	69,750	15,918	13,524	16,802	14,643	72,700	72,750	16,833	14,349	17,717	15,468	75,700	75,750	17,748	15,174	18,632	16,293
69,750	69,800	15,934	13,538	16,818	14,657	72,750	72,800	16,849	14,363	17,733	15,482	75,750	75,800	17,764	15,188	18,648	16,307
69,800	69,850	15,949	13,552	16,833	14,671	72,800	72,850	16,864	14,377	17,748	15,496	75,800	75,850	17,779	15,202	18,663	16,321
69,850	69,900	15,964	13,566	16,848	14,684	72,850	72,900	16,879	14,391	17,763	15,509	75,850	75,900	17,794	15,216	18,678	16,334
69,900	69,950	15,979	13,579	16,863	14,698	72,900	72,950	16,894	14,404	17,778	15,523	75,900	75,950	17,809	15,229	18,693	16,348
69,950	70,000	15,995	13,593	16,879	14,712	72,950	73,000	16,910	14,418	17,794	15,537	75,950	76,000	17,825	15,243	18,709	16,362
70,000						73,000						76,000					
70,000	70,050	16,010	13,607	16,894	14,726	73,000	73,050	16,925	14,432	17,809	15,551	76,000	76,050	17,840	15,257	18,724	16,376
70,050	70,100	16,025	13,621	16,909	14,739	73,050	73,100	16,940	14,446	17,824	15,564	76,050	76,100	17,855	15,271	18,739	16,389
70,100	70,150	16,040	13,634	16,924	14,753	73,100	73,150	16,955	14,459	17,839	15,578	76,100	76,150	17,870	15,284	18,754	16,403
70,150	70,200	16,056	13,648	16,940	14,767	73,150	73,200	16,971	14,473	17,855	15,592	76,150	76,200	17,886	15,298	18,770	16,417
70,200	70,250	16,071	13,662	16,955	14,781	73,200	73,250	16,986	14,487	17,870	15,606	76,200	76,250	17,901	15,312	18,785	16,431
70,250	70,300	16,086	13,676	16,970	14,794	73,250	73,300	17,001	14,501	17,885	15,619	76,250	76,300	17,916	15,326	18,800	16,444
70,300	70,350	16,101	13,689	16,985	14,808	73,300	73,350	17,016	14,514	17,900	15,633	76,300	76,350	17,931	15,339	18,815	16,458
70,350	70,400	16,117	13,703	17,001	14,822	73,350	73,400	17,032	14,528	17,916	15,647	76,350	76,400	17,947	15,353	18,831	16,472
70,400	70,450	16,132	13,717	17,016	14,836	73,400	73,450	17,047	14,542	17,931	15,661	76,400	76,450	17,962	15,367	18,846	16,486
70,450	70,500	16,147	13,731	17,031	14,849	73,450	73,500	17,062	14,556	17,946	15,674	76,450	76,500	17,977	15,381	18,861	16,499
70,500	70,550	16,162	13,744	17,046	14,863	73,500	73,550	17,077	14,569	17,961	15,688	76,500	76,550	17,992	15,394	18,876	16,513
70,550	70,600	16,178	13,758	17,062	14,877	73,550	73,600	17,093	14,583	17,977	15,702	76,550	76,600	18,008	15,408	18,892	16,527
70,600	70,650	16,193	13,772	17,077	14,891	73,600	73,650	17,108	14,597	17,992	15,716	76,600	76,650	18,023	15,422	18,907	16,541
70,650	70,700	16,208	13,786	17,092	14,904	73,650	73,700	17,123	14,611	18,007	15,729	76,650	76,700	18,038	15,436	18,922	16,554
70,700	70,750	16,223	13,799	17,107	14,918	73,700	73,750	17,138	14,624	18,022	15,743	76,700	76,750	18,053	15,449	18,937	16,568
70,750	70,800	16,239	13,813	17,123	14,932	73,750	73,800	17,154	14,638	18,038	15,757	76,750	76,800	18,069	15,463	18,953	16,582
70,800	70																

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
77,000						80,000						83,000					
77,000	77,050	18,145	15,532	19,029	16,651	80,000	80,050	19,060	16,357	19,944	17,476	83,000	83,050	19,975	17,182	20,859	18,301
77,050	77,100	18,160	15,546	19,044	16,664	80,050	80,100	19,075	16,371	19,959	17,489	83,050	83,100	19,990	17,196	20,874	18,314
77,100	77,150	18,175	15,559	19,059	16,678	80,100	80,150	19,090	16,384	19,974	17,503	83,100	83,150	20,005	17,209	20,889	18,328
77,150	77,200	18,191	15,573	19,075	16,692	80,150	80,200	19,106	16,398	19,990	17,517	83,150	83,200	20,021	17,223	20,905	18,342
77,200	77,250	18,206	15,587	19,090	16,706	80,200	80,250	19,121	16,412	20,005	17,531	83,200	83,250	20,036	17,237	20,920	18,356
77,250	77,300	18,221	15,601	19,105	16,719	80,250	80,300	19,136	16,426	20,020	17,544	83,250	83,300	20,051	17,251	20,936	18,369
77,300	77,350	18,236	15,614	19,120	16,733	80,300	80,350	19,151	16,439	20,035	17,558	83,300	83,350	20,066	17,264	20,954	18,383
77,350	77,400	18,252	15,628	19,136	16,747	80,350	80,400	19,167	16,453	20,051	17,572	83,350	83,400	20,082	17,278	20,972	18,397
77,400	77,450	18,267	15,642	19,151	16,761	80,400	80,450	19,182	16,467	20,066	17,586	83,400	83,450	20,097	17,292	20,990	18,411
77,450	77,500	18,282	15,656	19,166	16,774	80,450	80,500	19,197	16,481	20,081	17,599	83,450	83,500	20,112	17,306	21,007	18,424
77,500	77,550	18,297	15,669	19,181	16,788	80,500	80,550	19,212	16,494	20,096	17,613	83,500	83,550	20,127	17,319	21,025	18,438
77,550	77,600	18,313	15,683	19,197	16,802	80,550	80,600	19,228	16,508	20,112	17,627	83,550	83,600	20,143	17,333	21,043	18,452
77,600	77,650	18,328	15,697	19,212	16,816	80,600	80,650	19,243	16,522	20,127	17,641	83,600	83,650	20,158	17,347	21,061	18,466
77,650	77,700	18,343	15,711	19,227	16,829	80,650	80,700	19,258	16,536	20,142	17,654	83,650	83,700	20,173	17,361	21,078	18,479
77,700	77,750	18,358	15,724	19,242	16,843	80,700	80,750	19,273	16,549	20,157	17,668	83,700	83,750	20,188	17,374	21,096	18,493
77,750	77,800	18,374	15,738	19,258	16,857	80,750	80,800	19,289	16,563	20,173	17,682	83,750	83,800	20,204	17,388	21,114	18,507
77,800	77,850	18,389	15,752	19,273	16,871	80,800	80,850	19,304	16,577	20,188	17,696	83,800	83,850	20,219	17,402	21,132	18,521
77,850	77,900	18,404	15,766	19,288	16,884	80,850	80,900	19,319	16,591	20,203	17,709	83,850	83,900	20,234	17,416	21,149	18,534
77,900	77,950	18,419	15,779	19,303	16,898	80,900	80,950	19,334	16,604	20,218	17,723	83,900	83,950	20,249	17,429	21,167	18,548
77,950	78,000	18,435	15,793	19,319	16,912	80,950	81,000	19,350	16,618	20,234	17,737	83,950	84,000	20,265	17,443	21,185	18,562
78,000						81,000						84,000					
78,000	78,050	18,450	15,807	19,334	16,926	81,000	81,050	19,365	16,632	20,249	17,751	84,000	84,050	20,280	17,457	21,203	18,576
78,050	78,100	18,465	15,821	19,349	16,939	81,050	81,100	19,380	16,646	20,264	17,764	84,050	84,100	20,295	17,471	21,220	18,589
78,100	78,150	18,480	15,834	19,364	16,953	81,100	81,150	19,395	16,659	20,279	17,778	84,100	84,150	20,310	17,484	21,238	18,603
78,150	78,200	18,496	15,848	19,380	16,967	81,150	81,200	19,411	16,673	20,295	17,792	84,150	84,200	20,326	17,498	21,256	18,617
78,200	78,250	18,511	15,862	19,395	16,981	81,200	81,250	19,426	16,687	20,310	17,806	84,200	84,250	20,341	17,512	21,274	18,631
78,250	78,300	18,526	15,876	19,410	16,994	81,250	81,300	19,441	16,701	20,325	17,819	84,250	84,300	20,356	17,526	21,291	18,644
78,300	78,350	18,541	15,889	19,425	17,008	81,300	81,350	19,456	16,714	20,340	17,833	84,300	84,350	20,371	17,539	21,309	18,658
78,350	78,400	18,557	15,903	19,441	17,022	81,350	81,400	19,472	16,728	20,356	17,847	84,350	84,400	20,387	17,553	21,327	18,672
78,400	78,450	18,572	15,917	19,456	17,036	81,400	81,450	19,487	16,742	20,371	17,861	84,400	84,450	20,402	17,567	21,345	18,686
78,450	78,500	18,587	15,931	19,471	17,049	81,450	81,500	19,502	16,756	20,386	17,874	84,450	84,500	20,417	17,581	21,362	18,699
78,500	78,550	18,602	15,944	19,486	17,063	81,500	81,550	19,517	16,769	20,401	17,888	84,500	84,550	20,432	17,594	21,380	18,713
78,550	78,600	18,618	15,958	19,502	17,077	81,550	81,600	19,533	16,783	20,417	17,902	84,550	84,600	20,448	17,608	21,398	18,727
78,600	78,650	18,633	15,972	19,517	17,091	81,600	81,650	19,548	16,797	20,432	17,916	84,600	84,650	20,463	17,622	21,416	18,741
78,650	78,700	18,648	15,986	19,532	17,104	81,650	81,700	19,563	16,811	20,447	17,929	84,650	84,700	20,478	17,636	21,433	18,754
78,700	78,750	18,663	15,999	19,547	17,118	81,700	81,750	19,578	16,824	20,462	17,943	84,700	84,750	20,493	17,649	21,451	18,768
78,750	78,800	18,679	16,013	19,563	17,132	81,750	81,800	19,594	16,838	20,478	17,957	84,750	84,800	20,509	17,663	21,469	18,782
78,800	78,850	18,694	16,027	19,578	17,146	81,800	81,850	19,609	16,852	20,493	17,971	84,800	84,850	20,524	17,677	21,487	18,796
78,850	78,900	18,709	16,041	19,593	17,159	81,850	81,900	19,624	16,866	20,508	17,984	84,850	84,900	20,539	17,691	21,504	18,809
78,900	78,950	18,724	16,054	19,608	17,173	81,900	81,950	19,639	16,879	20,523	17,998	84,900	84,950	20,554	17,704	21,522	18,823
78,950	79,000	18,740	16,068	19,624	17,187	81,950	82,000	19,655	16,893	20,539	18,012	84,950	85,000	20,570	17,718	21,540	18,837
79,000						82,000						85,000					
79,000	79,050	18,755	16,082	19,639	17,201	82,000	82,050	19,670	16,907	20,554	18,026	85,000	85,050	20,585	17,732	21,558	18,851
79,050	79,100	18,770	16,096	19,654	17,214	82,050	82,100	19,685	16,921	20,569	18,039	85,050	85,100	20,600	17,746	21,575	18,864
79,100	79,150	18,785	16,109	19,669	17,228	82,100	82,150	19,700	16,934	20,584	18,053	85,100	85,150	20,615	17,759	21,593	18,878
79,150	79,200	18,801	16,123	19,685	17,242	82,150	82,200	19,716	16,948	20,600	18,067	85,150	85,200	20,631	17,773	21,611	18,892
79,200	79,250	18,816	16,137	19,700	17,256	82,200	82,250	19,731	16,962	20,615	18,081	85,200	85,250	20,646	17,787	21,629	18,906
79,250	79,300	18,831	16,151	19,715	17,269	82,250	82,300	19,746	16,976	20,630	18,094	85,250	85,300	20,661	17,801	21,646	18,919
79,300	79,350	18,846	16,164	19,730	17,283	82,300	82,350	19,761	16,989	20,645	18,108	85,300	85,350	20,676	17,814	21,664	18,933
79,350	79,400	18,862	16,178	19,746	17,297	82,350	82,400	19,777	17,003	20,661	18,122	85,350	85,400	20,692	17,828	21,682	18,947
79,400	79,450	18,877	16,192	19,761	17,311	82,400	82,450	19,792	17,017	20,676	18,136	85,400	85,450	20,707	17,842	21,700	18,961
79,450	79,500	18,892	16,206	19,776	17,324	82,450	82,500	19,807	17,031	20,691	18,149	85,450	85,500	20,722	17,856	21,717	18,974
79,500	79,550	18,907	16,219	19,791	17,338	82,500	82,550	19,822	17,044	20,706	18,163	85,500	85,550	20,737	17,869	21,735	18,988
79,550	79,600	18,923	16,233	19,807	17,352	82,550	82,600	19,838	17,058	20,722	18,177	85,550	85,600	20,753	17,883	21,753	19,002
79,600	79,650	18,938	16,247	19,822	17,366	82,600	82,650	19,853	17,072	20,737	18,191	85,600	85,650	20,768	17,897	21,771	19,016
79,650	79,700	18,953	16,261	19,837	17,379	82,650	82,700	19,868	17,086	20,752	18,204	85,650	85,700	20,783	17,911	21,788	19,029
79,700	79,750	18,968	16,274	19,852	17,393	82,700	82,750	19,883	17,099	20,767	18,218	85,700	85,750	20,798	17,924	21,806	19,043
79,750	79,800	18,984	16,288	19,868	17,407	82,750	82,800	19,899	17,113	20,783	18,232	85,750	85,800	20,814	17,938	21,824	

Caution. Dependents, see the worksheet on page 33. **2001 Tax Table—Continued**

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
		Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household
At least	But less than	Your tax is—				At least	But less than	Your tax is—				At least	But less than	Your tax is—			
86,000						89,000						92,000					
86,000	86,050	20,890	18,007	21,913	19,126	89,000	89,050	21,805	18,832	22,978	19,951	92,000	92,050	22,720	19,657	24,043	20,776
86,050	86,100	20,905	18,021	21,930	19,139	89,050	89,100	21,820	18,846	22,995	19,964	92,050	92,100	22,735	19,671	24,060	20,789
86,100	86,150	20,920	18,034	21,948	19,153	89,100	89,150	21,835	18,859	23,013	19,978	92,100	92,150	22,750	19,684	24,078	20,803
86,150	86,200	20,936	18,048	21,966	19,167	89,150	89,200	21,851	18,873	23,031	19,992	92,150	92,200	22,766	19,698	24,096	20,817
86,200	86,250	20,951	18,062	21,984	19,181	89,200	89,250	21,866	18,887	23,049	20,006	92,200	92,250	22,781	19,712	24,114	20,831
86,250	86,300	20,966	18,076	22,001	19,194	89,250	89,300	21,881	18,901	23,066	20,019	92,250	92,300	22,796	19,726	24,131	20,844
86,300	86,350	20,981	18,089	22,019	19,208	89,300	89,350	21,896	18,914	23,084	20,033	92,300	92,350	22,811	19,739	24,149	20,858
86,350	86,400	20,997	18,103	22,037	19,222	89,350	89,400	21,912	18,928	23,102	20,047	92,350	92,400	22,827	19,753	24,167	20,872
86,400	86,450	21,012	18,117	22,055	19,236	89,400	89,450	21,927	18,942	23,120	20,061	92,400	92,450	22,842	19,767	24,185	20,886
86,450	86,500	21,027	18,131	22,072	19,249	89,450	89,500	21,942	18,956	23,137	20,074	92,450	92,500	22,857	19,781	24,202	20,899
86,500	86,550	21,042	18,144	22,090	19,263	89,500	89,550	21,957	18,969	23,155	20,088	92,500	92,550	22,872	19,794	24,220	20,913
86,550	86,600	21,058	18,158	22,108	19,277	89,550	89,600	21,973	18,983	23,173	20,102	92,550	92,600	22,888	19,808	24,238	20,927
86,600	86,650	21,073	18,172	22,126	19,291	89,600	89,650	21,988	18,997	23,191	20,116	92,600	92,650	22,903	19,822	24,256	20,941
86,650	86,700	21,088	18,186	22,143	19,304	89,650	89,700	22,003	19,011	23,208	20,129	92,650	92,700	22,918	19,836	24,273	20,954
86,700	86,750	21,103	18,199	22,161	19,318	89,700	89,750	22,018	19,024	23,226	20,143	92,700	92,750	22,933	19,849	24,291	20,968
86,750	86,800	21,119	18,213	22,179	19,332	89,750	89,800	22,034	19,038	23,244	20,157	92,750	92,800	22,949	19,863	24,309	20,982
86,800	86,850	21,134	18,227	22,197	19,346	89,800	89,850	22,049	19,052	23,262	20,171	92,800	92,850	22,964	19,877	24,327	20,996
86,850	86,900	21,149	18,241	22,214	19,359	89,850	89,900	22,064	19,066	23,279	20,184	92,850	92,900	22,979	19,891	24,344	21,009
86,900	86,950	21,164	18,254	22,232	19,373	89,900	89,950	22,079	19,079	23,297	20,198	92,900	92,950	22,994	19,904	24,362	21,023
86,950	87,000	21,180	18,268	22,250	19,387	89,950	90,000	22,095	19,093	23,315	20,212	92,950	93,000	23,010	19,918	24,380	21,037
87,000						90,000						93,000					
87,000	87,050	21,195	18,282	22,268	19,401	90,000	90,050	22,110	19,107	23,333	20,226	93,000	93,050	23,025	19,932	24,398	21,051
87,050	87,100	21,210	18,296	22,285	19,414	90,050	90,100	22,125	19,121	23,350	20,239	93,050	93,100	23,040	19,946	24,415	21,064
87,100	87,150	21,225	18,309	22,303	19,428	90,100	90,150	22,140	19,134	23,368	20,253	93,100	93,150	23,055	19,959	24,433	21,078
87,150	87,200	21,241	18,323	22,321	19,442	90,150	90,200	22,156	19,148	23,386	20,267	93,150	93,200	23,071	19,973	24,451	21,092
87,200	87,250	21,256	18,337	22,339	19,456	90,200	90,250	22,171	19,162	23,404	20,281	93,200	93,250	23,086	19,987	24,469	21,106
87,250	87,300	21,271	18,351	22,356	19,469	90,250	90,300	22,186	19,176	23,421	20,294	93,250	93,300	23,101	20,001	24,486	21,119
87,300	87,350	21,286	18,364	22,374	19,483	90,300	90,350	22,201	19,189	23,439	20,308	93,300	93,350	23,116	20,014	24,504	21,133
87,350	87,400	21,302	18,378	22,392	19,497	90,350	90,400	22,217	19,203	23,457	20,322	93,350	93,400	23,132	20,028	24,522	21,147
87,400	87,450	21,317	18,392	22,410	19,511	90,400	90,450	22,232	19,217	23,475	20,336	93,400	93,450	23,147	20,042	24,540	21,161
87,450	87,500	21,332	18,406	22,427	19,524	90,450	90,500	22,247	19,231	23,492	20,349	93,450	93,500	23,162	20,056	24,557	21,174
87,500	87,550	21,347	18,419	22,445	19,538	90,500	90,550	22,262	19,244	23,510	20,363	93,500	93,550	23,177	20,069	24,575	21,188
87,550	87,600	21,363	18,433	22,463	19,552	90,550	90,600	22,278	19,258	23,528	20,377	93,550	93,600	23,193	20,083	24,593	21,202
87,600	87,650	21,378	18,447	22,481	19,566	90,600	90,650	22,293	19,272	23,546	20,391	93,600	93,650	23,208	20,097	24,611	21,216
87,650	87,700	21,393	18,461	22,498	19,579	90,650	90,700	22,308	19,286	23,563	20,404	93,650	93,700	23,223	20,111	24,628	21,230
87,700	87,750	21,408	18,474	22,516	19,593	90,700	90,750	22,323	19,299	23,581	20,418	93,700	93,750	23,238	20,124	24,646	21,245
87,750	87,800	21,424	18,488	22,534	19,607	90,750	90,800	22,339	19,313	23,599	20,432	93,750	93,800	23,254	20,138	24,664	21,261
87,800	87,850	21,439	18,502	22,552	19,621	90,800	90,850	22,354	19,327	23,617	20,446	93,800	93,850	23,269	20,152	24,682	21,276
87,850	87,900	21,454	18,516	22,569	19,634	90,850	90,900	22,369	19,341	23,634	20,459	93,850	93,900	23,284	20,166	24,699	21,291
87,900	87,950	21,469	18,529	22,587	19,648	90,900	90,950	22,384	19,354	23,652	20,473	93,900	93,950	23,299	20,179	24,717	21,306
87,950	88,000	21,485	18,543	22,605	19,662	90,950	91,000	22,400	19,368	23,670	20,487	93,950	94,000	23,315	20,193	24,735	21,322
88,000						91,000						94,000					
88,000	88,050	21,500	18,557	22,623	19,676	91,000	91,050	22,415	19,382	23,688	20,501	94,000	94,050	23,330	20,207	24,753	21,337
88,050	88,100	21,515	18,571	22,640	19,689	91,050	91,100	22,430	19,396	23,705	20,514	94,050	94,100	23,345	20,221	24,770	21,352
88,100	88,150	21,530	18,584	22,658	19,703	91,100	91,150	22,445	19,409	23,723	20,528	94,100	94,150	23,360	20,234	24,788	21,367
88,150	88,200	21,546	18,598	22,676	19,717	91,150	91,200	22,461	19,423	23,741	20,542	94,150	94,200	23,376	20,248	24,806	21,383
88,200	88,250	21,561	18,612	22,694	19,731	91,200	91,250	22,476	19,437	23,759	20,556	94,200	94,250	23,391	20,262	24,824	21,398
88,250	88,300	21,576	18,626	22,711	19,744	91,250	91,300	22,491	19,451	23,776	20,569	94,250	94,300	23,406	20,276	24,841	21,413
88,300	88,350	21,591	18,639	22,729	19,758	91,300	91,350	22,506	19,464	23,794	20,583	94,300	94,350	23,421	20,289	24,859	21,428
88,350	88,400	21,607	18,653	22,747	19,772	91,350	91,400	22,522	19,478	23,812	20,597	94,350	94,400	23,437	20,303	24,877	21,444
88,400	88,450	21,622	18,667	22,765	19,786	91,400	91,450	22,537	19,492	23,830	20,611	94,400	94,450	23,452	20,317	24,895	21,459
88,450	88,500	21,637	18,681	22,782	19,799	91,450	91,500	22,552	19,506	23,847	20,624	94,450	94,500	23,467	20,331	24,912	21,474
88,500	88,550	21,652	18,694	22,800	19,813	91,500	91,550	22,567	19,519	23,865	20,638	94,500	94,550	23,482	20,344	24,930	21,489
88,550	88,600	21,668	18,708	22,818	19,827	91,550	91,600	22,583	19,533	23,883	20,652	94,550	94,600	23,498	20,358	24,948	21,505
88,600	88,650	21,683	18,722	22,836	19,841	91,600	91,650	22,598	19,547	23,901	20,666	94,600	94,650	23,513	20,372	24,966	21,520
88,650	88,700	21,698	18,736	22,853	19,854	91,650	91,700	22,613	19,561	23,918	20,679	94,650	94,700	23,528	20,386	24,983	21,535
88,700	88,750	21,713	18,749	22,871	19,868	91,700	91,750	22,628	19,574	23,936	20,693	94,700	94,750	23,543	20,399	25,001	21,550
88,750	88,800	21,729	18,763	22,889	19,882	91,750	91,800	22,644	19,588	23,954	20,707	94,750	94,800	23,559	20,413	25,019	21,566
88,800	88																

2001 Tax Table—Continued Caution. Dependents, see the worksheet on page 33.

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
		Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household
At least	But less than	Your tax is—				At least	But less than	Your tax is—			
95,000						98,000					
95,000	95,050	23,635	20,482	25,108	21,642	98,000	98,050	24,550	21,307	26,173	22,557
95,050	95,100	23,650	20,496	25,125	21,657	98,050	98,100	24,565	21,321	26,190	22,572
95,100	95,150	23,665	20,509	25,143	21,672	98,100	98,150	24,580	21,334	26,208	22,587
95,150	95,200	23,681	20,523	25,161	21,688	98,150	98,200	24,596	21,348	26,226	22,603
95,200	95,250	23,696	20,537	25,179	21,703	98,200	98,250	24,611	21,362	26,244	22,618
95,250	95,300	23,711	20,551	25,196	21,718	98,250	98,300	24,626	21,376	26,261	22,633
95,300	95,350	23,726	20,564	25,214	21,733	98,300	98,350	24,641	21,389	26,279	22,648
95,350	95,400	23,742	20,578	25,232	21,749	98,350	98,400	24,657	21,403	26,297	22,664
95,400	95,450	23,757	20,592	25,250	21,764	98,400	98,450	24,672	21,417	26,315	22,679
95,450	95,500	23,772	20,606	25,267	21,779	98,450	98,500	24,687	21,431	26,332	22,694
95,500	95,550	23,787	20,619	25,285	21,794	98,500	98,550	24,702	21,444	26,350	22,709
95,550	95,600	23,803	20,633	25,303	21,810	98,550	98,600	24,718	21,458	26,368	22,725
95,600	95,650	23,818	20,647	25,321	21,825	98,600	98,650	24,733	21,472	26,386	22,740
95,650	95,700	23,833	20,661	25,338	21,840	98,650	98,700	24,748	21,486	26,403	22,755
95,700	95,750	23,848	20,674	25,356	21,855	98,700	98,750	24,763	21,499	26,421	22,770
95,750	95,800	23,864	20,688	25,374	21,871	98,750	98,800	24,779	21,513	26,439	22,786
95,800	95,850	23,879	20,702	25,392	21,886	98,800	98,850	24,794	21,527	26,457	22,801
95,850	95,900	23,894	20,716	25,409	21,901	98,850	98,900	24,809	21,541	26,474	22,816
95,900	95,950	23,909	20,729	25,427	21,916	98,900	98,950	24,824	21,554	26,492	22,831
95,950	96,000	23,925	20,743	25,445	21,932	98,950	99,000	24,840	21,568	26,510	22,847
96,000						99,000					
96,000	96,050	23,940	20,757	25,463	21,947	99,000	99,050	24,855	21,582	26,528	22,862
96,050	96,100	23,955	20,771	25,480	21,962	99,050	99,100	24,870	21,596	26,545	22,877
96,100	96,150	23,970	20,784	25,498	21,977	99,100	99,150	24,885	21,609	26,563	22,892
96,150	96,200	23,986	20,798	25,516	21,993	99,150	99,200	24,901	21,623	26,581	22,908
96,200	96,250	24,001	20,812	25,534	22,008	99,200	99,250	24,916	21,637	26,599	22,923
96,250	96,300	24,016	20,826	25,551	22,023	99,250	99,300	24,931	21,651	26,616	22,938
96,300	96,350	24,031	20,839	25,569	22,038	99,300	99,350	24,946	21,664	26,634	22,953
96,350	96,400	24,047	20,853	25,587	22,054	99,350	99,400	24,962	21,678	26,652	22,969
96,400	96,450	24,062	20,867	25,605	22,069	99,400	99,450	24,977	21,692	26,670	22,984
96,450	96,500	24,077	20,881	25,622	22,084	99,450	99,500	24,992	21,706	26,687	22,999
96,500	96,550	24,092	20,894	25,640	22,099	99,500	99,550	25,007	21,719	26,705	23,014
96,550	96,600	24,108	20,908	25,658	22,115	99,550	99,600	25,023	21,733	26,723	23,030
96,600	96,650	24,123	20,922	25,676	22,130	99,600	99,650	25,038	21,747	26,741	23,045
96,650	96,700	24,138	20,936	25,693	22,145	99,650	99,700	25,053	21,761	26,758	23,060
96,700	96,750	24,153	20,949	25,711	22,160	99,700	99,750	25,068	21,774	26,776	23,075
96,750	96,800	24,169	20,963	25,729	22,176	99,750	99,800	25,084	21,788	26,794	23,091
96,800	96,850	24,184	20,977	25,747	22,191	99,800	99,850	25,099	21,802	26,812	23,106
96,850	96,900	24,199	20,991	25,764	22,206	99,850	99,900	25,114	21,816	26,829	23,121
96,900	96,950	24,214	21,004	25,782	22,221	99,900	99,950	25,129	21,829	26,847	23,136
96,950	97,000	24,230	21,018	25,800	22,237	99,950	100,000	25,145	21,843	26,865	23,152
97,000						<div style="border: 1px solid black; border-radius: 50%; padding: 20px; width: fit-content; margin: 0 auto;"> <p>\$100,000 or over — use the Tax Rate Schedules on page 71</p> </div>					
97,000	97,050	24,245	21,032	25,818	22,252						
97,050	97,100	24,260	21,046	25,835	22,267						
97,100	97,150	24,275	21,059	25,853	22,282						
97,150	97,200	24,291	21,073	25,871	22,298						
97,200	97,250	24,306	21,087	25,889	22,313						
97,250	97,300	24,321	21,101	25,906	22,328						
97,300	97,350	24,336	21,114	25,924	22,343						
97,350	97,400	24,352	21,128	25,942	22,359						
97,400	97,450	24,367	21,142	25,960	22,374						
97,450	97,500	24,382	21,156	25,977	22,389						
97,500	97,550	24,397	21,169	25,995	22,404						
97,550	97,600	24,413	21,183	26,013	22,420						
97,600	97,650	24,428	21,197	26,031	22,435						
97,650	97,700	24,443	21,211	26,048	22,450						
97,700	97,750	24,458	21,224	26,066	22,465						
97,750	97,800	24,474	21,238	26,084	22,481						
97,800	97,850	24,489	21,252	26,102	22,496						
97,850	97,900	24,504	21,266	26,119	22,511						
97,900	97,950	24,519	21,279	26,137	22,526						
97,950	98,000	24,535	21,293	26,155	22,542						

* This column must also be used by a qualifying widow(er).

2001 Tax Rate Schedules



Use **only** if your taxable income (Form 1040, line 39) is \$100,000 or more. If less, use the **Tax Table**. Even though you cannot use the Tax Rate Schedules below if your taxable income is less than \$100,000, all levels of taxable income are shown so taxpayers can see the tax rate that applies to each level.

Schedule X—Use if your filing status is **Single**

If the amount on Form 1040, line 39, is: <i>Over-</i>	<i>But not over-</i>	Enter on Form 1040, line 40	<i>of the amount over-</i>
\$0	\$27,050	..... 15%	\$0
27,050	65,550	\$4,057.50 + 27.5%	27,050
65,550	136,750	14,645.00 + 30.5%	65,550
136,750	297,350	36,361.00 + 35.5%	136,750
297,350	.....	93,374.00 + 39.1%	297,350

Schedule Y-1—Use if your filing status is **Married filing jointly** or **Qualifying widow(er)**

If the amount on Form 1040, line 39, is: <i>Over-</i>	<i>But not over-</i>	Enter on Form 1040, line 40	<i>of the amount over-</i>
\$0	\$45,200	..... 15%	\$0
45,200	109,250	\$6,780.00 + 27.5%	45,200
109,250	166,500	24,393.75 + 30.5%	109,250
166,500	297,350	41,855.00 + 35.5%	166,500
297,350	.....	88,306.75 + 39.1%	297,350

Schedule Y-2—Use if your filing status is **Married filing separately**

If the amount on Form 1040, line 39, is: <i>Over-</i>	<i>But not over-</i>	Enter on Form 1040, line 40	<i>of the amount over-</i>
\$0	\$22,600	..... 15%	\$0
22,600	54,625	\$3,390.00 + 27.5%	22,600
54,625	83,250	12,196.88 + 30.5%	54,625
83,250	148,675	20,927.50 + 35.5%	83,250
148,675	.....	44,153.38 + 39.1%	148,675

Schedule Z—Use if your filing status is **Head of household**

If the amount on Form 1040, line 39, is: <i>Over-</i>	<i>But not over-</i>	Enter on Form 1040, line 40	<i>of the amount over-</i>
\$0	\$36,250	..... 15%	\$0
36,250	93,650	\$5,437.50 + 27.5%	36,250
93,650	151,650	21,222.50 + 30.5%	93,650
151,650	297,350	38,912.50 + 35.5%	151,650
297,350	.....	90,636.00 + 39.1%	297,350



Dependents,
see the
worksheet
on page 33.

Disclosure, Privacy Act, and Paperwork Reduction Act Notice

The IRS Restructuring and Reform Act of 1998, the Privacy Act of 1974, and Paperwork Reduction Act of 1980 require that when we ask you for information we must first tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it and whether your response is voluntary, required to obtain a benefit, or mandatory under the law.

This notice applies to all papers you file with us, including this tax return. It also applies to any questions we need to ask you so we can complete, correct, or process your return; figure your tax; and collect tax, interest, or penalties.

Our legal right to ask for information is Internal Revenue Code sections 6001, 6011, and 6012(a) and their regulations. They say that you must file a return or statement with us for any tax you are liable for. Your response is mandatory under these sections. Code section 6109 requires that you provide your social security number or individual taxpayer identification number on what you file. This is so we know who you are, and can process your return and other papers. You must fill in all parts of the tax form that apply to you. But you do not have to check the boxes for the Presidential Election Campaign Fund or for the third-party designee. You also do not have to provide your daytime phone number.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become

material in the administration of any Internal Revenue law.

We ask for tax return information to carry out the tax laws of the United States. We need it to figure and collect the right amount of tax.

If you do not file a return, do not provide the information we ask for, or provide fraudulent information, you may be charged penalties and be subject to criminal prosecution. We may also have to disallow the exemptions, exclusions, credits, deductions, or adjustments shown on the tax return. This could make the tax higher or delay any refund. Interest may also be charged.

Generally, tax returns and return information are confidential, as stated in Code section 6103. However, Code section 6103 allows or requires the Internal Revenue Service to disclose or give the information shown on your tax return to others as described in the Code. For example, we may disclose your tax information to the Department of Justice, to enforce the tax laws, both civil and criminal, and to cities, states, the District of Columbia, U.S. commonwealths or possessions, and certain foreign governments to carry out their tax laws. We may disclose your tax information to the Department of Treasury and contractors for tax administration purposes; and to other persons as necessary to obtain information which we cannot get in any other way in order to determine the amount of or to collect the tax you owe. We may disclose your tax information to the Comptroller General of the United States to permit the Comptroller General to review the Internal Revenue Service. We may also disclose your tax information to Committees of Congress; Federal, state, and local child support agencies; and to

other Federal agencies for the purposes of determining entitlement for benefits or the eligibility for and the repayment of loans.

Please keep this notice with your records. It may help you if we ask you for other information. If you have questions about the rules for filing and giving information, please call or visit any Internal Revenue Service office.

The Time It Takes To Prepare Your Return

We try to create forms and instructions that can be easily understood. Often this is difficult to do because our tax laws are very complex. For some people with income mostly from wages, filling in the forms is easy. For others who have businesses, pensions, stocks, rental income, or other investments, it is more difficult.

We Welcome Comments on Forms

If you have comments concerning the accuracy of the time estimates shown below or suggestions for making these forms simpler, we would be happy to hear from you. You can e-mail us your suggestions and comments through the [IRS Internet Home Page \(www.irs.gov/help/email2.html\)](http://www.irs.gov/help/email2.html) or write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send your return to this address. Instead, see the back cover.

Estimated Preparation Time

The time needed to complete and file Form 1040, its schedules, and accompanying worksheets will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to the IRS	Totals
Form 1040	2 hr., 46 min.	3 hr., 30 min.	6 hr., 37 min.	34 min.	13 hr., 27 min.
Sch. A	3 hr., 4 min.	39 min.	1 hr., 34 min.	20 min.	5 hr., 37 min.
Sch. B	33 min.	8 min.	25 min.	20 min.	1 hr., 26 min.
Sch. C	6 hr., 4 min.	1 hr., 31 min.	2 hr., 19 min.	41 min.	10 hr., 35 min.
Sch. C-EZ	45 min.	3 min.	35 min.	20 min.	1 hr., 43 min.
Sch. D	1 hr., 29 min.	2 hr., 59 min.	2 hr., 34 min.	34 min.	7 hr., 36 min.
Sch. D-1	13 min.	1 min.	11 min.	34 min.	59 min.
Sch. E	3 hr.	1 hr.	1 hr., 24 min.	34 min.	5 hr., 58 min.
Sch. EIC	-----	1 min.	13 min.	20 min.	34 min.
Sch. F:					
Cash Method	3 hr., 29 min.	36 min.	1 hr., 27 min.	20 min.	5 hr., 52 min.
Accrual Method	3 hr., 36 min.	26 min.	1 hr., 25 min.	20 min.	5 hr., 47 min.
Sch. H	1 hr., 38 min.	30 min.	53 min.	34 min.	3 hr., 35 min.
Sch. J	19 min.	11 min.	1 hr., 32 min.	20 min.	2 hr., 22 min.
Sch. R	19 min.	15 min.	30 min.	34 min.	1 hr., 38 min.
Sch. SE:					
Short	13 min.	14 min.	13 min.	13 min.	53 min.
Long	26 min.	20 min.	35 min.	20 min.	1 hr., 41 min.

Instructions for Schedules to Form 1040

2001 Instructions for Schedule A, Itemized Deductions

Use Schedule A (Form 1040) to figure your itemized deductions. In most cases, your Federal income tax will be less if you take the **larger** of your itemized deductions or your standard deduction.

If you itemize, you may deduct a part of your medical and dental expenses and unreimbursed employee business expenses, and amounts you paid for certain taxes, interest, contributions, and miscellaneous expenses. You may also deduct certain casualty and theft losses.



Do not include on Schedule A items deducted elsewhere, such as on Schedule C, C-EZ, E, or F.

Medical and Dental Expenses

You may deduct only the part of your medical and dental expenses that exceeds 7.5% of the amount on Form 1040, line 34.

Pub. 502 discusses the types of expenses that may and may not be deducted. It also explains when you may deduct capital expenses and special care expenses for disabled persons.



If you received a distribution from an MSA in 2001, see **Pub. 969** to figure your deduction.

Examples of Medical and Dental Payments You May Deduct

To the extent you were **not reimbursed**, you may deduct what you paid for:

- Insurance premiums for medical and dental care, including premiums for qualified long-term care contracts as defined in Pub. 502. But see **Limit on Long-Term Care Premiums You May Deduct** on this page. Reduce the insurance premiums by any self-employed health insurance deduction you claimed on Form 1040, line 28.



You **cannot** deduct insurance premiums paid with pretax dollars because the premiums are not included in box 1 of your W-2 form(s).

- Prescription medicines or insulin.
- Acupuncturists, chiropractors, dentists, eye doctors, medical doctors, occupational therapists, osteopathic doctors, physical therapists, podiatrists, psychiatrists, psychoanalysts (medical care only), and psychologists.
- Medical examinations, X-ray and laboratory services, insulin treatment, and whirlpool baths your doctor ordered.

- Nursing help (including your share of the employment taxes paid). If you paid someone to do both nursing and housework, you may deduct only the cost of the nursing help.

- Hospital care (including meals and lodging), clinic costs, and lab fees.

- Qualified long-term care services (see Pub. 502).

- The supplemental part of Medicare insurance (Medicare B).

- A program to stop smoking and for prescription medicines to alleviate nicotine withdrawal.

- Medical treatment at a center for drug or alcohol addiction.

- Medical aids such as eyeglasses, contact lenses, hearing aids, braces, crutches, wheelchairs, and guide dogs, including the cost of maintaining them.

- Surgery to improve vision including radial keratotomy or other laser eye surgery.

- Lodging expenses (but not meals) while away from home to receive medical care in a hospital or a medical care facility related to a hospital, provided there was no significant element of personal pleasure, recreation, or vacation in the travel. **Do not** deduct more than \$50 a night for each eligible person.

- Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received the care; or you may claim **12 cents a mile**. Add parking and tolls to the amount you claim under either method.

Note. Certain medical expenses paid out of a deceased taxpayer's estate may be claimed on the deceased taxpayer's final return. See Pub. 502 for details.

Limit on Long-Term Care Premiums You May Deduct. The amount you may deduct for qualified long-term care contracts (as

defined in Pub. 502) depends on the age, at the end of 2001, of the person for whom the premiums were paid. See the following chart for details.

IF the person was, at the end of 2001, age . . .	THEN the most you may deduct is . . .
40 or under	\$ 230
41–50	\$ 430
51–60	\$ 860
61–70	\$ 2,290
71 or older	\$ 2,860

Examples of Medical and Dental Payments You May Not Deduct

- The basic cost of Medicare insurance (Medicare A).



If you were 65 or older but not entitled to social security benefits, you may deduct premiums you voluntarily paid for Medicare A coverage.

- Cosmetic surgery unless it was necessary to improve a deformity related to a congenital abnormality, an injury from an accident or trauma, or a disfiguring disease.

- Life insurance or income protection policies.

- The Medicare tax on your wages and tips or the Medicare tax paid as part of the self-employment tax or household employment taxes.

- Nursing care for a healthy baby. But you may be able to take a credit for the amount you paid. See the instructions for Form 1040, line 44.

- Illegal operations or drugs.

- Nonprescription medicines (including nicotine gum and certain nicotine patches).

(Continued on page A-2)

- Travel your doctor told you to take for rest or a change.
- Funeral, burial, or cremation costs.

Line 1

Medical and Dental Expenses

Enter the total of your medical and dental expenses (see page A-1), after you reduce these expenses by any payments received from insurance or other sources. See **Reimbursements** below.



Do not forget to include insurance premiums you paid for medical and dental care. But if you claimed the self-employed health insurance deduction on Form 1040, line 28, reduce the premiums by the amount on line 28.

Whose Medical and Dental Expenses Can You Include? You may include medical and dental bills you paid for:

- Yourself and your spouse.
- All dependents you claim on your return.
- Your child whom you do not claim as a dependent because of the rules explained in **Pub. 501** for children of divorced or separated parents.
- Any person you could have claimed as a dependent on your return if that person had not received \$2,900 or more of gross income or had not filed a joint return.

Example. You provided over half of your mother's support but may not claim her as a dependent because she received wages of \$2,900 in 2001. You may include on line 1 any medical and dental expenses you paid in 2001 for your mother.

Reimbursements. If your insurance company paid the provider directly for part of your expenses, and you paid only the amount that remained, include on line 1 **only** the amount you paid. If you received a reimbursement in 2001 for medical or dental expenses you paid in 2001, reduce your 2001 expenses by this amount. If you received a reimbursement in 2001 for prior year medical or dental expenses, do not reduce your 2001 expenses by this amount. But if you deducted the expenses in the earlier year and the deduction reduced your tax, you must include the reimbursement in income on Form 1040, line 21. See **Pub. 502** for details on how to figure the amount to include.

Cafeteria Plans. Do not include on line 1 insurance premiums paid by an employer-sponsored health insurance plan (cafeteria plan) unless the premiums are included in box 1 of your W-2 form(s). Also, do not include any other medical and dental ex-

penses paid by the plan unless the amount paid is included in box 1 of your W-2 form(s).

Taxes You Paid

Taxes You May Not Deduct

- Federal income and excise taxes.
- Social security, Medicare, Federal unemployment (FUTA), and railroad retirement (RRTA) taxes.
- Customs duties.
- Federal estate and gift taxes. But see the instructions for line 27 on page A-6.
- Certain state and local taxes, including: general sales tax, tax on gasoline, car inspection fees, assessments for sidewalks or other improvements to your property, tax you paid for someone else, and license fees (marriage, driver's, dog, etc.).

Line 5

State and Local Income Taxes

Include on this line the state and local income taxes listed below.

- State and local income taxes withheld from your salary during 2001. Your W-2 form(s) will show these amounts. Forms W-2G, 1099-G, 1099-R, and 1099-MISC may also show state and local income taxes withheld.

- State and local income taxes paid in 2001 for a prior year, such as taxes paid with your 2000 state or local income tax return. **Do not** include penalties or interest.

- State and local estimated tax payments made during 2001, including any part of a prior year refund that you chose to have credited to your 2001 state or local income taxes.

- Mandatory contributions you made to the California, New Jersey, or New York Nonoccupational Disability Benefit Fund, Rhode Island Temporary Disability Benefit Fund, or Washington State Supplemental Workmen's Compensation Fund.

Do not reduce your deduction by:

- Any state or local income tax refund or credit you expect to receive for 2001 or
- Any refund of, or credit for, prior year state and local income taxes you actually received in 2001. Instead, see the instructions for Form 1040, line 10.

Line 6

Real Estate Taxes

Include taxes (state, local, or foreign) you paid on real estate you own that was not

used for business, but only if the taxes are based on the assessed value of the property. Also, the assessment must be made uniformly on property throughout the community, and the proceeds must be used for general community or governmental purposes. **Pub. 530** explains the deductions homeowners may take.

Do not include the following amounts on line 6.

- Itemized charges for services to specific property or persons (for example, a \$20 monthly charge per house for trash collection, a \$5 charge for every 1,000 gallons of water consumed, or a flat charge for mowing a lawn that had grown higher than permitted under a local ordinance).

- Charges for improvements that tend to increase the value of your property (for example, an assessment to build a new sidewalk). The cost of a property improvement is added to the basis of the property. However, a charge is deductible if it is used only to maintain an existing public facility in service (for example, a charge to repair an existing sidewalk, and any interest included in that charge).

If your mortgage payments include your real estate taxes, you may deduct only the amount the mortgage company actually paid to the taxing authority in 2001.

If you sold your home in 2001, any real estate tax charged to the buyer should be shown on your settlement statement and in box 5 of any **Form 1099-S** you received. This amount is considered a refund of real estate taxes. See **Refunds and Rebates** next. Any real estate taxes you paid at closing should be shown on your settlement statement.

Refunds and Rebates. If you received a refund or rebate in 2001 of real estate taxes you paid in 2001, reduce your deduction by the amount of the refund or rebate. If you received a refund or rebate in 2001 of real estate taxes you paid in an earlier year, do not reduce your deduction by this amount. Instead, you must include the refund or rebate in income on Form 1040, line 21, if you deducted the real estate taxes in the earlier year and the deduction reduced your tax. **Pub. 525** tells you how to figure the amount to include in income.

Line 7

Personal Property Taxes

Enter personal property tax you paid, but only if it is based on value alone and it is charged on a yearly basis.

Example. You paid a yearly fee for the registration of your car. Part of the fee was based on the car's value and part was based

on its weight. You may deduct only the part of the fee that was based on the car's value.

Line 8

Other Taxes

If you had any deductible tax not listed on line 5, 6, or 7, list the type and amount of tax. Enter only one total on line 8. Include on this line income tax you paid to a foreign country or U.S. possession.



You may want to take a credit for the foreign tax instead of a deduction. See the instructions for Form 1040, line 43, for details.

Interest You Paid

Whether your interest expense is treated as investment interest, personal interest, or business interest depends on how and when you used the loan proceeds. See **Pub. 535** for details.

In general, if you paid interest in 2001 that applies to any period after 2001, you may deduct only amounts that apply for 2001.

Lines 10 and 11

Home Mortgage Interest

A **home mortgage** is any loan that is secured by your main home or second home. It includes first and second mortgages, home equity loans, and refinanced mortgages.

A **home** may be a house, condominium, cooperative, mobile home, boat, or similar property. It must provide basic living accommodations including sleeping space, toilet, and cooking facilities.

Limit on Home Mortgage Interest. If you took out any mortgages after October 13, 1987, your deduction may be limited. Any additional amounts borrowed after October 13, 1987, on a line-of-credit mortgage you had on that date are treated as a mortgage taken out after October 13, 1987. If you refinanced a mortgage you had on October 13, 1987, treat the new mortgage as taken out on or before October 13, 1987. But if you refinanced for more than the balance of the old mortgage, treat the excess as a mortgage taken out after October 13, 1987.

See **Pub. 936** to figure your deduction if **either 1 or 2** next applies. If you had more than one home at the same time, the dollar amounts in **1** and **2** apply to the total mortgages on both homes.

1. You took out any mortgages after October 13, 1987, and used the proceeds for purposes other than to buy, build, or im-

prove your home, and all of these mortgages totaled over \$100,000 at any time during 2001. The limit is \$50,000 if married filing separately. An example of this type of mortgage is a home equity loan used to pay off credit card bills, buy a car, or pay tuition.

2. You took out any mortgages after October 13, 1987, and used the proceeds to buy, build, or improve your home, and these mortgages plus any mortgages you took out on or before October 13, 1987, totaled over \$1 million at any time during 2001. The limit is \$500,000 if married filing separately.



If the total amount of all mortgages is more than the fair market value of the home, additional limits apply. See **Pub. 936**.

Line 10

Enter on line 10 mortgage interest and points reported to you on **Form 1098**. If this form shows any refund of overpaid interest, do not reduce your deduction by the refund. Instead, see the instructions for Form 1040, line 21.

If you paid more interest to the recipient than is shown on Form 1098, see **Pub. 936** to find out if you can deduct the additional interest. If you can, attach a statement explaining the difference and enter "See attached" to the right of line 10.

Note. If you are claiming the **mortgage interest credit** (see the instructions for Form 1040, line 49), subtract the amount shown on line 3 of **Form 8396** from the total deductible interest you paid on your home mortgage. Enter the result on line 10.

Line 11

If you did not receive a Form 1098 from the recipient, report your deductible mortgage interest on line 11.

If you bought your home from the recipient, be sure to show that recipient's name, identifying no., and address on the dotted lines next to line 11. If the recipient is an individual, the identifying no. is his or her social security number (SSN). Otherwise, it is the employer identification number. You must also let the recipient know your SSN. If you do not show the required information about the recipient or let the recipient know your SSN, you may have to pay a \$50 penalty.

If you and at least one other person (other than your spouse if filing a joint return) were liable for and paid interest on the mortgage, and the other person received the Form 1098, attach a statement to your return showing the name and address of that person. To the right of line 11, enter "See attached."

Line 12

Points Not Reported on Form 1098

Points are shown on your settlement statement. Points you paid **only** to borrow money are generally deductible over the life of the loan. See **Pub. 936** to figure the amount you may deduct. Points paid for other purposes, such as for a lender's services, are not deductible.

Refinancing. Generally, you must deduct points you paid to refinance a mortgage over the life of the loan. This is true even if the new mortgage is secured by your main home.

If you used part of the proceeds to **improve your main home**, you may be able to deduct the part of the points related to the improvement in the year paid. See **Pub. 936** for details.



If you paid off a mortgage early, deduct any remaining points in the year you paid off the mortgage.

Line 13

Investment Interest

Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to passive activities or to securities that generate tax-exempt income.

Complete and attach **Form 4952** to figure your deduction.

Exception. You do not have to file Form 4952 if **all three** of the following apply.

- 1.** Your investment interest expense is not more than your investment income from interest and ordinary dividends.
- 2.** You have no other deductible investment expenses.
- 3.** You have no disallowed investment interest expense from 2000.

Note. Alaska Permanent Fund dividends, including those reported on **Form 8814**, are not investment income.

For more details, see **Pub. 550**.

Gifts to Charity

You may deduct contributions or gifts you gave to organizations that are religious, charitable, educational, scientific, or literary in purpose. You may also deduct what you gave to organizations that work to prevent cruelty to children or animals. Examples of these organizations are:

- Churches, mosques, synagogues, temples, etc.
- Boy Scouts, Boys and Girls Clubs of America, CARE, Girl Scouts, Goodwill Industries, Red Cross, Salvation Army, United Way, etc.
- Fraternal orders, if the gifts will be used for the purposes listed above.
- Veterans' and certain cultural groups.
- Nonprofit schools, hospitals, and organizations whose purpose is to find a cure for, or help people who have, arthritis, asthma, birth defects, cancer, cerebral palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.
- Federal, state, and local governments if the gifts are solely for public purposes.

To verify an organization's charitable status, you can:

- Check with the organization to which you made the donation. The organization should be able to provide you with verification of its charitable status.
- See **Pub. 78** for a list of most qualified organizations.
- Call our **Tax Exempt/Government Entities Customer Account Services at 1-877-829-5500**. Assistance is available Monday through Friday from 8:00 a.m. to 9:30 p.m. Eastern time.

Contributions You May Deduct

Contributions may be in cash (keep canceled checks, receipts, or other reliable written records showing the name of the organization and the date and amount given), property, or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations described earlier. If you drove to and from the volunteer work, you may take **14 cents a mile** or the actual cost of gas and oil. Add parking and tolls to the amount you claim under either method. But do not deduct any amounts that were repaid to you.

Gifts From Which You Benefit. If you made a gift and received a benefit in return, such as food, entertainment, or merchandise, you may generally only deduct the amount that is more than the value of the benefit. But this rule does not apply to certain membership benefits provided in return for an

annual payment of \$75 or less. For details, see **Pub. 526**.

Example. You paid \$70 to a charitable organization to attend a fund-raising dinner and the value of the dinner was \$40. You may deduct only \$30.

Gifts of \$250 or More. You may deduct a gift of \$250 or more only if you have a statement from the charitable organization showing the information in **1** and **2** below.

In figuring whether a gift is \$250 or more, do not combine separate donations. For example, if you gave your church \$25 each week for a total of \$1,300, treat each \$25 payment as a separate gift. If you made donations through payroll deductions, treat each deduction from each paycheck as a separate gift. See **Pub. 526** if you made a separate gift of \$250 or more through payroll deduction.

1. The amount of any money contributed and a description (but not value) of any property donated.

2. Whether the organization did or did not give you any goods or services in return for your contribution. If you did receive any goods or services, a description and estimate of the value must be included. If you received only intangible religious benefits (such as admission to a religious ceremony), the organization must state this, but it does not have to describe or value the benefit.



You must get the statement by the date you file your return or the due date (including extensions) for filing your return, whichever is earlier. **Do not** attach the statement to your return. Instead, keep it for your records.

Limit on the Amount You May Deduct. See **Pub. 526** to figure the amount of your deduction if **any** of the following apply.

- Your cash contributions or contributions of ordinary income property are more than 30% of the amount on Form 1040, line 34.
- Your gifts of capital gain property are more than 20% of the amount on Form 1040, line 34.
- You gave gifts of property that increased in value or gave gifts of the use of property.

You May Not Deduct as Contributions

- Travel expenses (including meals and lodging) while away from home, unless there was no significant element of personal pleasure, recreation, or vacation in the travel.
- Political contributions.

- Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups.

- Cost of raffle, bingo, or lottery tickets. But you may be able to deduct these expenses on line 27. See page A-6 for details.

- Cost of tuition. But you may be able to:

- 1.** Deduct this expense on line 20 (see page A-5) or

- 2.** Take a credit for this expense. See **Form 8863** for details.

- Value of your time or services.
- Value of blood given to a blood bank.
- The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).
- Gifts to individuals and groups that are run for personal profit.
- Gifts to foreign organizations. But you may be able to deduct gifts to certain U.S. organizations that transfer funds to foreign charities and certain Canadian, Israeli, and Mexican charities. See **Pub. 526** for details.

- Gifts to organizations engaged in certain political activities that are of direct financial interest to your trade or business. See Internal Revenue Code section 170(f)(9).

- Gifts to groups whose purpose is to lobby for changes in the laws.

- Gifts to civic leagues, social and sports clubs, labor unions, and chambers of commerce.

- Value of benefits received in connection with a contribution to a charitable organization. See **Pub. 526** for exceptions.

Line 15

Gifts by Cash or Check

Enter the total contributions you made in cash or by check (including out-of-pocket expenses).

Line 16

Other Than by Cash or Check

Enter your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale. For more details on determining the value of donated property, see **Pub. 561**.

If the amount of your deduction is more than \$500, you must complete and attach **Form 8283**. For this purpose, the "amount

of your deduction” means your deduction **before** applying any income limits that could result in a carryover of contributions. If your total deduction is over \$5,000, you may also have to get appraisals of the values of the donated property. See Form 8283 and its instructions for details.

Recordkeeping. If you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization’s name and address, the date and location of the gift, and a description of the property. For each gift of property, you should also keep reliable written records that include:

- How you figured the property’s value at the time you gave it. If the value was determined by an appraisal, keep a signed copy of the appraisal.
- The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.
- How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.
- Any conditions attached to the gift.

Note. If your total deduction for gifts of property is over \$500, you gave less than your entire interest in the property, or you made a “qualified conservation contribution,” your records should contain additional information. See Pub. 526 for details.

Line 17

Carryover From Prior Year

Enter any carryover of contributions that you could not deduct in an earlier year because they exceeded your adjusted gross income limit. See Pub. 526 for details.

Casualty and Theft Losses

Line 19

Complete and attach **Form 4684** to figure the amount of your loss to enter on line 19.

You may be able to deduct part or all of each loss caused by theft, vandalism, fire, storm, or similar causes, and car, boat, and other accidents. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You may deduct nonbusiness casualty or theft losses only to the extent that—

1. The amount of **each** separate casualty or theft loss is more than \$100 and
2. The total amount of **all** losses during the year is more than 10% of the amount on Form 1040, line 34.

Special rules apply if you had both gains and losses from nonbusiness casualties or thefts. See Form 4684 and its instructions for details.

Use line 22 of Schedule A to deduct the costs of proving that you had a property loss. Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.

For information on Federal disaster area losses, see **Pub. 547**.

Job Expenses and Most Other Miscellaneous Deductions

Pub. 529 discusses the types of expenses that may and may not be deducted.

Examples of expenses you may **not** deduct are:

- Political contributions.
- Personal legal expenses.
- Lost or misplaced cash or property.
- Expenses for meals during regular or extra work hours.
- The cost of entertaining friends.
- Commuting expenses. See Pub. 529 for the definition of commuting.
- Travel expenses for employment away from home if that period of employment exceeds 1 year. See Pub. 529 for an exception for certain Federal employees.
- Travel as a form of education.
- Expenses of attending a seminar, convention, or similar meeting unless it is related to your employment.
- Club dues. See Pub. 529 for exceptions.
- Expenses of adopting a child. But you may be able to take a credit for adoption expenses. See **Form 8839** for details.
- Fines and penalties.
- Expenses of producing tax-exempt income.

Line 20

Unreimbursed Employee Expenses

Enter the total job expenses you paid for which you were not reimbursed. (Amounts your employer included in box 1 of your W-2 form are not considered reimbursements.) But you **must** fill in and attach **Form 2106** if **either 1 or 2** next applies.

1. You claim any travel, transportation, meal, or entertainment expenses for your job.

2. Your employer paid you for any of your job expenses reportable on line 20.



If you used your own vehicle and item 2 does not apply, you may be able to file **Form 2106-EZ** instead.

If you do not have to file Form 2106 or 2106-EZ, list the type and amount of each expense on the dotted lines next to line 20. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 20.

Examples of other expenses to include on line 20 are:

- Safety equipment, small tools, and supplies needed for your job.
- Uniforms required by your employer that are not suitable for ordinary wear.
- Protective clothing required in your work, such as hard hats, safety shoes, and glasses.
- Physical examinations required by your employer.
- Dues to professional organizations and chambers of commerce.
- Subscriptions to professional journals.
- Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.
- Certain business use of part of your home. For details, including limits that apply, use TeleTax topic 509 (see page 11 of the Form 1040 instructions) or see **Pub. 587**.
- Certain educational expenses. For details, use TeleTax topic 513 (see page 11 of the Form 1040 instructions) or see **Pub. 508**.



You may be able to take a credit for your educational expenses instead of a deduction. See **Form 8863** for details.

Line 21

Tax Preparation Fees

Enter the fees you paid for preparation of your tax return, including fees paid for filing your return electronically. If you paid your tax by credit card, **do not** include the convenience fee you were charged.

Line 22

Other Expenses

Enter the total amount you paid to produce or collect taxable income and manage or

protect property held for earning income. But **do not** include any personal expenses. List the type and amount of each expense on the dotted lines next to line 22. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 22.

Examples of expenses to include on line 22 are:

- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (for example, trust account) fees.
- Your share of the investment expenses of a regulated investment company.
- Certain losses on nonfederally insured deposits in an insolvent or bankrupt financial institution. For details, including limits that apply, see **Pub. 529**.
- Casualty and theft losses of property used in performing services as an employee from **Form 4684**, lines 32 and 38b, or **Form 4797**, line 18b(1).
- Deduction for repayment of amounts under a claim of right if \$3,000 or less.

Other Miscellaneous Deductions

Line 27

Only the expenses listed next can be deducted on this line. List the type and amount of each expense on the dotted lines next to line 27. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 27.

- Gambling losses, but only to the extent of gambling winnings reported on Form 1040, line 21.
- Casualty and theft losses of income-producing property from **Form 4684**, lines 32 and 38b, or **Form 4797**, line 18b(1).
- Federal estate tax on income in respect of a decedent.
- Amortizable bond premium on bonds acquired before October 23, 1986.
- Deduction for repayment of amounts under a claim of right if over \$3,000. See **Pub. 525** for details.

- Certain unrecovered investment in a pension.

- Impairment-related work expenses of a disabled person.

For more details, see **Pub. 529**.

Total Itemized Deductions

Line 28

Use the worksheet below to figure the amount to enter on line 28 if the amount on Form 1040, line 34, is over \$132,950 if single, married filing jointly, head of household, or qualifying widow(er); \$66,475 if married filing separately.

Itemized Deductions Worksheet—Line 28

Keep for Your Records



- | | |
|---|----------|
| 1. Add the amounts on Schedule A, lines 4, 9, 14, 18, 19, 26, and 27 | 1. _____ |
| 2. Add the amounts on Schedule A, lines 4, 13, and 19, plus any gambling and casualty or theft losses included on line 27 | 2. _____ |



Be sure your total gambling and casualty or theft losses are clearly identified on the dotted lines next to line 27.

- | | | |
|--|---|-----------|
| 3. Is the amount on line 2 less than the amount on line 1? | | |
| <input type="checkbox"/> No. | Your deduction is not limited. Enter the amount from line 1 above on Schedule A, line 28. | |
| <input type="checkbox"/> Yes. | Subtract line 2 from line 1 | 3. _____ |
| 4. | Multiply line 3 above by 80% (.80) | 4. _____ |
| 5. | Enter the amount from Form 1040, line 34 | 5. _____ |
| 6. | Enter: \$132,950 if single, married filing jointly, head of household, or qualifying widow(er); \$66,475 if married filing separately | 6. _____ |
| 7. Is the amount on line 6 less than the amount on line 5? | | |
| <input type="checkbox"/> No. | Your deduction is not limited. Enter the amount from line 1 above on Schedule A, line 28. | |
| <input type="checkbox"/> Yes. | Subtract line 6 from line 5 | 7. _____ |
| 8. | Multiply line 7 above by 3% (.03) | 8. _____ |
| 9. | Enter the smaller of line 4 or line 8 | 9. _____ |
| 10. | Total itemized deductions. Subtract line 9 from line 1. Enter the result here and on Schedule A, line 28 | 10. _____ |

2001 Instructions for Schedule B, Interest and Ordinary Dividends



You may list more than one payer on each entry space for lines 1 and 5, but be sure to clearly show the amount paid next to the payer's name. Add the separate amounts paid by the payers listed on an entry space and enter the total in the "Amount" column. If you still need more space, attach separate statements that are the same size as the printed schedule. Use the same format as lines 1 and 5, but show your totals on Schedule B. Be sure to put your name and social security number (SSN) on the statements and attach them at the end of your return.

Part I. Interest

Line 1

Interest

Report on line 1 **all** of your taxable interest. List each payer's name and show the amount.

Special Rules

Seller-Financed Mortgages

If you sold your home or other property and the buyer used the property as a personal residence, list first any interest the buyer paid you on a mortgage or other form of seller financing. Be sure to show the buyer's name, address, and SSN. You must also let the buyer know your SSN. If you do not show the buyer's name, address, and SSN, or let the buyer know your SSN, you may have to pay a \$50 penalty.

Nominees

If you received a **Form 1099-INT** that includes interest you received as a nominee (that is, in your name, but the interest actually belongs to someone else), report the total on line 1. Do this even if you later distributed some or all of this income to others. Under your last entry on line 1, put a subtotal of all interest listed on line 1.

Use Schedule B (Form 1040) if **any** of the following apply.

- You had over \$400 of taxable interest.
- Any of the **Special Rules** listed in the instructions for line 1 below apply to you.
- You are claiming the exclusion of interest from series EE or I U.S. savings bonds issued after 1989.
- You had over \$400 of ordinary dividends.
- You received ordinary dividends as a nominee.
- You **(a)** had a foreign account or **(b)** received a distribution from, or were a grantor of, or transferor to, a foreign trust. Part III of the schedule has questions about foreign accounts and trusts.

Below this subtotal, enter "Nominee Distribution" and show the total interest you received as a nominee. Subtract this amount from the subtotal and enter the result on line 2.



If you received interest as a nominee, you must give the actual owner a **Form 1099-INT** unless the owner is your spouse. You must also file a **Form 1096** and a **Form 1099-INT** with the IRS. For more details, see the **General Instructions for Forms 1099, 1098, 5498, and W-2G** and **Instructions for Forms 1099-INT and 1099-OID**.

Accrued Interest

When you buy bonds between interest payment dates and pay accrued interest to the seller, this interest is taxable to the seller. If you received a **Form 1099** for interest as a purchaser of a bond with accrued interest, follow the rules earlier under **Nominees** to see how to report the accrued interest on Schedule B. But identify the amount to be subtracted as "Accrued Interest."

Tax-Exempt Interest

If you received a **Form 1099-INT** for tax-exempt interest, follow the rules earlier under **Nominees** to see how to report the interest on Schedule B. But identify the amount to be subtracted as "Tax-Exempt Interest."

Original Issue Discount (OID)

If you are reporting OID in an amount less than the amount shown on **Form 1099-OID**, follow the rules earlier under **Nominees** to see how to report the OID on Schedule B. But identify the amount to be subtracted as "OID Adjustment."

Amortizable Bond Premium

If you are reducing your interest income on a bond by the amount of amortizable bond premium, follow the rules earlier under **Nominees** to see how to report the interest

on Schedule B. But identify the amount to be subtracted as "ABP Adjustment."

Line 3

Excludable Interest on Series EE and I U.S. Savings Bonds Issued After 1989

If, during 2001, you cashed series EE or I U.S. savings bonds issued after 1989 and you paid qualified higher education expenses for yourself, your spouse, or your dependents, you may be able to exclude part or all of the interest on those bonds. See **Form 8815** for details.

Part II. Ordinary Dividends

Note. You may have to file **Form 5471** if, in 2001, you were an officer or director of a foreign corporation. You may also have to file **Form 5471** if, in 2001, you owned 10% or more of the total **(a)** value of a foreign corporation's stock or **(b)** combined voting power of all classes of a foreign corporation's stock with voting rights. For details, see **Form 5471** and its instructions.

Line 5

Ordinary Dividends

Report on line 5 **all** of your ordinary dividends. List each payer's name and show the amount.



Do not report capital gain distributions on line 5. Instead, see the instructions for **Form 1040**, line 13.

(Continued on page B-2)

Nominees

If you received a **Form 1099-DIV** that includes ordinary dividends you received as a nominee (that is, in your name, but the ordinary dividends actually belong to someone else), report the total on line 5. Do this even if you later distributed some or all of this income to others. Under your last entry on line 5, put a subtotal of all ordinary dividends listed on line 5. Below this subtotal, enter "Nominee Distribution" and show the total ordinary dividends you received as a nominee. Subtract this amount from the subtotal and enter the result on line 6.



If you received ordinary dividends as a nominee, you must give the actual owner a **Form 1099-DIV** unless the owner is your spouse. You must also file a **Form 1096** and a **Form 1099-DIV** with the IRS. For more details, see the **General Instructions for Forms 1099, 1098, 5498, and W-2G** and **Instructions for Form 1099-DIV**.

Part III. Foreign Accounts and Trusts

Lines 7a and 7b

Foreign Accounts

Line 7a

Check the "Yes" box on line 7a if **either 1 or 2** next applies.

1. You own more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

2. At any time during the year you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

Note. Item **2** does not apply to foreign securities held in a U.S. securities account.

Exceptions. Check the "No" box if any of the following applies to you.

- The combined value of the accounts was \$10,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.
- You were an officer or employee of a commercial bank that is supervised by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation; the account was in your employer's name; **and** you did not have a personal financial interest in the account.
- You were an officer or employee of a domestic corporation with securities listed on national securities exchanges or with assets of more than \$1 million and 500 or more shareholders of record; the account was in your employer's name; you did not have a personal financial interest in the account; and the corporation's chief financial officer has given you written notice that the corporation has filed a current report that includes the account.

See **Form TD F 90-22.1** to find out if you are considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

If you checked the "Yes" box on line 7a, file **Form TD F 90-22.1** by June 30, 2002, with the **Department of the Treasury** at the address shown on that form. **Do not** attach it to **Form 1040**.

Line 7b

If you checked the "Yes" box on line 7a, enter the name of the foreign country or countries in the space provided on line 7b. Attach a separate statement if you need more space.

Line 8

Foreign Trusts

If you received a distribution from a foreign trust, you must provide additional information. For this purpose, a loan of cash or marketable securities generally is considered to be a distribution. See **Form 3520** for details.

If you were the grantor of, or transferor to, a foreign trust that existed during 2001, you may have to file **Form 3520**.

2001 Instructions for Schedule C, Profit or Loss From Business

Use Schedule C (Form 1040) to report income or loss from a business you operated or a profession you practiced as a sole proprietor. Also, use Schedule C to report wages and expenses you had as a statutory employee. An activity qualifies as a business if your primary purpose for engaging in the activity is for income or profit and you are involved in the activity with continuity and regularity. For example, a sporadic activity or a hobby does not qualify as a business. To report income from a nonbusiness activity, see the instructions for Form 1040, line 21.

Small businesses and statutory employees with expenses of \$2,500 or less may be able to file **Schedule C-EZ** instead of Schedule C. See Schedule C-EZ for details.

You may be subject to state and local taxes and other requirements such as business licenses and fees. Check with your state and local governments for more information.

Section references are to the Internal Revenue Code.

General Instructions

Other Schedules and Forms You May Have To File

Schedule A to deduct interest, taxes, and casualty losses not related to your business.

Schedule E to report rental real estate and royalty income or (loss) that is **not** subject to self-employment tax.

Schedule F to report profit or (loss) from farming.

Schedule SE to pay self-employment tax on income from any trade or business.

Form 4562 to claim depreciation on assets placed in service in 2001, to claim amortization that began in 2001, or to report information on listed property.

Form 4684 to report a casualty or theft gain or loss involving property used in your trade or business or income-producing property.

Form 4797 to report sales, exchanges, and involuntary conversions (not from a casualty or theft) of trade or business property.

Form 8271 if you are claiming or reporting on Schedule C or C-EZ any income, deduction, loss, credit, or other tax benefit from a tax shelter.

Form 8594 to report certain purchases or sales of groups of assets that constitute a trade or business.

Form 8824 to report like-kind exchanges.

Form 8829 to claim expenses for business use of your home.

Husband-Wife Business. If you and your spouse jointly own and operate a business and share in the profits and losses, you are partners in a partnership, whether or not you have a formal partnership agreement. **Do not** use Schedule C or C-EZ. Instead, file **Form 1065**. See **Pub. 541** for more details.

Single-Member Limited Liability Company (LLC). Generally, a single-member domestic LLC is not treated as a separate entity for Federal income tax purposes. If you are the sole member of a domestic LLC, file Schedule C or C-EZ (or Schedule E or

F, if applicable). However, you may elect to treat a domestic LLC as a corporation. See **Form 8832** for details on the election and the tax treatment of a foreign LLC.

Heavy Highway Vehicle Use Tax. If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a Federal highway motor vehicle use tax. See **Form 2290** to find out if you owe this tax.

Information Returns. You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other similar basis for resale. For details, see the 2001 **General Instructions for Forms 1099, 1098, 5498, and W-2G**.

If you received cash of more than \$10,000 in one or more related transactions in your trade or business, you may have to file **Form 8300**. For details, see **Pub. 1544**.

Additional Information

See **Pub. 334** for more information for small businesses.

Specific Instructions

Filers of Form 1041. **Do not** complete the block labeled "Social security number." Instead, enter your employer identification number (EIN) on line D.

Line A

Describe the business or professional activity that provided your principal source of income reported on line 1. If you owned more than one business, you must complete a separate Schedule C for each business. Give the general field or activity and the type of product or service. If your general field or activity is wholesale or retail trade, or services connected with production services (mining, construction, or manufacturing), also give the type of customer or client.

For example, "wholesale sale of hardware to retailers" or "appraisal of real estate for lending institutions."

Line D

You need an EIN only if you had a qualified retirement plan or were required to file an employment, excise, estate, trust, or alcohol, tobacco, and firearms tax return. If you need an EIN, file **Form SS-4**. If you do not have an EIN, leave line D blank. **Do not** enter your SSN.

Line E

Enter your business address. Show a street address instead of a box number. Include the suite or room number, if any. If you conducted the business from your home located at the address shown on Form 1040, page 1, you do not have to complete this line.

Line F

Generally, you can use the cash method, accrual method, or any other method permitted by the Internal Revenue Code. In all cases, the method used must clearly reflect income. Unless you are a qualifying taxpayer, you must use the accrual method for sales and purchases of inventory items. See the Part III instructions on page C-6 for the definition of a qualifying taxpayer. Special rules apply to long-term contracts. See section 460 for details.

If you use the **cash method**, show all items of taxable income actually or constructively received during the year (in cash, property, or services). Income is constructively received when it is credited to your account or set aside for you to use. Also, show amounts actually paid during the year for deductible expenses.

If you use the **accrual method**, report income when you earn it and deduct expenses when you incur them even if you do not pay them during the tax year.

Accrual-basis taxpayers are put on a cash basis for deducting business expenses owed to a related cash-basis taxpayer. Other rules determine the timing of deductions based on economic performance. See **Pub. 538**.

To change your accounting method, you generally must file **Form 3115**. You may also have to make an adjustment to prevent amounts of income or expense from being duplicated or omitted. This is called a section 481(a) adjustment, which is taken into account over a period not to exceed 4 years.

Example. You change to the cash method of accounting and choose to account for inventoriable items in the same manner as materials and supplies that are not incidental. You accrued sales in 2000 for which you received payment in 2001. You must report those sales in both years as a result of changing your accounting method and must make a section 481(a) adjustment to prevent duplication of income.

See Rev. Proc. 99-49, 1999-2 C.B. 725, to figure the amount of this adjustment for 2001. You can find Rev. Proc. 99-49 on page 725 of Internal Revenue Bulletin 1999-52 at www.irs.gov. Include any positive section 481(a) adjustment on line 6. If the section 481(a) adjustment is negative, report it in Part V.

Line G

Participation, for purposes of the following seven material participation tests, generally includes any work you did in connection with an activity if you owned an interest in the activity at the time you did the work. The capacity in which you did the work does not matter. However, work is not treated as participation if it is work that an owner would not customarily do in the same type of activity and one of your main reasons for doing the work was to avoid the disallowance of losses or credits from the activity under the passive activity rules.

Work you did as an investor in an activity is not treated as participation unless you were directly involved in the day-to-day management or operations of the activity. Work done as an investor includes:

1. Studying and reviewing financial statements or reports on the activity,
2. Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use, and
3. Monitoring the finances or operations of the activity in a nonmanagerial capacity.

Participation by your spouse during the tax year in an activity you own can be counted as your participation in the activity. This applies even if your spouse did not own an interest in the activity and whether or not you and your spouse file a joint return.

Material Participation. For purposes of the passive activity rules, you materially participated in the operation of this trade or business activity during 2001 if you meet any of the following seven tests.

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year was substantially all of the participation in the activity of all individuals

(including individuals who did not own any interest in the activity) for the tax year.

3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other person for the tax year. This includes individuals who did not own any interest in the activity.

4. The activity is a significant participation activity for the tax year, and you participated in all significant participation activities for more than 500 hours during the year. An activity is a "significant participation activity" if it involves the conduct of a trade or business, you participated in the activity for more than 100 hours during the tax year, and you did not materially participate under any of the material participation tests (other than this test 4).

5. You materially participated in the activity for any 5 of the prior 10 tax years.

6. The activity is a personal service activity in which you materially participated for any 3 prior tax years. A personal service activity is an activity that involves performing personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.

7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year. But you do not meet this test if you participated in the activity for 100 hours or less during the tax year. Your participation in managing the activity does not count in determining if you meet this test if any person (except you) (a) received compensation for performing management services in connection with the activity or (b) spent more hours during the tax year than you spent performing management services in connection with the activity (regardless of whether the person was compensated for the services).

If you meet any of the above tests, check the "Yes" box.

If you **do not** meet any of the above tests, check the "No" box. This business is a **passive activity**. If you have a loss from this business, see **Limit on Losses** below. If you have a profit from this business activity but have current year losses from other passive activities or you have prior year unallowed passive activity losses, see the Instructions for Form 8582.

Exception for Oil and Gas. If you are filing Schedule C to report income and deductions from an oil or gas well in which you own a working interest directly or through an entity that does not limit your liability, check the "Yes" box. The activity of owning the working interest is not a passive activity regardless of your participation.

Limit on Losses. If you checked the "No" box and you have a loss from this business, you may have to use **Form 8582** to figure

your allowable loss, if any, to enter on Schedule C, line 31. Generally, you can deduct losses from passive activities only to the extent of income from passive activities.

For details, see **Pub. 925**.

Line H

If you started or acquired this business in 2001, check the box on line H. Also check the box if you are reopening or restarting this business after temporarily closing it, and you did not file a 2000 Schedule C or C-EZ for this business.

Part I. Income

Except as otherwise provided in the Internal Revenue Code, gross income includes all income from whatever source derived. Gross income, however, does not include extraterritorial income that is qualifying foreign trade income. Use **Form 8873** to figure the extraterritorial income exclusion. Report it on Schedule C as explained in the Instructions for Form 8873.

Line 1

Enter gross receipts from your trade or business. Include amounts you received in your trade or business that were properly shown on **Forms 1099-MISC**. If the total amounts that were reported in box 7 of Forms 1099-MISC are more than the total you are reporting on line 1, attach a statement explaining the difference.

Statutory Employees. If you received a Form W-2 and the "Statutory employee" box in box 13 of that form was checked, report your income and expenses related to that income on Schedule C or C-EZ. Enter your statutory employee income from box 1 of Form W-2 on line 1 of Schedule C or C-EZ and **check the box** on that line. Social security and Medicare tax should have been withheld from your earnings; therefore, you do not owe self-employment tax on these earnings. Statutory employees include full-time life insurance agents, certain agent or commission drivers and traveling salespersons, and certain homeworkers.

If you had both self-employment income and statutory employee income, you **must** file two Schedules C. You **cannot** use Schedule C-EZ or combine these amounts on a single Schedule C.

Installment Sales. Generally, the installment method may not be used to report income from the sale of (a) personal property regularly sold under the installment method or (b) real property held for resale to customers. But the installment method may be used to report income from sales of certain residential lots and timeshares if you elect to pay interest on the tax due on that income after the year of sale. See section 453(l)(2)(B) for details. If you make this election, include the interest on Form 1040,

line 58. Also, enter "453(1)(3)" and the amount of the interest on the dotted line to the left of line 58.

If you use the installment method, attach a schedule to your return. Show separately for 2001 and the 3 preceding years: gross sales, cost of goods sold, gross profit, percentage of gross profit to gross sales, amounts collected, and gross profit on amounts collected.

Line 6

Report on line 6 amounts from finance reserve income, scrap sales, bad debts you recovered, interest (such as on notes and accounts receivable), state gasoline or fuel tax refunds you got in 2001, credit for Federal tax paid on gasoline or other fuels claimed on your 2000 Form 1040, prizes and awards related to your trade or business, and other kinds of miscellaneous business income. Include amounts you received in your trade or business as shown on **Form 1099-PATR**. Also, include any recapture of the deduction for clean-fuel vehicles used in your business and clean-fuel vehicle refueling property. For details, see **Pub. 535**.

If the business use percentage of any listed property (defined in the instructions for line 13 on this page) decreased to 50% or less in 2001, report on this line any recapture of excess depreciation, including any section 179 expense deduction. Use **Form 4797** to figure the recapture. Also, if the business use percentage drops to 50% or less on leased listed property (other than a vehicle), include on this line any inclusion amount. See **Pub. 946** to figure the amount.

Part II. Expenses

Capitalizing Costs of Property. If you produced real or tangible personal property or acquired property for resale, certain expenses attributable to the property generally must be included in inventory costs or capitalized. In addition to direct costs, producers of inventory property generally must also include part of certain indirect costs in their inventory. Purchasers of personal property acquired for resale must include part of certain indirect costs in inventory only if the average annual gross receipts for the 3 prior tax years exceed \$10 million. Also, you must capitalize part of the indirect costs that benefit real or tangible personal property constructed for use in a trade or business, or noninventory property produced for sale to customers. Reduce the amounts on lines 8–26 and Part V by amounts capitalized. For details, see **Pub. 538**.

Exception for Certain Small Producers. Producers whose average annual gross receipts are \$1 million or less who account for inventoriable items in the same manner as materials and supplies that are not incidental may currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs. See

Cost of Goods Sold on page C-6 for more details.

Exception for Creative Property. If you are an artist, author, or photographer, you may be exempt from the capitalization rules. However, your personal efforts must have created (or reasonably be expected to create) the property. This exception does not apply to any expense related to printing, photographic plates, motion picture films, video tapes, or similar items. These expenses are subject to the capitalization rules. For details, see **Pub. 538**.

Line 9

Include debts and partial debts from sales or services that were included in income and are definitely known to be worthless. If you later collect a debt that you deducted as a bad debt, include it as income in the year collected. For details, see **Pub. 535**.

Line 10

You can deduct the actual expenses of running your car or truck or take the **standard mileage rate**. You **must** use actual expenses if you used your vehicle for hire (such as a taxicab) or you used more than one vehicle simultaneously in your business (such as in fleet operations). You cannot use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

You can take the standard mileage rate for 2001 **only** if:

- You owned the vehicle and use the standard mileage rate for the first year you placed the vehicle in service or
- You leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

If you deduct actual expenses:

- Include on line 10 the business portion of expenses for gasoline, oil, repairs, insurance, tires, license plates, etc., and
- Show depreciation on line 13 and rent or lease payments on line 20a.

If you take the standard mileage rate, multiply the number of business miles by 34.5 cents. Add to this amount your parking fees and tolls, and enter the total on line 12. **Do not** deduct depreciation, rent or lease payments, or your actual operating expenses.

For details, see **Pub. 463**.

Information on Your Vehicle. If you claim any car and truck expenses, you must provide certain information on the use of your vehicle by completing one of the following.

- Part IV of Schedule C or Part III of Schedule C-EZ if: (a) you are claiming the standard mileage rate, you lease your vehicle, or your vehicle is fully depreciated and (b) you are **not** required to file **Form 4562** for any other reason. If you used more than

one vehicle during the year, attach your own schedule with the information requested in Part IV of Schedule C, or Part III of Schedule C-EZ, for each additional vehicle.

- Part V of Form 4562 if you are claiming depreciation on your vehicle or you are required to file Form 4562 for any other reason (see the instructions for line 13).

Line 12

Enter your deduction for depletion on this line. If you have timber depletion, attach **Form T**. See **Pub. 535** for details.

Line 13

Depreciation and Section 179 Expense Deduction. Depreciation is the annual deduction allowed to recover the cost or other basis of business or investment property having a useful life substantially beyond the tax year. You can also depreciate improvements made to leased business property. However, stock in trade, inventories, and land are not depreciable. Depreciation starts when you first use the property in your business or for the production of income. It ends when you take the property out of service, deduct all your depreciable cost or other basis, or no longer use the property in your business or for the production of income. You may also elect under section 179 to expense part of the cost of certain property you bought in 2001 for use in your business. See the Instructions for Form 4562 to figure the amount to enter on line 13.

When To Attach Form 4562. You must complete and attach Form 4562 **only** if:

- You are claiming depreciation on property placed in service during 2001;
- You are claiming depreciation on listed property (defined below), regardless of the date it was placed in service; or
- You are claiming a section 179 expense deduction.

If you acquired depreciable property for the first time in 2001, see **Pub. 946**.

Listed property generally includes, but is not limited to:

- Passenger automobiles weighing 6,000 pounds or less;
- Any other property used for transportation if the nature of the property lends itself to personal use, such as motorcycles, pickup trucks, etc.;
- Any property used for entertainment or recreational purposes (such as photographic, phonographic, communication, and video recording equipment);
- Cellular telephones or other similar telecommunications equipment; and
- Computers or peripheral equipment.

Exceptions. Listed property does not include photographic, phonographic, communication, or video equipment used exclusively in your trade or business or at

your regular business establishment. It also does not include any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating the establishment. For purposes of these exceptions, a portion of your home is treated as a regular business establishment only if that portion meets the requirements under section 280A(c)(1) for deducting expenses for the business use of your home.

See the instructions for line 6 on page C-3 if the business use percentage of any listed property decreased to 50% or less in 2001.

Line 14

Deduct contributions to employee benefit programs that are not an incidental part of a pension or profit-sharing plan included on line 19. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs.

Do not include on line 14 any contributions you made on your behalf as a self-employed person to an accident and health plan or for group-term life insurance. You may be able to deduct on Form 1040, line 28, part of the amount you paid for health insurance on behalf of yourself, your spouse, and dependents, even if you do not itemize your deductions. See the instructions for Form 1040, line 28, for details.

Line 15

Deduct premiums paid for business insurance on line 15. Deduct on line 14 amounts paid for employee accident and health insurance. Do not deduct amounts credited to a reserve for self-insurance or premiums paid for a policy that pays for your lost earnings due to sickness or disability. For details, see **Pub. 535**.

Lines 16a and 16b

Interest Allocation Rules. The tax treatment of interest expense differs depending on its type. For example, home mortgage interest and investment interest are treated differently. "Interest allocation" rules require you to allocate (classify) your interest expense so it is deducted (or capitalized) on the correct line of your return and receives the right tax treatment. These rules could affect how much interest you are allowed to deduct on Schedule C or C-EZ.

Generally, you allocate interest expense by tracing how the proceeds of the loan were used. See **Pub. 535** for details.

Do not deduct interest you paid or accrued on debts allocable to investment property. This interest is generally deducted on **Schedule A**. For details, see **Pub. 550**.

If you paid interest on a debt secured by your main home and any of the proceeds from that debt were used in connection with your trade or business, see **Pub. 535** to figure

the amount that is deductible on Schedule C or C-EZ.

If you have a mortgage on real property used in your business (other than your main home), enter on line 16a the interest you paid for 2001 to banks or other financial institutions for which you received a **Form 1098** (or similar statement). If you did not receive a Form 1098, enter the interest on line 16b.

If you paid more mortgage interest than is shown on Form 1098, see **Pub. 535** to find out if you can deduct the additional interest. If you can, include the amount on line 16a. Attach a statement to your return explaining the difference and enter "See attached" in the margin next to line 16a.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, include your share of the interest on line 16b. Attach a statement to your return showing the name and address of the person who received the Form 1098. In the margin next to line 16b, enter "See attached."

If you paid interest in 2001 that applies to future years, deduct only the part that applies to 2001.

Line 17

Include on this line fees for tax advice related to your business and for preparation of the tax forms related to your business.

Line 19

Enter your deduction for contributions to a pension, profit-sharing, or annuity plan, or plans for the benefit of your employees. If the plan includes you as a self-employed person, enter contributions made as an employer on your behalf on Form 1040, line 29, not on Schedule C.

Generally, you must file the applicable form listed below if you maintain a pension, profit-sharing, or other funded-deferred compensation plan. The filing requirement is not affected by whether or not the plan qualified under the Internal Revenue Code, or whether or not you claim a deduction for the current tax year. There is a penalty for failure to timely file these forms.

Form 5500. File this form for a plan that is not a one-participant plan (see below).

Form 5500-EZ. File this form for a one-participant plan. A **one-participant plan** is a plan that only covers you (or you and your spouse).

For details, see **Pub. 560**.

Lines 20a and 20b

If you rented or leased vehicles, machinery, or equipment, enter on line 20a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you

may have to reduce your deduction by an amount called the **inclusion amount**.

You may have to do this if—

The lease term began during . . .	And the vehicle's fair market value on the first day of the lease exceeded . . .
1999, 2000, or 2001	\$15,500
1997 or 1998	15,800
1995 or 1996	15,500
If the lease term began before 1995, see Pub. 463 to find out if you have an inclusion amount.	

See **Pub. 463** to figure your inclusion amount.

Enter on line 20b amounts paid to rent or lease other property, such as office space in a building.

Line 21

Deduct the cost of repairs and maintenance. Include labor, supplies, and other items that do not add to the value or increase the life of the property. Do not deduct the value of your own labor. Do not deduct amounts spent to restore or replace property; they must be capitalized.

Line 22

Generally, you can deduct the cost of supplies only to the extent you actually consumed and used them in your business during the tax year (unless you deducted them in a prior tax year). However, if you had incidental supplies on hand for which you kept no inventories or records of use, you may deduct the cost of supplies you actually purchased during the tax year, provided that method clearly reflects income.

Line 23

You can deduct the following taxes and licenses on this line.

- State and local sales taxes imposed on you as the seller of goods or services. If you collected this tax from the buyer, you must also include the amount collected in gross receipts or sales on line 1.

- Real estate and personal property taxes on business assets.

- Licenses and regulatory fees for your trade or business paid each year to state or local governments. But some licenses, such as liquor licenses, may have to be amortized. See **Pub. 535** for details.

- Social security and Medicare taxes paid to match required withholding from your employees' wages. Also, Federal unemployment tax paid. Reduce your deduction by the amount of the current year credit shown on line 4 of **Form 8846**.

- Federal highway use tax.

Do not deduct the following on this line.

- Federal income taxes, including your self-employment tax. However, you may deduct one-half of your self-employment tax on Form 1040, line 27.

- Estate and gift taxes.
- Taxes assessed to pay for improvements, such as paving and sewers.
- Taxes on your home or personal use property.
- State and local sales taxes on property purchased for use in your business. Instead, treat these taxes as part of the cost of the property.
- State and local sales taxes imposed on the buyer that you were required to collect and pay over to state or local governments. These taxes are not included in gross receipts or sales nor are they a deductible expense. However, if the state or local government allowed you to retain any part of the sales tax you collected, you must include that amount as income on line 6.
- Other taxes and license fees not related to your business.

Line 24a

Enter your expenses for lodging and transportation connected with overnight travel for business while away from your tax home. Generally, your tax home is your main place of business regardless of where you maintain your family home. You cannot deduct expenses paid or incurred in connection with employment away from home if that period of employment exceeds 1 year. Also, you cannot deduct travel expenses for your spouse, your dependent, or any other individual unless that person is your employee, the travel is for a bona fide business purpose, and the expenses would otherwise be deductible by that person.

Do not include expenses for meals and entertainment on this line. Instead, see the instructions for lines 24b and 24c below.

You cannot deduct expenses for attending a foreign convention unless it is directly related to your trade or business and it is as reasonable for the meeting to be held outside the North American area as within it. These rules apply to both employers and employees. Other rules apply to luxury water travel.

For details, see **Pub. 463**.

Lines 24b and 24c

On line 24b, enter your total business meal and entertainment expenses. Include meals while traveling away from home for business. Instead of the actual cost of your meals while traveling away from home, you may use the standard meal allowance. For more details, see **Pub. 463** and **Pub. 1542**.

Business meal expenses are deductible only if they are (a) directly related to or associated with the active conduct of your

trade or business, (b) not lavish or extravagant, and (c) incurred while you or your employee is present at the meal.

You cannot deduct any expense paid or incurred for a facility (such as a yacht or hunting lodge) used for any activity usually considered entertainment, amusement, or recreation.

Also, you cannot deduct membership dues for any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion. But it does not include civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards, unless a principal purpose of the organization is to entertain, or provide entertainment facilities for, members or their guests.

There are exceptions to these rules as well as other rules that apply to sky-box rentals and tickets to entertainment events. See **Pub. 463**.

Generally, you may deduct only 50% of your business meal and entertainment expenses, including meals incurred while away from home on business. For individuals subject to the Department of Transportation (DOT) hours of service limits, that percentage is increased to 60% for business meals consumed during, or incident to, any period of duty for which those limits are in effect. Individuals subject to the DOT hours of service limits include the following persons:

- Certain air transportation workers (such as pilots, crew, dispatchers, mechanics, and control tower operators) who are under Federal Aviation Administration regulations.
- Interstate truck operators who are under DOT regulations.
- Certain merchant mariners who are under Coast Guard regulations.

However, you may fully deduct meals and entertainment furnished or reimbursed to an employee if you properly treat the expense as wages subject to withholding. You may also fully deduct meals and entertainment provided to a nonemployee to the extent the expenses are includible in the gross income of that person and reported on Form 1099-MISC. See **Pub. 535** for details and other exceptions.

Figure how much of the amount on line 24b is not deductible and enter that amount on line 24c.

Line 25

Deduct only utility expenses for your trade or business.

Local Telephone Service. If you used your home phone for business, do not deduct the base rate (including taxes) of the first phone

line into your residence. But you can deduct expenses for any additional costs you incurred for business that are more than the cost of the base rate for the first phone line. For example, if you had a second line, you can deduct the business percentage of the charges for that line, including the base rate charges.

Line 26

Enter the total salaries and wages for the tax year. Do not include salaries and wages deducted elsewhere on your return or amounts paid to yourself. Reduce your deduction by the current year credits claimed on:

- **Form 5884**, Work Opportunity Credit,
- **Form 8844**, Empowerment Zone Employment Credit,
- **Form 8845**, Indian Employment Credit, and
- **Form 8861**, Welfare-to-Work Credit.



If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount applicable to depreciation and other expenses claimed elsewhere.

Line 30

Business Use of Your Home. You may be able to deduct certain expenses for business use of your home, subject to limitations. You must attach **Form 8829** if you claim this deduction. For details, see the Instructions for Form 8829 and **Pub. 587**.

Line 31

If you have a loss, the amount of loss you can deduct this year may be limited. Go to line 32 before entering your loss on line 31. If you answered "No" to Question G on Schedule C, also see the Instructions for Form 8582. Enter the net profit or **deductible** loss here. Combine this amount with any profit or loss from other businesses, and enter the total on Form 1040, line 12, and Schedule SE, line 2. Estates and trusts should enter the total on Form 1041, line 3.

If you have a net profit on line 31, this amount is earned income and may qualify you for the earned income credit. See the instructions for Form 1040, lines 61a and 61b, for details.

Statutory Employees. Include your net profit or deductible loss from line 31 with other Schedule C amounts on Form 1040, line 12. However, **do not** report this amount on Schedule SE, line 2. If you are required to file Schedule SE because of other self-employment income, see the Instructions for Schedule SE.

Line 32

At-Risk Rules. Generally, if you have (a) a business loss and (b) amounts in the business for which you are **not at risk**, you will have to complete **Form 6198** to figure your allowable loss. The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the business.

Check **box 32b** if you have amounts for which you are not at risk in this business, such as the following.

- Nonrecourse loans used to finance the business, to acquire property used in the business, or to acquire the business that are not secured by your own property (other than property used in the business). However, there is an exception for certain non-recourse financing borrowed by you in connection with holding real property.

- Cash, property, or borrowed amounts used in the business (or contributed to the business, or used to acquire the business) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the business from a person who has an interest in the business, other than as a creditor, or who is related under section 465(b)(3) to a person (other than you) having such an interest.

If all amounts are at risk in this business, check **box 32a** and enter your loss on line 31. But if you answered "No" to Question G, you may need to complete **Form 8582** to figure your deductible loss. See the Instructions for Form 8582 for details.

If you checked **box 32b**, see Form 6198 to determine the amount of your deductible loss. But if you answered "No" to Question G, your loss may be further limited. See the Instructions for Form 8582. If your at-risk amount is zero or less, enter zero on line 31. Be sure to attach Form 6198 to your return. If you checked box 32b and you do not attach Form 6198, the processing of your tax return may be delayed.

Any loss from this business not allowed for 2001 because of the at-risk rules is treated as a deduction allocable to the business in 2002. For details, see the Instructions for Form 6198 and **Pub. 925**.

Part III. Cost of Goods Sold

Generally, if you engaged in a trade or business in which the production, purchase, or sale of merchandise was an income-producing factor, you must take inventories into account at the beginning and end of your tax year.

However, if you are a qualifying taxpayer, you may adopt or change your accounting

method to account for inventoriable items in the same manner as materials and supplies that are not incidental. A **qualifying taxpayer** is a taxpayer (a) whose average annual gross receipts for the 3 prior tax years are \$1 million or less and (b) whose business is not a tax shelter (as defined in section 448(d)(3)). Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year you paid for the raw materials or merchandise, if you are also using the cash method). Enter amounts paid for all raw materials and merchandise during 2001 on line 36. The amount you can deduct for 2001 is figured on line 42. For additional guidance on this method of accounting for inventoriable items, see Rev. Proc. 2001-10. You can find Rev. Proc. 2001-10 on page 272 of Internal Revenue Bulletin 2001-2 at www.irs.gov.

Note. Certain direct and indirect expenses may have to be capitalized or included in inventory. See the instructions for Part II beginning on page C-3.

Line 33

Your inventories can be valued at cost; cost or market value, whichever is lower; or any other method approved by the IRS. However, you are required to use cost if you are using the cash method of accounting.

Line 35

If you are changing your method of accounting beginning with 2001, refigure last year's closing inventory using your new method of accounting and enter the result on line 35. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation and take it into account when figuring your section 481(a) adjustment. See the example on page C-2 for details.

Line 41

If you account for inventoriable items in the same manner as materials and supplies that are not incidental, enter on line 41 the portion of your raw materials and merchandise purchased for resale that are included on line 40 and were not sold during the year.

Part V. Other Expenses

Include all ordinary and necessary business expenses not deducted elsewhere on Schedule C. List the type and amount of each expense separately in the space provided. Enter the total on lines 48 and 27. Do not include the cost of business equipment or

furniture, replacements or permanent improvements to property, or personal, living, and family expenses. Do not include charitable contributions. Also, you may not deduct fines or penalties paid to a government for violating any law. For details on business expenses, see **Pub. 535**.

Amortization. Include amortization in this part. For amortization that begins in 2001, you must complete and attach **Form 4562**.

You may amortize:

- The cost of pollution-control facilities.
- Amounts paid for research and experimentation.
- Certain business startup costs.
- Qualified forestation and reforestation costs. See Pub. 535 for limitations.
- Amounts paid to acquire, protect, expand, register, or defend trademarks or trade names.
- Goodwill and certain other intangibles.

In general, you **may not** amortize real property construction period interest and taxes. Special rules apply for allocating interest to real or personal property produced in your trade or business.

At-Risk Loss Deduction. Any loss from this activity that was not allowed as a deduction last year because of the at-risk rules is treated as a deduction allocable to this activity in 2001.

Capital Construction Fund. Do not claim on Schedule C or C-EZ the deduction for amounts contributed to a capital construction fund set up under the Merchant Marine Act of 1936. Instead, reduce the amount you would otherwise enter on Form 1040, line 39, by the amount of the deduction. Next to line 39, enter "CCF" and the amount of the deduction. For details, see **Pub. 595**.

Deduction for Clean-Fuel Vehicles and Clean-Fuel Vehicle Refueling Property. You may deduct part of the cost of qualified clean-fuel vehicle property used in your business and qualified clean-fuel vehicle refueling property. See Pub. 535 for details.

Disabled Access Credit and the Deduction for Removing Barriers to Individuals With Disabilities and the Elderly. You may be able to claim a tax credit of up to \$5,000 for eligible expenditures paid or incurred in 2001 to provide access to your business for individuals with disabilities. See **Form 8826** for details. You can also deduct up to \$15,000 of costs paid or incurred in 2001 to remove architectural or transportation barriers to individuals with disabilities and the elderly. However, you cannot take both the credit and the deduction on the same expenditures.

Principal Business or Professional Activity Codes

These codes for the Principal Business or Professional Activity classify sole proprietorships by the type of activity they are engaged in to facilitate the administration of the Internal Revenue Code. These six-digit codes are based on the North American Industry Classification System (NAICS).

Select the category that best describes your primary business activity (for example, Real Estate). Then select the activity that best identifies the principal source of your sales or receipts (for example, real estate agent). Now find the six-digit code assigned to this activity and **enter it on line B of**

Schedule C or C-EZ (for example, 531210, the Code for offices of real estate agents and brokers).

Note. If your principal source of income is from farming activities, you should file **Schedule F, Profit or Loss From Farming**.

<p>Accommodation, Food Services, & Drinking Places</p> <p>Accommodation</p> <p>721310 Rooming & boarding houses</p> <p>721210 RV (recreational vehicle) parks & recreational camps</p> <p>721100 Travel accommodation (including hotels, motels, & bed & breakfast inns)</p> <p>Food Services & Drinking Places</p> <p>722410 Drinking places (alcoholic beverages)</p> <p>722110 Full-service restaurants</p> <p>722210 Limited-service eating places</p> <p>722300 Special food services (including food service contractors & caterers)</p>	<p>Support Activities for Agriculture & Forestry</p> <p>115210 Support activities for animal production (including farriers)</p> <p>115110 Support activities for crop production (including cotton ginning, soil preparation, planting, & cultivating)</p> <p>115310 Support activities for forestry</p>	<p>Finance & Insurance</p> <p>Credit Intermediation & Related Activities</p> <p>522100 Depository credit intermediation (including commercial banking, savings institutions, & credit unions)</p> <p>522200 Nondepository credit intermediation (including sales financing & consumer lending)</p> <p>522300 Activities related to credit intermediation (including loan brokers)</p> <p>Insurance Agents, Brokers, & Related Activities</p> <p>524210 Insurance agencies & brokerages</p> <p>524290 Other insurance related activities</p>	<p>Information</p> <p>511000 Publishing industries</p> <p>Broadcasting & Telecommunications</p> <p>513000 Broadcasting & telecommunications</p> <p>Information Services & Data Processing Services</p> <p>514210 Data processing services</p> <p>514100 Information services (including news syndicates, libraries, & on-line information services)</p> <p>Motion Picture & Sound Recording</p> <p>512100 Motion picture & video industries (except video rental)</p> <p>512200 Sound recording industries</p>
<p>Administrative & Support and Waste Management & Remediation Services</p> <p>Administrative & Support Services</p> <p>561430 Business service centers (including private mail centers & copy shops)</p> <p>561740 Carpet & upholstery cleaning services</p> <p>561440 Collection agencies</p> <p>561450 Credit bureaus</p> <p>561410 Document preparation services</p> <p>561300 Employment services</p> <p>561710 Exterminating & pest control services</p> <p>561210 Facilities support (management) services</p> <p>561600 Investigation & security services</p> <p>561720 Janitorial services</p> <p>561730 Landscaping services</p> <p>561110 Office administrative services</p> <p>561420 Telephone call centers (including telephone answering services & telemarketing bureaus)</p> <p>561500 Travel arrangement & reservation services</p> <p>561490 Other business support services (including repossession services, court reporting, & stenotype services)</p> <p>561790 Other services to buildings & dwellings</p> <p>561900 Other support services (including packaging & labeling services, & convention & trade show organizers)</p> <p>Waste Management & Remediation Services</p> <p>562000 Waste management & remediation services</p>	<p>Arts, Entertainment, & Recreation</p> <p>Amusement, Gambling, & Recreation Industries</p> <p>713100 Amusement parks & arcades</p> <p>713200 Gambling industries</p> <p>713900 Other amusement & recreation services (including golf courses, skiing facilities, marinas, fitness centers, bowling centers, skating rinks, miniature golf courses)</p> <p>Museums, Historical Sites, & Similar Institutions</p> <p>712100 Museums, historical sites, & similar institutions</p> <p>Performing Arts, Spectator Sports, & Related Industries</p> <p>711410 Agents & managers for artists, athletes, entertainers, & other public figures</p> <p>711510 Independent artists, writers, & performers</p> <p>711100 Performing arts companies</p> <p>711300 Promoters of performing arts, sports, & similar events</p> <p>711210 Spectator sports (including professional sports clubs & racetrack operations)</p>	<p>Securities, Commodity Contracts, & Other Financial Investments & Related Activities</p> <p>523140 Commodity contracts brokers</p> <p>523130 Commodity contracts dealers</p> <p>523110 Investment bankers & securities dealers</p> <p>523210 Securities & commodity exchanges</p> <p>523120 Securities brokers</p> <p>523900 Other financial investment activities (including investment advice)</p>	<p>Manufacturing</p> <p>315000 Apparel mfg.</p> <p>312000 Beverage & tobacco product mfg.</p> <p>334000 Computer & electronic product mfg.</p> <p>335000 Electrical equipment, appliance, & component mfg.</p> <p>332000 Fabricated metal product mfg.</p> <p>337000 Furniture & related product mfg.</p> <p>333000 Machinery mfg.</p> <p>339110 Medical equipment & supplies mfg.</p> <p>322000 Paper mfg.</p> <p>324100 Petroleum & coal products mfg.</p> <p>326000 Plastics & rubber products mfg.</p> <p>331000 Primary metal mfg.</p> <p>323100 Printing & related support activities</p> <p>313000 Textile mills</p> <p>314000 Textile product mills</p> <p>336000 Transportation equipment mfg.</p> <p>321000 Wood product mfg.</p> <p>339900 Other miscellaneous mfg.</p> <p>Chemical Manufacturing</p> <p>325100 Basic chemical mfg.</p> <p>325500 Paint, coating, & adhesive mfg.</p> <p>325300 Pesticide, fertilizer, & other agricultural chemical mfg.</p> <p>325410 Pharmaceutical & medicine mfg.</p> <p>325200 Resin, synthetic rubber, & artificial & synthetic fibers & filaments mfg.</p> <p>325600 Soap, cleaning compound, & toilet preparation mfg.</p> <p>325900 Other chemical product & preparation mfg.</p>
<p>Agriculture, Forestry, Hunting, & Fishing</p> <p>112900 Animal production (including breeding of cats and dogs)</p> <p>114110 Fishing</p> <p>113000 Forestry & logging (including forest nurseries & timber tracts)</p> <p>114210 Hunting & trapping</p>	<p>Construction</p> <p>233110 Land subdivision & land development</p> <p>233300 Nonresidential building construction</p> <p>233200 Residential building construction</p> <p>Heavy Construction</p> <p>234100 Highway, street, bridge, & tunnel construction</p> <p>234900 Other heavy construction</p> <p>Special Trade Contractors</p> <p>235500 Carpentry & floor contractors</p> <p>235710 Concrete contractors</p> <p>235310 Electrical contractors</p> <p>235400 Masonry, drywall, insulation, & tile contractors</p> <p>235210 Painting & wall covering contractors</p> <p>235110 Plumbing, heating, & air-conditioning contractors</p> <p>235610 Roofing, siding, & sheet metal contractors</p> <p>235810 Water well drilling contractors</p> <p>235900 Other special trade contractors</p>	<p>Health Care & Social Assistance</p> <p>Ambulatory Health Care Services</p> <p>621610 Home health care services</p> <p>621510 Medical & diagnostic laboratories</p> <p>621310 Offices of chiropractors</p> <p>621210 Offices of dentists</p> <p>621330 Offices of mental health practitioners (except physicians)</p> <p>621320 Offices of optometrists</p> <p>621340 Offices of physical, occupational & speech therapists, & audiologists</p> <p>621111 Offices of physicians (except mental health specialists)</p> <p>621112 Offices of physicians, mental health specialists</p> <p>621391 Offices of podiatrists</p> <p>621399 Offices of all other miscellaneous health practitioners</p> <p>621400 Outpatient care centers</p> <p>621900 Other ambulatory health care services (including ambulance services, blood, & organ banks)</p> <p>Hospitals</p> <p>622000 Hospitals</p> <p>Nursing & Residential Care Facilities</p> <p>623000 Nursing & residential care facilities</p> <p>Social Assistance</p> <p>624410 Child day care services</p> <p>624200 Community food & housing, & emergency & other relief services</p> <p>624100 Individual & family services</p> <p>624310 Vocational rehabilitation services</p>	<p>Food Manufacturing</p> <p>311110 Animal food mfg.</p> <p>311800 Bakeries & tortilla mfg.</p> <p>311500 Dairy product mfg.</p> <p>311400 Fruit & vegetable preserving & speciality food mfg.</p> <p>311200 Grain & oilseed milling</p> <p>311610 Animal slaughtering & processing</p> <p>311710 Seafood product preparation & packaging</p> <p>311300 Sugar & confectionery product mfg.</p> <p>311900 Other food mfg. (including coffee, tea, flavorings, & seasonings)</p>

Principal Business or Professional Activity Codes (continued)

<p>Leather & Allied Product Manufacturing</p> <p>316210 Footwear mfg. (including leather, rubber, & plastics)</p> <p>316110 Leather & hide tanning & finishing</p> <p>316990 Other leather & allied product mfg.</p> <p>Nonmetallic Mineral Product Manufacturing</p> <p>327300 Cement & concrete product mfg.</p> <p>327100 Clay product & refractory mfg.</p> <p>327210 Glass & glass product mfg.</p> <p>327400 Lime & gypsum product mfg.</p> <p>327900 Other nonmetallic mineral product mfg.</p>	<p>541350 Building inspection services</p> <p>541340 Drafting services</p> <p>541330 Engineering services</p> <p>541360 Geophysical surveying & mapping services</p> <p>541320 Landscape architecture services</p> <p>541370 Surveying & mapping (except geophysical) services</p> <p>541380 Testing laboratories</p> <p>Computer Systems Design & Related Services</p> <p>541510 Computer systems design & related services</p> <p>Specialized Design Services</p> <p>541400 Specialized design services (including interior, industrial, graphic, & fashion design)</p>	<p>448110 Men's clothing stores</p> <p>448210 Shoe stores</p> <p>448120 Women's clothing stores</p> <p>448190 Other clothing stores</p> <p>Electronic & Appliance Stores</p> <p>443130 Camera & photographic supplies stores</p> <p>443120 Computer & software stores</p> <p>443111 Household appliance stores</p> <p>443112 Radio, television, & other electronics stores</p> <p>Food & Beverage Stores</p> <p>445310 Beer, wine, & liquor stores</p> <p>445220 Fish & seafood markets</p> <p>445230 Fruit & vegetable markets</p> <p>445100 Grocery stores (including supermarkets & convenience stores without gas)</p> <p>445210 Meat markets</p> <p>445290 Other specialty food stores</p> <p>Furniture & Home Furnishing Stores</p> <p>442110 Furniture stores</p> <p>442200 Home furnishings stores</p> <p>Gasoline Stations</p> <p>447100 Gasoline stations (including convenience stores with gas)</p> <p>General Merchandise Stores</p> <p>452000 General merchandise stores</p> <p>Health & Personal Care Stores</p> <p>446120 Cosmetics, beauty supplies, & perfume stores</p> <p>446130 Optical goods stores</p> <p>446110 Pharmacies & drug stores</p> <p>446190 Other health & personal care stores</p> <p>Motor Vehicle & Parts Dealers</p> <p>441300 Automotive parts, accessories, & tire stores</p> <p>441222 Boat dealers</p> <p>441221 Motorcycle dealers</p> <p>441110 New car dealers</p> <p>441210 Recreational vehicle dealers (including motor home & travel trailer dealers)</p> <p>441120 Used car dealers</p> <p>441229 All other motor vehicle dealers</p> <p>Sporting Goods, Hobby, Book, & Music Stores</p> <p>451211 Book stores</p> <p>451120 Hobby, toy, & game stores</p> <p>451140 Musical instrument & supplies stores</p> <p>451212 News dealers & newsstands</p> <p>451220 Precordered tape, compact disc, & record stores</p> <p>451130 Sewing, needlework, & piece goods stores</p> <p>451110 Sporting goods stores</p> <p>Miscellaneous Store Retailers</p> <p>453920 Art dealers</p> <p>453110 Florists</p> <p>453220 Gift, novelty, & souvenir stores</p> <p>453930 Manufactured (mobile) home dealers</p> <p>453210 Office supplies & stationery stores</p> <p>453910 Pet & pet supplies stores</p> <p>453310 Used merchandise stores</p> <p>453990 All other miscellaneous store retailers (including tobacco, candle, & trophy shops)</p> <p>Nonstore Retailers</p> <p>454110 Electronic shopping & mail-order houses</p> <p>454310 Fuel dealers</p> <p>454210 Vending machine operators</p> <p>454390 Other direct selling establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)</p>	<p>Transportation & Warehousing</p> <p>481000 Air transportation</p> <p>485510 Charter bus industry</p> <p>484110 General freight trucking, local</p> <p>484120 General freight trucking, long-distance</p> <p>485210 Interurban & rural bus transportation</p> <p>486000 Pipeline transportation</p> <p>482110 Rail transportation</p> <p>487000 Scenic & sightseeing transportation</p> <p>485410 School & employee bus transportation</p> <p>484200 Specialized freight trucking (including household moving vans)</p> <p>485300 Taxi & limousine service</p> <p>485110 Urban transit systems</p> <p>483000 Water transportation</p> <p>485990 Other transit & ground passenger transportation</p> <p>488000 Support activities for transportation (including motor vehicle towing)</p> <p>Couriers & Messengers</p> <p>492000 Couriers & messengers</p> <p>Warehousing & Storage Facilities</p> <p>493100 Warehousing & storage (except lessors of miniwarehouses & self-storage units)</p>
<p>Mining</p> <p>212110 Coal mining</p> <p>212200 Metal ore mining</p> <p>212300 Nonmetallic mineral mining & quarrying</p> <p>211110 Oil & gas extraction</p> <p>213110 Support activities for mining</p>	<p>Other Professional, Scientific, & Technical Services</p> <p>541800 Advertising & related services</p> <p>541600 Management, scientific, & technical consulting services</p> <p>541910 Market research & public opinion polling</p> <p>541920 Photographic services</p> <p>541700 Scientific research & development services</p> <p>541930 Translation & interpretation services</p> <p>541940 Veterinary services</p> <p>541990 All other professional, scientific, & technical services</p>		
<p>Other Services</p> <p>Personal & Laundry Services</p> <p>812111 Barber shops</p> <p>812112 Beauty salons</p> <p>812220 Cemeteries & crematories</p> <p>812310 Coin-operated laundries & drycleaners</p> <p>812320 Drycleaning & laundry services (except coin-operated) (including laundry & drycleaning drop off & pickup sites)</p> <p>812210 Funeral homes & funeral services</p> <p>812330 Linen & uniform supply</p> <p>812113 Nail salons</p> <p>812930 Parking lots & garages</p> <p>812910 Pet care (except veterinary) services</p> <p>812920 Photofinishing</p> <p>812190 Other personal care services (including diet & weight reducing centers)</p> <p>812990 All other personal services</p> <p>Repair & Maintenance</p> <p>811120 Automotive body, paint, interior, & glass repair</p> <p>811110 Automotive mechanical & electrical repair & maintenance</p> <p>811190 Other automotive repair & maintenance (including oil change & lubrication shops & car washes)</p> <p>811310 Commercial & industrial machinery & equipment (except automotive & electronic) repair & maintenance</p> <p>811210 Electronic & precision equipment repair & maintenance</p> <p>811430 Footwear & leather goods repair</p> <p>811410 Home & garden equipment & appliance repair & maintenance</p> <p>811420 Reupholstery & furniture repair</p> <p>811490 Other personal & household goods repair & maintenance</p>	<p>Real Estate & Rental & Leasing</p> <p>Real Estate</p> <p>531100 Lessors of real estate (including miniwarehouses & self-storage units)</p> <p>531210 Offices of real estate agents & brokers</p> <p>531320 Offices of real estate appraisers</p> <p>531310 Real estate property managers</p> <p>531390 Other activities related to real estate</p> <p>Rental & Leasing Services</p> <p>532100 Automotive equipment rental & leasing</p> <p>532400 Commercial & industrial machinery & equipment rental & leasing</p> <p>532210 Consumer electronics & appliances rental</p> <p>532220 Formal wear & costume rental</p> <p>532310 General rental centers</p> <p>532230 Video tape & disc rental</p> <p>532290 Other consumer goods rental</p>		
<p>Professional, Scientific, & Technical Services</p> <p>541100 Legal services</p> <p>541211 Offices of certified public accountants</p> <p>541214 Payroll services</p> <p>541213 Tax preparation services</p> <p>541219 Other accounting services</p> <p>Architectural, Engineering, & Related Services</p> <p>541310 Architectural services</p>	<p>Religious, Grantmaking, Civic, Professional, & Similar Organizations</p> <p>813000 Religious, grantmaking, civic, professional, & similar organizations</p>		
	<p>Retail Trade</p> <p>Building Material & Garden Equipment & Supplies Dealers</p> <p>444130 Hardware stores</p> <p>444110 Home centers</p> <p>444200 Lawn & garden equipment & supplies stores</p> <p>444120 Paint & wallpaper stores</p> <p>444190 Other building materials dealers</p> <p>Clothing & Accessories Stores</p> <p>448130 Children's & infants' clothing stores</p> <p>448150 Clothing accessories stores</p> <p>448140 Family clothing stores</p> <p>448310 Jewelry stores</p> <p>448320 Luggage & leather goods stores</p>		
		<p>Utilities</p> <p>221000 Utilities</p>	<p>Wholesale Trade</p> <p>Wholesale Trade, Durable Goods</p> <p>421600 Electrical goods</p> <p>421200 Furniture & home furnishing</p> <p>421700 Hardware, & plumbing & heating equipment & supplies</p> <p>421940 Jewelry, watch, precious stone, & precious metals</p> <p>421300 Lumber & other construction materials</p> <p>421800 Machinery, equipment, & supplies</p> <p>421500 Metal & mineral (except petroleum)</p> <p>421100 Motor vehicle & motor vehicle parts & supplies</p> <p>421400 Professional & commercial equipment & supplies</p> <p>421930 Recyclable materials</p> <p>421910 Sporting & recreational goods & supplies</p> <p>421920 Toy & hobby goods & supplies</p> <p>421990 Other miscellaneous durable goods</p> <p>Wholesale Trade, Nondurable Goods</p> <p>422300 Apparel, piece goods, & notions</p> <p>422800 Beer, wine, & distilled alcoholic beverage</p> <p>422920 Books, periodicals, & newspapers</p> <p>422600 Chemical & allied products</p> <p>422210 Drugs & druggists' sundries</p> <p>422500 Farm product raw materials</p> <p>422910 Farm supplies</p> <p>422930 Flower, nursery stock, & florists' supplies</p> <p>422400 Grocery & related products</p> <p>422950 Paint, varnish, & supplies</p> <p>422100 Paper & paper products</p> <p>422700 Petroleum & petroleum products</p> <p>422940 Tobacco & tobacco products</p> <p>422990 Other miscellaneous nondurable goods</p> <p>999999 Unclassified establishments (unable to classify)</p>

2001 Instructions for Schedule D, Capital Gains and Losses

Use Schedule D (Form 1040) to report the following.

- The sale or exchange of a capital asset (defined on this page) not reported on another form or schedule.
- Gains from involuntary conversions (other than from casualty or theft) of capital assets not held for business or profit.
- Capital gain distributions not reported directly on Form 1040, line 13.
- Nonbusiness bad debts.

Additional Information. See **Pub. 544** and **Pub. 550** for more details. For a comprehensive filled-in example of Schedule D, see Pub. 550.

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Changes To Note

• We have simplified the tax computation in Part IV for most taxpayers by eliminating 14 lines. Because of this change, taxpayers with unrecaptured section 1250 gain or 28% rate gain must complete a new worksheet on page D-9 to figure the tax on line 40 of Part IV.

• For 2001 and later years, qualified 5-year gain is taxed at 8% to the extent it otherwise would have been taxed at 10%. See the instructions for line 29 on page D-8.

• You may make an election to recognize gain on certain assets held on January 1, 2001. See page D-2 for details.

Other Forms You May Have To File

Use **Form 4797** to report the following.

- The sale or exchange of:
 1. Property used in a trade or business;
 2. Depreciable and amortizable property;
 3. Oil, gas, geothermal, or other mineral property; and
 4. Section 126 property.
- The involuntary conversion (other than from casualty or theft) of property used in a trade or business and capital assets held for business or profit.
- The disposition of noncapital assets other than inventory or property held primarily for sale to customers in the ordinary course of your trade or business.
- Ordinary loss on the sale, exchange, or worthlessness of small business investment company (section 1242) stock.
- Ordinary loss on the sale, exchange, or worthlessness of small business (section 1244) stock.
- Ordinary gain or loss on securities held in connection with your trading business, if you previously made a mark-to-market election. See **Special Rules for Traders in Securities** beginning on page D-3.

Use **Form 4684** to report involuntary conversions of property due to casualty or theft.

Use **Form 6781** to report gains and losses from section 1256 contracts and straddles.

Use **Form 8824** to report like-kind exchanges. A like-kind exchange occurs when you exchange business or investment property for property of a like kind.

Capital Asset

Most property you own and use for personal purposes, pleasure, or investment is a capital asset. For example, your house, furniture, car, stocks, and bonds are capital assets. A capital asset is any property held by you **except** the following.

- Stock in trade or other property included in inventory or held mainly for sale to customers.
- Accounts or notes receivable for services performed in the ordinary course of your trade or business or as an employee, or from the sale of stock in trade or other property held mainly for sale to customers.
- Depreciable property used in your trade or business, even if it is fully depreciated.
- Real estate used in your trade or business.
- Copyrights, literary, musical, or artistic compositions, letters or memoranda, or similar property: (a) created by your personal efforts; (b) prepared or produced for you (in the case of letters, memoranda, or similar property); or (c) that you received from someone who created them or for whom they were created, as mentioned in (a) or (b), in a way (such as by gift) that entitled you to the basis of the previous owner.
- U.S. Government publications, including the Congressional Record, that you received from the government, other than by purchase at the normal sales price, or that you got from someone who had received it in a similar way, if your basis is determined by reference to the previous owner's basis.
- Certain commodities derivative financial instruments held by a dealer. See section 1221(a)(6).
- Certain hedging transactions entered into in the normal course of your trade or business. See section 1221(a)(7).
- Supplies regularly used in your trade or business.

Short Term or Long Term

Separate your capital gains and losses according to how long you held or owned the property. The holding period for short-term capital gains and losses is 1 year or less. The holding period for long-term capital gains and losses is more than 1 year. To figure the holding period, begin counting on the day after you received the property and include the day you disposed of it.

If you disposed of property that you acquired by inheritance, report the disposition as a long-term gain or loss, regardless of how long you held the property.

A nonbusiness bad debt must be treated as a short-term capital loss. See Pub. 550 for what qualifies as a nonbusiness bad debt and how to enter it on Schedule D.

Capital Gain Distributions

These distributions are paid by a mutual fund (or other regulated investment company) or real estate investment trust from its net realized long-term capital gains. Enter on line 13, column (f), the **total** capital gain distributions paid to you during the year, regardless of how long you held your investment. This amount is shown in box 2a of **Form 1099-DIV**.

If there is an amount in box 2b of Form 1099-DIV, include that amount on line 13, column (g).

If there is an amount in box 2c, include that amount on line 2 of the **Qualified 5-Year Gain Worksheet** on page D-8 if you are required to complete line 29 of Schedule D.

If there is an amount in box 2d, include that amount on line 11 of the **Unrecaptured Section 1250 Gain Worksheet** on page D-7 if you are required to complete line 19 of Schedule D.

If there is an amount in box 2e, see **Exclusion of Gain on Qualified Small Business (QSB) Stock** beginning on page D-4.

If you received capital gain distributions as a nominee (that is, they were paid to you but actually belong to someone else), report on line 13 only the amount that belongs to you. Attach a statement showing the full amount you received and the amount you received as a nominee. See the Instructions

for Schedule B for filing requirements for Forms 1099-DIV and 1096.

Election To Recognize Gain on Certain Assets Held on January 1, 2001

You may elect to treat certain assets you held on January 1, 2001, as having been sold and then reacquired on the same date. The purpose of the election is to make future gain on the asset eligible for an 18% (instead of 20%) capital gains tax rate. The 18% tax rate is applicable to the extent the gain would otherwise be taxed at 20% if the holding period of the asset begins after December 31, 2000, and the asset is held for more than 5 years.

Any gain on the deemed sale **must** be recognized without regard to any provision of the Internal Revenue Code. For example, if you make the deemed election with respect to your main home, you cannot exclude the gain on the deemed sale under section 121.

A loss from a deemed sale is not allowed in any tax year, but the asset will be eligible for the 18% rate on any future gain. Your basis in the reacquired asset is its closing market price or fair market value, whichever applies, on the date of the deemed sale, whether the deemed sale results in a gain or an unallowed loss.

Any readily tradable stock (that is a capital asset) not sold before January 2, 2001, for which the election is made is deemed to have been sold on January 2, 2001, at its closing market price on that date and reacquired on that date for the same amount. For this purpose, readily tradable stock includes shares issued by an open-end mutual fund. Any other capital asset or property used in a trade or business (section 1231 property) held on January 1, 2001, for which the election is made is deemed to have been sold and reacquired on January 1, 2001, for its fair market value on that date.

If you make the election with respect to your interest in a pass-through entity (such as a mutual fund, partnership, S corporation, etc.) and the pass-through entity makes the election with respect to assets it holds, the pass-through entity's election will be considered to immediately precede your election for deemed sales that occur on the same day.

To make the election, report the deemed sale(s) on your 2001 tax return as if it was an actual sale. However, if the deemed sale results in a loss, enter zero instead of the amount of the loss. Attach a statement to your return stating that you are making an election under section 311 of the Taxpayer Relief Act of 1997 and listing the asset(s) for which you are making the election. You must file the tax return no later than its due date (including extensions). However, if you timely filed your tax return without making the election for one or more eligible assets, you can still make the election for those

assets on an amended return filed within 6 months of the due date of your tax return (excluding extensions). Write "Election Under Section 311 of the Taxpayer Relief Act of 1997" at the top of the amended return. Once made, an election for any asset is irrevocable.

Note. You may **not** make this election for any asset that you disposed of (in a transaction in which gain or loss is recognized in whole or in part) before the close of the 1-year period beginning on the date that the asset would have been treated as sold under this election.

Sale of Your Home

If you sold or exchanged your main home, **do not** report it on your tax return unless your gain exceeds your exclusion amount. Generally, if you meet the two tests below, you can exclude up to \$250,000 of gain. If both you and your spouse meet these tests and you file a joint return, you can exclude up to \$500,000 of gain (but only one spouse needs to meet the ownership requirement in **Test 1**).

Test 1. You owned and used the home as your main home for 2 years or more during the 5-year period ending on the date you sold or exchanged your home.

Test 2. You have not sold or exchanged another main home during the 2-year period ending on the date of the sale or exchange of your home.

See **Pub. 523** for details, including how to report any taxable gain on Schedule D, if:

- You do not meet one of the above two tests,
- You (or your spouse if married) used any part of the home for business or rental purposes after May 6, 1997, **or**
- Your gain exceeds your exclusion amount.

Partnership Interests

A sale or other disposition of an interest in a partnership may result in ordinary income, collectibles gain (28% rate gain), or unrecovered section 1250 gain. For details on 28% rate gain, see page D-6. For details on unrecovered section 1250 gain, see the instructions for line 19 beginning on page D-6.

Capital Assets Held for Personal Use

Generally, gain from the sale or exchange of a capital asset held for personal use is a capital gain. Report it on Schedule D, Part I or Part II. However, if you converted depreciable property to personal use, all or part of the gain on the sale or exchange of that property may have to be recaptured as ordinary income. Use Part III of **Form 4797** to figure the amount of ordinary income recapture. The recapture amount is included

on line 31 (and line 13) of Form 4797. **Do not** enter any gain for this property on line 32 of Form 4797. If you are not completing Part III for any other properties, enter "N/A" on line 32. If the total gain is more than the recapture amount, enter "From Form 4797" in column (a) of line 1 or line 8 of Schedule D, skip columns (b) through (e), and in column (f) enter the excess of the total gain over the recapture amount.

Loss from the sale or exchange of a capital asset held for personal use is not deductible. But if you had a loss from the sale or exchange of real estate held for personal use for which you received a **Form 1099-S**, you must report the transaction on Schedule D even though the loss is not deductible. For example, you have a loss on the sale of a vacation home that is not your main home and you received a Form 1099-S for the transaction. Report the transaction on line 1 or 8, depending on how long you owned the home. Complete columns (a) through (e). Because the loss is not deductible, enter zero in column (f).

Nondeductible Losses

Do not deduct a loss from the direct or indirect sale or exchange of property between any of the following.

- Members of a family.
- A corporation and an individual owning more than 50% of the corporation's stock (unless the loss is from a distribution in complete liquidation of a corporation).
- A grantor and a fiduciary of a trust.
- A fiduciary and a beneficiary of the same trust.
- A fiduciary and a beneficiary of another trust created by the same grantor.
- An executor of an estate and a beneficiary of that estate, unless the sale or exchange was to satisfy a pecuniary bequest (that is, a bequest of a sum of money).
- An individual and a tax-exempt organization controlled by the individual or the individual's family.

See **Pub. 544** for more details on sales and exchanges between related parties.

If you disposed of (a) an asset used in an activity to which the at-risk rules apply or (b) any part of your interest in an activity to which the at-risk rules apply, and you have amounts in the activity for which you are not at risk, see the Instructions for Form 6198.

If the loss is allowable under the at-risk rules, it may then be subject to the passive activity rules. See **Form 8582** and its instructions for details on reporting capital gains and losses from a passive activity.

Items for Special Treatment

- Transactions by a securities dealer. See section 1236.
- Bonds and other debt instruments. See **Pub. 550**.
- Certain real estate subdivided for sale that may be considered a capital asset. See section 1237.
- Gain on the sale of depreciable property to a more than 50% owned entity or to a trust of which you are a beneficiary. See **Pub. 544**.
- Gain on the disposition of stock in an interest charge domestic international sales corporation. See section 995(c).
- Gain on the sale or exchange of stock in certain foreign corporations. See section 1248.
- Transfer of property to a partnership that would be treated as an investment company if it were incorporated. See **Pub. 541**.
- Sales of stock received under a qualified public utility dividend reinvestment plan. See **Pub. 550**.
- Transfer of appreciated property to a political organization. See section 84.
- In general, no gain or loss is recognized on the transfer of property from an individual to a spouse or a former spouse if the transfer is incident to a divorce. See **Pub. 504**.
- Amounts received on the retirement of a debt instrument generally are treated as received in exchange for the debt instrument. See **Pub. 550**.
- Any loss on the disposition of converted wetland or highly erodible cropland that is first used for farming after March 1, 1986, is reported as a long-term capital loss on Schedule D, but any gain is reported as ordinary income on **Form 4797**.
- Amounts received by shareholders in corporate liquidations. See **Pub. 550**.
- Cash received in lieu of fractional shares of stock as a result of a stock split or stock dividend. See **Pub. 550**.
- Mutual fund load charges may not be taken into account in determining gain or loss on certain dispositions of stock in mutual funds if reinvestment rights were exercised. See **Pub. 564**.
- The sale or exchange of S corporation stock or an interest in a trust held for more than 1 year may result in collectibles gain (28% rate gain). See page D-6.
- Gain or loss on the disposition of securities futures contracts. See **Pub. 550**.
- Gain on the constructive sale of certain appreciated financial positions. See **Pub. 550**.
- The receipt of cash or stock (that you later sold) upon the demutualization of an insurance company. See **Pub. 550** or use TeleTax topic 430 (see page 11 of the Form 1040 instructions).

• Certain constructive ownership transactions. Gain in excess of the gain you would have recognized if you had held a financial asset directly during the term of a derivative contract must be treated as ordinary income. See section 1260. If any portion of the constructive ownership transaction was open in any prior year, you may have to pay interest. See section 1260(b) for details, including how to figure the interest. Include the interest as an additional tax on Form 1040, line 58. Write "Section 1260(b) interest" and the amount of the interest to the left of line 58. This interest is not deductible.

• The sale of publicly traded securities, if you elect to postpone gain by purchasing common stock or a partnership interest in a specialized small business investment company during the 60-day period that began on the date of the sale. See **Pub. 550**.

• The sale of qualified securities held for at least 3 years to an employee stock ownership plan or eligible worker-owned cooperative, if you elect to postpone gain by purchasing qualified replacement property. See **Pub. 550**.

• The sale of qualified empowerment zone assets acquired after December 21, 2000, that you held for more than 1 year, if you elect to postpone gain by purchasing other qualified empowerment zone assets during the 60-day period that began on the date of the sale. See **Pub. 550** and **Pub. 954**.

Wash Sales

A wash sale occurs when you sell or otherwise dispose of stock or securities (including a contract or option to acquire or sell stock or securities) at a loss and, within 30 days before or after the sale or disposition, you directly or indirectly:

- Buy substantially identical stock or securities,
- Acquire substantially identical stock or securities in a fully taxable trade, or
- Enter into a contract or option to acquire substantially identical stock or securities.

You **cannot** deduct losses from wash sales unless the loss was incurred in the ordinary course of your business as a dealer in stock or securities. The basis of the substantially identical property (or contract or option to acquire such property) is its cost increased by the disallowed loss. For more details on wash sales, see **Pub. 550**.

Report a wash sale transaction on line 1 or 8. Enter the full amount of the (loss) in column (f). Directly below the line on which you reported the loss, enter "Wash Sale" in column (a), and enter as a positive amount in column (f) the amount of the loss not allowed.

Special Rules for Traders in Securities

You are a **trader in securities** if you are engaged in the **business** of buying and selling securities for your own account. To be engaged in business as a trader in securities:

- You must seek to **profit from daily market movements** in the prices of securities and not from dividends, interest, or capital appreciation.
- Your activity must be **substantial**.
- You must carry on the activity with **continuity** and **regularity**.

The following facts and circumstances should be considered in determining if your activity is a business.

- Typical holding periods for securities bought and sold.
- The frequency and dollar amount of your trades during the year.
- The extent to which you pursue the activity to produce income for a livelihood.
- The amount of time you devote to the activity.

You are considered an investor, and not a trader, if your activity does not meet the above definition of a business. It does not matter whether you call yourself a trader or a "day trader."

Like an investor, a trader must report each sale of securities (taking into account commissions and any other costs of acquiring or disposing of the securities) on Schedule D or D-1 or on an attached statement containing all the same information for each sale in a similar format. However, if a trader previously made the mark-to-market election (see below), each transaction is reported in Part II of **Form 4797** instead of Schedules D and D-1. Regardless of whether a trader reports his or her gains and losses on Schedules D and D-1 or Form 4797, the gain or loss from the disposition of securities is **not** taken into account when figuring net earnings from self-employment on Schedule SE. See the Instructions for Schedule SE for an exception that applies to section 1256 contracts.

The limitation on investment interest expense that applies to investors does not apply to interest paid or incurred in a trading business. A trader reports interest expense and other expenses (excluding commissions and other costs of acquiring or disposing of securities) from a trading business on Schedule C (instead of Schedule A).

A trader also may hold securities for investment. The rules for investors generally will apply to those securities. Allocate interest and other expenses between your trading business and your investment securities.

Mark-To-Market Election for Traders

A trader may make an election under section 475(f) to report all gains and losses from

securities held in connection with a trading business as ordinary income (or loss), including securities held at the end of the year. Securities held at the end of the year are "marked to market" by treating them as if they were sold (and reacquired) for fair market value on the last business day of the year. Generally, the election must be made by the due date (**not** including extensions) of the tax return for the year **prior** to the year for which the election becomes effective. To be effective for 2001, the election must have been made by April 16, **2001**.

Starting with the year the election becomes effective, a trader reports all gains and losses from securities held in connection with the trading business, including securities held at the end of the year, in Part II of Form 4797. If you previously made the election, see the Instructions for Form 4797. For details on making the mark-to-market election for 2002, see Pub. 550 or Rev. Proc. 99-17, 1999-1 C.B. 503. You can find Rev. Proc. 99-17 on page 52 of Internal Revenue Bulletin 1999-7 at www.irs.gov.

If you hold securities for investment, they must be identified as such in your records on the day they are acquired (for example, by holding the securities in a separate brokerage account). Securities held for investment are not marked-to-market.

Short Sales

A short sale is a contract to sell property you borrowed for delivery to a buyer. At a later date, you either buy substantially identical property and deliver it to the lender or deliver property that you held but did not want to transfer at the time of the sale. Usually, your holding period is the amount of time you actually held the property eventually delivered to the lender to close the short sale. However, your gain when closing a short sale is short term if you (a) held substantially identical property for 1 year or less on the date of the short sale or (b) acquired property substantially identical to the property sold short after the short sale but on or before the date you close the short sale. If you held substantially identical property for more than 1 year on the date of a short sale, any loss realized on the short sale is a long-term capital loss, even if the property used to close the short sale was held 1 year or less.

Gain or Loss From Options

Report on Schedule D gain or loss from the closing or expiration of an option that is not a section 1256 contract but is a capital asset in your hands. If an option you purchased expired, enter the expiration date in column (c) and enter "**EXPIRED**" in column (d). If an option that was granted (written) expired, enter the expiration date in column (b) and enter "**EXPIRED**" in column (e). Fill in the other columns as appropriate. See **Pub. 550** for details.

Undistributed Capital Gains

Include on line 11, column (f), the amount from box 1a of **Form 2439**. This represents your share of the undistributed long-term capital gains of the regulated investment company (including a mutual fund) or real estate investment trust.

If there is an amount in box 1b of Form 2439, include that amount on line 11, column (g).

If there is an amount in box 1c, include that amount on line 2 of the **Qualified 5-Year Gain Worksheet** on page D-8 if you are required to complete line 29 of Schedule D.

If there is an amount in box 1d, include that amount on line 11 of the **Unrecaptured Section 1250 Gain Worksheet** on page D-7 if you are required to complete line 19 of Schedule D.

If there is an amount in box 1e, see **Exclusion of Gain on Qualified Small Business (QSB) Stock** on this page.

Enter on Form 1040, line 65, the tax paid as shown in box 2 of Form 2439. Also on line 65, check the box for Form 2439. Add to the basis of your stock the excess of the amount included in income over the amount of the credit for the tax paid. See **Pub. 550** for details.

Installment Sales

If you sold property (other than publicly traded stocks or securities) at a gain and you will receive a payment in a tax year after the year of sale, you generally must report the sale on the installment method unless you elect not to. Use **Form 6252** to report the sale on the installment method. Also use Form 6252 to report any payment received in 2001 from a sale made in an earlier year that you reported on the installment method.

To elect out of the installment method, report the full amount of the gain on Schedule D on a timely filed return (including extensions) for the year of the sale. If your original return was filed on time, you may make the election on an amended return filed no later than 6 months after the due date of your return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return.

Exclusion of Gain on Qualified Small Business (QSB) Stock

Section 1202 allows for an exclusion of up to 50% of the eligible gain on the sale or exchange of QSB stock. The section 1202 exclusion applies only to QSB stock held for more than 5 years.

To be **QSB stock**, the stock must meet **all** of the following tests.

- It must be stock in a C corporation (that is, not S corporation stock).

- It must have been originally issued after August 10, 1993.

- As of the date the stock was issued, the corporation was a domestic C corporation with total gross assets of \$50 million or less (a) at all times after August 9, 1993, and before the stock was issued and (b) immediately after the stock was issued. Gross assets include those of any predecessor of the corporation. All corporations that are members of the same parent-subsidiary controlled group are treated as one corporation.

- You must have acquired the stock at its original issue (either directly or through an underwriter), either in exchange for money or other property or as pay for services (other than as an underwriter) to the corporation. In certain cases, you may meet the test if you acquired the stock from another person who met the test (such as by gift or inheritance) or through a conversion or exchange of QSB stock you held.

- During substantially all the time you held the stock:

1. The corporation was a C corporation,
2. At least 80% of the value of the corporation's assets were used in the active conduct of one or more qualified businesses (defined below), and
3. The corporation **was not** a foreign corporation, DISC, former DISC, regulated investment company, real estate investment trust, REMIC, FASIT, cooperative, or a corporation that has made (or that has a subsidiary that has made) a section 936 election.

Note. A specialized small business investment company (SSBIC) is treated as having met test 2 above.

A **qualified business** is any business **other than a—**

- Business involving services performed in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services.

- Business whose principal asset is the reputation or skill of one or more employees.

- Banking, insurance, financing, leasing, investing, or similar business.

- Farming business (including the raising or harvesting of trees).

- Business involving the production of products for which percentage depletion can be claimed.

- Business of operating a hotel, motel, restaurant, or similar business.

For more details about limits and additional requirements that may apply, see section 1202.

Pass-Through Entities

If you held an interest in a pass-through entity (a partnership, S corporation, or mutual fund or other regulated investment

company) that sold QSB stock, to qualify for the exclusion you must have held the interest on the date the pass-through entity acquired the QSB stock and at all times thereafter until the stock was sold.

How To Report

Report in column (f) of line 8 the entire gain realized on the sale of QSB stock. In column (g) of line 8, report as 28% rate gain an amount equal to the section 1202 exclusion. Complete all other columns as indicated. Directly below the line on which you reported the gain, enter in column (a) "Section 1202 exclusion" and enter as a (loss) in column (f) the amount of the allowable exclusion.

Gain From Form 1099-DIV. If you received a Form 1099-DIV with a gain in box 2e, part or all of that gain (which is also included in box 2a) may be eligible for the section 1202 exclusion. In column (a) of line 8, enter the name of the corporation whose stock was sold. In column (f), enter the amount of your allowable exclusion as a loss. In column (g), enter the amount of your allowable exclusion as a gain.

Gain From Form 2439. If you received a Form 2439 with a gain in box 1e, part or all of that gain (which is also included in box 1a) may be eligible for the section 1202 exclusion. In column (a) of line 8, enter the name of the corporation whose stock was sold. In column (f), enter the amount of your allowable exclusion as a loss. In column (g), enter the amount of your allowable exclusion as a gain.

Gain From an Installment Sale of QSB Stock. If all payments are not received in the year of sale, a sale of QSB stock that is not traded on an established securities market generally is treated as an installment sale and is reported on Form 6252. Figure the allowable section 1202 exclusion for the year by multiplying the total amount of the exclusion by a fraction, the numerator of which is the amount of eligible gain to be recognized for the tax year and the denominator of which is the total amount of eligible gain. In column (a) of line 8, enter the name of the corporation whose stock was sold. In column (f), enter the amount of your allowable exclusion as a loss. In column (g), enter the amount of your allowable exclusion as a gain.

Alternative Minimum Tax. You must enter 42% of your allowable exclusion for the year on **Form 6251**, line 14m.

Rollover of Gain From QSB Stock

If you sold QSB stock (defined on page D-4) that you held for more than 6 months, you may elect to postpone gain if you purchase other QSB stock during the 60-day period that began on the date of the sale. A pass-

through entity also may make the election to postpone gain. The benefit of the postponed gain applies to your share of the entity's postponed gain if you held an interest in the entity for the entire period the entity held the QSB stock. If a pass-through entity sold QSB stock held for more than 6 months and you held an interest in the entity for the entire period the entity held the stock, you also may elect to postpone gain if you, rather than the pass-through entity, purchase the replacement QSB stock within the 60-day period.

You must recognize gain to the extent the sale proceeds exceed the cost of the replacement stock. Reduce the basis of the replacement stock by any postponed gain.

You must make the election no later than the due date (including extensions) for filing your tax return for the tax year in which the QSB stock was sold. If your original return was filed on time, you may make the election on an amended return filed no later than 6 months after the due date of your return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return.

To make the election, report the entire gain realized on the sale on line 1 or 8. Directly below the line on which you reported the gain, enter in column (a) "Section 1045 rollover," and enter as a (loss) in column (f) the amount of the postponed gain.

Specific Instructions

Lines 1 and 8

Enter all sales and exchanges of capital assets, including stocks, bonds, etc., and real estate (if not reported on Form 4684, 4797, 6252, 6781, or 8824). But **do not** report the sale of your main home unless required (see page D-2). Include these transactions even if you did not receive a **Form 1099-B** or **1099-S** (or substitute statement) for the transaction. You can use stock ticker symbols or abbreviations to describe the property as long as they are based on the descriptions of the property as shown on Form 1099-B or 1099-S (or substitute statement).

Use **Schedule D-1** to list additional transactions for lines 1 and 8. Use as many Schedules D-1 as you need. Enter on Schedule D, lines 2 and 9, the combined totals from all your Schedules D-1.



Add the following amounts reported to you for 2001 on Forms 1099-B and 1099-S (or substitute statements) that you are not reporting on another form or schedule included with your return: (a) proceeds from transactions involving stocks, bonds, and other securities and (b) gross proceeds from real estate transactions (other than the sale of your main home if you are not required

to report it). If this total is **more** than the total of lines 3 and 10, attach an explanation of the difference.

Column (b)—Date Acquired

Enter in this column the date the asset was acquired. Use the trade date for stocks and bonds traded on an exchange or over-the-counter market. For stock or other property sold short, enter the date the stock or property was delivered to the broker or lender to close the short sale.

If you disposed of property that you acquired by inheritance, report the gain or (loss) on line 8 and enter "**INHERITED**" in column (b) instead of the date you acquired the property.

If you sold a block of stock (or similar property) that was acquired through several different purchases, you may report the sale on one line and enter "**VARIOUS**" in column (b). However, you still must report the short-term gain or (loss) on the sale in Part I and the long-term gain or (loss) in Part II.

Column (c)—Date Sold

Enter in this column the date the asset was sold. Use the trade date for stocks and bonds traded on an exchange or over-the-counter market. For stock or other property sold short, enter the date you sold the stock or property you borrowed to open the short sale transaction.

Column (d)—Sales Price

Enter in this column either the gross sales price or the net sales price from the sale. If you sold stocks or bonds and you received a Form 1099-B (or substitute statement) from your broker that shows gross sales price, enter that amount in column (d). But if Form 1099-B (or substitute statement) indicates that gross proceeds minus commissions and option premiums were reported to the IRS, enter that net amount in column (d). If you enter the net amount in column (d), **do not** include the commissions and option premiums from the sale in column (e).

You should not have received a Form 1099-B (or substitute statement) for a transaction merely representing the return of your original investment in a nontransferable obligation, such as a savings bond or a certificate of deposit. But if you did, report the amount shown on Form 1099-B (or substitute statement) in both columns (d) and (e).



Be sure to add all sales price entries on lines 1 and 8, column (d), to amounts on lines 2 and 9, column (d). Enter the totals on lines 3 and 10.

Column (e)—Cost or Other Basis

In general, the cost or other basis is the cost of the property plus purchase commissions and improvements, minus depreciation,



Use this worksheet to figure your capital loss carryovers from 2001 to 2002 if Schedule D, line 18, is a loss and (a) that loss is a smaller loss than the loss on Schedule D, line 17, or (b) Form 1040, line 37, is a loss. Otherwise, you do not have any carryovers.

1. Enter the amount from Form 1040, line 37. If a loss, enclose the amount in parentheses	1. _____
2. Enter the loss from Schedule D, line 18, as a positive amount	2. _____
3. Combine lines 1 and 2. If zero or less, enter -0-	3. _____
4. Enter the smaller of line 2 or line 3	4. _____
If line 7 of Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.	
5. Enter the loss from Schedule D, line 7, as a positive amount	5. _____
6. Enter any gain from Schedule D, line 16	6. _____
7. Add lines 4 and 6	7. _____
8. Short-term capital loss carryover to 2002. Subtract line 7 from line 5. If zero or less, enter -0-	8. _____
If line 16 of Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.	
9. Enter the loss from Schedule D, line 16, as a positive amount	9. _____
10. Enter any gain from Schedule D, line 7	10. _____
11. Subtract line 5 from line 4. If zero or less, enter -0-	11. _____
12. Add lines 10 and 11	12. _____
13. Long-term capital loss carryover to 2002. Subtract line 12 from line 9. If zero or less, enter -0-	13. _____

amortization, and depletion. If you inherited the property, got it as a gift, or received it in a tax-free exchange, involuntary conversion, or “wash sale” of stock, you may not be able to use the actual cost as the basis. If you do not use the actual cost, attach an explanation of your basis.

If you sold stock, adjust your basis by subtracting all the nontaxable distributions you received before the sale. Also adjust your basis for any stock splits. See **Pub. 550** for details.

You may elect to use an average basis for all shares of a mutual fund if you acquired the shares at various times and prices and you left the shares on deposit in an account handled by a custodian or agent who acquired or redeemed those shares. If you are reporting an average basis, include “AVGB” in column (a) of Schedule D. For details on making the election and how to figure average basis, see **Pub. 564**.

The basis of property acquired by gift is generally the basis of the property in the hands of the donor. The basis of property acquired from a decedent is generally the fair market value at the date of death. See **Pub. 544** for details.

Increase the cost or other basis of an original issue discount (OID) debt instrument by the amount of OID that has been included in gross income for that instrument.

If a charitable contribution deduction is allowed because of a bargain sale of property to a charitable organization, the adjusted basis for purposes of determining gain from the sale is the amount that has the same ratio to the adjusted basis as the amount realized has to the fair market value.

Increase your cost or other basis by any expense of sale, such as broker’s fees, commissions, state and local transfer taxes, and

option premiums, before making an entry in column (e), unless you reported the net sales price in column (d).

For more details, see **Pub. 551**.

Column (f)—Gain or (Loss)

You **must** make a separate entry in this column for each transaction reported on lines 1 and 8 and any other line(s) that applies to you. For lines 1 and 8, subtract the amount in column (e) from the amount in column (d). Enter negative amounts in parentheses.

Column (g)—28% Rate Gain or (Loss)

Enter in column (g) **only** the amount, if any, from Part II, column (f), that is equal to the amount of your section 1202 exclusion from the eligible gain on qualified small business stock (see page D-4) or from collectibles gains and losses. A **collectibles gain or loss** is any long-term gain or deductible long-term loss from the sale or exchange of a collectible that is a capital asset.

Collectibles include works of art, rugs, antiques, metals (such as gold, silver, and platinum bullion), gems, stamps, coins, alcoholic beverages, and certain other tangible property.

Also include gain (but not loss) from the sale or exchange of an interest in a partnership, S corporation, or trust held for more than 1 year and attributable to unrealized appreciation of collectibles. For details, see Regulations section 1.1(h)-1. Also attach the statement required under Regulations section 1.1(h)-1(e).

Line 19

If you complete Part IV, complete the worksheet on page D-7 if **any** of the following apply for 2001.

- You sold or otherwise disposed of section 1250 property (generally, real property that you depreciated) held more than 1 year.
- You received installment payments for section 1250 property held more than 1 year for which you are reporting gain on the installment method.
- You received a Schedule K-1 from an estate or trust, partnership, or S corporation that shows “unrecaptured section 1250 gain.”
- You received a Form 1099-DIV or Form 2439 from a real estate investment trust or regulated investment company (including a mutual fund) that reports “unrecaptured section 1250 gain.”
- You reported a long-term capital gain from the sale or exchange of an interest in a partnership that owned section 1250 property.

Instructions for the Unrecaptured Section 1250 Gain Worksheet on Page D-7

Lines 1 through 3. If you had more than one property described on line 1, complete lines 1 through 3 for each property on a separate worksheet. Enter the total of the line 3 amounts for all properties on line 3 and go to line 4.

Line 4. To figure the amount to enter on line 4, follow the steps below for each installment sale of trade or business property held more than 1 year.

Step 1. Figure the **smaller** of (a) the depreciation allowed or allowable or (b) the

total gain for the sale. This is the **smaller** of line 22 or line 24 of your 2001 Form 4797 (or the comparable lines of Form 4797 for the year of sale) for the property.

Step 2. Reduce the amount figured in step 1 by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of your 2001 Form 4797 (or the comparable line of Form 4797 for the year of sale) for the property. The result is your total unrecaptured section 1250 gain that must be allocated to the installment payments received from the sale.

Step 3. Generally, the amount of section 1231 gain on each installment payment is treated as unrecaptured section 1250 gain until the total unrecaptured section 1250 gain figured in step 2 has been used in full. Figure the amount of gain treated as unrecaptured section 1250 gain for installment payments received in 2001 as the **smaller** of (a) the amount from line 26 or line 37 of the 2001 Form 6252, whichever applies, or (b) the amount of unrecaptured section 1250 gain remaining to be reported. This amount is generally the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section

1250 ordinary income recapture). However, if you chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use only the amount you chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. Include this amount on line 4.

Line 10. Include on line 10 your share of the partnership's unrecaptured section 1250 gain that would result if the partnership had transferred all of its section 1250 property in a fully taxable transaction immediately before you sold or exchanged your interest in that partnership. If you recognized less than all of the realized gain, the partnership will be treated as having transferred only a proportionate amount of each section 1250 property. For details, see Regulations section 1.1(h)-1. Also attach the statement required under Regulations section 1.1(h)-1(e).

Line 12. An example of an amount to include on line 12 is unrecaptured section 1250 gain from the sale of a vacation home

you previously used as a rental property but converted to personal use prior to the sale. To figure the amount to enter on line 12, follow the applicable instructions below.

Installment sales. To figure the amount to include on line 12, follow the steps below for each installment sale of property held more than 1 year for which you did not make an entry in Part I of your Form 4797 for the year of sale.

• **Step 1.** Figure the **smaller** of (a) the depreciation allowed or allowable or (b) the total gain for the sale. This is the **smaller** of line 22 or line 24 of your 2001 Form 4797 (or the comparable lines of Form 4797 for the year of sale) for the property.

• **Step 2.** Reduce the amount figured in step 1 by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of your 2001 Form 4797 (or the comparable line of Form 4797 for the year of sale) for the property. The result is your total unrecaptured section 1250 gain that must be allocated to the installment payments received from the sale.

Unrecaptured Section 1250 Gain Worksheet—Line 19

Keep for Your Records



If you are not reporting a gain on Form 4797, line 7, skip lines 1 through 9 and go to line 10.

1. If you have a section 1250 property in Part III of Form 4797 for which you made an entry in Part I of Form 4797 (but not on Form 6252), enter the smaller of line 22 or line 24 of Form 4797 for that property. If you did not have any such property, go to line 4. If you had more than one such property, see instructions	1. _____
2. Enter the amount from Form 4797, line 26g, for the property for which you made an entry on line 1	2. _____
3. Subtract line 2 from line 1	3. _____
4. Enter the total unrecaptured section 1250 gain included on line 26 or line 37 of Form(s) 6252 from installment sales of trade or business property held more than 1 year (see instructions)	4. _____
5. Enter the total of any amounts reported to you on a Schedule K-1 from a partnership or an S corporation as "unrecaptured section 1250 gain"	5. _____
6. Add lines 3 through 5	6. _____
7. Enter the smaller of line 6 or the gain from Form 4797, line 7	7. _____
8. Enter the amount, if any, from Form 4797, line 8	8. _____
9. Subtract line 8 from line 7. If zero or less, enter -0-	9. _____
10. Enter the amount of any gain from the sale or exchange of an interest in a partnership attributable to unrecaptured section 1250 gain (see instructions)	10. _____
11. Enter the total of any amounts reported to you on a Schedule K-1, Form 1099-DIV, or Form 2439 as "unrecaptured section 1250 gain" from an estate, trust, real estate investment trust, or mutual fund (or other regulated investment company)	11. _____
12. Enter the total of any unrecaptured section 1250 gain from sales (including installment sales) or other dispositions of section 1250 property held more than 1 year for which you did not make an entry in Part I of Form 4797 for the year of sale (see instructions)	12. _____
13. Add lines 9 through 12	13. _____
14. Enter the gain or (loss) from Schedule D, line 15	14. _____
15. Enter the (loss), if any, from Schedule D, line 7. If Schedule D, line 7, is zero or a gain, enter -0-	15. _____
16. Combine lines 14 and 15. If the result is zero or a gain, enter -0-. If the result is a (loss), enter it as a positive amount	16. _____
17. Unrecaptured section 1250 gain. Subtract line 16 from line 13. If zero or less, enter -0-. Enter the result here and on Schedule D, line 19	17. _____

• **Step 3.** Generally, the amount of capital gain on each installment payment is treated as unrecaptured section 1250 gain until the total unrecaptured section 1250 gain figured in step 2 has been used in full. Figure the amount of gain treated as unrecaptured section 1250 gain for installment payments received in 2001 as the **smaller** of (a) the amount from line 26 or line 37 of your 2001 Form 6252, whichever applies, or (b) the amount of unrecaptured section 1250 gain remaining to be reported. This amount is generally the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section 1250 ordinary income recapture). However, if you chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use only the amount you chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. Include this amount on line 12.

Other sales or dispositions of section 1250 property. For each sale of property held more than 1 year (for which you did not make an entry in Part I of Form 4797), figure the **smaller** of (a) the depreciation allowed or allowable or (b) the total gain for the sale. This is the **smaller** of line 22 or line 24 of Form 4797 for the property. Next, reduce that amount by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of Form 4797 for the property. The result is the total unrecaptured section 1250 gain for the sale. Include this amount on line 12.

Line 29—Qualified 5-Year Gain

Qualified 5-year gain is long-term capital gain (other than 28% rate gain or gain on line 6 or 10 through 12 of the **Unrecaptured Section 1250 Gain Worksheet**) from the sale or other disposition of property held more than 5 years. Qualified 5-year gain is taxed at 8% to the extent the gain would otherwise be taxed at 10%. To figure your qualified 5-year gain, complete the worksheet on this page if any of the following apply.

- You sold or otherwise disposed of property at a gain that you had held for more than 5 years.
- You received a Schedule K-1 from an estate, trust, partnership, or S corporation that reports “qualified 5-year gain.”
- You received a Form 1099-DIV (or Form 2439) with “qualified 5-year gain” reported in box 2c (box 1c of Form 2439).
- You received payments from an installment sale of property that you had held for more than 5 years when you entered into the installment sale.

Example. John and Carol Maple had the following capital gains for 2001.

1. A sale of stock held for 3 years at a gain of \$3,700.
2. A sale of stock held for more than 5 years at a gain of \$500.
3. A sale of stock held for 6 years at a loss of \$1,950.
4. An \$1,800 capital gain distribution from a mutual fund reported in box 2a of Form 1099-DIV. The Form 1099-DIV also shows \$900 in box 2c.
5. A sale of a painting held for more than 5 years at a gain of \$1,800.

6. A sale of a rental home for \$101,000 purchased in 1995 for \$100,000, on which \$4,300 of allowable straight-line depreciation was claimed, for a net gain of \$5,300.

7. A Schedule K-1 from a partnership reporting \$2,300 of total long-term capital gain, \$200 “qualified 5-year gain” from capital assets, a \$5,200 net loss from trade or business (section 1231) property, and \$400 “qualified 5-year gain” from trade or business (section 1231) property.

8. A long-term capital loss carryover of \$5,800.

John and Carol Maple have total qualified 5-year gain of \$3,000 figured on the **Qualified 5-Year Gain Worksheet** as follows. They enter \$2,300 from items 2 and 5 on line 1. To complete line 2, the Maples first determine that the amount on their Form 4797, line 7, is \$100, consisting of the \$5,300 gain from item 6 and the \$5,200 loss from item 7. Because Form 4797, line 7, is more than zero, they include the \$5,300 gain from item 6 and the \$400 gain from item 7, or \$5,700, on line 2. The Maples enter zero on line 3. They enter \$900 from item 4 and \$200 from item 7, or \$1,100, on line 4. The Maples add lines 1 through 4 of the worksheet and enter \$9,100 on line 5. On line 6, they include the \$1,800 gain from item 5 because it is 28% rate gain from the sale of a collectible and \$4,300 from item 6 because it is included on line 6 of the **Unrecaptured Section 1250 Gain Worksheet**. (The Maples entered \$4,300 on line 1 of the Unrecaptured Section 1250 Gain Worksheet, zero on line 2, and \$4,300 on lines 3 and 6.) The Maples subtract the \$6,100 on line 6 of the worksheet from the \$9,100 on line 5. They enter the result, \$3,000 on line 7 of the worksheet and on Schedule D, line 29.

Qualified 5-Year Gain Worksheet—Line 29

Keep for Your Records



1. Enter the total of all gains that you reported on line 8, column (f), of Schedules D and D-1 from dispositions of property held more than 5 years. Do not reduce these gains by any losses	1. _____
2. Enter the total of all gains from dispositions of property held more than 5 years from Form 4797, Part I, but only if Form 4797, line 7, is more than zero. Do not reduce these gains by any losses	2. _____
3. Enter the total of all capital gains from dispositions of property held more than 5 years from Form 4684, line 4; Form 6252; Form 6781, Part II; and Form 8824. Do not reduce these gains by any losses	3. _____
4. Enter the total of any qualified 5-year gain reported to you on:	
<ul style="list-style-type: none"> • Form 1099-DIV, box 2c; • Form 2439, box 1c; and • Schedule K-1 from a partnership, S corporation, estate, or trust (do not include gains from section 1231 property; take them into account on line 2 above, but only if Form 4797, line 7, is more than zero). 	} 4. _____
5. Add lines 1 through 4	5. _____
6. Enter the part, if any, of the gain on line 5 that is:	
<ul style="list-style-type: none"> • Attributable to 28% rate gain or • Included on line 6, 10, 11, or 12 of the Unrecaptured Section 1250 Gain Worksheet on page D-7. 	} 6. _____
7. Qualified 5-year gain. Subtract line 6 from line 5. Enter the result here and on Schedule D, line 29	7. _____



Complete this worksheet only if line 15 or line 19 of Schedule D is more than zero. Otherwise, complete Part IV of Schedule D to figure your tax. **Exception: Do not** use Schedule D, Part IV, or this worksheet to figure your tax if line 16 or line 17 of Schedule D or Form 1040, line 39, is zero or less; instead, see the instructions for Form 1040, line 40.

1. Enter your taxable income from Form 1040, line 39 1. _____
 2. Enter the **smaller** of line 16 or line 17 of Schedule D 2. _____
 3. If you are filing Form 4952, enter the amount from Form 4952, line 4e. Otherwise, enter -0-. **Also enter this amount on Schedule D, line 22** 3. _____
 4. Subtract line 3 from line 2. If zero or less, enter -0- 4. _____
 5. Combine lines 7 and 15 of Schedule D. If zero or less, enter -0- 5. _____
 6. Enter the **smaller** of line 5 above or Schedule D, line 15, but not less than zero 6. _____
 7. Enter the amount from Schedule D, line 19 7. _____
 8. Add lines 6 and 7 8. _____
 9. Subtract line 8 from line 4. If zero or less, enter -0- 9. _____
 10. Subtract line 9 from line 1. If zero or less, enter -0- 10. _____
 11. Enter the **smaller** of:
 - The amount on line 1 or
 - \$45,200 if married filing jointly or qualifying widow(er);
 - \$27,050 if single;
 - \$36,250 if head of household; or
 - \$22,600 if married filing separately
 11. _____
 12. Enter the **smaller** of line 10 or line 11 12. _____
 13. Subtract line 4 from line 1. If zero or less, enter -0- 13. _____
 14. Enter the **larger** of line 12 or line 13 ► 14. _____
 15. Figure the tax on the amount on line 14. Use the Tax Table or Tax Rate Schedules, whichever applies ► 15. _____
- If lines 11 and 12 are the same, skip lines 16 through 21 and go to line 22. Otherwise, go to line 16.**
16. Subtract line 12 from line 11 ► 16. _____
 17. Enter your qualified 5-year gain, if any, from line 7 of the worksheet on page D-8. **Also enter this amount on Schedule D, line 29** 17. _____
 18. Enter the **smaller** of line 16 above or line 17 above 18. _____
 19. Multiply line 18 by 8% (.08) 19. _____
 20. Subtract line 18 from line 16 20. _____
 21. Multiply line 20 by 10% (.10) 21. _____
- If lines 1 and 11 are the same, skip lines 22 through 34 and go to line 35. Otherwise, go to line 22.**
22. Enter the **smaller** of line 1 or line 9 22. _____
 23. Enter the amount from line 16 (if line 16 is blank, enter -0-) 23. _____
 24. Subtract line 23 from line 22 ► 24. _____
 25. Multiply line 24 by 20% (.20) 25. _____
- If line 7 is zero or blank, skip lines 26 through 31 and go to line 32. Otherwise, go to line 26.**
26. Enter the **smaller** of line 4 or line 7 26. _____
 27. Add lines 4 and 14 27. _____
 28. Enter the amount from line 1 above 28. _____
 29. Subtract line 28 from line 27. If zero or less, enter -0- 29. _____
 30. Subtract line 29 from line 26. If zero or less, enter -0- ► 30. _____
 31. Multiply line 30 by 25% (.25) 31. _____
- If line 6 is zero, skip lines 32 through 34 and go to line 35. Otherwise, go to line 32.**
32. Add lines 14, 16, 24, and 30 32. _____
 33. Subtract line 32 from line 1 33. _____
 34. Multiply line 33 by 28% (.28) 34. _____
 35. Add lines 15, 19, 21, 25, 31, and 34 35. _____
 36. Figure the tax on the amount on line 1. Use the Tax Table or Tax Rate Schedules, whichever applies 36. _____
 37. **Tax on all taxable income (including capital gains).** Enter the **smaller** of line 35 or line 36. Also enter this amount on Schedule D, line 40, and Form 1040, line 40 37. _____

2001 Instructions for Schedule E, Supplemental Income and Loss

Use Schedule E (Form 1040) to report income or loss from rental real estate, royalties, partnerships, S corporations, estates, trusts, and residual interests in REMICs.

You may attach your own schedule(s) to report income or loss from any of these sources. Use the same format as on Schedule E.

Enter separately on Schedule E the total income and the total loss for each part. Enclose loss figures in (parentheses).

Part I

Income or Loss From Rental Real Estate and Royalties

Use Part I to report:

- Income and expenses from rentals of real estate (including personal property leased with real estate) and
- Royalty income and expenses.

See the instructions for lines 3 and 4 to determine if you should report your rental real estate and royalty income on **Schedule C, Schedule C-EZ, or Form 4835** instead of Schedule E.

If you own a part interest in a rental real estate property, report only your part of the income and expenses on Schedule E.

Complete lines 1 and 2 for each rental real estate property. Leave these lines blank for each royalty property.

If you have more than three rental real estate or royalty properties, complete and attach as many Schedules E as you need to list them. But fill in the "Totals" column on only one Schedule E. The figures in the "Totals" column on that Schedule E should be the combined totals of all your Schedules E. If you are also using page 2 of Schedule E, use the same Schedule E on which you entered the combined totals for Part I.

Personal Property. Do not use Schedule E to report income and expenses from the rental of personal property, such as equipment or vehicles. Instead, use Schedule C or C-EZ if you are in the business of renting personal property. You are in the business of renting personal property if the primary purpose for renting the property is income or profit and you are involved in the rental activity with continuity and regularity.

If your rental of personal property is not a business, see the Instructions for Form 1040, lines 21 and 32, to find out how to report the income and expenses.

Extraterritorial Income Exclusion. Except as otherwise provided in the Internal Revenue Code, gross income includes all income

from whatever source derived. Gross income, however, does not include extraterritorial income that is qualifying foreign trade income. Use **Form 8873** to figure the extraterritorial income exclusion. Report it on Schedule E as explained in the Instructions for Form 8873.

Filers of Form 1041

If you are a fiduciary filing Schedule E with Form 1041, enter the estate's or trust's employer identification number (EIN) in the space for "Your social security number."

Line 1

For rental real estate property only, show:

- The kind of property you rented (for example, townhouse).
- The street address, city or town, and state. You do not have to give the ZIP code.
- Your percentage of ownership in the property, if less than 100%.

Line 2

If you rented out a dwelling unit that you also used for **personal purposes** during the year, you may not be able to deduct all the expenses for the rental part. "Dwelling unit" (unit) means a house, apartment, condominium, or similar property.

A day of **personal use** is any day, or part of a day, that the unit was used by:

- You for personal purposes;
- Any other person for personal purposes, if that person owns part of the unit (unless rented to that person under a "shared equity" financing agreement);
- Anyone in your family (or in the family of someone else who owns part of the unit), unless the unit is rented at a fair rental price to that person as his or her main home;
- Anyone who pays less than a fair rental price for the unit; or
- Anyone under an agreement that lets you use some other unit.

Do not count as personal use:

- Any day you spent working substantially full time repairing and maintaining the unit, even if family members used it for recreational purposes on that day or
- Any days you used the unit as your main home before or after renting it or offering it for rent, if you rented or tried to rent it for at least 12 consecutive months (or for a period of less than 12 consecutive months at the end of which you sold or exchanged it).

Check "Yes" if you or your family used the unit for personal purposes in 2001 more than the **greater** of:

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

Otherwise, check "No."

If you checked "No," you can deduct all your expenses for the rental part, subject to the **At-Risk Rules** and the **Passive Activity Loss Rules** explained on pages E-3 and E-4.

If you checked "Yes" and rented the unit out for fewer than 15 days, do not report the rental income and do not deduct any rental expenses. If you itemize deductions on Schedule A, you may deduct allowable interest, taxes, and casualty losses.

If you checked "Yes" and rented the unit out for at least 15 days, you may **not** be able to deduct all your rental expenses. You can deduct all of the following expenses for the rental part on Schedule E.

- Mortgage interest.
- Real estate taxes.
- Casualty losses.
- Other rental expenses not related to your use of the unit as a home, such as advertising expenses and rental agents' fees.

If any income is left after deducting these expenses, you can deduct other expenses, including depreciation, up to the amount of remaining income. You can carry over to 2002 the amounts you cannot deduct.

See **Pub. 527** for details.

Line 3

If you received rental income from real estate (including personal property leased with real estate) and you were not in the real estate business, report the income on line 3. Include income received for renting a room or other space. If you received services or property instead of money as rent, report the fair market value as rental income.

Be sure to enter the total of all your rents in the "Totals" column even if you have only one property.

If you provided significant services to the renter, such as maid service, report the rental activity on Schedule C or C-EZ, not on Schedule E. Significant services **do not** include the furnishing of heat and light, cleaning of public areas, trash collection, or similar services.

If you were in the real estate sales business, include on line 3 only the rent received from real estate (including personal property leased with real estate) you held for investment or speculation. Do not use Schedule E to report income and expenses from rentals of real estate held for sale to customers in the ordinary course of your real estate sales business. Instead, use Schedule C or C-EZ for these rentals.

For more details on rental income, use TeleTax topic 414 (see page 11 of the Form 1040 instructions) or see Pub. 527.

Rental Income From Farm Production or Crop Shares. Report farm rental income and expenses on Form 4835 if:

- You received rental income based on crops or livestock produced by the tenant **and**
- You did not manage or operate the farm to any great extent.

Line 4

Report on line 4 **royalties** from oil, gas, or mineral properties (not including operating interests); copyrights; and patents. Use a separate column (A, B, or C) for each royalty property. Be sure to enter the total of all your royalties in the "Totals" column even if you have only one source of royalties.

If you received \$10 or more in royalties during 2001, the payer should send you a **Form 1099-MISC** or similar statement by January 31, 2002, showing the amount you received.

If you are in business as a self-employed writer, inventor, artist, etc., report your royalty income and expenses on Schedule C or C-EZ.

You may be able to treat amounts received as "royalties" for the transfer of a

patent or amounts received on the disposal of coal and iron ore as the sale of a capital asset. For details, see **Pub. 544**.

Enter on line 4 the gross amount of royalty income, even if state or local taxes were withheld from oil or gas payments you received. Include taxes withheld by the producer on line 16.

General Instructions for Lines 5 Through 21

Enter your rental and royalty expenses for each property in the appropriate column. You can deduct all ordinary and necessary expenses, such as taxes, interest, repairs, insurance, management fees, agents' commissions, and depreciation.

Do not deduct the value of your own labor or amounts paid for capital investments or capital improvements.

Enter your total expenses for mortgage interest (line 12), total expenses before depreciation expense or depletion (line 19), and depreciation expenses or depletion (line 20) in the "Totals" column even if you have only one property.

Renting Out Part of Your Home. If you rent out only part of your home or other property, deduct the part of your expenses that applies to the rented part.

Credit or Deduction for Access Expenditures. You may be able to claim a tax credit for eligible expenditures paid or incurred in 2001 to provide access to your business for individuals with disabilities. See **Form 8826** for details.

You can also deduct up to \$15,000 of qualified costs paid or incurred in 2001 to remove architectural or transportation barriers to individuals with disabilities and the elderly.

You cannot take both the credit and the deduction for the same expenditures. See **Pub. 535** for details.

Line 6

You may deduct ordinary and necessary auto and travel expenses related to your rental activities, including 50% of meal expenses incurred while traveling away from home. You generally can either deduct your actual expenses or take the standard mileage rate. You **must** use actual expenses if you use more than one vehicle simultaneously in your rental activities (as in fleet operations). You cannot use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

You can use the standard mileage rate for 2001 **only** if:

- You owned the vehicle and use the standard mileage rate for the first year you placed the vehicle in service or

- You leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

If you deduct actual auto expenses:

- Include on line 6 the rental activity portion of the cost of gasoline, oil, repairs, insurance, tires, etc. and

- Show auto rental or lease payments on line 18 and depreciation on line 20.

If you take the standard mileage rate, multiply the number of miles you drove your auto in connection with your rental activities by 34.5 cents. Include this amount and your parking fees and tolls on line 6.

If you claim any auto expenses (actual or the standard mileage rate), you must complete Part V of **Form 4562** and attach Form 4562 to your return.

See Pub. 527 and **Pub. 463** for details.

Line 10

Include on line 10 fees for tax advice and the preparation of tax forms related to your rental real estate or royalty properties.

Do not deduct legal fees paid or incurred to defend or protect title to property, to recover property, or to develop or improve property. Instead, you must capitalize these fees and add them to the property's basis.

Lines 12 and 13

In general, to determine the interest expense allocable to your rental activities, you must have records to show how the proceeds of each debt were used. Specific tracing rules apply for allocating debt proceeds and repayment. See Pub. 535 for details.

If you have a mortgage on your rental property, enter on line 12 the amount of interest you paid for 2001 to banks or other financial institutions. Be sure to fill in the "Totals" column.

Do not deduct prepaid interest when you paid it. You can deduct it only in the year to which it is properly allocable. Points, including loan origination fees, charged only for the use of money must be deducted over the life of the loan.

If you paid \$600 or more in interest on a mortgage during 2001, the recipient should send you a **Form 1098** or similar statement by January 31, 2002, showing the total interest received from you.

If you paid more mortgage interest than is shown on your Form 1098 or similar statement, see Pub. 535 to find out if you can deduct the additional interest. If you can,

enter the entire amount on line 12. Attach a statement to your return explaining the difference. Write "See attached" in the left margin next to line 12.

Note. If the recipient was not a financial institution or you did not receive a Form 1098 from the recipient, report your deductible mortgage interest on line 13.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage, and the other person received Form 1098, report your share of the interest on line 13. Attach a statement to your return showing the name and address of the person who received Form 1098. In the left margin next to line 13, write "See attached."

Line 14

You may deduct the cost of repairs made to keep your property in good working condition. Repairs generally do not add significant value to the property or extend its life. Examples of repairs are fixing a broken lock or painting a room. Improvements that increase the value of the property or extend its life, such as replacing a roof or renovating a kitchen, must be capitalized and depreciated (that is, they cannot be deducted in full in the year they are paid or incurred). See the instructions for line 20.

Line 17

You may deduct the cost of ordinary and necessary telephone calls related to your rental activities or royalty income (for example, calls to the renter). However, the base rate (including taxes and other charges) for local telephone service for the first telephone line into your residence is a personal expense and is not deductible.

Line 20

Depreciation is the annual deduction you must take to recover the cost or other basis of business or investment property having a useful life substantially beyond the tax year. Land is not depreciable.

Depreciation starts when you first use the property in your business or for the production of income. It ends when you deduct all your depreciable cost or other basis or no longer use the property in your business or for the production of income.

See the Instructions for Form 4562 to figure the amount of depreciation to enter on line 20. Be sure to fill in the "Totals" column.

You must complete and attach Form 4562 **only** if you are claiming:

- Depreciation on property first placed in service during 2001;

- Depreciation on listed property (defined in the Instructions for Form 4562), including a vehicle, regardless of the date it was placed in service; or

- A section 179 expense deduction or amortization of costs that began in 2001.

See Pub. 527 for more information on depreciation of residential rental property. See **Pub. 946** for a more comprehensive guide to depreciation.

If you own mineral property or an oil, gas, or geothermal well, you may be able to take a deduction for depletion. See Pub. 535 for details.

Line 22

At-Risk Rules

Generally, you must complete **Form 6198** to figure your allowable loss if you have:

- A loss from an activity carried on as a trade or business or for the production of income **and**

- Amounts in the activity for which you are not at risk.

The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the activity. However, the at-risk rules do not apply to losses from an activity of holding real property, if you acquired your interest in the activity before 1987 and the property was placed in service before 1987. The activity of holding mineral property does not qualify for this exception.

In most cases, you are **not** at risk for amounts such as the following.

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity that are not secured by your own property (other than property used in the activity). However, there is an exception for certain nonrecourse financing borrowed by you in connection with holding real property. See **Qualified nonrecourse financing** below.

- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the activity from a person who has an interest in the activity (other than as a creditor) or who is related, under Internal Revenue Code section 465(b)(3), to a person (other than you) having such an interest.

Qualified nonrecourse financing is treated as an amount at risk if it is secured by real property used in an activity of holding real property that is subject to the at-risk rules. Qualified nonrecourse financing is financing for which no one is personally liable for repayment and is:

- Borrowed by you in connection with holding real property,

- Not convertible from a debt obligation to an ownership interest, **and**

- Loaned or guaranteed by any Federal, state, or local government, or borrowed by you from a **qualified person**.

A **qualified person** is a person who actively and regularly engages in the business of lending money, such as a bank or savings and loan association. A qualified person **cannot** be:

- Related to you (unless the nonrecourse financing obtained is commercially reasonable and on the same terms as loans involving unrelated persons),

- The seller of the property (or a person related to the seller), or

- A person who receives a fee due to your investment in real property (or a person related to that person).

If you have amounts for which you are not at risk, use Form 6198 to determine the amount of your deductible loss. Enter that amount in the appropriate column of Schedule E, line 22. In the space to the left of line 22, write "Form 6198." Attach Form 6198 to your return.

Line 23

Do not complete line 23 if the amount on line 22 is from royalty properties.

If you have a rental real estate loss from a passive activity (defined on page E-4), the amount of loss you can deduct may be limited by the passive activity loss rules. You may need to complete **Form 8582** to figure the amount of loss, if any, to enter on line 23.

If your rental real estate loss is not from a passive activity **or** you meet the following exception, you do not have to complete Form 8582. Enter the loss from line 22 on line 23.

Exception for Certain Rental Real Estate Activities. If you meet **all three** of the following conditions, your rental real estate losses are not limited by the passive activity loss rules. If you **do not** meet **all three** of these conditions, see the Instructions for Form 8582 to find out if you must complete and attach Form 8582.

1. Rental real estate activities are your only passive activities.

2. You do not have any prior year unallowed losses from any passive activities.

3. All of the following apply if you have an overall net loss from these activities:

- You actively participated (defined below) in all of the rental real estate activities;
- If married filing separately, you lived apart from your spouse all year;
- Your overall net loss from these activities is \$25,000 or less (\$12,500 or less if married filing separately);
- You have no current or prior year unallowed credits from passive activities; **and**
- Your modified adjusted gross income (defined later) is \$100,000 or less (\$50,000 or less if married filing separately).

Active Participation. You can meet the active participation requirement without regular, continuous, and substantial involvement in real estate activities. But you must have participated in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Such management decisions include:

- Approving new tenants,
- Deciding on rental terms,
- Approving capital or repair expenditures, and
- Other similar decisions.

You are not considered to actively participate if, at any time during the tax year, your interest (including your spouse's interest) in the activity was less than 10% by value of all interests in the activity.

Modified Adjusted Gross Income. This is your adjusted gross income from Form 1040, line 33, without taking into account:

- Any passive activity loss,
- Rental real estate losses allowed under the exception for real estate professionals (explained on this page),
- Taxable social security or equivalent railroad retirement benefits,
- Deductible contributions to a traditional IRA or certain other qualified retirement plans under Internal Revenue Code section 219,
- The student loan interest deduction,
- The deduction for one-half of self-employment tax, and
- The exclusion of amounts received under an employer's adoption assistance program.

However, if you file **Form 8815**, include in your modified adjusted gross income the savings bond interest excluded on line 14 of that form.

Passive Activity Loss Rules

The passive activity loss rules may limit the amount of losses you can deduct. These rules apply to losses in Parts I, II, and III, and line 39 of Schedule E.

Losses from passive activities may be subject first to the at-risk rules. Losses deductible under the at-risk rules are then subject to the passive activity loss rules.

You generally can deduct losses from passive activities only to the extent of income from passive activities. An exception applies to certain rental real estate activities (as previously explained).

Passive Activity. A passive activity is any business activity in which you **do not** materially participate and any rental activity, except as provided on this page. If you are a limited partner, you generally are not treated as having materially participated in the partnership's activities for the year.

The rental of real or personal property is generally a rental activity under the passive activity loss rules, but exceptions apply. If your rental of property is not treated as a rental activity, you must determine whether it is a trade or business activity, and if so, whether you materially participated in the activity for the tax year.

See the Instructions for Form 8582 to determine whether you materially participated in the activity and for the definition of "rental activity."

See **Pub. 925** for special rules that apply to rentals of:

- Substantially nondepreciable property,
- Property incidental to development activities, and
- Property to activities in which you materially participate.

Exception for Real Estate Professionals. If you were a real estate professional in 2001, any rental real estate activity in which you materially participated is not a passive activity. You were a **real estate professional** only if you met **both** of the following conditions.

1. More than half of the personal services you performed in trades or businesses were performed in real property trades or businesses in which you materially participated.

2. You performed more than 750 hours of services in real property trades or businesses in which you materially participated.

For purposes of this rule, each interest in rental real estate is a separate activity, unless you elect to treat all your interests in rental real estate as one activity. To make this election, attach a statement to your original tax return that declares you are a qualifying taxpayer for the year and you are making the election under Internal Revenue Code section 469(c)(7)(A). The election applies

for the year made and all later years in which you are a real estate professional. You may revoke the election only if your facts and circumstances materially change.

If you are married filing jointly, either you or your spouse must separately meet both of the above conditions, without taking into account services performed by the other spouse.

A real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Services you performed as an employee are not treated as performed in a real property trade or business unless you owned more than 5% of the stock (or more than 5% of the capital or profits interest) in the employer.

If you were a real estate professional for 2001, complete line 42 on page 2 of Schedule E.

Other Exceptions. The rental of your home that you also used for personal purposes is not a passive activity. See the instructions for line 2.

A working interest in an oil or gas well that you held directly or through an entity that did not limit your liability is not a passive activity even if you do not materially participate.

Royalty income not derived in the ordinary course of a trade or business reported on Schedule E generally is not considered income from a passive activity.

For details on passive activities, see the Instructions for Form 8582 and Pub. 925.

Parts II and III

If you need more space in Part II or III to list your income or losses, attach a continuation sheet using the same format as shown in Part II or III. However, be sure to complete the "Totals" columns for lines 28a and 28b, or lines 33a and 33b, as appropriate. If you also completed Part I on more than one Schedule E, use the same Schedule E on which you entered the combined totals in Part I.

Tax Shelter Registration Number. Complete and attach **Form 8271** if you are reporting any deduction, loss, credit, other tax benefit, or income from an interest purchased or otherwise acquired in a tax shelter.

Form 8271 is used to report the name, tax shelter registration number, and identifying number of the tax shelter. There is a \$250 penalty if you do not report the registration number of the tax shelter on your tax return.

Tax Preference Items. If you are a partner, a shareholder in an S corporation, or a beneficiary of an estate or trust, you must take into account your share of preferences and adjustments from these entities for the alternative minimum tax on **Form 6251** or Schedule I of **Form 1041**.

Part II

Income or Loss From Partnerships and S Corporations

If you are a member of a partnership or joint venture or a shareholder in an S corporation, use Part II to report your share of the partnership or S corporation income (even if not received) or loss.

You should receive a **Schedule K-1** from the partnership or S corporation. You should also receive a copy of the Partner's or Shareholder's Instructions for Schedule K-1. Your copy of Schedule K-1 and its instructions will tell you where on your return to report your share of the items. If you did not receive these instructions with your Schedule K-1, see page 7 of the Form 1040 instructions for how to get a copy. **Do not** attach Schedules K-1 to your return. Keep them for your records.

If you are treating items on your tax return differently from the way the partnership (other than an electing large partnership) or S corporation reported them on its return, you may have to file **Form 8082**. If you are a partner in an electing large partnership, you must report the items shown on Schedule K-1 (Form 1065-B) on your tax return the same way that the partnership reported the items on Schedule K-1.

Special Rules That Limit Losses. Please note the following.

- If you have a current year loss, or a prior year unallowed loss, from a partnership or an S corporation, see **At-Risk Rules** and **Passive Activity Loss Rules** on pages E-3 and E-4.

Partners and S corporation shareholders should get a separate statement of income, expenses, deductions, and credits for each activity engaged in by the partnership and S corporation. If you are subject to the at-risk rules for any activity, use Form 6198 to figure the amount of any deductible loss. If the activity is nonpassive, enter any deductible loss from Form 6198 on the appropriate line in Part II, column (i), of Schedule E.

- If you have a passive activity loss, you generally need to complete Form 8582 to figure the amount of the allowable loss to enter in Part II, column (g), for that activity. But if you are a **general** partner or an S

corporation shareholder reporting your share of a partnership or an S corporation loss from a rental real estate activity **and** you meet **all three** of the conditions listed in the instructions for line 23, you do not have to complete Form 8582. Instead, enter your allowable loss in Part II, column (g).

If you have passive activity income, complete Part II, column (h), for that activity.

If you have nonpassive income or losses, complete Part II, columns (i) through (k), as appropriate.

Partnerships

See the Schedule K-1 instructions before entering on your return other partnership items from a passive activity or income or loss from any publicly traded partnership.

If you have other partnership items, such as depletion, from a nonpassive activity, show each item on a separate line in Part II. You may deduct unreimbursed ordinary and necessary expenses you paid on behalf of the partnership if you were required to pay these expenses under the partnership agreement. Enter deductible **unreimbursed partnership expenses** from nonpassive activities on a separate line in Part II, column (i). However, enter on Schedule A any unreimbursed partnership expenses deductible as itemized deductions.

Report allowable interest expense paid or incurred from debt-financed acquisitions in Part II or on Schedule A depending on the type of expenditure to which the interest is allocated. See Pub. 535 for details.

If you claimed a credit for Federal tax on gasoline or other fuels on your 2000 Form 1040 based on information received from the partnership, enter as income in column (h) or column (k), whichever applies, the amount of the credit claimed for 2000.

If you have losses or deductions from a prior year that you could not deduct because of the at-risk or basis rules, and the amounts are now deductible, **do not** combine the prior year amounts with any current year amounts to arrive at a net figure to report on Schedule E. Instead, report the prior year amounts and the current year amounts on separate lines of Schedule E.

Part or all of your share of partnership income or loss from the operation of the business may be considered net earnings from self-employment that must be reported on **Schedule SE**. Enter the amount from Schedule K-1 (Form 1065), line 15a (or from Schedule K-1 (Form 1065-B), box 9 (code **K-1**)), on Schedule SE, after you reduce this amount by any allowable expenses attributable to that income.

Foreign Partnerships. If you are a U.S. person, you may have to file **Form 8865** if any of the following applies:

- You controlled a foreign partnership (that is, you owned more than a 50% direct or indirect interest in the partnership).

- You owned at least a 10% direct or indirect interest in a foreign partnership while U.S. persons controlled that partnership.

- You had an acquisition, disposition, or change in proportional interest of a foreign partnership that:

1. Increased your direct interest to at least 10% or reduced your direct interest of at least 10% to less than 10% or

2. Changed your direct interest by at least a 10% interest.

- You contributed property to a foreign partnership in exchange for a partnership interest if:

1. Immediately after the contribution, you owned, directly or indirectly, at least a 10% interest in the partnership or

2. The fair market value of the property you contributed to the partnership in exchange for a partnership interest, when added to other contributions of property you made to the partnership during the preceding 12-month period, exceeds \$100,000.

Also, you may have to file Form 8865 to report certain dispositions by a foreign partnership of property you previously contributed to that partnership if you were a partner at the time of the disposition.

For more details, including penalties for failing to file Form 8865, see Form 8865 and its separate instructions.

S Corporations

If you are a shareholder in an S corporation, your share of the corporation's aggregate losses and deductions (combined income, losses, and deductions) is limited to the adjusted basis of your corporate stock and any debt the corporation owes you. Any loss or deduction not allowed this year because of the basis limitation may be carried forward and deducted in a later year subject to the basis limitation for that year.

If you are claiming a deduction for your share of an aggregate loss, attach to your return a computation of the adjusted basis of your corporate stock and of any debt the corporation owes you. See the Schedule K-1 instructions for details.

After applying the basis limitation, the deductible amount of your aggregate losses and deductions may be further reduced by the at-risk rules and the passive activity loss rules explained earlier.

If you have losses or deductions from a prior year that you could not deduct because of the basis or at-risk limitations, and the amounts are now deductible, **do not** combine the prior year amounts with any current year amounts to arrive at a net figure to report on Schedule E. Instead, report the

prior year amounts and the current year amounts on separate lines of Schedule E.

Distributions of prior year accumulated earnings and profits of S corporations are dividends and are reported on Form 1040, line 9.

Interest expense relating to the acquisition of shares in an S corporation may be fully deductible on Schedule E. For details, see Pub. 535.

Your share of the net income of an S corporation is **not** subject to self-employment tax.

Part III

Income or Loss From Estates and Trusts

If you are a beneficiary of an estate or trust, use Part III to report your part of the income (even if not received) or loss. You should receive a **Schedule K-1** (Form 1041) from the fiduciary. Your copy of Schedule K-1 and its instructions will tell you where on your return to report the items from Schedule K-1. **Do not** attach Schedule K-1 to your return. Keep it for your records.

If you are treating items on your tax return differently from the way the estate or trust reported them on its return, you may have to file Form 8082.

If you have estimated taxes credited to you from a trust (Schedule K-1, line 14a), write "ES payment claimed" and the amount on the dotted line next to line 36. **Do not** include this amount in the total on line 36. Instead, enter the amount on Form 1040, line 60.

A U.S. person who transferred property to a foreign trust may have to report the income received by the trust as a result of the transferred property if, during 2001, the trust had a U.S. beneficiary. For details, see **Form 3520**.

Part IV

Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)

If you are the holder of a residual interest in a real estate mortgage investment conduit (REMIC), use Part IV to report your total share of the REMIC's taxable income or loss for each quarter included in your tax year. You should receive **Schedule Q** (Form 1066) and instructions from the REMIC for each quarter. **Do not** attach Schedules Q to your return. Keep them for your records.

If you are treating REMIC items on your tax return differently from the way the REMIC reported them on its return, you may have to file Form 8082.

If you are the holder of a residual interest in more than one REMIC, attach a continuation sheet using the same format as in Part IV. Enter the totals of columns (d) and (e) on line 38 of Schedule E. If you also completed Part I on more than one Schedule E, use the same Schedule E on which you entered the combined totals in Part I.

REMIC income or loss is not income or loss from a passive activity.

Note. If you are the holder of a regular interest in a REMIC, **do not** use Schedule E to report the income you received. Instead, report it on Form 1040, line 8a.

Column (c). Report the total of the amounts shown on Schedule(s) Q, line 2c. This is the **smallest** amount you are allowed to report as your taxable income (Form 1040, line 39). It is also the **smallest** amount you are allowed to report as your alternative minimum taxable income (AMTI) (Form 6251, line 21).

If the amount in column (c) is larger than your taxable income would otherwise be, enter the amount from column (c) on Form 1040, line 39. Similarly, if the amount in column (c) is larger than your AMTI would otherwise be, enter the amount from column (c) on Form 6251, line 21. Write "Sch. Q" on the dotted line to the left of this amount on Form 1040 or 6251.

Note. These rules also apply to estates and trusts that hold a residual interest in a REMIC. Be sure to make the appropriate entries on the comparable lines on Form 1041.



Do not include the amount shown in column (c) in the total on line 38 of Schedule E.

Column (e). Report the total of the amounts shown on Schedule(s) Q, line 3b. If you itemize your deductions on Schedule A, include this amount on line 22.

Part V

Summary

Line 41

You will not be charged a penalty for underpayment of estimated tax if:

1. Your gross farming or fishing income for 2000 or 2001 is at least two-thirds of your gross income and
 2. You file your 2001 tax return and pay the tax due by March 1, 2002.
-

2001 Instructions for Schedule F, Profit or Loss From Farming

Use Schedule F (Form 1040) to report farm income and expenses. File it with Form 1040, 1041, 1065, or 1065-B.

This activity may subject you to state and local taxes and other requirements such as business licenses and fees. Check with your state and local governments for more information.

Additional Information. **Pub. 225** has samples of filled-in forms and schedules, and lists important dates that apply to farmers.

General Instructions

Other Schedules and Forms You May Have To File

Schedule E to report rental income from pastureland that is based on a flat charge. Report this income in Part I of Schedule E. But report on line 10 of Schedule F pasture income received from taking care of someone else's livestock.

Schedule J to figure your tax by averaging your farm income over the previous 3 years. Doing so may reduce your tax.

Schedule SE to pay self-employment tax on income from any trade or business, including farming.

Form 4562 to claim depreciation on assets placed in service in 2001, to claim amortization that began in 2001, or to report information on vehicles and other listed property.

Form 4684 to report a casualty or theft gain or loss involving farm business property including livestock held for draft, breeding, sport, or dairy purposes.

See Pub. 225 for more information on how to report various farm losses, such as losses due to death of livestock or damage to crops or other farm property.

Form 4797 to report sales, exchanges, or involuntary conversions (other than from a casualty or theft) of certain farm property. Also use this form to report sales of livestock held for draft, breeding, sport, or dairy purposes.

Form 4835 to report rental income based on farm production or crop shares if you did not materially participate (for self-employment tax purposes) in the management or operation of the farm. This income is not subject to self-employment tax. See Pub. 225.

Form 8824 to report like-kind exchanges.

Heavy Highway Vehicle Use Tax

If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a Federal highway motor vehicle use tax. See **Form 2290** to find out if you owe this tax.

Information Returns

You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other similar basis for resale. For more information, see the 2001 General Instructions for Forms 1099, 1098, 5498, and W-2G.

If you received cash of more than \$10,000 in one or more related transactions in your farming business, you may have to file **Form 8300**. For details, see **Pub. 1544**.

Estimated Tax

If you had to make estimated tax payments in 2001 and you underpaid your estimated tax, you will not be charged a penalty if **both** of the following apply.

1. Your gross farming or fishing income for 2000 or 2001 is at least two-thirds of your gross income.
2. You file your 2001 tax return and pay the tax due by March 1, 2002.

For details, see Pub. 225.

Specific Instructions

Filers of Forms 1041, 1065, and 1065-B

Do not complete the block labeled "Social security number (SSN)." Instead, enter your employer identification number (EIN) on line D.

Lines A and B

On line A, enter your principal crop or activity for the current year.

On line B, enter one of the 14 principal agricultural activity codes listed in Part IV on page 2 of Schedule F. Select the code that best describes the source of most of your income.

Line C

If you use the **cash method**, check the box labeled "Cash." Generally, report income in the year in which you actually or constructively received it and deduct expenses in the year you paid them. Complete Parts I and II of Schedule F.

If you use the **accrual method**, check the box labeled "Accrual." Generally, report income in the year in which you earned it and deduct expenses in the year you incurred them, even if you did not pay them in that year. Complete Parts II, III, and line 11 of Schedule F.

Other rules apply that determine the timing of deductions based on economic performance. See **Pub. 538** for details.

Farming syndicates cannot use the cash method of accounting. A farming syndicate may be a partnership, any other noncorporate group, or an S corporation if:

- The interests in the business have ever been for sale in a way that would require registration with any Federal or state agency or
- More than 35% of the loss during any tax year is shared by limited partners or limited entrepreneurs. A **limited partner** is one who can lose only the amount invested or required to be invested in the partnership. A **limited entrepreneur** is a person who does not take any active part in managing the business.

Line D

You need an employer identification number (EIN) only if you had a qualified retirement plan or were required to file an employment, excise, estate, trust, partnership, or alcohol, tobacco, and firearms tax return. If you need an EIN, file **Form SS-4**. If you do not have an EIN, leave line D blank. **Do not** enter your SSN.

Line E

Material Participation. For the definition of material participation for purposes of the passive activity rules, see the instructions for Schedule C, line G, on page C-2. If you meet any of the material participation tests described in those instructions, check the "Yes" box.

If you are a retired or disabled farmer, you are treated as materially participating in a farming business if you materially participated 5 of the 8 years preceding your retirement or disability. Also, a surviving spouse is treated as materially participating in a farming activity if the real property used for farming meets the estate tax rules for special valuation of farm property passed from a qualifying decedent, and the surviving spouse actively manages the farm.

Check the "No" box if you did not materially participate. If you checked "No" and you have a loss from this business, see **Limit on Losses** below. If you have a profit from this business activity but have current year losses from other passive activities or prior year unallowed passive activity losses, see the Instructions for Form 8582.

Limit on Losses. If you checked the "No" box on line E and you have a loss from this business, you may have to use Form 8582 to figure your allowable loss, if any, to enter on Schedule F, line 36. Generally, you can deduct losses from passive activities only to the extent of income from passive activities. For details, see **Pub. 925**.

Part I. Farm Income—Cash Method

In Part I, show income received for items listed on lines 1 through 10. Generally, count both the cash actually or constructively received and the fair market value of goods or other property received for these items. Income is constructively received when it is credited to your account or set aside for you to use. However, farm production flexibility contract payments received under the Federal Agriculture Improvement

and Reform Act of 1996 are required to be included in income only in the year of actual receipt.

If you ran the farm yourself and received rents based on crop shares or farm production, report these rents as income on line 4.

Sales of Livestock Because of Weather-Related Conditions

If you sold livestock because of drought, flood, or other weather-related conditions, you can elect to report the income from the sale in the year after the year of sale if **all** three of the following apply.

1. Your main business is farming.
 2. You can show that you sold the livestock only because of weather-related conditions.
 3. Your area qualified for Federal aid.
-

Forms 1099 or CCC-1099-G

If you received Forms 1099 or CCC-1099-G showing amounts paid to you, first determine if the amounts are to be included with farm income. Then, use the following chart to determine where to report the income on Schedule F. Include the Form 1099 or CCC-1099-G amounts in the total amount reported on that line.

Form	Where to report
1099-PATR	Line 5a
1099-A	Line 7b
1099-MISC (for crop insurance) . . .	Line 8a
1099-G or CCC-1099-G (for disaster payments) .	Line 8a
1099-G or CCC-1099-G (for other agricultural program payments) . . .	Line 6a

You may also receive **Form 1099-MISC** for other types of income. In this case, report it on whichever line best describes the income. For example, if you received a Form 1099-MISC for custom farming work, include this amount on line 9, "Custom hire (machine work) income."

Lines 1 and 2

On line 1, show amounts received from sales of livestock and other items bought for resale. On line 2, show the cost or other basis of the livestock and other items you actually sold.

Line 4

Show amounts received from sales of livestock, produce, grains, and other products you raised.

Lines 5a and 5b

If you received distributions from a cooperative in 2001, you should receive **Form 1099-PATR**. On line 5a, show your total distributions from cooperatives. This includes patronage dividends, nonpatronage distributions, per-unit retain allocations, and redemption of nonqualified notices and per-unit retain allocations.

Show patronage dividends (distributions) received in cash, and the dollar amount of qualified written notices of allocation. If you received property as patronage dividends, report the fair market value of the property as income. Include cash advances received from a marketing cooperative. If you received per-unit retains in cash, show the amount of cash. If you received qualified per-unit retain certificates, show the stated dollar amount of the certificate.

Do not include as income on line 5b patronage dividends from buying personal or family items, capital assets, or depreciable assets. Enter these amounts on line 5a only. If you do not report patronage dividends from these items as income, you must subtract the amount of the dividend from the cost or other basis of these items.

Lines 6a and 6b

Enter on line 6a the **total** of the following amounts.

- Price support payments.
- Market gain from the repayment of a secured Commodity Credit Corporation (CCC) loan for less than the original loan amount.
- Diversion payments.
- Cost-share payments (sight drafts).
- Payments in the form of materials (such as fertilizer or lime) or services (such as grading or building dams).

These amounts are government payments you received, usually reported to you on **Form 1099-G**. You may also receive **Form CCC-1099-G** from the Department of Ag-

riculture showing the amounts and types of payments made to you.

On line 6b, report only the taxable amount. For example, do not report the market gain shown on Form CCC-1099-G on line 6b if you elected to report CCC loan proceeds as income in the year received (see **Lines 7a Through 7c** below). No gain results from redemption of the commodity because you previously reported the CCC loan proceeds as income. You are treated as repurchasing the commodity for the amount of the loan repayment. However, if you did not report the CCC loan proceeds under the election, you must report the market gain on line 6b.

Lines 7a Through 7c

Commodity Credit Corporation Loans. Generally, you do not report CCC loan proceeds as income. However, if you pledge part or all of your production to secure a CCC loan, you may elect to report the loan proceeds as income in the year you receive them, instead of the year you sell the crop. If you make this election (or made the election in a prior year), report loan proceeds you received in 2001 on line 7a. Attach a statement to your return showing the details of the loan(s).

Forfeited CCC Loans. Include the full amount forfeited on line 7b, even if you reported the loan proceeds as income.

If you **did not** elect to report the loan proceeds as income, also include the forfeited amount on line 7c.

If you did elect to report the loan proceeds as income, you generally will not have an entry on line 7c. But if the amount forfeited is different from your basis in the commodity, you may have an entry on line 7c.

See **Pub. 225** for details on the tax consequences of electing to report CCC loan proceeds as income or forfeiting CCC loans.

Lines 8a Through 8d

In general, you must report crop insurance proceeds in the year you receive them. Federal crop disaster payments are treated as crop insurance proceeds. However, if 2001 was the year of damage, you may elect to include certain proceeds in income for 2002. To make this election, check the box on line 8c and attach a statement to your return. See **Pub. 225** for a description of the proceeds for which an election may be made and for what you must include in your statement.

Generally, if you elect to defer any eligible crop insurance proceeds, you must defer all such crop insurance proceeds (including Federal disaster payments).

Enter on line 8a the **total** crop insurance proceeds you received in 2001, even if you elect to include them in income for 2002.

Enter on line 8b the taxable amount of the proceeds you received in 2001. Do not include proceeds you elect to include in income for 2002.

Enter on line 8d the amount, if any, of crop insurance proceeds you received in 2000 and elected to include in income for 2001.

Line 10

Use this line to report income not shown on lines 1 through 9, such as the following.

- Illegal Federal irrigation subsidies. See **Pub. 225**.

- Bartering income.

- Income from discharge of indebtedness. Generally, if a debt is canceled or forgiven, you must include the canceled amount in income. If a Federal agency, financial institution, or credit union canceled or forgave a debt you owed of \$600 or more, it should send you a **Form 1099-C**, or similar statement, by January 31, 2002, showing the amount of debt canceled in 2001. However, certain solvent farmers may exclude discharged qualified farm indebtedness from income. To find out if you must include any discharge of indebtedness in income, see **Pub. 225**.

- State gasoline or fuel tax refund you received in 2001.

- The amount of credit for Federal tax paid on fuels claimed on your 2000 Form 1040.

- The amount of credit for alcohol used as a fuel that was entered on **Form 6478**.

- Any recapture of excess depreciation, including any section 179 expense deduction, if the business use percentage of any listed property decreased to 50% or less in 2001. Use **Form 4797** to figure the recapture. See the instructions for Schedule C, line 13, on page C-3 for the definition of listed property.

- The inclusion amount on leased listed property (other than vehicles) when the business use percentage drops to 50% or less. See **Pub. 946** to figure the amount.

- Any recapture of the deduction for clean-fuel vehicles used in your business and clean-fuel vehicle refueling property. For details on how to figure recapture, see **Pub. 535**.

- The gain or loss on the sale of commodity futures contracts if the contracts were made to protect you from price changes. These are a form of business insurance and are considered hedges. If you had a loss in a closed futures contract, enclose it in parentheses.



For property acquired and hedging positions established, you must clearly identify on your books and records both the hedging transaction and the item(s) or aggregate risk that is being hedged.

Purchase or sales contracts are not true hedges if they offset losses that already occurred. If you bought or sold commodity futures with the hope of making a profit due to favorable price changes, report the profit or loss on **Form 6781** instead of this line.

Part II. Farm Expenses

Do not deduct the following.

- Personal or living expenses (such as taxes, insurance, or repairs on your home) that do not produce farm income.

- Expenses of raising anything you or your family used.

- The value of animals you raised that died.

- Inventory losses.

- Personal losses.

If you were repaid for any part of an expense, you must subtract the amount you were repaid from the deduction.

Capitalizing Costs of Property. If you produced real or tangible personal property or acquired property for resale, certain expenses must be included in inventory costs or capitalized. These expenses include the direct costs of the property and the share of any indirect costs allocable to that property. However, these rules generally do not apply to:

1. Expenses of producing any plant that has a preproductive period of 2 years or less,

2. Expenses of raising animals, or

3. Expenses of replanting certain crops if they were lost or damaged by reason of freezing temperatures, disease, drought, pests, or casualty.

Note. Exceptions 1 and 2 above do not apply to tax shelters, farm syndicates, or partnerships required to use the accrual method of accounting under Internal Revenue Code section 447 or 448.

But you may be able to deduct rather than capitalize the expenses of producing a plant with a preproductive period of more than 2 years. See **Election To Deduct Certain Preproductive Period Expenses** on page F-4.

Do not reduce your deductions on lines 12 through 34e by the preproductive period expenses you are required to capitalize. Instead, enter the total amount capitalized in parentheses on line 34f. See **Preproductive Period Expenses** on page F-6 for details.

If you revoked an election made before 1989 to deduct preproductive period expenses for animals, you must continue to apply the alternative depreciation rules to property placed in service while your election was in effect. Also, the expenses you previously chose to deduct will have to be recaptured as ordinary income when you dispose of the animals.

Election To Deduct Certain Preproductive Period Expenses. If the preproductive period of any plant you produce is more than 2 years, you may choose to currently deduct the expenses rather than capitalize them. But you may not make this election for the costs of planting or growing citrus or almond groves that are incurred before the end of the 4th tax year beginning with the tax year you planted them in their permanent grove. By deducting the preproductive period expenses for which you may make this election, you are treated as having made the election.

Note. In the case of a partnership or S corporation, the election must be made by the partner or shareholder. This election may not be made by tax shelters, farm syndicates, or partners in partnerships required to use the accrual method of accounting under Internal Revenue Code section 447 or 448.

If you make the election to deduct preproductive expenses for plants, any gain you realize when disposing of the plants is ordinary income up to the amount of the preproductive expenses you deducted. Also, the alternative depreciation rules apply to property placed in service in any tax year your election is in effect. Unless you obtain IRS consent, you must make this election for the first tax year in which you engage in a farming business involving the production of property subject to the capitalization rules. You may not revoke this election without IRS consent.

For details, see **Pub. 225**.

Prepaid Farm Supplies. Generally, if you use the cash method of accounting and your prepaid farm supplies are more than 50% of your other deductible farm expenses, your deduction for those supplies may be limited. Prepaid farm supplies include expenses for feed, seed, fertilizer, and similar farm supplies not used or consumed during the year. They also include the cost of poultry that would be allowable as a deduction in a later tax year if you were to (a) capitalize the cost of poultry bought for use in your farm busi-

ness and deduct it ratably over the lesser of 12 months or the useful life of the poultry and (b) deduct the cost of poultry bought for resale in the year you sell or otherwise dispose of it.

If the limit applies, you can deduct prepaid farm supplies that do not exceed 50% of your other deductible farm expenses in the year of payment. You can deduct the excess only in the year you use or consume the supplies (other than poultry, which is deductible as explained above). For details and exceptions to these rules, see Pub. 225.

Line 12

You can deduct the actual expenses of running your car or truck or take the standard mileage rate. You **must** use actual expenses if you used your vehicle for hire or you used more than one vehicle simultaneously in your business (such as in fleet operations). You cannot use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

You can take the standard mileage rate for 2001 **only** if:

- You owned the vehicle and use the standard mileage rate for the first year you placed the vehicle in service or
- You leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

If you deduct actual expenses:

- Include on line 12 the business portion of expenses for gasoline, oil, repairs, insurance, tires, license plates, etc., and
- Show depreciation on line 16 and rent or lease payments on line 26a.

If you take the standard mileage rate, multiply the number of business miles by 34.5 cents. Add to this amount your parking fees and tolls, and enter the total on line 12. **Do not** deduct depreciation, rent or lease payments, or your actual operating expenses.

If you claim any car or truck expenses (actual or the standard mileage rate), you must provide the information requested in Part V of **Form 4562**. Be sure to attach Form 4562 to your return.

For details, see **Pub. 463**.

Line 14

Deductible soil and water conservation expenses generally are those that are paid to conserve soil and water or to prevent erosion of land used for farming. These expenses include (but are not limited to) the cost of leveling, grading and terracing, contour furrowing, the construction, control, and protection of diversion channels, drainage ditches, earthen dams, watercourses, outlets

and ponds, the eradication of brush, and the planting of windbreaks.

These expenses can be deducted only if they are consistent with a conservation plan approved by the Natural Resources Conservation Service (NRCS) of the Department of Agriculture for the area in which your land is located. If no plan exists, the expenses must be consistent with a plan of a comparable state agency. You cannot deduct the expenses if they were paid or incurred for land used in farming in a foreign country.

Do not deduct expenses you paid or incurred to drain or fill wetlands, to prepare land for center pivot irrigation systems, or to clear land.

Your deduction may not exceed 25% of your gross income from farming (excluding certain gains from selling assets such as farm machinery and land). If your conservation expenses are more than the limit, the excess may be carried forward and deducted in later tax years. However, the amount deductible for any 1 year may not exceed the 25% gross income limit for that year.

For details, see **Pub. 225**.

Line 15

Enter amounts paid for custom hire or machine work (the machine operator furnished the equipment).

Do not include amounts paid for rental or lease of equipment that you operated yourself. Instead, report those amounts on line 26a.

Line 16

You can deduct depreciation of buildings, improvements, cars and trucks, machinery, and other farm equipment of a permanent nature.

Do not deduct depreciation on your home, furniture or other personal items, land, livestock you bought or raised for resale, or other property in your inventory.

You may also elect under Internal Revenue Code section 179 to expense a portion of the cost of certain tangible property you bought in 2001 for use in your business.

For details, including when you must complete and attach **Form 4562**, see the instructions for Schedule C, line 13, on page C-3.

Line 17

Deduct contributions to employee benefit programs that are not an incidental part of a pension or profit-sharing plan included on line 25. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs.

Do not include on line 17 any contributions you made on your behalf as a self-employed person to an accident and health plan or for group-term life insurance. You may be able to deduct on Form 1040, line 28, part of the amount you paid for health insurance on behalf of yourself, your spouse, and dependents even if you do not itemize your deductions. See the instructions for Form 1040, line 28, for details.

Line 18

Generally, you cannot currently deduct expenses for feed to be consumed by your livestock in a later tax year. See **Prepaid Farm Supplies** on page F-4.

Line 20

Do not include the cost of transportation incurred in purchasing livestock held for resale as freight paid. Instead, add these costs to the cost of the livestock, and deduct them when the livestock is sold.

Line 22

Deduct on this line premiums paid for farm business insurance. Deduct on line 17 amounts paid for employee accident and health insurance. Amounts credited to a reserve for self-insurance or premiums paid for a policy that pays for your lost earnings due to sickness or disability are not deductible.

Lines 23a and 23b

Interest Allocation Rules. The tax treatment of interest expense differs depending on its type. For example, home mortgage interest and investment interest are treated differently. "Interest allocation" rules require you to allocate (classify) your interest expense so it is deducted on the correct line of your return and receives the right tax treatment. These rules could affect how much interest you are allowed to deduct on Schedule F.

Generally, you allocate interest expense by tracing how the proceeds of the loan are used. See **Pub. 535** for details.

If you paid interest on a debt secured by your main home and any of the proceeds

from that debt were used in your farming business, see Pub. 535 to figure the amount to include on lines 23a and 23b.

How To Report. If you have a mortgage on real property used in your farming business (other than your main home), enter on line 23a the interest you paid for 2001 to banks or other financial institutions for which you received a **Form 1098** (or similar statements). If you did not receive a Form 1098, enter the interest on line 23b.

If you paid more mortgage interest than is shown on Form 1098, see Pub. 535 to find out if you can deduct the additional interest. If you can, include the amount on line 23a. Attach a statement to your return explaining the difference and enter "See attached" in the margin next to line 23a.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, include your share of the interest on line 23b. Attach a statement to your return showing the name and address of the person who received the Form 1098. In the margin next to line 23b, enter "See attached."

Do not deduct interest you prepaid in 2001 for later years; include only the part that applies to 2001.

Line 24

Enter the amounts you paid for farm labor. Do not include amounts paid to yourself. Reduce your deduction by the current year credits claimed on:

- **Form 5884**, Work Opportunity Credit,
- **Form 8844**, Empowerment Zone Employment Credit,
- **Form 8845**, Indian Employment Credit, and
- **Form 8861**, Welfare-to-Work Credit.

Count the cost of boarding farm labor but not the value of any products they used from the farm. Count only what you paid household help to care for farm laborers.



If you provided taxable fringe benefits to your employees, such as personal use of a car, do not include in farm labor the amounts you depreciated or deducted elsewhere.

Line 25

Enter your deduction for contributions to employee pension, profit-sharing, or annuity plans. If the plan included you as a self-employed person, see the instructions for Schedule C, line 19, on page C-4.

Lines 26a and 26b

If you rented or leased vehicles, machinery, or equipment, enter on line 26a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you may have to reduce your deduction by an **inclusion amount**. For details, see the instructions for Schedule C, lines 20a and 20b, on page C-4.

Enter on line 26b amounts paid to rent or lease other property such as pasture or farm land.

Line 27

Enter amounts you paid for repairs and maintenance of farm buildings, machinery, and equipment. You can also include what you paid for tools of short life or minimal cost, such as shovels and rakes.

Do not deduct repairs or maintenance on your home.

Line 31

You can deduct the following taxes on this line.

- Real estate and personal property taxes on farm business assets.
- Social security and Medicare taxes you paid to match what you are required to withhold from farm employees' wages and any Federal unemployment tax paid.
- Federal highway use tax.

Do not deduct the following taxes on this line.

- Federal income taxes, including your self-employment tax. However, you may deduct one-half of your self-employment tax on Form 1040, line 27.
- Estate and gift taxes.
- Taxes assessed for improvements, such as paving and sewers.
- Taxes on your home or personal use property.
- State and local sales taxes on property purchased for use in your farm business. Instead, treat these taxes as part of the cost of the property.
- Other taxes not related to your farm business.

Line 32

Enter amounts you paid for gas, electricity, water, etc., for business use on the farm. Do not include personal utilities. You cannot deduct the base rate (including taxes) of the first telephone line into your residence, even if you use it for business. See the instructions for Schedule C, line 25, on page C-5.

Lines 34a Through 34f

Include all ordinary and necessary farm expenses not deducted elsewhere on Schedule F, such as advertising, office supplies, etc. **Do not** include fines or penalties paid to a government for violating any law.

Amortization. You can amortize qualifying reforestation and reforestation costs over 84 months. You can also amortize certain business startup costs over a period of at least 60 months. For details, see **Pub. 535**. For amortization that begins in 2001, you must complete and attach **Form 4562**.

At-Risk Loss Deduction. Any loss from this activity that was not allowed as a deduction last year because of the at-risk rules is treated as a deduction allocable to this activity in 2001.

Bad Debts. See the instructions for Schedule C, line 9, on page C-3.

Business Use of Your Home. You may be able to deduct certain expenses for business use of your home, subject to limitations. Use the worksheet in **Pub. 587** to figure your allowable deduction. **Do not** use **Form 8829**.

Deduction for Clean-Fuel Vehicles and Clean-Fuel Vehicle Refueling Property. You may deduct part of the cost of qualified clean-fuel vehicle property used in your business and qualified clean-fuel vehicle refueling property. See **Pub. 535** for details.

Legal and Professional Fees. You can deduct on this line fees for tax advice related to your farm business and for preparation of the tax forms related to your farm business.

Travel, Meals, and Entertainment. Generally, you can deduct expenses for farm business travel and 50% of your business meals and entertainment. But there are exceptions and limitations. See the instructions for Schedule C, lines 24a through 24c, on page C-5.

Preproductive Period Expenses. If you had preproductive period expenses in 2001 and you decided to capitalize them, you **must** enter the total of these expenses in parentheses on line 34f and enter "263A" in the space to the left of the total.

If you entered an amount in parentheses on line 34f because you have preproductive period expenses you are capitalizing, subtract the amount on line 34f from the total of lines 12 through 34e. Enter the result on line 35.

For details, see **Capitalizing Costs of Property** on page F-3 and **Pub. 225**.

Line 36

If you have a loss, the amount of loss you can deduct this year may be limited. Go on to line 37 before entering your loss on line 36. If you checked the "No" box on line E on Schedule F, also see the Instructions for Form 8582. Enter the net profit or **deductible** loss here and on Form 1040, line 18, and Schedule SE, line 1. Estates and trusts should enter the net profit or deductible loss here and on **Form 1041**, line 6. Partnerships should stop here and enter the profit or loss on this line and on **Form 1065**, line 5 (or **Form 1065-B**, line 7).

If you have a net profit on line 36, this amount is earned income and may qualify you for the earned income credit if you meet certain conditions. See the instructions for Form 1040, lines 61a and 61b, for details.

Line 37

At-Risk Rules. Generally, if you have (a) a loss from a farming activity and (b) amounts in the activity for which you are **not at risk**, you will have to complete **Form 6198** to figure your allowable loss. The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the activity.

Check **box 37b** if you have amounts for which you are not at risk in this activity, such as the following.

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire the activity that are not secured by your own property (other than property used in the activity). However, there is an exception for certain nonrecourse financing borrowed by you in connection with holding real property.

- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related under Internal Revenue Code section 465(b)(3) to a person (other than you) having such an interest.

If all amounts are at risk in this business, check **box 37a** and enter your loss on line 36. But if you checked the "No" box on line E, you may need to complete **Form 8582** to figure your allowable loss to enter on line 36. See the Instructions for Form 8582.

If you checked **box 37b**, see Form 6198 to determine the amount of your deductible loss and enter that amount on line 36. But

if you checked the "No" box on line E, your loss may be further limited. See the Instructions for Form 8582. If your at-risk amount is zero or less, enter zero on line 36. Be sure to attach Form 6198 to your return. If you checked box 37b and you do not attach Form 6198, the processing of your tax return may be delayed.

Any loss from this activity not allowed for 2001 because of the at-risk rules is treated as a deduction allocable to the activity in 2002.

For details, see **Pub. 925** and the Instructions for Form 6198.

Part III. Farm Income—Accrual Method

If you use the accrual method, report farm income when you earn it, not when you receive it. Generally, you must include animals and crops in your inventory if you use this method. See **Pub. 538** for exceptions, inventory methods, how to change methods of accounting, and for rules that require certain costs to be capitalized or included in inventory.

Line 38

Enter the amount earned from the sale of livestock, produce, grains, and other products you raised.

Lines 39a Through 41c

See the instructions for lines 5a through 7c that begin on page F-2.

Line 44

See the instructions for line 10 on page F-3.



2001 Instructions for Schedule R (Form 1040)

Credit for the Elderly or the Disabled

Use Schedule R to figure the credit for the elderly or the disabled.
Additional Information. See **Pub. 524** for more details.

Who Can Take the Credit

The credit is based on your filing status, age, and income. If you are married filing a joint return, it is also based on your spouse's age and income.

You may be able to take this credit if **either** of the following applies.

- You were **age 65 or older** at the end of 2001 **or**
- You were **under age 65** at the end of 2001 and you meet **all three** of the following.

1. You were **permanently and totally disabled** on the date you retired. If you retired before 1977, you must have been permanently and totally disabled on January 1, 1976, or January 1, 1977.

2. You received taxable disability income for 2001.

3. On January 1, 2001, you had not reached mandatory retirement age (the age when your employer's retirement program would have required you to retire).

For the definition of permanent and total disability, see **What Is Permanent and Total Disability?** on page R-2. Also, see the instructions for Part II.

Married Persons Filing Separate Returns

If your filing status is married filing separately and you lived with your spouse at any time during 2001, you **cannot** take the credit.

Nonresident Aliens

If you were a nonresident alien at any time during 2001, you may be able to take the credit only if your filing status is married filing a joint return.

Income Limits

See the chart below.

Want the IRS To Figure Your Credit?

If you can take the credit and you want us to figure it for you, check the box in Part I of Schedule R for your filing status and age. Fill in Part II and lines 11 and 13 of Part III if they apply to you. Then, enter "CFE" on the dotted line next to line 45 on Form 1040 and attach Schedule R to your return.

Income Limits for the Credit for the Elderly or the Disabled

IF you are . . .	THEN you generally cannot take the credit if:	
	The amount on Form 1040, line 34, is . . .	Or you received . . .
Single, head of household, or qualifying widow(er)	\$17,500 or more	\$5,000 or more of nontaxable social security or other nontaxable pensions
Married filing a joint return and only one spouse is eligible for the credit	\$20,000 or more	\$5,000 or more of nontaxable social security or other nontaxable pensions
Married filing a joint return and both spouses are eligible for the credit	\$25,000 or more	\$7,500 or more of nontaxable social security or other nontaxable pensions
Married filing a separate return and you lived apart from your spouse for all of 2001	\$12,500 or more	\$3,750 or more of nontaxable social security or other nontaxable pensions

What Is Permanent and Total Disability?

A person is **permanently and totally disabled** if **both 1 and 2** below apply.

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

Examples 1 and 2 on this page show situations in which the individuals are considered engaged in a substantial gainful activity. Example 3 shows a person who might not be considered engaged in a substantial gainful activity. In each example, the person was under age 65 at the end of the year.

Example 1. Sue retired on disability as a sales clerk. She now works as a full-time babysitter at the minimum wage. Although she does different work, Sue babysits on ordinary terms for the minimum wage. She cannot take the credit because she is engaged in a substantial gainful activity.

Example 2. Mary, the president of XYZ Corporation, retired on disability because of her terminal illness. On her doctor's advice, she works part time as a manager and is paid more than the minimum wage. Her employer sets her days and hours. Although Mary's illness is terminal and she works part time, the work is done at her employer's convenience. Mary is considered engaged in a substantial gainful activity and cannot take the credit.

Example 3. John, who retired on disability, took a job with a former employer on a trial basis. The purpose of the job was to see if John could do the work. The trial period lasted for some time during which John was paid at a rate equal to the minimum wage. But because of John's disability, he was given only light duties of a nonproductive, make-work nature. Unless the activity is both substantial and gainful, John is not engaged in a substantial gainful activity. The activity was gainful because John was paid at a rate at or above the minimum wage. However, the activity was not substantial because the duties were of a nonproductive, make-work nature. More facts are needed to determine if John is able to engage in a substantial gainful activity.

Disability Income

Generally, disability income is the total amount you were paid under your employer's accident and health plan or pension plan that is included in your income as wages or payments instead of wages for the time you were absent from work because of permanent and total disability. However, any payment you received from a plan that does not provide for disability retirement is not disability income.

In figuring the credit, disability income **does not** include any amount you received from your employer's pension plan after you have reached mandatory retirement age.

For more details on disability income, see **Pub. 525**.

Part II. Statement of Permanent and Total Disability

If you checked box 2, 4, 5, 6, or 9 in Part I and you did not file a physician's statement for 1983 or an earlier year, or you filed or got a statement for tax years after 1983 and your physician signed on line A of the statement, you must have your physician complete a statement certifying that:

- You were permanently and totally disabled on the date you retired or
- If you retired before 1977, you were permanently and totally disabled on January 1, 1976, or January 1, 1977.

You do not have to file this statement with your Form 1040. But you **must** keep it for your records. You may use the physician's statement on page R-4 for this purpose. Your physician should show on the statement if the disability has lasted or can be expected to last continuously for at least a year, or if there is no reasonable probability that the disabled condition will ever improve. If you file a joint return and you checked box 5 in Part I, you and your spouse must each get a statement.

If you filed a physician's statement for 1983 or an earlier year, or you filed or got a statement for tax years after 1983 and your physician signed on line B of the statement, you do not have to get another statement for 2001. But you must check the box on line 2 in Part II to certify **all three** of the following:

1. You filed or got a physician's statement in an earlier year.
2. You were permanently and totally disabled during 2001.
3. You were unable to engage in any substantial gainful activity during 2001 because of your physical or mental condition.

If you checked box 4, 5, or 6 in Part I, enter in the space above the box on line 2 in Part II the first name(s) of the spouse(s) for whom the box is checked.

If the Department of Veterans Affairs (VA) certifies that you are permanently and totally disabled, you can use **VA Form 21-0172** instead of the physician's statement. VA Form 21-0172 must be signed by a person authorized by the VA to do so. You can get this form from your local VA regional office.

Part III. Figure Your Credit

Line 11

If you checked box 2, 4, 5, 6, or 9 in Part I, use the following chart to complete line 11.

IF you checked . . .	THEN enter on line 11. . .
Box 6	The total of \$5,000 plus the disability income you reported on Form 1040 for the spouse who was under age 65.
Box 2, 4, or 9	The total amount of disability income you reported on Form 1040.
Box 5	The total amount of disability income you reported on Form 1040 for both you and your spouse.

Example 1. Bill, age 63, retired on permanent and total disability in 2001. He received \$4,000 of taxable disability income that he reported on Form 1040, line 7. He filed a joint return with his wife who was age 67 in 2001. On line 11, Bill enters \$9,000 (\$5,000 plus the \$4,000 of disability income reported on Form 1040).

Example 2. John checked box 2 in Part I and enters \$5,000 on line 10. He received \$3,000 of taxable disability income, which he enters on line 11. John also enters \$3,000 on line 12 (the smaller of line 10 or line 11). The largest amount he can use to figure the credit is \$3,000.

Lines 13a Through 18

The amount on which you figure your credit may be reduced if you received certain types of nontaxable pensions and annuities. The amount may also be reduced if your adjusted gross income is over a certain amount, depending on which box you checked in Part I.

Line 13a. Enter any social security benefits (before deduction of Medicare premiums) you (and your spouse if filing a joint return) received for 2001 that are not taxable. Also, enter any tier 1 railroad retirement benefits treated as social security that are not taxable.

If any of your social security or equivalent railroad retirement benefits are taxable, the amount to enter on this line is generally the difference between the amounts entered on Form 1040, line 20a and line 20b.

Note. If your social security or equivalent railroad retirement benefits are reduced because of workers' compensation benefits, treat the workers' compensation benefits as social security benefits when completing Schedule R, line 13a.

Line 13b. Enter the total of the following types of income that you (and your spouse if filing a joint return) received for 2001.

- Veterans' pensions (but not military disability pensions).
- Any other pension, annuity, or disability benefit that is excluded from income under any provision of Federal law other

than the Internal Revenue Code. **Do not** include amounts that are treated as a return of your cost of a pension or annuity.

Do not include on line 13b any pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in the armed forces of any country, or in the National Oceanic and Atmospheric Administration or the Public Health Service. Also, do not include a disability annuity payable under section 808 of the Foreign Service Act of 1980.

Line 20

Use the worksheet below to figure the credit you may take if **either 1 or 2** below apply.

1. The amount on line 20 is more than the amount on Form 1040, line 42, minus any amount on Form 1040, line 43, **or**

2. You are claiming the credit for child and dependent care expenses on Form 1040, line 44.

If **neither 1 nor 2** above apply to you, enter on Form 1040, line 45, the amount from Schedule R, line 20.

Credit Limit Worksheet—Line 20 *Keep for Your Records*

1. Enter the amount from Form 1040, line 42 **1.** _____
2. Enter the total, if any, of the amounts on lines 43 and 44 of Form 1040 **2.** _____
3. Subtract line 2 from line 1 **3.** _____
4. Enter the credit you first figured on Schedule R, line 20 **4.** _____
5. Enter the **smaller** of line 3 or line 4 here and on Form 1040, line 45. If line 3 is the smaller amount, also replace the amount on Schedule R, line 20, with that amount **5.** _____

Instructions for Physician's Statement

Taxpayer

If you retired after 1976, enter the date you retired in the space provided on the statement below.

1. He or she cannot engage in any substantial gainful activity because of a physical or mental condition and

2. A physician determines that the disability has lasted or can be expected to last continuously for at least a year or can lead to death.

Physician

A person is permanently and totally disabled if **both** of the following apply:

Physician's Statement

Keep for Your Records

I certify that _____
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **or** was permanently and totally disabled on the date he or she retired. If retired after 1976, enter the date retired. ► _____

Physician: Sign your name on **either** line A or B below.

A The disability has lasted or can be expected to last continuously for at least a year _____
Physician's signature Date

B There is no reasonable probability that the disabled condition will ever improve _____
Physician's signature Date

Physician's name	Physician's address
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2001 Instructions for Schedule SE, Self-Employment Tax

Use Schedule SE (Form 1040) to figure the tax due on net earnings from self-employment. The Social Security Administration uses the information from Schedule SE to figure your benefits under the social security program. This tax applies no matter how old you are and even if you are already getting social security or Medicare benefits.

Additional Information. See **Pub. 533**.

General Instructions

A Change To Note

For 2001, the maximum amount of self-employment income subject to social security tax is \$80,400.

Who Must File Schedule SE

You must file Schedule SE if:

1. Your net earnings from self-employment (see page SE-2) from other than church employee income were \$400 or more or

2. You had church employee income of \$108.28 or more—see **Employees of Churches and Church Organizations** below.

Who Must Pay Self-Employment (SE) Tax?

Self-Employed Persons

You must pay SE tax if you had net earnings of \$400 or more as a self-employed person. If you are in business for yourself or you are a farmer, you are self-employed.

You must also pay SE tax on your share of certain partnership income and your guaranteed payments. See **Partnership Income or Loss** on page SE-2.

Employees of Churches and Church Organizations

If you had church employee income of \$108.28 or more, you must pay SE tax. **Church employee income** is wages you received as an employee (other than as a minister or member of a religious order) from a church or qualified church-controlled organization that has a certificate in effect electing an exemption from employer social security and Medicare taxes.

Ministers and Members of Religious Orders

In most cases, you must pay SE tax on salaries and other income for services you performed as a minister, a member of a

religious order who has not taken a vow of poverty, or a Christian Science practitioner. But if you filed **Form 4361** and received IRS approval, you will be exempt from paying SE tax on those net earnings. If you had no other income subject to SE tax, write “Exempt—Form 4361” on line 53 of Form 1040. However, if you had other earnings of \$400 or more subject to SE tax, see line A at the top of Long Schedule SE.

Revocation of Election. If you previously filed Form 4361 and received IRS approval, you can revoke that election to be exempt from SE tax. To do so, you must file **Form 2031** by the due date (including extensions) of your 2001 tax return. See Form 2031 for details.

Note. Once you file Form 2031 to elect social security coverage on your earnings as a minister you cannot revoke that election.

If you must pay SE tax, include this income on line 2 of either Short or Long Schedule SE. But do not report it on line 5a of Long Schedule SE; it is not considered church employee income. Also, include on line 2:

- The rental value of a home or an allowance for a home furnished to you (including payments for utilities) and

- The value of meals and lodging provided to you, your spouse, and your dependents for your employer’s convenience.

However, **do not** include on line 2:

- Retirement benefits you received from a church plan after retirement or

- The rental value of a home or an allowance for a home furnished to you (including payments for utilities) after retirement.

If you were a duly ordained minister who was an employee of a church and you must pay SE tax, the unreimbursed business expenses that you incurred as a church employee are allowed only as an itemized deduction for income tax purposes. Subtract the allowable amount from your SE earnings when figuring your SE tax.

If you were a U.S. citizen or resident alien serving outside the United States as a minister or member of a religious order and you must pay SE tax, you may not reduce your net earnings by the foreign housing exclusion or deduction.

See **Pub. 517** for details.

Members of Certain Religious Sects

If you have conscientious objections to social security insurance because of your membership in and belief in the teachings of a religious sect recognized as being in existence at all times since December 31, 1950, and which has provided a reasonable level of living for its dependent members, you are exempt from SE tax if you received IRS approval by filing **Form 4029**. In this case, do not file Schedule SE. Instead, write “Exempt—Form 4029” on Form 1040, line 53. See **Pub. 517** for details.

U.S. Citizens Employed by Foreign Governments or International Organizations

You must pay SE tax on income you earned as a U.S. citizen employed by a foreign government (or, in certain cases, by a wholly owned instrumentality of a foreign government or an international organization under the International Organizations Immunities Act) for services performed in the United States, Puerto Rico, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), or the Virgin Islands. Report income from this employment on Schedule SE (Section A or B), line 2. If you performed services elsewhere as an employee of a foreign government or an international organization, those earnings are exempt from SE tax.

U.S. Citizens or Resident Aliens Living Outside the United States

If you are a self-employed U.S. citizen or resident alien living outside the United States, in most cases you must pay SE tax. You may not reduce your foreign earnings from self-employment by your foreign earned income exclusion.

Exception. The United States has social security agreements with many countries to eliminate dual taxes under two social security systems. Under these agreements, you must generally pay social security and Medicare taxes to only the country you live in.

The United States now has social security agreements with the following countries: Austria, Belgium, Canada, Chile, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, South Korea, Spain, Sweden, Switzerland, and the United Kingdom. Additional agreements are expected in the future. If you have questions about international social security agreements, you can:

- Visit the Social Security Administration (SSA) Web Site at www.ssa.gov/international,

- Call the SSA Office of International Programs at (410) 965-3548 or (410) 965-3554, or

- Write to Social Security Administration, Office of International Programs, P.O. Box 17741, Baltimore, MD 21235-7741.

More Than One Business

If you were a farmer and had at least one other business or you had two or more businesses, your net earnings from self-employment are the combined net earnings from all of your businesses. If you had a loss in one business, it reduces the income from another. Figure the combined SE tax on one Schedule SE.

Joint Returns

Show the name of the spouse with SE income on Schedule SE. If both spouses have SE income, each must file a separate Schedule SE. However, if one spouse qualifies to use Short Schedule SE and the other has to use Long Schedule SE, both can use the **same** form. One spouse should complete the front and the other the back.

Include the total profits or losses from all businesses on Form 1040, as appropriate. Enter the combined SE tax on Form 1040, line 53.

Community Income

In most cases, if any of the income from a business (including farming) is community income, all of the income from that business is SE earnings of the spouse who carried on the business. The facts in each case will determine which spouse carried on the business. If you and your spouse are partners in a partnership, see **Partnership Income or Loss** below.

If you and your spouse had community income and file separate returns, attach Schedule SE to the return of the spouse with the SE income. Also, attach Schedule(s) C, C-EZ, or F to the return of each spouse.

If you are the spouse who carried on the business, you must include on line 3, Schedule SE, the net profit or (loss) reported on the other spouse's Schedule C, C-EZ, or F (except income not included in net earnings from self-employment as explained on page SE-3). Enter on the dotted line to the left of line 3, Schedule SE, "Community Income Taxed to Spouse" and the amount of any net profit or (loss) allocated to your spouse as community income. Combine that amount with the total of lines 1 and 2 and enter the result on line 3.

If you are not the spouse who carried on the business and you had no other income subject to SE tax, enter "Exempt Community Income" on Form 1040, line 53; **do not** file Schedule SE. However, if you had other earnings subject to SE tax of \$400 or more, enter on the dotted line to the left of line 3, Schedule SE, "Exempt Community Income" and the amount of the net profit or (loss) from Schedule C, C-EZ, or F allocated to you as community income. If that amount is a net profit, subtract it from the total of lines 1 and 2, and enter the result on line 3. If that amount is a loss, treat it as a positive amount, add it to the total of lines 1 and 2, and enter the result on line 3.



Community income included on Schedule(s) C, C-EZ, or F must be divided for income tax purposes on the basis of the community property laws.

Fiscal Year Filers

If your tax year is a fiscal year, use the tax rate and earnings base that apply at the time the fiscal year begins. Do not prorate the tax or earnings base for a fiscal year that overlaps the date of a rate or earnings base change.

Specific Instructions

Read the chart on page 1 of Schedule SE to see if you can use **Section A**, Short Schedule SE, or if you must use **Section B**, Long Schedule SE. For either section, you need to know what to include as net earnings from self-employment. Read the following instructions to see what to include as net earnings and how to fill in lines 1 and 2 of either Short or Long Schedule SE. Enter all negative amounts in parentheses.

Net Earnings From Self-Employment

What Is Included in Net SE Earnings?

In most cases, net earnings include your net profit from a farm or nonfarm business. If you were a partner in a partnership, see the following instructions.

Partnership Income or Loss

If you were a general or limited partner in a partnership, include on line 1 or line 2, whichever applies, the amount from line 15a of Schedule K-1 (Form 1065) or the amount identified as net earnings from self-employment in box 9 of Schedule K-1 (Form 1065-B). General partners should reduce this amount before entering it on Schedule SE by any section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties. If you reduce the amount you enter on Schedule SE, attach an explanation.

If a partner died and the partnership continued, include in SE income the deceased's distributive share of the partnership's ordinary income or loss through the end of the month in which he or she died. See Internal Revenue Code section 1402(f).

If you were married and both you and your spouse were partners in a partnership, each of you must pay SE tax on your own share of the partnership income. Each of you must file a Schedule SE and report the partnership income or loss on **Schedule E** (Form 1040), Part II, for income tax purposes.

SE income belongs to the person who is the member of the partnership and cannot be treated as SE income by the nonmember spouse even in community property states.

Share Farming

You are considered self-employed if you produced crops or livestock on someone else's land for a share of the crops or livestock produced (or a share of the proceeds from the sale of them). This applies even if you paid another person (an agent) to do the actual work or management for you. Report your net earnings for income tax purposes on **Schedule F** (Form 1040) and for SE tax purposes on Schedule SE. See **Pub. 225** for details.

Other Income and Losses Included in Net Earnings From Self-Employment

- Rental income from a farm if, as landlord, you materially participated in the production or management of the production of farm products on this land. This income is

farm earnings. To determine whether you materially participated in farm management or production, do not consider the activities of any agent who acted for you. The material participation tests are explained in Pub. 225.

- Cash or a payment-in-kind from the Department of Agriculture for participating in a land diversion program.

- Payments for the use of rooms or other space when you also provided substantial services. Examples are hotel rooms, boarding houses, tourist camps or homes, parking lots, warehouses, and storage garages.

- Income from the retail sale of newspapers and magazines if you were age 18 or older and kept the profits.

- Amounts received by current or former self-employed insurance agents and salespersons that are:

1. Paid after retirement but figured as a percentage of commissions received from the paying company before retirement,

2. Renewal commissions, or

3. Deferred commissions paid after retirement for sales made before retirement.

However, certain termination payments received by former insurance salespersons are not included in net earnings from self-employment (as explained below under **Income and Losses Not Included in Net Earnings From Self-Employment**).

- Income of certain crew members of fishing vessels with crews of normally fewer than 10 people. See **Pub. 595** for details.

- Fees as a state or local government employee if you were paid only on a fee basis and the job was not covered under a Federal-state social security coverage agreement.

- Interest received in the course of any trade or business, such as interest on notes or accounts receivable.

- Fees and other payments received by you for services as a director of a corporation.

- Recapture amounts under sections 179 and 280F that you included in gross income because the business use of the property dropped to 50% or less. Do not include amounts you recaptured on the disposition of property. See **Form 4797**.

- Fees you received as a professional fiduciary. This may also apply to fees paid to you as a nonprofessional fiduciary if the fees relate to active participation in the operation of the estate's business, or the management of an estate that required extensive management activities over a long period of time.

- Gain or loss from section 1256 contracts or related property by an options or commodities dealer in the normal course of dealing in or trading section 1256 contracts.

Income and Losses Not Included in Net Earnings From Self-Employment

- Salaries, fees, etc., subject to social security or Medicare tax that you received for performing services as an employee, including services performed as a public official (except as a fee basis government employee as explained earlier under **Other Income and Losses Included in Net Earnings From Self-Employment**) or as an employee or employee representative under the railroad retirement system.

- Fees received for services performed as a notary public. If you had no other income subject to SE tax, enter "Exempt-Notary" on Form 1040, line 53. However, if you had other earnings of \$400 or more subject to SE tax, enter "Exempt-Notary" and the amount of your net profit as a notary public from Schedule C or Schedule C-EZ on the dotted line to the left of line 3, Schedule SE. Subtract that amount from the total of lines 1 and 2 and enter the result on line 3.

- Income you received as a retired partner under a written partnership plan that provides for lifelong periodic retirement payments if you had no other interest in the partnership and did not perform services for it during the year.

- Income from real estate rentals if you did not receive the income in the course of a trade or business as a real estate dealer. Report this income on Schedule E.

- Income from farm rentals (including rentals paid in crop shares) if, as landlord, you did not materially participate in the production or management of the production of farm products on the land. See Pub. 225 for details.

- Dividends on shares of stock and interest on bonds, notes, etc., if you did not receive the income in the course of your trade or business as a dealer in stocks or securities.

- Gain or loss from:

1. The sale or exchange of a capital asset;

2. The sale, exchange, involuntary conversion, or other disposition of property unless the property is stock in trade or other property that would be includible in inventory, or held primarily for sale to customers in the ordinary course of the business; or

3. Certain transactions in timber, coal, or domestic iron ore.

- Net operating losses from other years.

- Termination payments you received as a former insurance salesperson if **all** of the following conditions are met.

1. The payment was received from an insurance company because of services you performed as an insurance salesperson for the company.

2. The payment was received after termination of your agreement to perform services for the company.

3. You did not perform any services for the company after termination and before the end of the year in which you received the payment.

4. You entered into a covenant not to compete against the company for at least a 1-year period beginning on the date of termination.

5. The amount of the payment depended primarily on policies sold by or credited to your account during the last year of the agreement, or the extent to which those policies remain in force for some period after termination, or both.

6. The amount of the payment did not depend to any extent on length of service or overall earnings from services performed for the company (regardless of whether eligibility for the payment depended on length of service).

Statutory Employee Income

If you were required to check the box on line 1 of Schedule C or C-EZ because you were a statutory employee, **do not** include the net profit or (loss) from line 31 of that Schedule C (or the net profit from line 3 of Schedule C-EZ) on line 2 of Short or Long Schedule SE. But if you file Long Schedule SE, be sure to include statutory employee social security wages and tips from Form W-2 on line 8a.

Optional Methods

How Can the Optional Methods Help You?

Social Security Coverage. The optional methods may give you credit toward your social security coverage even though you have a loss or a small amount of income from self-employment.

Earned Income Credit. Using the optional methods may qualify you to claim the earned income credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than \$1,600. Figure the earned income credit with and without using the optional methods to see if the optional methods will benefit you.

Additional Child Tax Credit. Using the optional methods may qualify you to claim the additional child tax credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than \$1,600. Figure the additional child tax credit with and without using the optional methods to see if the optional methods will benefit you.

Child and Dependent Care Credit. The optional methods may also help you qualify for this credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than \$1,600. Figure this credit with and without using the optional methods to see if the optional methods will benefit you.

Note. Using the optional methods may give you the benefits described above but they may also increase your SE tax.

Farm Optional Method

You may use this method to figure your net earnings from farm self-employment if your gross farm income was \$2,400 or less or your net farm profits (defined below) were less than \$1,733. There is no limit on how many years you can use this method.

Under this method, you report on line 15, Part II, two-thirds of your gross farm income, up to \$1,600, as your net earnings. This method can increase or decrease your net SE farm earnings even if the farming business had a loss.

You may change the method after you file your return. That is, you can change from the regular to the optional method or from the optional to the regular method. To do this, file **Form 1040X**.

For a farm partnership, figure your share of gross income based on the partnership agreement. With guaranteed payments, your share of the partnership's gross income is your guaranteed payments plus your share of the gross income after it is reduced by all guaranteed payments made by the partnership. If you were a limited partner, include only guaranteed payments for services you actually rendered to or on behalf of the partnership.

Net farm profits is the total of the amounts from Schedule F (Form 1040), line 36, and Schedule K-1 (Form 1065), line 15a, from farm partnerships.

Nonfarm Optional Method

You may be able to use this method to figure your net earnings from nonfarm self-employment if your net nonfarm profits (defined below) were less than \$1,733 and also less than 72.189% of your gross nonfarm income. To use this method, you also must be regularly self-employed. You meet this requirement if your actual net earnings from self-employment were \$400 or more in 2 of the 3 years preceding the year you use the nonfarm method. The net earnings of \$400 or more could be from either farm or nonfarm earnings or both. The net earnings include your distributive share of partnership income or loss subject to SE tax. Use of the nonfarm optional method from nonfarm self-employment is limited to 5 years. The 5 years do not have to be consecutive.

Under this method, you report on line 17, Part II, two-thirds of your gross nonfarm income, up to \$1,600, as your net earnings. **But you may not report less than your actual net earnings** from nonfarm self-employment.

You may change the method after you file your return. That is, you can change from the regular to the optional method or from the optional to the regular method. To do so, file Form 1040X.

Figure your share of gross income from a nonfarm partnership in the same manner as a farm partnership. See **Farm Optional Method** on this page for details.

Net nonfarm profits is the total of the amounts from Schedule C (Form 1040), line 31 (or Schedule C-EZ (Form 1040), line 3), Schedule K-1 (Form 1065), line 15a (from other than farm partnerships), and Schedule K-1 (Form 1065-B), box 9.

Using Both Optional Methods

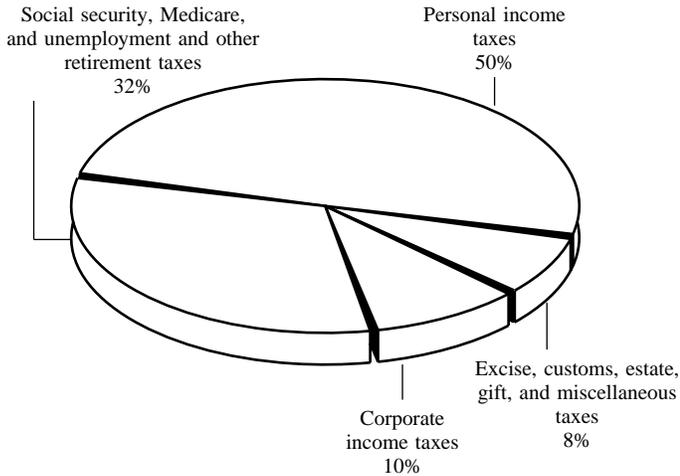
If you can use both methods, you may report less than your total actual net earnings from farm and nonfarm self-employment, but you **cannot** report less than your actual net earnings from nonfarm self-employment alone.

If you use both methods to figure net earnings, you **cannot** report more than \$1,600 of net SE earnings.

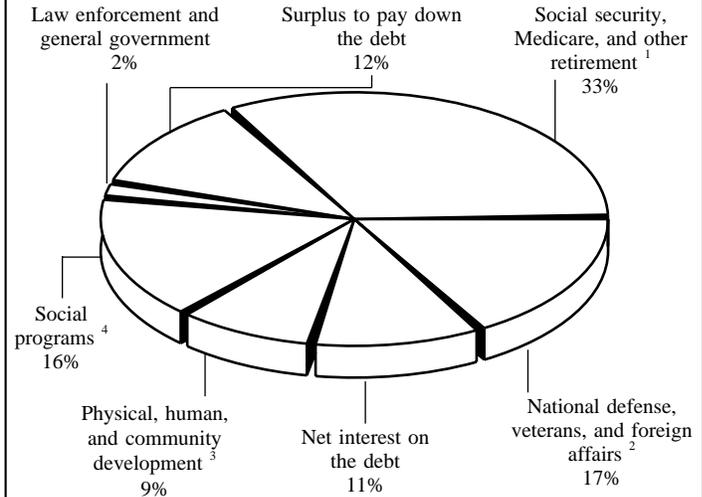
Major Categories of Federal Income and Outlays for Fiscal Year 2000

Income and Outlays. These pie charts show the relative sizes of the major categories of Federal income and outlays for fiscal year 2000.

Income



Outlays



On or before the first Monday in February of each year, the President is required by law to submit to the Congress a budget proposal for the fiscal year that begins the following October. The budget plan sets forth the President's proposed receipts, spending, and the surplus or deficit for the Federal Government. The plan includes recommendations for new legislation as well as recommendations to change, eliminate, and add programs. After receiving the President's proposal, the Congress reviews it and makes changes. It first passes a budget resolution setting its own targets for receipts, outlays, and the surplus or deficit. Next, individual spending and revenue bills that are consistent with the goals of the budget resolution are enacted.

In fiscal year 2000 (which began on October 1, 1999, and ended on September 30, 2000), Federal income was \$2,025 billion and outlays were \$1,789 billion, leaving a surplus of \$236 billion.

Footnotes for Certain Federal Outlays

1. Social security, Medicare, and other retirement: These programs provide income support for the retired and disabled and medical care for the elderly.

2. National defense, veterans, and foreign affairs: About 14% of outlays were to equip, modernize, and pay our armed forces and to fund other national defense activities; about 2% were for veterans benefits and services; and about 1% were for international activities, including military and economic assistance to foreign countries and the maintenance of U.S. embassies abroad.

3. Physical, human, and community development: These outlays were for agriculture; natural resources; environment; transportation; aid for elementary and secondary education and direct assistance to college students; job training; deposit insurance, commerce and housing credit, and community development; and space, energy, and general science programs.

4. Social programs: About 11% of total outlays were for Medicaid, food stamps, temporary assistance for needy families, supplemental security income, and related programs; and 5% for health research and public health programs, unemployment compensation, assisted housing, and social services.

Note. The percentages on this page exclude undistributed offsetting receipts, which were \$43 billion in fiscal year 2000. In the budget, these receipts are offset against spending in figuring the outlay totals shown above. These receipts are for the U.S. Government's share of its employee retirement programs, rents and royalties on the Outer Continental Shelf, and proceeds from the sale of assets.



Where Do You File?

If an envelope addressed to "Internal Revenue Service Center" came with this booklet, please use it. If you do not have one or if you moved during the year, mail your return to the Internal Revenue Service Center shown that applies to you.



Envelopes without enough postage will be returned to you by the post office. Your envelope may need additional postage if it contains more than five pages or is oversized (for example, it is over 1/4" thick). Also, include your complete return address.

IF you live in...	THEN use this address if you:	
	Are not enclosing a check or money order...	Are enclosing a check or money order...
Florida, Georgia, North Carolina, South Carolina, West Virginia	Internal Revenue Service Center Atlanta, GA 39901-0002	Internal Revenue Service Center Atlanta, GA 39901-0102
New Jersey, New York (<i>New York City and counties of Nassau, Rockland, Suffolk, and Westchester</i>)	Internal Revenue Service Center Holtsville, NY 00501-0002	Internal Revenue Service Center Holtsville, NY 00501-0102
New York (<i>all other counties</i>), Massachusetts, Michigan, Rhode Island	Internal Revenue Service Center Andover, MA 05501-0002	Internal Revenue Service Center Andover, MA 05501-0102
Illinois, Iowa, Kansas, Minnesota, Missouri, Oklahoma, Utah, Wisconsin	Internal Revenue Service Center Kansas City, MO 64999-0002	Internal Revenue Service Center Kansas City, MO 64999-0102
Connecticut, Delaware, District of Columbia, Indiana, Maine, Maryland, New Hampshire, Pennsylvania, Vermont	Internal Revenue Service Center Philadelphia, PA 19255-0002	Internal Revenue Service Center Philadelphia, PA 19255-0102
Ohio	Internal Revenue Service Center Cincinnati, OH 45999-0002	Internal Revenue Service Center Cincinnati, OH 45999-0102
Arizona, Colorado, Idaho, Montana, New Mexico, Texas, Wyoming	Internal Revenue Service Center Austin, TX 73301-0002	Internal Revenue Service Center Austin, TX 73301-0102
Nebraska, North Dakota, South Dakota, Washington	Internal Revenue Service Center Ogden, UT 84201-0002	Internal Revenue Service Center Ogden, UT 84201-0102
Alaska, California, Hawaii, Nevada, Oregon	Internal Revenue Service Center Fresno, CA 93888-0002	Internal Revenue Service Center Fresno, CA 93888-0102
Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Tennessee, Virginia	Internal Revenue Service Center Memphis, TN 37501-0002	Internal Revenue Service Center Memphis, TN 37501-0102
All APO and FPO addresses, American Samoa, nonpermanent residents of Guam or the Virgin Islands*, Puerto Rico (<i>or if excluding income under Internal Revenue Code section 933</i>), a foreign country: U.S. citizens and those filing Form 2555, 2555-EZ, or 4563	Internal Revenue Service Center Philadelphia, PA 19255-0215 USA	Internal Revenue Service Center Philadelphia, PA 19255-0215 USA

* Permanent residents of Guam should use: Department of Revenue and Taxation, Government of Guam, P.O. Box 23607, GMF, GU 96921; permanent residents of the Virgin Islands should use: V.I. Bureau of Internal Revenue, 9601 Estate Thomas, Charlotte Amalie, St. Thomas, VI 00802.

What's Inside?

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(page 54)

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(page 7)
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Follow That Lead! Obtaining and Using Tax Information in a Non-Tax Case

Joan Bainbridge Safford
Deputy United States Attorney
Northern District of Illinois

Introduction

In any criminal case where financial gain is the prominent motive, tax returns and return information can provide some of the most significant leads, corroborative evidence, and cross-examination material obtainable from any source. Title 26, United States Code, Section 6103, enacted by Congress after the abuses of Watergate, continues to be the principal instrument to protect the confidentiality of tax returns and return information. The statute recognizes, however, that tax information, properly obtained and used, can play an important role in criminal investigations of non-tax crimes.

Assistant United States Attorneys (AUSAs) and Federal agents must carefully follow Section 6103 if they want to avoid exposure to criminal and disciplinary sanctions.^{*} This article discusses some of the reasons for seeking disclosure of tax information and the proper procedures for obtaining and using tax information for investigations, at trial, and in ancillary proceedings. It also discusses some strategic considerations in adding tax charges to non-tax cases, and the procedures for doing so. Although this article summarizes relevant provisions of Section 6103(b), (c), (e), (h), (i), and (p), the reader should become familiar with these provisions and with the Department of Justice (DOJ) publications[†] and policies on maintaining the confidentiality of tax records.

^{*} Willful, unauthorized disclosure of tax return information is a felony, carrying a maximum statutory penalty of five years of incarceration, a \$250,000 fine, and termination of employment. 26 U.S.C. § 7213(a) (1994). Section 7431 provides that the United States may be sued for civil damages for unauthorized disclosure of tax returns and return information by a Federal employee.

Why Obtain Taxpayer Return Information?

A review of the Section 6103(b) definitions of "return," "return information," and "taxpayer return information" makes clear that, except as expressly provided under the disclosure provisions, all information filed with or provided by the taxpayer to the Internal Revenue Service (IRS) is protected from disclosure by Section 6103.^{**} This includes all information relating to the taxpayer received by the IRS from third parties (including informants) and all information derived from those submissions, including the work product of the IRS in determining, assessing, and collecting taxes or investigating the taxpayer criminally. "Disclosure" means "the making known to any person in any manner whatever a return or return information." 26 U.S.C. § 6103(b)(4)(8).

Section 6103(i)(1)(A), in relevant part, permits the IRS, upon the entry of an *ex parte* order by a Federal district court judge or magistrate judge, to disclose tax returns and return information to employees of

^{**} Section 6103(b)(1) defines "return" as "any tax or information return, declaration of estimated tax, or claim for refund . . . which is filed with the [IRS] . . . and any amendment thereto, including supporting schedules, attachments" . . . which are made a part of the return. Subsection (b)(2) defines "return information" to include all the information on the return, any information regarding the examination or processing or investigation of the return, and any data collected or received by the IRS from any source with respect to "the determination of the existence, or possible existence, of liability (or amount thereof) of any person . . . for any tax, penalty, interest, fine, forfeiture, or other imposition or offense," and background files "relating to such determination." Subsection (b)(3) defines "taxpayer return information" as taxpayer information "filed with or furnished to the [IRS] by or on behalf of the taxpayer to whom such return information relates."

any Federal agency personally and directly engaged in—

- (i) preparation for any judicial . . . proceeding pertaining to the enforcement of a specifically designated Federal criminal statute (not involving tax administration) . . . to which the United States . . . is or may be a party.
- (ii) any investigation which may result in such a proceeding, or
- (iii) any Federal grand jury proceeding pertaining to enforcement of such criminal statute to which the United States or such agency may be a party,

solely for the use of such officers and employees in such preparation, investigation, or grand jury proceeding.

26 U.S.C. § 6103(i)(1)(A).

In even the most straightforward fraud case, the usefulness of tax returns should be apparent. For example, in a false bank loan application prosecution under 18 U.S.C. § 1014, examination of the target's filed individual, partnership, or corporate tax returns may reveal a sharply different picture of the target than the one he or she has painted in the loan application. In this instance, the tax return information provides a statement under penalty of perjury which may either serve as circumstantial evidence of the target's misrepresentations of his economic status or as helpful cross-examination material. If the target submitted purported tax returns with the loan application that do not match the filed returns, the filed returns are direct evidence of the fraud.

Just as loan applications often exaggerate assets, bankruptcy petitions often conceal them. An examination of filed returns from several prior years may reveal substantial leads to concealed assets or to assets recently transferred. Tax disclosure may uncover interest income on concealed bank accounts or depreciation schedules for concealed or transferred equipment or rental property. Disclosed transfers of property for the exact amount of the depreciated basis may lead to discovery of assets siphoned off to other companies controlled by the defendant. As is the case with bank loan applications, purportedly filed tax returns submitted to

the bankruptcy court may turn out to be different from those actually filed with the IRS. Tax disclosure should, therefore, be an early part of every bankruptcy fraud investigation.

It is common for the target of a financial, political corruption, or even a narcotics investigation to argue that excess cash discovered during the investigation is the "proceeds" of legitimate activity. For example, a target may argue that kickbacks are "commissions," political bribes are "consulting fees," or drug proceeds are profit from "jewelry sales." The failure to report the fact and purported source of those moneys on the filed return will seriously undermine the defense. If the target is so law-abiding and the source of funds so innocent, why wasn't the income declared on the appropriate returns and schedules?

Disclosure of tax returns may also provide critical leads and impeachment material in a political corruption investigation. For example, a public employee's tax returns may show mounting yearly interest from an increasing number of certificates of deposit (CDS), the purchase of which is inconsistent with his or her slowly-rising salary and other declared income. Consider obtaining the requisite disclosure orders to pursue whether the undeclared source of funds for the purchase of the CDS was taxable and illegitimate. Similarly, if you have evidence of cash payments to a public official, a tax return showing only Form W-2 income and small amounts of interest may be used as evidence of cover-up and guilty knowledge of the illicit source of the cash income. As a final example, a tax return showing below market interest on claimed "loans" to a public official may support the inference and corroborate the proof that the "loans" were extorted under color of official right in violation of 18 U.S.C. § 1951(b)(2).

Sometimes, even when a potential defendant has declared substantial income on the tax return to keep the IRS at bay, he or she will have misdescribed the income source on the filed return. For instance, a drug dealer may report a jewelry business to explain the presence of large amounts of cash. The Schedule C or corporate tax returns, however, may show the business operated over a substantial period without significant profit, without a large cost of goods sold, or without a substantial business expense for insurance or other normal expenses of the type of business claimed. Consider, for example, a politician on the take who decides to declare his bribes as "commissions" on his real estate sales, but shows little expense for advertising and no expense for

Label

(See instructions on page 19.)

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

Presidential Election Campaign (See page 19.)

Label Here

For the year Jan. 1–Dec. 31, 2001, or other tax year beginning , 2001, ending , 20

OMB No. 1545-0074

Your first name and initial

Last name

Your social security number

If a joint return, spouse's first name and initial

Last name

Spouse's social security number

Home address (number and street). If you have a P.O. box, see page 19.

Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 19.

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

Note. Checking "Yes" will not change your tax or reduce your refund.

Do you, or your spouse if filing a joint return, want \$3 to go to this fund?

You Spouse Yes No Yes No

Filing Status

Check only one box.

- 1 Single
2 Married filing joint return (even if only one had income)
3 Married filing separate return. Enter spouse's social security no. above and full name here.
4 Head of household (with qualifying person). (See page 19.) If the qualifying person is a child but not your dependent, enter this child's name here.
5 Qualifying widow(er) with dependent child (year spouse died). (See page 19.)

Exemptions

If more than six dependents, see page 20.

- 6a Yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a
b Spouse
c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) if qualifying child for child tax credit (see page 20)
d Total number of exemptions claimed

No. of boxes checked on 6a and 6b
No. of your children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see page 20)
Dependents on 6c not entered above
Add numbers entered on lines above

Income

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

If you did not get a W-2, see page 21.

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

Table with 22 rows for income items: 7 Wages, salaries, tips, etc. Attach Form(s) W-2; 8a Taxable interest; 8b Tax-exempt interest; 9 Ordinary dividends; 10 Taxable refunds, credits, or offsets of state and local income taxes; 11 Alimony received; 12 Business income or (loss); 13 Capital gain or (loss); 14 Other gains or (losses); 15a Total IRA distributions; 15b Taxable amount; 16a Total pensions and annuities; 16b Taxable amount; 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc.; 18 Farm income or (loss); 19 Unemployment compensation; 20a Social security benefits; 20b Taxable amount; 21 Other income; 22 Add the amounts in the far right column for lines 7 through 21. This is your total income.

Adjusted Gross Income

Table with 11 rows for adjusted gross income items: 23 IRA deduction; 24 Student loan interest deduction; 25 Archer MSA deduction; 26 Moving expenses; 27 One-half of self-employment tax; 28 Self-employed health insurance deduction; 29 Self-employed SEP, SIMPLE, and qualified plans; 30 Penalty on early withdrawal of savings; 31a Alimony paid; 31b Recipient's SSN; 32 Add lines 23 through 31a; 33 Subtract line 32 from line 22. This is your adjusted gross income.

Tax and Credits

Standard Deduction for—
• People who checked any box on line 35a or 35b or who can be claimed as a dependent, see page 31.
• All others:
Single, \$4,550
Head of household, \$6,650
Married filing jointly or Qualifying widow(er), \$7,600
Married filing separately, \$3,800

34 Amount from line 33 (adjusted gross income)
35a Check if: [] You were 65 or older, [] Blind; [] Spouse was 65 or older, [] Blind.
Add the number of boxes checked above and enter the total here
b If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 31 and check here
36 Itemized deductions (from Schedule A) or your standard deduction (see left margin)
37 Subtract line 36 from line 34
38 If line 34 is \$99,725 or less, multiply \$2,900 by the total number of exemptions claimed on line 6d. If line 34 is over \$99,725, see the worksheet on page 32
39 Taxable income. Subtract line 38 from line 37. If line 38 is more than line 37, enter -0-
40 Tax (see page 33). Check if any tax is from a [] Form(s) 8814 b [] Form 4972
41 Alternative minimum tax (see page 34). Attach Form 6251
42 Add lines 40 and 41
43 Foreign tax credit. Attach Form 1116 if required
44 Credit for child and dependent care expenses. Attach Form 2441
45 Credit for the elderly or the disabled. Attach Schedule R
46 Education credits. Attach Form 8863
47 Rate reduction credit. See the worksheet on page 36
48 Child tax credit (see page 37)
49 Adoption credit. Attach Form 8839
50 Other credits from: a [] Form 3800 b [] Form 8396
c [] Form 8801 d [] Form (specify)
51 Add lines 43 through 50. These are your total credits
52 Subtract line 51 from line 42. If line 51 is more than line 42, enter -0-

Other Taxes

53 Self-employment tax. Attach Schedule SE
54 Social security and Medicare tax on tip income not reported to employer. Attach Form 4137
55 Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required
56 Advance earned income credit payments from Form(s) W-2
57 Household employment taxes. Attach Schedule H
58 Add lines 52 through 57. This is your total tax

Payments

If you have a qualifying child, attach Schedule EIC.

59 Federal income tax withheld from Forms W-2 and 1099
60 2001 estimated tax payments and amount applied from 2000 return
61a Earned income credit (EIC)
b Nontaxable earned income
62 Excess social security and RRTA tax withheld (see page 51)
63 Additional child tax credit. Attach Form 8812
64 Amount paid with request for extension to file (see page 51)
65 Other payments. Check if from a [] Form 2439 b [] Form 4136
66 Add lines 59, 60, 61a, and 62 through 65. These are your total payments

Refund

Direct deposit? See page 51 and fill in 68b, 68c, and 68d.

67 If line 66 is more than line 58, subtract line 58 from line 66. This is the amount you overpaid
68a Amount of line 67 you want refunded to you
b Routing number
c Type: [] Checking [] Savings
d Account number
69 Amount of line 67 you want applied to your 2002 estimated tax

Amount You Owe

70 Amount you owe. Subtract line 66 from line 58. For details on how to pay, see page 52
71 Estimated tax penalty. Also include on line 70

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 53)? [] Yes. Complete the following. [] No
Designee's name Phone no. Personal identification number (PIN)

Sign Here

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

Joint return? See page 19. Keep a copy for your records.

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

Paid Preparer's Use Only

Preparer's signature Date Check if self-employed []
Firm's name (or yours if self-employed), address, and ZIP code EIN Phone no.

Note. This booklet does not contain any tax forms.



Department of the Treasury
Internal Revenue Service

www.irs.gov

2001 1040

Instructions Including Instructions for Schedules A, B, C, D, E, F, J, and SE

Taxpayer News

So Easy, No Wonder 40 Million People Use It.



Delete the Paperwork. Hit **SEND**

For details, see page 3 or go to www.irs.gov.

Tax Rates Reduced!

Most of the tax rates have been reduced. Some people may also be able to claim the rate reduction credit. See page 14.

More Student Loan Interest Deductible!

You may be able to deduct up to \$2,500. See page 14.

Larger Child Tax Credits!

You may be able to claim credits of up to \$600 for each child under 17. Also, more people may now claim the additional child tax credit. See page 14.

You May Choose Someone Else To Deal Directly With the IRS!

You can now check a box on your return and provide certain identifying information if you want to allow another person to resolve certain issues with the IRS. See page 14.

The Internal Revenue Service • Working to put service first

A Message From the Commissioner

Dear Taxpayer:

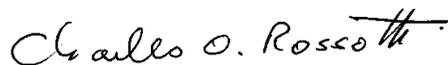
We know that preparing your tax return is not always an easy task. We at the IRS are working as hard as we can, within the limits of the law, to make filing simpler and easier for you.

Here are some of the things we have done that may help you file and pay your taxes more easily.

- If you have capital gains, we have made the tax computation on Schedule D easier for most taxpayers by removing 14 lines.
- You can designate another person (such as your preparer, relative, or friend) to discuss your return with the IRS to resolve questions that may arise in processing your return. Just fill out the Third Party Designee section on your return.
- If you have questions about how to fill out your return, you can get many of the answers 24 hours a day from our Frequently Asked Questions section on our popular web site at www.irs.gov/tax_edu/faq/index.html.
- If you need a form, you can download it directly from the IRS Web Site at www.irs.gov.
- In most cases, you can now file your return and pay your taxes electronically without any paper forms required. Just visit our web site and it will provide you a choice of many web sites on which you can prepare your return and file it with the IRS. You can use a credit or debit card to pay any balance due. Last year, over 40 million people filed electronically—and got the benefits of much faster refunds, much less chance of receiving an error notice from the IRS, and positive confirmation that their returns were received.
- If you cannot file by April 15 and need an extension to file, you can get one automatically by telephone by calling 1-888-796-1074. Remember, even if you get an extension, you still have to pay any taxes due by April 15 and you can do this by phone as well.

We know there is a lot more for us to do to serve you better and we plan many more improvements in the future. If you have specific suggestions how we can make it easier for you to file and pay your taxes, please e-mail them to us through the IRS Web Site at www.irs.gov/help/email2.html.

Sincerely,



Charles O. Rossotti

The IRS Mission

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



So Easy, No Wonder 40 Million People Love It.

- **Accuracy!** Your chance of getting an error notice from the IRS is significantly reduced.
- **Security!** Your privacy and security are assured.
- **Electronic Signatures!** Create your own Personal Identification Number (PIN) and file a completely paperless return through your tax preparation software or tax professional. There is nothing to mail!
- **Proof of Acceptance!** You receive an electronic acknowledgement within 48 hours that the IRS has accepted your return for processing.
- **Fast Refunds!** You get your refund in half the time, even faster and safer with Direct Deposit—in as few as 10 days.
- **FREE/Low-Cost Filing!** Check out the IRS Web Site at www.irs.gov for IRS *e-file* partners offering free or low-cost filing options to taxpayers who qualify.
- **Electronic Payment Options!** Convenient, safe, and secure electronic payment options are available. *e-file* and pay in a single step. Schedule an electronic funds withdrawal from your bank account (up to and including April 15, 2002) or pay by credit card.
- **Federal/State *e-file*!** Prepare and file your Federal and state returns together and double the benefits you get from *e-file*.

Get all the details on page 55 or
check out the IRS Web Site at www.irs.gov.



Delete the Paperwork. Hit



Tax Return Page Reference

Questions about what to put on a line? Help is on the page number in the circle.

Form **1040**

Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2001

(99) IRS Use Only—Do not write or staple in this space.

Label (19) (See instructions on page 19.)
Use the IRS label. Otherwise, please print or type.

L A B E L H E R E

For the year Jan. 1–Dec. 31, 2001, or other tax year beginning _____, 2001, ending _____, 20		OMB No. 1545-0074
Your first name and initial	Last name	Your social security number (19)
If a joint return, spouse's first name and initial	Last name	Spouse's social security number (19)
FOR REFERENCE ONLY—DO NOT FILE		
Home address (number and street). If you have a P.O. box, see page 19.	Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, see page 19.		

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

Presidential Election Campaign (See page 19.) (19) **Note.** Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want \$3 to go to this fund? Yes No Yes No

Filing Status (19) Check only one box.

1	<input type="checkbox"/> Single
2	<input type="checkbox"/> Married filing joint return (even if only one had income)
3	<input type="checkbox"/> Married filing separate return. Enter spouse's social security no. above and full name here. ▶ _____
4	<input type="checkbox"/> Head of household (with qualifying person). (See page 19.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ _____
5	<input type="checkbox"/> Qualifying widow(er) with dependent child (year spouse died ▶ _____). (See page 19.)

Exemptions (19)

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

b **Spouse**

c Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 20)
(1) First name	Last name			
		(20)		(20)
				(20)
				(20)
				(20)
				(20)
				(20)

d Total number of exemptions claimed _____

No. of boxes checked on 6a and 6b _____
No. of your children on 6c who:
• lived with you _____
• did not live with you due to divorce or separation (see page 20) _____
Dependents on 6c not entered above _____
Add numbers entered on lines above

Income (53) Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7 (21)		
8a	Taxable interest. Attach Schedule B if required	8b (21)	8a (21)		
9	Ordinary dividends. Attach Schedule B if required (B-1)		9 (21)		
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 22)		10 (22)		
11	Alimony received		11 (23)		
12	Business income or (loss). Attach Schedule C or C-EZ		12 (23)		
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>		13 (23)		
14	Other gains or (losses). Attach Form 4797		14 (23)		
15a	Total IRA distributions	15a (23)	15b (23)		
16a	Total pensions and annuities	16a (23)	16b (23)		
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17		
18	Farm income or (loss). Attach Schedule F		18		
19	Unemployment compensation		19 (25)		
20a	Social security benefits	20a (25)	20b (25)		
21	Other income. List type and amount (see page 27)		21 (27)		
22	Add the amounts in the far right column for lines 7 through 21. This is your total income ▶		22		

Adjusted Gross Income

23	IRA deduction (see page 27)	23 (27)		
24	Student loan interest deduction (see page 28)	24 (28)		
25	Archer MSA deduction. Attach Form 8853	25 (29)		
26	Moving expenses. Attach Form 3903	26 (29)		
27	One-half of self-employment tax. Attach Schedule SE	27 (30)		
28	Self-employed health insurance deduction (see page 30)	28 (30)		
29	Self-employed SEP, SIMPLE, and qualified plans	29 (30)		
30	Penalty on early withdrawal of savings	30 (30)		
31a	Alimony paid b Recipient's SSN ▶ _____	31a (30)		
32	Add lines 23 through 31a		32 (30)	
33	Subtract line 32 from line 22. This is your adjusted gross income ▶		33 (31)	

IRS Customer Service Standards

At the IRS, our goal is to continually improve the quality of our services. To achieve that goal, we have developed customer service standards in the following areas:

- **Easier filing and payment options**
- **Access to information**
- **Accuracy**

- **Prompt refunds**
- **Initial contact resolution**
- **Canceling penalties**
- **Resolving problems**
- **Simpler forms**

If you would like information about the IRS standards and a report of our accomplishments, see **Pub. 2183**.

Help With Unresolved Tax Issues

Office of the Taxpayer Advocate

Contacting Your Taxpayer Advocate

If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels.

While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

Handling Your Tax Problems

Your assigned personal advocate will listen to your point of view and will work with you to address your concerns. You can expect the advocate to provide you with:

- A “fresh look” at your new or on-going problem
- Timely acknowledgment
- The name and phone number of the individual assigned to your case
- Updates on progress
- Timeframes for action
- Speedy resolution
- Courteous service

Information You Should Be Prepared To Provide

- Your name, address, and social security number (or employer identification number)
- Your telephone number and hours you can be reached
- The type of tax return and year(s) involved
- A detailed description of your problem
- Your previous attempts to solve the problem and the office you contacted, and
- Description of the hardship you are facing (if applicable)

How To Contact Your Taxpayer Advocate

- Call the Taxpayer Advocate’s toll-free number: **1-877-777-4778**
- Call, write, or fax the Taxpayer Advocate office in your area (see **Pub. 1546** for addresses and phone numbers)
- TTY/TDD help is available by calling 1-800-829-4059

Quick and Easy Access to Tax Help and Forms

Note. If you live outside the United States, see **Pub. 54** to find out how to get help and forms.



Personal Computer

You can access the IRS Web Site 24 hours a day, 7 days a week, at www.irs.gov to:

- Download forms, instructions, and publications
- See answers to frequently asked tax questions
- Search publications on-line by topic or keyword
- Figure your withholding allowances using our W-4 calculator
- Send us comments or request help by e-mail
- Sign up to receive local and national tax news by e-mail

You can also reach us using File Transfer Protocol at [ftp.irs.gov](ftp://ftp.irs.gov)



Fax

You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call **703-368-9694** from the telephone connected to the fax machine.

See pages 8 and 9 for a list of the items available.

For help with transmission problems, call the FedWorld Help Desk at **703-487-4608**.

Long-distance charges may apply.



Mail

You can order forms, instructions, and publications by completing the order blank on page 57. You should receive your order within 10 days after we receive your request.



Phone

You can order forms and publications and receive automated information 24 hours a day, 7 days a week, by phone.

Forms and Publications

Call **1-800-TAX-FORM** (1-800-829-3676) to order current year forms, instructions, and publications, and prior year forms and instructions. You should receive your order within 10 days.

TeleTax Topics

Call **1-800-829-4477** to listen to pre-recorded messages covering about 150 tax topics. See pages 11 and 12 for a list of the topics.

Refund Information

You can check the status of your 2001 refund using TeleTax's Refund Information service. See page 11.



Walk-In

You can pick up some of the most requested forms, instructions, and publications at many IRS offices, post offices, and libraries. Some IRS offices, libraries, city and county government

offices, credit unions, grocery stores, office supply stores, and copy centers have an extensive collection of products available to photocopy or print from a CD-ROM.



CD-ROM

Order **Pub. 1796**, Federal Tax Products on CD-ROM, and get:

- Current year forms, instructions, and publications
- Prior year forms, instructions, and publications
- Frequently requested tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping
- The Internal Revenue Bulletin

Buy the CD-ROM on the Internet at www.irs.gov/cdorders from the National Technical Information Service (NTIS) for \$21 (no handling fee) or call **1-877-CDFORMS** (1-877-233-6767) toll free to buy the CD-ROM for \$21 (plus a \$5 handling fee).

You can also get help in other ways—See page 56 for information.

Forms by Fax

The following forms and instructions are available through our **Tax Fax** service 24 hours a day, 7 days a week. Just call **703-368-9694** from the telephone connected to the fax machine. Long-distance charges may apply. When you call, you will hear instructions on how to use the service. Select the option for getting forms. Then, enter the **Catalog Number** (Cat. No.) shown below for each item you want. When you hang up the phone, the fax will begin.

Name of Form or Instructions	Title of Form or Instructions	Cat. No.	No. of Pages	Name of Form or Instructions	Title of Form or Instructions	Cat. No.	No. of Pages
Form SS-4	Application for Employer Identification Number	16055	2	Schedule A (Form 990 or 990-EZ)	Organization Exempt Under Section 501(c)(3)	11285	6
Instr. SS-4		62736	6	Instr. Sch. A		11294	14
Form SS-8	Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding	16106	5	Form 990-EZ	Short Form Return of Organization Exempt From Income Tax	10642	2
Form W-2c	Corrected Wage and Tax Statement	61437	8	Instr. 990-EZ	Specific Instructions for Form 990-EZ	50003	9
Form W-3c	Transmittal of Corrected Wage and Tax Statements	10164	2	Form 1040	U.S. Individual Income Tax Return	11320	2
Instr. W-2c and W-3c		25978	4	Instr. 1040	Line Instructions for Form 1040	11325	34
Form W-4	Employee's Withholding Allowance Certificate	10220	2	Instr. 1040	General Information for Form 1040	24811	26
Form W-4P	Withholding Certificate for Pension or Annuity Payments	10225	4	Tax Table and Tax Rate Sch.	Tax Table and Tax Rate Schedules (Form 1040)	24327	13
Form W-5	Earned Income Credit Advance Payment Certificate	10227	3	Schedules A&B (Form 1040)	Itemized Deductions & Interest and Ordinary Dividends	11330	2
Form W-7	Application for IRS Individual Taxpayer Identification Number	10229	3	Instr. Sch. A&B		24328	8
Form W-7A	Application for Taxpayer Identification Number for Pending U.S. Adoptions	24309	2	Schedule C (Form 1040)	Profit or Loss From Business (Sole Proprietorship)	11334	2
Form W-7P	Application for Preparer Tax Identification Number	26781	1	Instr. Sch. C		24329	8
Form W-9	Request for Taxpayer Identification Number and Certification	10231	2	Schedule C-EZ (Form 1040)	Net Profit From Business (Sole Proprietorship)	14374	2
Instr. W-9		20479	2	Schedule D (Form 1040)	Capital Gains and Losses	11338	2
Form W-9S	Request for Student's or Borrower's Taxpayer Identification Number and Certification	25240	2	Instr. Sch. D		24331	9
Form W-10	Dependent Care Provider's Identification and Certification	10437	1	Schedule D-1 (Form 1040)	Continuation Sheet for Schedule D	10424	2
Form 709	U.S. Gift (and Generation-Skipping Transfer) Tax Return	16783	4	Schedule E (Form 1040)	Supplemental Income and Loss	11344	2
Instr. 709		16784	12	Instr. Sch. E		24332	6
Form 709A	U.S. Short Form Gift Tax Return	10171	3	Schedule EIC (Form 1040A or 1040)	Earned Income Credit	13339	2
Form 843	Claim for Refund and Request for Abatement	10180	1	Schedule F (Form 1040)	Profit or Loss From Farming	11346	2
Instr. 843		11200	2	Instr. Sch. F		24333	6
Form 940	Employer's Annual Federal Unemployment (FUTA) Tax Return	11234	2	Schedule H (Form 1040)	Household Employment Taxes	12187	2
Instr. 940		13660	6	Instr. Sch. H		21451	8
Form 940-EZ	Employer's Annual Federal Unemployment (FUTA) Tax Return	10983	2	Schedule J (Form 1040)	Farm Income Averaging	25513	1
Instr. 940-EZ		25947	5	Instr. Sch. J		25514	7
Form 941	Employer's Quarterly Federal Tax Return	17001	4	Schedule R (Form 1040)	Credit for the Elderly or the Disabled	11359	2
Instr. 941		14625	4	Instr. Sch. R		11357	4
Form 941c	Supporting Statement To Correct Information	11242	4	Schedule SE (Form 1040)	Self-Employment Tax	11358	2
Form 990	Return of Organization Exempt From Income Tax	11282	6	Instr. Sch. SE		24334	4
Instr. 990 & 990-EZ	General Instructions for Forms 990 and 990-EZ	22386	14	Form 1040A	U.S. Individual Income Tax Return	11327	2
Instr. 990	Specific Instructions for Form 990	50002	18	Schedule 1 (Form 1040A)	Interest and Ordinary Dividends for Form 1040A Filers	12075	1
				Schedule 2 (Form 1040A)	Child and Dependent Care Expenses for Form 1040A Filers	10749	2
				Instr. Sch. 2		30139	3
				Schedule 3 (Form 1040A)	Credit for the Elderly or the Disabled for Form 1040A Filers	12064	2
				Instr. Sch. 3		12059	4
				Form 1040-ES	Estimated Tax for Individuals	11340	7
				Form 1040EZ	Income Tax Return for Single and Joint Filers With No Dependents	11329	2

Name of Form or Instructions	Title of Form or Instructions	Cat. No.	No. of Pages	Name of Form or Instructions	Title of Form or Instructions	Cat. No.	No. of Pages
Form 1040NR	U.S. Nonresident Alien Income Tax Return	11364	5	Form 6198	At-Risk Limitations	50012	1
Instr. 1040NR		11368	40	Instr. 6198		50013	8
Form 1040NR-EZ	U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents	21534	2	Form 6251	Alternative Minimum Tax—Individuals	13600	2
Instr. 1040NR-EZ		21718	16	Instr. 6251		64277	8
Form 1040-V	Payment Voucher	20975	2	Form 6252	Installment Sale Income	13601	4
Form 1040X	Amended U.S. Individual Income Tax Return	11360	2	Form 6781	Gains and Losses From Section 1256 Contracts and Straddles	13715	3
Instr. 1040X		11362	6	Form 8271	Investor Reporting of Tax Shelter Registration Number	61924	2
Form 1116	Foreign Tax Credit	11440	2	Form 8283	Noncash Charitable Contributions	62299	2
Instr. 1116		11441	12	Instr. 8283		62730	4
Form 1310	Statement of Person Claiming Refund Due a Deceased Taxpayer	11566	2	Form 8300	Report of Cash Payments Over \$10,000 Received in a Trade or Business	62133	4
Form 2106	Employee Business Expenses	11700	2	Form 8332	Release of Claim to Exemption for Child of Divorced or Separated Parents	13910	1
Instr. 2106		64188	4	Form 8379	Injured Spouse Claim and Allocation	62474	2
Form 2106-EZ	Unreimbursed Employee Business Expenses	20604	2	Form 8582	Passive Activity Loss Limitations	63704	3
Form 2120	Multiple Support Declaration	11712	1	Instr. 8582		64294	12
Form 2210	Underpayment of Estimated Tax by Individuals, Estates, and Trusts	11744	3	Form 8586	Low-Income Housing Credit	63987	2
Instr. 2210		63610	6	Form 8606	Nondeductible IRAs and Coverdell ESAs	63966	2
Form 2290	Heavy Highway Vehicle Use Tax Return	11250	3	Instr. 8606		25399	8
Instr. 2290		27231	8	Form 8615	Tax for Children Under Age 14 With Investment Income of More Than \$1,500	64113	1
Form 2441	Child and Dependent Care Expenses	11862	2	Instr. 8615		28914	2
Instr. 2441		10842	3	Form 8718	User Fee for Exempt Organization Determination Letter Request	64728	1
Form 2553	Election by a Small Business Corporation	18629	2	Form 8801	Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts	10002	4
Instr. 2553		49978	4	Form 8809	Request for Extension of Time To File Information Returns	10322	2
Form 2555	Foreign Earned Income	11900	3	Form 8812	Additional Child Tax Credit	10644	2
Instr. 2555		11901	4	Form 8814	Parents' Election To Report Child's Interest and Dividends	10750	2
Form 2555-EZ	Foreign Earned Income Exclusion	13272	2	Form 8815	Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989	10822	2
Instr. 2555-EZ		14623	3	Form 8822	Change of Address	12081	2
Form 2688	Application for Additional Extension of Time To File U.S. Individual Income Tax Return	11958	2	Form 8824	Like-Kind Exchanges	12311	4
Form 2848	Power of Attorney and Declaration of Representative	11980	2	Form 8829	Expenses for Business Use of Your Home	13232	1
Instr. 2848		11981	4	Instr. 8829		15683	4
Form 3903	Moving Expenses	12490	2	Form 8839	Qualified Adoption Expenses	22843	2
Form 4136	Credit for Federal Tax Paid on Fuels	12625	4	Instr. 8839		23077	4
Form 4137	Social Security and Medicare Tax on Unreported Tip Income	12626	2	Form 8850	Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Credits	22851	2
Form 4506	Request for Copy or Transcript of Tax Form	41721	2	Instr. 8850		24833	2
Form 4562	Depreciation and Amortization	12906	2	Form 8853	Archer MSAs and Long-Term Care Insurance Contracts	24091	2
Instr. 4562		12907	12	Instr. 8853		24188	8
Form 4684	Casualties and Thefts	12997	2	Form 8857	Request for Innocent Spouse Relief	24647	4
Instr. 4684		12998	4	Form 8859	District of Columbia First-Time Homebuyer Credit	24779	2
Form 4797	Sales of Business Property	13086	2	Form 8862	Information To Claim Earned Income Credit After Disallowance	25145	2
Instr. 4797		13087	7	Instr. 8862		25343	2
Form 4835	Farm Rental Income and Expenses	13117	2	Form 8863	Education Credits	25379	3
Form 4868	Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141	4	Form 9465	Installment Agreement Request	14842	2
Form 4952	Investment Interest Expense Deduction	13177	2				
Form 4972	Tax on Lump-Sum Distributions	13187	4				
Form 5329	Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts	13329	2				
Instr. 5329		13330	4				

Partial List of Publications

The following publications are available through the IRS Web Site 24 hours a day, 7 days a week, at www.irs.gov. You can also order publications by calling **1-800-TAX-FORM** (1-800-829-3676) or by completing the order blank on page 57. You should receive your order within 10 days after we receive your request. For a complete list of available publications, see **Pub. 910**.

Pub. No.	Title	Pub. No.	Title
1	Your Rights as a Taxpayer	570	Tax Guide for Individuals With Income From U.S. Possessions
3	Armed Forces' Tax Guide	575	Pension and Annuity Income
17	Your Federal Income Tax (For Individuals)	584	Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
225	Farmer's Tax Guide	587	Business Use of Your Home (Including Use by Day-Care Providers)
334	Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)	590	Individual Retirement Arrangements (IRAs)
378	Fuel Tax Credits and Refunds	593	Tax Highlights for U.S. Citizens and Residents Going Abroad
463	Travel, Entertainment, Gift, and Car Expenses	594	The IRS Collection Process
501	Exemptions, Standard Deduction, and Filing Information	595	Tax Highlights for Commercial Fishermen
502	Medical and Dental Expenses	596	Earned Income Credit (EIC)
503	Child and Dependent Care Expenses	721	Tax Guide to U.S. Civil Service Retirement Benefits
504	Divorced or Separated Individuals	901	U.S. Tax Treaties
505	Tax Withholding and Estimated Tax	907	Tax Highlights for Persons With Disabilities
508	Tax Benefits for Work-Related Education	908	Bankruptcy Tax Guide
509	Tax Calendars for 2002	910	Guide To Free Tax Services
514	Foreign Tax Credit for Individuals	911	Direct Sellers
516	U.S. Government Civilian Employees Stationed Abroad	915	Social Security and Equivalent Railroad Retirement Benefits
517	Social Security and Other Information for Members of the Clergy and Religious Workers	919	How Do I Adjust My Tax Withholding?
519	U.S. Tax Guide for Aliens	925	Passive Activity and At-Risk Rules
520	Scholarships and Fellowships	926	Household Employer's Tax Guide
521	Moving Expenses	929	Tax Rules for Children and Dependents
523	Selling Your Home	936	Home Mortgage Interest Deduction
524	Credit for the Elderly or the Disabled	946	How To Depreciate Property
525	Taxable and Nontaxable Income	947	Practice Before the IRS and Power of Attorney
526	Charitable Contributions	950	Introduction to Estate and Gift Taxes
527	Residential Rental Property	967	The IRS Will Figure Your Tax
529	Miscellaneous Deductions	968	Tax Benefits for Adoption
530	Tax Information for First-Time Homeowners	970	Tax Benefits for Higher Education
531	Reporting Tip Income	971	Innocent Spouse Relief
533	Self-Employment Tax	972	Child Tax Credit
534	Depreciating Property Placed in Service Before 1987	1542	Per Diem Rates
535	Business Expenses	1544	Reporting Cash Payments of Over \$10,000
537	Installment Sales	1546	The Taxpayer Advocate Service of the IRS
541	Partnerships	3920	Tax Relief for Victims of Terrorist Attacks
544	Sales and Other Dispositions of Assets		
547	Casualties, Disasters, and Thefts		
550	Investment Income and Expenses		
551	Basis of Assets		
552	Recordkeeping for Individuals		
553	Highlights of 2001 Tax Changes		
554	Older Americans' Tax Guide		
555	Community Property		
556	Examination of Returns, Appeal Rights, and Claims for Refund		
559	Survivors, Executors, and Administrators		
561	Determining the Value of Donated Property		
564	Mutual Fund Distributions		
		Spanish Language Publications	
		1SP	Your Rights as a Taxpayer
		579SP	How To Prepare Your Federal Income Tax Return
		594SP	The IRS Collection Process
		596SP	Earned Income Credit
		850	English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
		1544SP	Reporting Cash Payments of Over \$10,000

What Is TeleTax?

Call TeleTax at **1-800-829-4477** for:

- **Refund information.** Check the status of your **2001** refund.
- **Recorded tax information.** There are about 150 topics that answer many Federal tax questions.
- **2001 advance payment (rebate) information.** Find out the amount of your advance payment (before offset). You may need this information to complete the Rate Reduction Credit Worksheet on page 36.

How Do You Use TeleTax?

Refund Information

Refund information is not available until at least 4 weeks after you file your return (3 weeks if you file electronically), and sometimes is not available for up to 6 weeks. Please wait at least 4 weeks from the date you filed before calling to check the status of your refund. Do not send in a copy of your return unless asked to do so.

Be sure to have a copy of your 2001 tax return available because you will need to know the first social security number shown on your return, the filing status, and the **exact** whole-dollar amount of your refund. Then, call **1-800-829-4477** and follow the recorded instructions.



Refunds are sent out weekly on Fridays. If you call to check the status of your refund and are not given the date it will be issued, please wait until the next week before calling back.

Recorded Tax Information

Recorded tax information is available 24 hours a day, 7 days a week. Select the number of the topic you want to hear. Then, call **1-800-829-4477**. Have paper and pencil handy to take notes.

Topics by Personal Computer

TeleTax topics are also available using a personal computer and modem (go to www.irs.gov).

TeleTax Topics

All topics are available in Spanish.

Topic No.

Subject

- IRS Help Available**
- 101 IRS services—Volunteer tax assistance, toll-free telephone, walk-in assistance, and outreach programs
- 102 Tax assistance for individuals with disabilities and the hearing impaired
- 103 Intro. to Federal taxes for small businesses/self-employed
- 104 Taxpayer Advocate program—Help for problem situations
- 105 Public libraries—Tax information tapes and reproducible tax forms
- IRS Procedures**
- 151 Your appeal rights
- 152 Refunds—How long they should take
- 153 What to do if you haven't filed your tax return (Nonfilers)
- 154 Form W-2—What to do if not received
- 155 Forms and Publications—How to order
- 156 Copy of your tax return—How to get one
- 157 Change of address—How to notify IRS
- 158 Ensuring proper credit of payments

Topic No.

Subject

- Collection**
- 201 The collection process
- 202 What to do if you can't pay your tax
- 203 Failure to pay child support and Federal nontax and state income tax obligations
- 204 Offers in compromise
- 205 Innocent spouse relief
- Alternative Filing Methods**
- 251 Signing your return with a self-select PIN
- 252 Electronic filing
- 253 Substitute tax forms
- 254 How to choose a paid tax preparer
- 255 TeleFile
- General Information**
- 301 When, where, and how to file
- 302 Highlights of tax changes
- 303 Checklist of common errors when preparing your tax return
- 304 Extensions of time to file your tax return
- 305 Recordkeeping
- 306 Penalty for underpayment of estimated tax
- 307 Backup withholding
- 308 Amended returns
- 309 Roth IRA contributions
- 310 Coverdell education savings accounts
- 311 Power of attorney information

Topic No.

Subject

- Filing Requirements, Filing Status, and Exemptions**
- 351 Who must file?
- 352 Which form—1040, 1040A, or 1040EZ?
- 353 What is your filing status?
- 354 Dependents
- 355 Estimated tax
- 356 Decedents
- Types of Income**
- 401 Wages and salaries
- 402 Tips
- 403 Interest received
- 404 Dividends
- 405 Refunds of state and local taxes
- 406 Alimony received
- 407 Business income
- 408 Sole proprietorship
- 409 Capital gains and losses
- 410 Pensions and annuities
- 411 Pensions—The general rule and the simplified method
- 412 Lump-sum distributions
- 413 Rollovers from retirement plans
- 414 Rental income and expenses
- 415 Renting vacation property and renting to relatives
- 416 Farming and fishing income
- 417 Earnings for clergy
- 418 Unemployment compensation
- 419 Gambling income and expenses
- 420 Bartering income

(Continued on page 12)

TeleTax Topics

(Continued)

Topic No.	Subject
421	Scholarship and fellowship grants
422	Nontaxable income
423	Social security and equivalent railroad retirement benefits
424	401(k) plans
425	Passive activities—Losses and credits
426	Other income
427	Stock options
428	Roth IRA distributions
429	Traders
430	Demutualization
431	Sale of assets held for more than 5 years
Adjustments to Income	
451	Individual retirement arrangements (IRAs)
452	Alimony paid
453	Bad debt deduction
454	Tax shelters
455	Moving expenses
456	Student loan interest deduction
457	Deduction for higher education expenses (for 2002)
Itemized Deductions	
501	Should I itemize?
502	Medical and dental expenses
503	Deductible taxes
504	Home mortgage points
505	Interest expense
506	Contributions
507	Casualty and theft losses
508	Miscellaneous expenses
509	Business use of home
510	Business use of car
511	Business travel expenses
512	Business entertainment expenses
513	Educational expenses
514	Employee business expenses
515	Disaster area losses
Tax Computation	
551	Standard deduction
552	Tax and credits figured by the IRS
553	Tax on a child's investment income
554	Self-employment tax
555	Ten-year tax option for lump-sum distributions
556	Alternative minimum tax
557	Tax on early distributions from traditional and Roth IRAs
558	Tax on early distributions from retirement plans

Topic No.	Subject
Tax Credits	
601	Earned income credit (EIC)
602	Child and dependent care credit
603	Credit for the elderly or the disabled
604	Advance earned income credit
605	Education credits
606	Child tax credits
607	Adoption credit
608	Excess social security and RRTA tax withheld
609	Rate reduction credit
IRS Notices	
651	Notices—What to do
652	Notice of underreported income—CP 2000
653	IRS notices and bills, penalties, and interest charges
Basis of Assets, Depreciation, and Sale of Assets	
701	Sale of your home
703	Basis of assets
704	Depreciation
705	Installment sales
Employer Tax Information	
751	Social security and Medicare withholding rates
752	Form W-2—Where, when, and how to file
753	Form W-4—Employee's Withholding Allowance Certificate
754	Form W-5—Advance earned income credit
755	Employer identification number (EIN)—How to apply
756	Employment taxes for household employees
757	Form 941—Deposit requirements
758	Form 941—Employer's Quarterly Federal Tax Return
759	Form 940 and 940-EZ—Deposit requirements
760	Form 940 and Form 940-EZ—Employer's Annual Federal Unemployment Tax Returns
761	Tips—Withholding and reporting
762	Independent contractor vs. employee

Topic No.	Subject
Magnetic Media Filers—1099 Series and Related Information Returns	
801	Who must file magnetically
802	Applications, forms, and information
803	Waivers and extensions
804	Test files and combined Federal and state filing
805	Electronic filing of information returns
Tax Information for Aliens and U.S. Citizens Living Abroad	
851	Resident and nonresident aliens
852	Dual-status alien
853	Foreign earned income exclusion—General
854	Foreign earned income exclusion—Who qualifies?
855	Foreign earned income exclusion—What qualifies?
856	Foreign tax credit
857	Individual Taxpayer Identification Number—Form W-7
858	Alien tax clearance
Tax Information for Puerto Rico Residents (in Spanish only)	
901	Who must file a U.S. income tax return in Puerto Rico
902	Deductions and credits for Puerto Rico filers
903	Federal employment taxes in Puerto Rico
904	Tax assistance for Puerto Rico residents

**Topic numbers are effective
January 1, 2002.**

Calling the IRS

If you cannot answer your question by using one of the methods listed on page 7, please call us for assistance at **1-800-829-1040**. You will not be charged for the call unless your phone company charges you for local calls. Our normal hours of operation are Monday through Friday from 7:00 a.m. to 10:00 p.m. local time. Beginning December 31, 2001, through April 16, 2002, assistance will also be available on Saturday from 9:00 a.m. to 5:00 p.m. local time. Assistance provided to callers from Alaska and Hawaii will be based on the hours of operation in the Pacific Time zone.



If you want to check the status of your **2001 refund**, call **TeleTax** at **1-800-829-4477** (see page 11 for instructions).

Employee Plans. If you own a business and have questions about starting a pension or other employee plan, an existing plan, or filing **Form 5500**, call our **Tax Exempt/Government Entities Customer Account Services** at **1-877-829-5500**. Assistance is available Monday through Friday from 8:00 a.m. to 9:30 p.m. EST. If you have questions about an individual retirement arrangement (IRA), call **1-800-829-1040**.

Exempt Organizations. If you have questions about exempt organizations, including the types of tax-exempt organizations, or you want to verify an organization's charitable status, call our **Tax Exempt/Government Entities Customer Account Services** at **1-877-829-5500**. Assistance is available Monday through Friday from 8:00 a.m. to 9:30 p.m. EST.

Before You Call

IRS representatives care about the quality of the service we provide to you, our customer. You can help us provide accurate, complete answers to your questions by having the following information available.

- The tax form, schedule, or notice to which your question relates.
- The facts about your particular situation. The answer to the same question often varies from one taxpayer to another because of differences in their age, income, whether they can be claimed as a dependent, etc.
- The name of any IRS publication or other source of information that you used to look for the answer.

To maintain your account security, you may be asked for the following information, which you should also have available.

- Your social security number.
- The amount of refund and filing status shown on your tax return.
- The "Caller ID Number" shown at the top of any notice you received.
- Your personal identification number (PIN) if you have one.
- Your date of birth.
- The numbers in your street address.
- Your ZIP code.

If you are asking for an installment agreement to pay your tax, you will be asked for the highest amount you can pay each month and the date on which you can pay it.

Evaluation of Services Provided. The IRS uses several methods to evaluate the quality of this telephone service. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Making the Call

Call **1-800-829-1040** (for TTY/TDD help, call 1-800-829-4059). We have redesigned our menus to allow callers with pulse or rotary dial telephones to speak their responses when requested to do so. First, you will be provided a series of options that will request touch-tone responses. If a touch-tone response is not received, you will then hear a series of options and be asked to speak your selections. After your touch-tone or spoken response is received, the system will direct your call to the appropriate assistance. You can do the following within the system.

- Order tax forms and publications.
- Find out the status of your refund or what you owe.
- Determine if we have adjusted your account or received payments you made.
- Request a transcript of your account.
- Find out where to send your tax return or payment.
- Request more time to pay or set up a monthly installment agreement.

Before You Hang Up

If you do not fully understand the answer you receive, or you feel our representative may not fully understand your question, our representative needs to know this. He or she will be happy to take additional time to be sure your question is answered fully.

By law, you are responsible for paying your share of Federal income tax. If we should make an error in answering your question, you are still responsible for the payment of the correct tax. Should this occur, however, you will not be charged any penalty.

Before You Fill In Form 1040

See **How To Avoid Common Mistakes** on page 54.

If you were in the Kosovo or Persian Gulf area (for example, you supported operations in a qualified hazardous duty area), see **Pub. 3**.



For details on the changes for 2001 and 2002, see **Pub. 553**.

What's New for 2001?

Tax Rates Reduced. Most of the tax rates have been reduced and are reflected in the Tax Table that begins on page 59 and the Tax Rate Schedules on page 71. In addition, a new 10% tax rate applies to certain dependents. **Dependents** may be able to use the **Tax Computation Worksheet for Certain Dependents** to figure their tax. This worksheet gives the benefit of a new 10% rate. See the instructions for line 40 that begin on page 33. Dependents cannot take the rate reduction credit mentioned below.

Rate Reduction Credit. You may be able to take a new credit of up to the amount shown below for your 2001 filing status. But you cannot take this credit if you received (before offset) an advance payment of your 2001 taxes that was equal to or more than the amount shown below. See the worksheet on page 36.

- Single or married filing separately—\$300
- Head of household—\$500
- Married filing jointly or qualifying widow(er)—\$600

Advance Payment Not Taxable. Any amount you received as an advance payment of your 2001 taxes is not taxable and should not be reported on your return.

Larger Child Tax Credits. If you have at least one child who was under age 17 at the end of 2001, you may be able to take a credit on line 48 of up to \$600 for each qualifying child. You may also be able to take the additional child tax credit on line 63 if your credit on line 48 is less than \$600 for each qualifying child. See the instructions for line 48 that begin on page 37 and the instructions for line 63 on page 51.

Student Loan Interest Deduction. If you paid interest on a qualified student loan, you may be able to deduct up to \$2,500 of the interest. See the instructions for line 24 that begin on page 28.

Third Party Designee. If you want to allow the IRS to discuss your 2001 tax return with a family member, friend, or any other person you choose, check the "Yes" box in the Third Party Designee area of your return and

enter the requested information. See page 53 for details.

Schedule D Tax Computation Simplified. To make the tax computation easier for most people with capital gains, 14 lines have been removed from Part IV of Schedule D.

IRA Deduction. You may be able to take an IRA deduction if you were covered by a retirement plan and your modified adjusted gross income is less than \$43,000 (\$63,000 if married filing jointly or qualifying widow(er)). See the instructions for line 23 that begin on page 27.

Education (Ed) IRAs. Ed IRAs are now called Coverdell education savings accounts (ESAs).

Earned Income Credit (EIC). You may be able to take this credit if you earned less than \$32,121 (less than \$10,710 if you do not have any qualifying children). See the instructions for lines 61a and 61b that begin on page 41.

Alternative Minimum Tax (AMT). The AMT exemption amounts have been increased. See the instructions for line 41 that begin on page 34.

Standard Mileage Rates. The rate for business use of your vehicle is 34½ cents a mile. The rate for use of your vehicle to get medical care is 12 cents a mile.

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 You File?** on the back cover.

Tax Relief for Victims of Terrorist Attacks. See **Pub. 3920**.

Other Information

Did You Convert an IRA to a Roth IRA in 1998? If you did, see **1998 Roth IRA Conversions** on page 23 to find out the taxable amount you must report in 2001 on line 15b.

Parent of a Kidnapped Child. The parent of a child who is presumed by law enforcement authorities to have been kidnapped by someone who is not a family member may be able to take the child into account in determining his or her eligibility for the head of household or qualifying widow(er) filing status, deduction for dependents, child tax

credit, and the earned income credit (EIC). For details, see **Pub. 501 (Pub. 596 for the EIC)**.

Payments to Holocaust Victims. Restitution payments received by holocaust victims or their heirs after 1999 (and certain interest earned on the payments) are not taxable. If you reported these amounts on your 2000 return or used them to compute any amount affecting your 2000 tax liability, you may need to file **Form 1040X** to amend your 2000 return. For more details, see **Pub. 525**.

What To Look for in 2002

Reduced Tax Rates. Most of the tax rates will decrease by ½% and a new 10% tax rate will apply to all filers.

New Deduction for Higher Education Expenses. You may be able to deduct up to \$3,000 of the qualified education expenses you pay for yourself, your spouse, or your dependents if your 2002 modified AGI is \$130,000 or less.

New Credit for Elective Deferrals and IRA Contributions. You may be able to take a credit of up to \$1,000 for qualified retirement savings contributions if your 2002 modified AGI is \$50,000 or less.

IRA Deduction Expanded. You, and your spouse if filing jointly, may be able to take an IRA deduction of up to \$3,000 (\$3,500 if you will be age 50 or older at the end of 2002). If you are covered by a retirement plan, you may be able to take an IRA deduction if your 2002 modified AGI is less than \$44,000 (\$64,000 if married filing jointly or qualifying widow(er)).

Student Loan Interest Deduction. The 60-month limit will no longer apply and the modified AGI limit will increase.

Self-Employed Health Insurance Deduction. You may be able to deduct up to 70% of your health insurance expenses.

Adoption Credit. You may be able to take a credit of up to \$10,000 for the qualified adoption expenses you pay to adopt a child.

EIC Computation Simplified. Nontaxable earned income and modified AGI will not be taken into account in determining if you are eligible for the credit or the amount of your credit.

Coverdell ESAs. You may be able to contribute up to \$2,000 to a Coverdell ESA.

Filing Requirements

These rules apply to all U.S. citizens, regardless of where they live, and resident aliens.

Do You Have To File?

Use **Chart A, B, or C** to see if you must file a return. U.S. citizens who lived in or had income from a U.S. possession should see **Pub. 570**. Residents of Puerto Rico can use TeleTax topic 901 (see page 11) to see if they must file.



Even if you do not otherwise have to file a return, you should file one to get a refund of any Federal income tax withheld. You should also file if you are eligible for the earned income credit or the additional child tax credit.

Exception for Children Under Age 14. If you are planning to file a return for your child who was under age 14 on January 1, 2002, and certain other conditions apply, you may elect to report your child's income on your return. But you must use **Form 8814** to do so. If you make this election, your child does not have to file a return. For details, use TeleTax topic 553 (see page 11) or see Form 8814.

Nonresident Aliens and Dual-Status Aliens. These rules also apply to nonresident aliens and dual-status aliens who were married to U.S. citizens or residents at the

end of 2001 and who have elected to be taxed as resident aliens. Other nonresident aliens and dual-status aliens have different filing requirements. They may have to file **Form 1040NR** or **Form 1040NR-EZ**. Specific rules apply to determine if you are a resident or nonresident alien. See **Pub. 519** for details, including the rules for students and scholars who are aliens.

When Should You File?

Not later than **April 15, 2002**. If you file after this date, you may have to pay interest and penalties. See page 56.

What if You Cannot File on Time?

You can get an automatic 4-month extension if, by April 15, 2002, you **either**:

- File **Form 4868** or
- File for an extension by phone, using tax software, or through a tax professional. If you expect to owe tax with your return, you can even pay part or all of it by electronic funds withdrawal or credit card (American Express® Card, Discover® Card, or MasterCard® card). See Form 4868 for details.



An automatic 4-month extension to file does not extend the time to pay your tax. See Form 4868.

If you are a U.S. citizen or resident, you may qualify for an automatic extension of time to file without filing Form 4868 or filing for an extension by phone, using tax software, or through a tax professional. You qualify if, on the due date of your return, you meet one of the following conditions.

- You live 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.
- You are in military or naval service on duty outside the United States and Puerto Rico.

This extension gives you an extra 2 months to file and pay the tax, but interest will be charged from the original due date of the return on any unpaid tax. You must attach a statement to your return showing that you meet the requirements.

Where Do You File?

See the back cover of this booklet for filing instructions and addresses. For details on using a private delivery service to mail your return or payment, see page 18.

Chart A—For Most People

IF your filing status is . . .	AND at the end of 2001 you were* . . .	THEN file a return if your gross income** was at least . . .
Single	under 65 65 or older	\$7,450 8,550
Married filing jointly***	under 65 (both spouses)	\$13,400
	65 or older (one spouse)	14,300
	65 or older (both spouses)	15,200
Married filing separately	any age	\$2,900
Head of household (see page 19)	under 65	\$9,550
	65 or older	10,650
Qualifying widow(er) with dependent child (see page 19)	under 65	\$10,500
	65 or older	11,400

* If you turned 65 on January 1, 2002, you are considered to be age 65 at the end of 2001.

** **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 in 2001.

*** If you did not live with your spouse at the end of 2001 (or on the date your spouse died) and your gross income was at least \$2,900, you must file a return regardless of your age.

Chart B—For Children and Other Dependents (See the instructions for line 6c on page 20 to find out if someone can claim you as a dependent.)

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

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



If your gross income was \$2,900 or more, you usually cannot be claimed as a dependent unless you were under age 19 or a student under age 24. For details, see **Pub. 501**.

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

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

- Your **unearned income** was over \$750.
- Your **earned income** was over \$4,550.
- Your **gross income** was more than the **larger** of—
 - \$750 **or**
 - Your earned income (up to \$4,300) plus \$250.

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

- Your unearned income was over \$1,850 (\$2,950 if 65 or older **and** blind).
- Your earned income was over \$5,650 (\$6,750 if 65 or older **and** blind).
- Your gross income was more than—

The larger of:	Plus	This amount:
<ul style="list-style-type: none"> ● \$750 or ● Your earned income (up to \$4,300) plus \$250 	}	\$1,100 (\$2,200 if 65 or older and blind)

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

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

- Your unearned income was over \$750.
- Your earned income was over \$3,800.
- Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
- Your gross income was more than the **larger** of—
 - \$750 **or**
 - Your earned income (up to \$3,550) plus \$250.

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

- Your unearned income was over \$1,650 (\$2,550 if 65 or older **and** blind).
- Your earned income was over \$4,700 (\$5,600 if 65 or older **and** blind).
- Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
- Your gross income was more than—

The larger of:	Plus	This amount:
<ul style="list-style-type: none"> ● \$750 or ● Your earned income (up to \$3,550) plus \$250 	}	\$900 (\$1,800 if 65 or older and blind)

Chart C—Other Situations When You Must File

You must file a return if any of the four conditions below apply for 2001.

1. You owe any special taxes, such as:

- Social security and Medicare tax on tips you did not report to your employer,
- Uncollected social security and Medicare or RRTA tax on tips you reported to your employer or on group-term life insurance,
- Alternative minimum tax,
- Recapture taxes (see the instructions for lines 40 and 58 that begin on pages 33 and 39), or
- Tax on a qualified plan, including an individual retirement arrangement (IRA), or other tax-favored account. But if you are filing a return only because you owe this tax, you can file **Form 5329** by itself.

2. You received any advance earned income credit (EIC) payments from your employer. These payments are shown in box 9 of your W-2 form.

3. You had net earnings from self-employment of at least \$400.

4. You had wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes.

Where To Report Certain Items From 2001 Forms W-2, 1098, and 1099

Report on Form 1040, line 59, any amounts shown on these forms as **Federal income tax withheld**. If you itemize your deductions, report on Schedule A, line 5, any amounts shown on these forms as **state or local income tax withheld**.

Form	Item and Box in Which it Should Appear	Where To Report if Filing Form 1040
W-2	Wages, salaries, tips, etc. (box 1)	Form 1040, line 7
	Allocated tips (box 8)	See Tip income on page 21
	Advance EIC payment (box 9)	Form 1040, line 56
	Dependent care benefits (box 10)	Form 2441, line 10
	Adoption benefits (box 12, code T)	Form 8839, line 18
	Employer contributions to an MSA (box 12, code R)*	Form 8853, line 3b
W-2G	Gambling winnings (box 1)	Form 1040, line 21 (Schedule C or C-EZ for professional gamblers)
1098	Mortgage interest (box 1)	Schedule A, line 10**
	Points (box 2)	
	Refund of overpaid interest (box 3)	Form 1040, line 21, but first see the instructions on Form 1098**
1098-E	Student loan interest (box 1)	See the instructions for Form 1040, line 24, that begin on page 28**
1099-A	Acquisition or abandonment of secured property	See Pub. 544
1099-B	Stocks, bonds, etc. (box 2)	Schedule D
	Bartering (box 3)	See Pub. 525
	Aggregate profit or (loss) on futures contracts (box 9)	Form 6781
1099-C	Canceled debt (box 2)	Form 1040, line 21, but first see the instructions on Form 1099-C**
1099-DIV	Ordinary dividends (box 1)	Form 1040, line 9
	Total capital gain distributions (box 2a)	Form 1040, line 13, or, if required, Schedule D, line 13, column (f)
	28% rate gain (box 2b)	Schedule D, line 13, column (g)
	Qualified 5-year gain (box 2c)	See the worksheet for Schedule D, line 29, on page D-8
	Unrecaptured section 1250 gain (box 2d)	See the worksheet for Schedule D, line 19, on page D-7
	Section 1202 gain (box 2e)	See the instructions for Schedule D
	Nontaxable distributions (box 3)	See the instructions for Form 1040, line 9, that begin on page 21
	Investment expenses (box 5)	Schedule A, line 22
Foreign tax paid (box 6)	Form 1040, line 43, or Schedule A, line 8	
1099-G	Unemployment compensation (box 1)	Form 1040, line 19. But if you repaid any unemployment compensation in 2001, see the instructions for line 19 on page 25
	State or local income tax refunds (box 2)	See the instructions for Form 1040, line 10, that begin on page 22**
	Qualified state tuition program earnings (box 5)	Form 1040, line 21
	Taxable grants (box 6)	Form 1040, line 21**
	Agriculture payments (box 7)	See the Schedule F instructions or Pub. 225

* MSAs were renamed Archer MSAs after Form W-2 was released for print.

** If the item relates to an activity for which you are required to file Schedule C, C-EZ, E, or F or Form 4835, report the taxable or deductible amount allocable to the activity on that schedule or form instead.

(Continued on page 18)

Form	Item and Box in Which it Should Appear	Where To Report if Filing Form 1040
1099-INT	Interest income (box 1)	Form 1040, line 8a
	Early withdrawal penalty (box 2)	Form 1040, line 30
	Interest on U.S. savings bonds and Treasury obligations (box 3)	See the instructions for Form 1040, line 8a, on page 21
	Investment expenses (box 5)	Schedule A, line 22
	Foreign tax paid (box 6)	Form 1040, line 43, or Schedule A, line 8
1099-LTC	Long-term care and accelerated death benefits	See Pub. 502 and the instructions for Form 8853
1099-MISC	Rents (box 1)	See the instructions for Schedule E
	Royalties (box 2)	Schedule E, line 4 (timber, coal, iron ore royalties, see Pub. 544)
	Other income (box 3)	Form 1040, line 21*
	Nonemployee compensation (box 7)	Schedule C, C-EZ, or F. But if you were not self-employed, see the instructions on Form 1099-MISC.
	Other (boxes 5, 6, 8, 9, 10, 13, and 14)	See the instructions on Form 1099-MISC
1099-MSA	Distributions from MSAs**	Form 8853
1099-OID	Original issue discount (box 1)	} See the instructions on Form 1099-OID
	Other periodic interest (box 2)	
	Early withdrawal penalty (box 3)	Form 1040, line 30
1099-PATR	Patronage dividends and other distributions from a cooperative (boxes 1, 2, 3, and 5)	Schedule C, C-EZ, or F or Form 4835, but first see the instructions on Form 1099-PATR
	Credits (boxes 7 and 8)	Form 3468 or Form 5884
	Patron's AMT adjustment (box 9)	Form 6251, line 14j
1099-R	Distributions from IRAs***	See the instructions for Form 1040, lines 15a and 15b, on page 23
	Distributions from pensions, annuities, etc.	See the instructions for Form 1040, lines 16a and 16b, that begin on page 23
	Capital gain (box 3)	See the instructions on Form 1099-R
1099-S	Gross proceeds from real estate transactions (box 2)	Form 4797, Form 6252, or Schedule D. But if the property was your home, see the instructions for Schedule D to find out if you must report the sale or exchange.
	Buyer's part of real estate tax (box 5)	See the instructions for Schedule A, line 6, on page A-2*

* If the item relates to an activity for which you are required to file Schedule C, C-EZ, E, or F or Form 4835, report the taxable or deductible amount allocable to the activity on that schedule or form instead.

** This includes distributions from Archer and Medicare+Choice MSAs.

*** This includes distributions from Roth, SEP, and SIMPLE IRAs; and Coverdell education savings accounts (ESAs).

Private Delivery Services

You can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. The most recent list of designated private delivery services was published by the IRS in October 2001. The list includes only the following:

- Airborne Express (Airborne): Overnight Air Express Service, Next Afternoon Service, and Second Day Service.

- DHL Worldwide Express (DHL): DHL "Same Day" Service, and DHL USA Overnight.

- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, and FedEx 2Day.

- 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.

The private delivery service can tell you how to get written proof of the mailing date.



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.

Line Instructions for Form 1040

Name and Address

Use the Peel-Off Label

Using your peel-off name and address label in this booklet will speed the processing of your return. It also prevents common errors that can delay refunds or result in unnecessary notices. Put the label on your return **after** you have finished it. Cross out any errors and print the correct information. Add any missing items, such as your apartment number.

Address Change

If the address on your peel-off label is not your current address, cross out your old address and print your new address. If you plan to move after filing your return, see page 54.

Name Change

If you changed your name, be sure to report the change to your local Social Security Administration office **before** filing your return. This prevents delays in processing your return and issuing refunds. It also safeguards your future social security benefits. See page 54 for more details. If you received a peel-off label, cross out your former name and print your new name.

What If You Do Not Have a Label?

Print or type the information in the spaces provided. If you are married filing a separate return, enter your husband's or wife's name on line 3 instead of below your name.



If you filed a joint return for 2000 and you are filing a joint return for 2001 with the same spouse, be sure to enter your names and SSNs in the same order as on your 2000 return.

P.O. Box

Enter your box number **only** if your post office does not deliver mail to your home.

Foreign Address

Enter the information in the following order: City, province or state, and country. Follow the country's practice for entering the postal code. **Do not** abbreviate the country name.

Death of a Taxpayer

See page 55.

Social Security Number (SSN)

An incorrect or missing SSN may increase your tax or reduce your refund. **To apply for an SSN**, get **Form SS-5** from your local Social Security Administration (SSA) office or call the SSA at 1-800-772-1213. Fill in Form SS-5 and return it to the SSA. It usually takes about 2 weeks to get an SSN.

Check that your SSN is correct on your Forms W-2 and 1099. If not, see page 54 for more details.

IRS Individual Taxpayer Identification Numbers (ITINs) for Aliens

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. **To apply for an ITIN**, file **Form W-7** with the IRS. It usually takes about 4-6 weeks to get an ITIN. **Enter your ITIN wherever your SSN is requested on your tax return.**

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

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.

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 "Yes" box. If you are filing a joint return, your spouse may also have \$3 go to the fund. If you check "Yes," your tax or refund will not change.

Filing Status

Check **only** the filing status that applies to you. The ones that will usually give you the lowest tax are listed last.

- Married filing separately.
- Single.
- **Head of household.** This status is for unmarried people who paid over half the cost of keeping up a home for a qualifying person, such as a child who lived with you or your dependent parent. Certain married people who lived apart from their spouse for the last 6 months of 2001 may also be able to use this status.

• **Married filing jointly or Qualifying widow(er) with dependent child.** The **Qualifying widow(er)** status is for certain people whose spouse died in 1999 or 2000 and who had a child living with them whom they can claim as a dependent.

Joint and Several Tax Liability. If you file a joint return, both you and your spouse are generally responsible for the tax and any interest or penalties due on the return. This means that if one spouse does not pay the tax due, the other may have to. However, see **Innocent Spouse Relief** on page 54.



More than one filing status may apply to you. Choose the one that will give you the lowest tax. If you are not sure about your filing status, use TeleTax topic 353 (see page 11) or see **Pub. 501**.

Exemptions

You usually can deduct \$2,900 on line 38 for each exemption you can take.

Line 6b

Spouse

Check the box on line 6b if you file either (a) a joint return or (b) a separate return and your spouse had no income and is not filing a return. However, **do not** check the box if your spouse can be claimed as a dependent on another person's return.

Line 6c

Dependents

You can take an exemption for each of your dependents. The following is a brief description of the five tests that must be met for a person to qualify as your dependent. If you have **more than six** dependents, attach a statement to your return with the required information.

Relationship Test. The person must be either your relative or have lived in your home as a family member all year. If the person is not your relative, the relationship must not violate local law.

Joint Return Test. If the person is married, he or she cannot file a joint return. But the person can file a joint return if the return is filed only as a claim for refund **and** no tax liability would exist for either spouse if they had filed separate returns.

Citizen or Resident Test. The person must be a U.S. citizen or resident alien, or a resident of Canada or Mexico. There is an exception for certain adopted children. To find out who is a **resident alien**, use TeleTax topic 851 (see page 11) or see **Pub. 519**.

Income Test. The person's gross income must be less than \$2,900. But your child's gross income can be \$2,900 or more if he or she was either **(a) under age 19** at the end of 2001 or **(b) under age 24** at the end of 2001 and was a **student**.

Support Test. You must have provided over half of the person's total support in 2001. But there are two exceptions to this test: One for children of divorced or separated parents and one for persons supported by two or more taxpayers.



For more details about the tests, including any exceptions that apply, see **Pub. 501**.

Line 6c, Column (2)

You must enter each dependent's social security number (SSN). Be sure the name and SSN entered agree with the dependent's social security card. Otherwise, at the time we process your return, we may disallow the exemption claimed for the dependent and reduce or disallow any other tax benefits (such as the child tax credit and the earned income credit) based on that dependent. If the name or SSN on the dependent's social security card is not correct, call the Social Security Administration at 1-800-772-1213.



For details on how your dependent can get an SSN, see page 19. If your dependent will not have a number by April 15, 2002, see **What if You Cannot File on Time?** on page 15.

If your dependent child was born and died in 2001 and you do not have an SSN for the child, you may attach a copy of the child's birth certificate instead and enter "Died" in column (2).

Adoption Taxpayer Identification Numbers (ATINs). If you have a dependent who was placed with you by an authorized placement agency and you do not know his or her SSN, you must get an ATIN for the dependent from the IRS. An authorized placement agency includes any person authorized by state law to place children for legal adoption. See **Form W-7A** for details.

Line 6c, Column (4)

Check the box in this column if your dependent is a qualifying child for the child tax credit (defined below). If you have at least one qualifying child, you may be able to take the child tax credit on line 48 and the additional child tax credit on line 63.

Qualifying Child for Child Tax Credit. A qualifying child for purposes of the child tax credit is a child who:

- Is claimed as your dependent on line 6c, **and**
- Was **under age 17** at the end of 2001, **and**
- Is your son, daughter, adopted child, grandchild, stepchild, or foster child, **and**
- Is a U.S. citizen or resident alien.

Note. The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.

A child placed with you by an authorized placement agency for legal adoption is an **adopted child** even if the adoption is not final. An authorized placement agency includes any person authorized by state law to place children for legal adoption.

A **grandchild** is any descendant of your son, daughter, or adopted child and includes your great-grandchild, great-great-grandchild, etc.

A **foster child** is any child you cared for as your own child and who:

- Is **(a)** your brother, sister, stepbrother, or stepsister; **(b)** a descendant (such as a child, including an adopted child) of your brother, sister, stepbrother, or stepsister; **or**

(c) a child placed with you by an authorized placement agency **and**

- Lived with you for all of 2001. A child who was born or died in 2001 is considered to have lived with you for all of 2001 if your home was the child's home for the entire time he or she was alive during 2001.

Children Who Did Not Live With You Due to Divorce or Separation

If you are claiming a child who did not live with you under the rules explained in **Pub. 501** for children of divorced or separated parents, attach **Form 8332** or similar statement to your return. But see **Exception** below. If your divorce decree or separation agreement went into effect after 1984 and it states you can claim the child as your dependent without regard to any condition, such as payment of support, you may attach a copy of the following pages from the decree or agreement instead.

- Cover page (put the other parent's SSN on that page),
- The page that states you can claim the child as your dependent, and
- Signature page with the other parent's signature and date of agreement.

Note. You must attach the required information even if you filed it in an earlier year.

Exception. You do not have to attach Form 8332 or similar statement if your divorce decree or written separation agreement went into effect before 1985 and it states that you can claim the child as your dependent.

Other Dependent Children

Include the total number of children who did not live with you for reasons other than divorce or separation on the line labeled "Dependents on 6c not entered above." Include dependent children who lived in Canada or Mexico during 2001.

Income

Foreign-Source Income

You must report unearned income, such as interest, dividends, and pensions, from sources outside the United States unless exempt by law or a tax treaty. You must also report earned income, such as wages and tips, from sources outside the United States.

If you worked abroad, you may be able to exclude part or all of your earned income. For details, see **Pub. 54** and **Form 2555** or **2555-EZ**.

Community Property States

Community property states are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. If you and your spouse lived in a community property state, you must usually follow state law to determine what is community income and what is separate income. For details, see **Pub. 555**.

Rounding Off to Whole Dollars

To round off cents to the nearest whole dollar on your forms and schedules, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. If you do round off, do so for all amounts. But if you have to add two or more amounts to figure the amount to enter on a line, include cents when adding and only round off the total.

Line 7

Wages, Salaries, Tips, etc.

Enter the total of your wages, salaries, tips, etc. If a joint return, also include your spouse's income. For most people, the amount to enter on this line should be shown in box 1 of their **Form(s) W-2**. But the following types of income must also be included in the total on line 7.

- **Wages received as a household employee** for which you did not receive a **W-2** form because your employer paid you less than \$1,300 in 2001. Also, enter "HSH" and the amount not reported on a **W-2** form on the dotted line next to line 7.

- **Tip income** you did not report to your employer. Also include **allocated tips** shown on your **W-2** form(s) unless you can prove that you received less. Allocated tips should be shown in box 8 of your **W-2** form(s). They are not included as income in box 1. See **Pub. 531** for more details.



You may owe social security and Medicare tax on unreported or allocated tips. See the instructions for line 54 on page 39.

- **Dependent care benefits**, which should be shown in box 10 of your **W-2** form(s). But first complete **Form 2441** to see if you may exclude part or all of the benefits.

- **Employer-provided adoption benefits**, which should be shown in box 12 of your **W-2** form(s) with code **T**. But first complete **Form 8839** to see if you may exclude part or all of the benefits.

- **Scholarship and fellowship grants** not reported on a **W-2** form. Also, enter "SCH" and the amount on the dotted line next to line 7. **Exception.** If you were a degree candidate, include on line 7 **only** the amounts you used for expenses other than tuition and course-related expenses. For example, amounts used for room, board, and travel must be reported on line 7.

- **Excess salary deferrals.** The amount deferred should be shown in box 12 of your **W-2** form and the "Retirement plan" box in box 13 should be checked. If the total amount you (or your spouse if filing jointly) deferred for 2001 under **all** plans was more than \$10,500, include the excess on line 7. But a different limit may apply if amounts were deferred under a tax-sheltered annuity plan or an eligible plan of a state or local government or tax-exempt organization. See **Pub. 525** for details.



You may **not** deduct the amount deferred. It is not included as income in box 1 of your **W-2** form.

- **Disability pensions** shown on **Form 1099-R** if you have not reached the minimum retirement age set by your employer. Disability pensions received after you reach that age and other pensions shown on **Form 1099-R** (other than payments from an IRA* or a Coverdell education savings account (ESA)) are reported on lines 16a and 16b. Payments from an IRA or a Coverdell ESA are reported on lines 15a and 15b.

- **Corrective distributions** shown on **Form 1099-R** of (a) excess salary deferrals plus earnings and (b) excess contributions plus earnings to a retirement plan. But do not include distributions from an IRA* or a Coverdell ESA on line 7. Instead, report them on lines 15a and 15b.

**This includes a Roth, SEP, or SIMPLE IRA.*

Were You a Statutory Employee?

If you were, the "Statutory employee" box in box 13 of your **W-2** form should be checked. Statutory employees include full-time life insurance salespeople, certain agent or commission drivers and traveling salespeople, and certain homeworkers. If you have related business expenses to deduct, report the amount shown in box 1 of your **W-2** form on **Schedule C** or **C-EZ** along with your expenses.

Missing or Incorrect Form W-2?

If you do not get a **W-2** form from your employer by January 31, 2002, use TeleTax topic 154 (see page 11) to find out what to

do. Even if you do not get a **Form W-2**, you must still report your earnings on line 7. If you lose your **Form W-2** or it is incorrect, ask your employer for a new one.

Line 8a

Taxable Interest

Each payer should send you a **Form 1099-INT** or **Form 1099-OID**. Enter your total taxable interest income on line 8a. But you must fill in and attach **Schedule B** if the total is over \$400 or any of the other conditions listed at the beginning of the **Schedule B** instructions (see page B-1) apply to you.

Interest credited in 2001 on deposits that you could not withdraw because of the bankruptcy or insolvency of the financial institution may not have to be included in your 2001 income. For details, see **Pub. 550**.



If you get a 2001 **Form 1099-INT** for U.S. savings bond interest that includes amounts you reported before 2001, see **Pub. 550**.

Line 8b

Tax-Exempt Interest

If you received any tax-exempt interest, such as from municipal bonds, report it on line 8b. Include any exempt-interest dividends from a mutual fund or other regulated investment company. **Do not** include interest earned on your IRA or Coverdell education savings account.

Line 9

Ordinary Dividends

Each payer should send you a **Form 1099-DIV**. Enter your total ordinary dividends on line 9. But you must fill in and attach **Schedule B** if the total is over \$400 or you received, as a nominee, ordinary dividends that actually belong to someone else.

Capital Gain Distributions

If you received any capital gain distributions, see the instructions for line 13 on page 23.

(Continued on page 22)

Nontaxable Distributions

Some distributions are nontaxable because they are a return of your cost (or other basis). They will not be taxed until you recover your cost (or other basis). You must reduce your cost (or other basis) by these distributions. After you get back all of your cost (or other basis), you must report these distributions as capital gains on **Schedule D**. For details, see **Pub. 550**.

TIP Dividends on insurance policies are a partial return of the premiums you paid. **Do not** report them as dividends. Include them in income only if they exceed the total of all net premiums you paid for the contract.

If you received a refund, credit, or offset of state or local income taxes in 2001, you may receive a **Form 1099-G**. If you chose to apply part or all of the refund to your 2001 estimated state or local income tax, the amount applied is treated as received in 2001. If the refund was for a tax you paid in 2000 and you itemized deductions for 2000, use the worksheet below to see if any of your refund is taxable.

Exception. See **Recoveries** in **Pub. 525** instead of using the worksheet below if **any** of the following apply.

- You received a refund in 2001 that is for a tax year other than 2000.
- You received a refund other than an income tax refund, such as a real property tax refund, in 2001 of an amount deducted or credit claimed in an earlier year.
 - Your 2000 taxable income was less than zero.
 - You made your last payment of 2000 estimated state or local income tax in 2001.
 - You owed alternative minimum tax in 2000.

- You could not deduct the full amount of credits you were entitled to in 2000 because the total credits exceeded the amount shown on your 2000 Form 1040, line 42, minus any foreign tax credit shown on line 43 of that form.

- You could be claimed as a dependent by someone else in 2000.

Also, see **Tax Benefit Rule** in **Pub. 525** instead of using the worksheet below if **all three** of the following apply.

1. You had to use the Itemized Deductions Worksheet in the 2000 Schedule A instructions because your 2000 adjusted gross income was over: \$128,950 if single, married filing jointly, head of household, or qualifying widow(er); \$64,475 if married filing separately.

(Continued on page 23)

Line 10

Taxable Refunds, Credits, or Offsets of State and Local Income Taxes

TIP None of your refund is taxable if, in the year you paid the tax, you **did not** itemize deductions.

State and Local Income Tax Refund Worksheet—Line 10

Keep for Your Records



<p>1. Enter the income tax refund from Form(s) 1099-G (or similar statement). But do not enter more than the amount on your 2000 Schedule A (Form 1040), line 5</p> <p>2. Enter your total allowable itemized deductions from your 2000 Schedule A (Form 1040), line 28</p> <p>Note. If the filing status on your 2000 Form 1040 was married filing separately and your spouse itemized deductions in 2000, skip lines 3, 4, and 5, and enter the amount from line 2 on line 6.</p> <p>3. Enter the amount shown below for the filing status claimed on your 2000 Form 1040.</p> <table border="0" style="width: 100%;"> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> • Single—\$4,400 • Married filing jointly or qualifying widow(er)—\$7,350 • Married filing separately—\$3,675 • Head of household—\$6,450 </td> <td style="font-size: 3em; vertical-align: middle; padding: 0 10px;">}</td> <td style="vertical-align: middle;">. . . 3. _____</td> </tr> </table> <p>4. Did you fill in line 35a on your 2000 Form 1040?</p> <table border="0" style="width: 100%;"> <tr> <td style="vertical-align: top;"> <input type="checkbox"/> No. Enter -0-. <input type="checkbox"/> Yes. Multiply the number on line 35a of your 2000 Form 1040 by: \$850 if your 2000 filing status was married filing jointly or separately or qualifying widow(er); \$1,100 if your 2000 filing status was single or head of household </td> <td style="font-size: 3em; vertical-align: middle; padding: 0 10px;">}</td> <td style="vertical-align: middle;">. . . 4. _____</td> </tr> </table> <p>5. Add lines 3 and 4</p> <p>6. Is the amount on line 5 less than the amount on line 2?</p> <table border="0" style="width: 100%;"> <tr> <td style="vertical-align: top;"> <input type="checkbox"/> No. None of your refund is taxable. <input type="checkbox"/> Yes. Subtract line 5 from line 2 </td> <td style="vertical-align: bottom;">. 6. _____</td> </tr> </table> <p>7. Taxable part of your refund. Enter the smaller of line 1 or line 6 here and on Form 1040, line 10</p>	<ul style="list-style-type: none"> • Single—\$4,400 • Married filing jointly or qualifying widow(er)—\$7,350 • Married filing separately—\$3,675 • Head of household—\$6,450 	}	. . . 3. _____	<input type="checkbox"/> No. Enter -0-. <input type="checkbox"/> Yes. Multiply the number on line 35a of your 2000 Form 1040 by: \$850 if your 2000 filing status was married filing jointly or separately or qualifying widow(er); \$1,100 if your 2000 filing status was single or head of household	}	. . . 4. _____	<input type="checkbox"/> No. None of your refund is taxable. <input type="checkbox"/> Yes. Subtract line 5 from line 2 6. _____	<p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p> <p>5. _____</p> <p>6. _____</p> <p>7. _____</p>
<ul style="list-style-type: none"> • Single—\$4,400 • Married filing jointly or qualifying widow(er)—\$7,350 • Married filing separately—\$3,675 • Head of household—\$6,450 	}	. . . 3. _____							
<input type="checkbox"/> No. Enter -0-. <input type="checkbox"/> Yes. Multiply the number on line 35a of your 2000 Form 1040 by: \$850 if your 2000 filing status was married filing jointly or separately or qualifying widow(er); \$1,100 if your 2000 filing status was single or head of household	}	. . . 4. _____							
<input type="checkbox"/> No. None of your refund is taxable. <input type="checkbox"/> Yes. Subtract line 5 from line 2 6. _____								

2. You could not deduct all of the amount on line 1 of the 2000 Itemized Deductions Worksheet.

3. The amount on line 8 of that 2000 worksheet would be more than the amount on line 4 of that worksheet if the amount on line 4 were reduced by 80% of the refund you received in 2001.

Line 11

Alimony Received

Enter amounts received as alimony or separate maintenance. You must let the person who made the payments know your social security number. If you do not, you may have to pay a \$50 penalty. For more details, use TeleTax topic 406 (see page 11) or see **Pub. 504**.

Line 12

Business Income or (Loss)

If you operated a business or practiced your profession as a sole proprietor, report your income and expenses on **Schedule C** or **C-EZ**.

Line 13

Capital Gain or (Loss)

If you had a capital gain or loss, including any **capital gain distributions** from a mutual fund, you **must** complete and attach **Schedule D**.

Exception. You do not have to file Schedule D if **all three** of the following apply.

1. The only amounts you have to report on Schedule D are capital gain distributions from box 2a of **Forms 1099-DIV** or substitute statements.

2. None of the Forms 1099-DIV or substitute statements have an amount in box 2b (28% rate gain), box 2c (qualified 5-year gain), box 2d (unrecaptured section 1250 gain), or box 2e (section 1202 gain).

3. You are not filing **Form 4952** (relating to investment interest expense deduction) or the amount on line 4e of that form is zero or blank.

If all three of the above apply, enter your capital gain distributions on line 13 and check the box on that line. Also, be sure you use the **Capital Gain Tax Worksheet** on page 34 to figure your tax.

Line 14

Other Gains or (Losses)

If you sold or exchanged assets used in a trade or business, see the Instructions for **Form 4797**.

Lines 15a and 15b

IRA Distributions

Note. If you converted part or all of an individual retirement arrangement (IRA) to a Roth IRA in 1998 and you chose to report the taxable amount over 4 years, see **1998 Roth IRA Conversions** on this page.

You should receive a **Form 1099-R** showing the amount of any distribution from your IRA or Coverdell education savings account (ESA). Unless otherwise noted in the line 15a and 15b instructions, an IRA includes a traditional IRA, Roth IRA, simplified employee pension (SEP) IRA, and a savings incentive match plan for employees (SIMPLE) IRA. Except as provided below, leave line 15a blank and enter the total distribution on line 15b.

Exception 1. Enter the total distribution on line 15a if you rolled over part or all of the distribution from one:

- IRA to another IRA of the same type (for example, from one traditional IRA to another traditional IRA),
- Coverdell ESA to another, or
- SEP or SIMPLE IRA to a traditional IRA.

Also, put "Rollover" next to line 15b. If the total distribution was rolled over, enter zero on line 15b. If the total was not rolled over, enter the part not rolled over on line 15b unless **Exception 2** applies to the part not rolled over.

If you rolled over the distribution (a) in 2002 or (b) from a conduit IRA into a qualified plan, attach a statement explaining what you did.

Exception 2. If **any** of the following apply, enter the total distribution on line 15a and use **Form 8606** and its instructions to figure the amount to enter on line 15b.

- You received a distribution from an IRA (other than a Roth IRA) and you made nondeductible contributions to any of your traditional or SEP IRAs for 2001 or an earlier year. If you made nondeductible contributions to these IRAs for 2001, also see **Pub. 590**.

- You received a distribution from a Roth IRA or Coverdell ESA.

- You converted part or all of a traditional, SEP, or SIMPLE IRA to a Roth IRA in 2001.

- You had a 2000 or 2001 IRA or Coverdell ESA contribution returned to you, with the related earnings or less any loss, by the due date (including extensions) of your tax return for that year.

- You made excess contributions to your IRA for an earlier year and had them returned to you in 2001.

- You recharacterized part or all of a contribution to a Roth IRA as a traditional IRA contribution, or vice versa.

Note. If you received more than one distribution, figure the taxable amount of each distribution and enter the total of the taxable amounts on line 15b. Enter the total amount of those distributions on line 15a.



You may have to pay an additional tax if (a) you received an early distribution from your IRA and the total was not rolled over or (b) you were born before July 1, 1930, and received less than the minimum required distribution from your traditional, SEP, and SIMPLE IRAs. See the instructions for line 55 on page 39 for details.

1998 Roth IRA Conversions. If you converted an IRA to a Roth IRA in 1998 and you chose to report the taxable amount over 4 years, leave line 15a blank and enter on line 15b the amount from your **1998 Form 8606**, line 17. **But** see the 2001 Instructions for Form 8606 for the amount to enter on line 15b if (a) you rounded the amount on line 17 of your 1998 Form 8606 to the next higher whole dollar or (b) you received a distribution from a Roth IRA in 1998, 1999, or 2000.

Lines 16a and 16b

Pensions and Annuities

You should receive a **Form 1099-R** showing the amount of your pension and annuity payments. See page 25 for details on rollovers and lump-sum distributions. **Do not** include the following payments on lines 16a and 16b. Instead, report them on line 7.

- Disability pensions received before you reach the minimum retirement age set by your employer.
- Corrective distributions of excess salary deferrals or excess contributions to retirement plans.

(Continued on page 24)



Attach Form(s) 1099-R to Form 1040 if any Federal income tax was withheld.

Fully Taxable Pensions and Annuities

If your pension or annuity is fully taxable, enter it on line 16b; **do not** make an entry on line 16a. Your payments are fully taxable if **either** of the following applies.

- You did not contribute to the cost (see page 25) of your pension or annuity **or**

- You got your entire cost back tax free before 2001.

Fully taxable pensions and annuities also include military retirement pay shown on Form 1099-R. For details on military disability pensions, see **Pub. 525**. If you received a **Form RRB-1099-R**, see **Pub. 575** to find out how to report your benefits.

Partially Taxable Pensions and Annuities

Enter the total pension or annuity payments you received in 2001 on line 16a. If your

Form 1099-R does not show the taxable amount, you must use the General Rule explained in **Pub. 939** to figure the taxable part to enter on line 16b. But if your annuity starting date (defined on page 25) was **after** July 1, 1986, see page 25 to find out if you must use the Simplified Method to figure the taxable part.

You can ask the IRS to figure the taxable part for you for an \$85 fee. For details, see **Pub. 939**.

(Continued on page 25)

Simplified Method Worksheet—Lines 16a and 16b

Keep for Your Records

Before you begin: ✓ If you are the beneficiary of a deceased employee or former employee who died **before** August 21, 1996, see **Pub. 939** to find out if you are entitled to a death benefit exclusion of up to \$5,000. If you are, include the exclusion in the amount entered on line 2 below.



Note. If you had more than one partially taxable pension or annuity, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 16b. Enter the total pension or annuity payments received in 2001 on Form 1040, line 16a.

1. Enter the total pension or annuity payments received in 2001. Also, enter this amount on Form 1040, line 16a **1.** _____
2. Enter your cost in the plan at the annuity starting date **2.** _____
3. Enter the appropriate number from **Table 1** below. **But** if your annuity starting date was **after** 1997 **and** the payments are for your life and that of your beneficiary, enter the appropriate number from **Table 2** below **3.** _____
4. Divide line 2 by the number on line 3 **4.** _____
5. Multiply line 4 by the number of months for which this year's payments were made. If your annuity starting date was **before** 1987, skip lines 6 and 7 and enter this amount on line 8. Otherwise, go to line 6 **5.** _____
6. Enter the amount, if any, recovered tax free in years after 1986 **6.** _____
7. Subtract line 6 from line 2 **7.** _____
8. Enter the **smaller** of line 5 or line 7. **8.** _____
9. **Taxable amount.** Subtract line 8 from line 1. Enter the result, but not less than zero. Also, enter this amount on Form 1040, line 16b. If your Form 1099-R shows a larger amount, use the amount on this line instead of the amount from Form 1099-R **9.** _____

Table 1 for Line 3 Above

AND your annuity starting date was—

IF the age at annuity starting date (see page 25) was . . .	before November 19, 1996, enter on line 3 . . .	after November 18, 1996, enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

Table 2 for Line 3 Above

IF the combined ages at annuity starting date (see page 25) were . . .	THEN enter on line 3 . . .
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

If your Form 1099-R shows a taxable amount, you may report that amount on line 16b. But you may be able to report a lower taxable amount by using the General Rule or the Simplified Method.

Annuity Starting Date

Your annuity starting date is the later of the first day of the first period for which you received a payment, or the date the plan's obligations became fixed.

Simplified Method

You **must** use the Simplified Method if (a) your annuity starting date (defined above) was **after** July 1, 1986, and you used this method last year to figure the taxable part or (b) your annuity starting date was **after** November 18, 1996, and **all three** of the following apply.

1. The payments are for (a) your life or (b) your life and that of your beneficiary.
2. The payments are from a qualified employee plan, a qualified employee annuity, or a tax-sheltered annuity.
3. On your annuity starting date, either you were under age 75 or the number of years of guaranteed payments was fewer than 5. See Pub. 575 for the definition of guaranteed payments.

If you must use the Simplified Method, complete the worksheet on page 24 to figure the taxable part of your pension or annuity. For more details on the Simplified Method, see Pub. 575 or **Pub. 721** for U.S. Civil Service retirement.



If you received U.S. Civil Service retirement benefits and you chose the alternative annuity option, use the worksheet in Pub. 721. **Do not** use the worksheet on page 24.

Age (or Combined Ages) at Annuity Starting Date

If you are the retiree, use your age on the annuity starting date. If you are the survivor of a retiree, use the retiree's age on his or her annuity starting date. **But** if your annuity starting date was after 1997 and the payments are for your life and that of your beneficiary, use your combined ages on the annuity starting date.

If you are the beneficiary of an employee who died, see Pub. 575. If there is more than one beneficiary, see Pub. 575 or Pub. 721 to figure each beneficiary's taxable amount.

Cost

Your cost is generally your net investment in the plan as of the annuity starting date. It does not include pre-tax contributions.

Your net investment should be shown in box 9b of Form 1099-R for the first year you received payments from the plan.

Rollovers

A rollover is a tax-free distribution of cash or other assets from one retirement plan that is contributed to another plan. Use lines 16a and 16b to report a rollover, including a direct rollover, from one qualified employer's plan to another or to an IRA or SEP.

Enter on line 16a the total distribution before income tax or other deductions were withheld. This amount should be shown in box 1 of **Form 1099-R**. From the total on line 16a, subtract any contributions (usually shown in box 5) that were taxable to you when made. From that result, subtract the amount that was rolled over either directly or within 60 days of receiving the distribution. Enter the remaining amount, even if zero, on line 16b. Also, put "Rollover" next to line 16b.

Special rules apply to partial rollovers of property. For more details on rollovers, including distributions under qualified domestic relations orders, see Pub. 575.

Lump-Sum Distributions

If you received a lump-sum distribution from a profit-sharing or retirement plan, your Form 1099-R should have the "Total distribution" box in box 2b checked. You may owe an additional tax if you received an early distribution from a qualified retirement plan and the total amount was not rolled over. For details, see the instructions for line 55 on page 39.

Enter the total distribution on line 16a and the taxable part on line 16b.



You may be able to pay less tax on the distribution if you were born before 1936, you meet certain other conditions, and you choose to use **Form 4972** to figure the tax on any part of the distribution. You may also be able to use Form 4972 if you are the beneficiary of a deceased employee who was born before 1936. For details, see Form 4972.

Line 19

Unemployment Compensation

You should receive a **Form 1099-G** showing the total unemployment compensation paid to you in 2001.

If you received an overpayment of unemployment compensation in 2001 and you

repaid any of it in 2001, subtract the amount you repaid from the total amount you received. Enter the result on line 19. Also, enter "Repaid" and the amount you repaid on the dotted line next to line 19. If, in 2001, you repaid unemployment compensation that you included in gross income in an earlier year, you may deduct the amount repaid on **Schedule A**, line 22. But if you repaid more than \$3,000, see **Repayments** in **Pub. 525** for details on how to report the repayment.

Lines 20a and 20b

Social Security Benefits

You should receive a **Form SSA-1099** showing in box 3 the total social security benefits paid to you. Box 4 will show the amount of any benefits you repaid in 2001. If you received railroad retirement benefits treated as social security, you should receive a **Form RRB-1099**.

Use the worksheet on page 26 to see if any of your benefits are taxable.

Exception. Do not use the worksheet on page 26 if **any** of the following apply.

- You made contributions to a traditional IRA for 2001 and you were covered by a retirement plan at work or through self-employment. Instead, use the worksheets in **Pub. 590** to see if any of your social security benefits are taxable and to figure your IRA deduction.
- You repaid any benefits in 2001 and your total repayments (box 4) were more than your total benefits for 2001 (box 3). **None** of your benefits are taxable for 2001. In addition, you may be able to take an itemized deduction for part of the excess repayments if they were for benefits you included in gross income in an earlier year. For more details, see **Pub. 915**.
- You file **Form 2555**, **2555-EZ**, **4563**, or **8815**, or you exclude employer-provided adoption benefits or income from sources within Puerto Rico. Instead, use the worksheet in Pub. 915.

Social Security Benefits Worksheet—Lines 20a and 20b

Keep for Your Records

Before you begin:

- ✓ Complete Form 1040, lines 21, 23, and 25 through 31a, if they apply to you.
- ✓ Figure any amount to be entered on the dotted line next to line 32 (see page 30).
- ✓ If you are married filing separately and you **lived apart** from your spouse for all of 2001, enter “D” to the right of the word “benefits” on line 20a.
- ✓ Be sure you have read the **Exception** on page 25 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.



1. Enter the total amount from **box 5** of **all** your **Forms SSA-1099** and **RRB-1099** **1.** _____
2. Is the amount on line 1 more than zero?
 - No.** None of your social security benefits are taxable.
 - Yes.** Enter one-half of line 1 **2.** _____
3. Add the amounts on Form 1040, lines 7, 8a, 9 through 14, 15b, 16b, 17 through 19, and 21. Do not include amounts from box 5 of Forms SSA-1099 or RRB-1099 **3.** _____
4. Enter the amount, if any, from Form 1040, line 8b **4.** _____
5. Add lines 2, 3, and 4 **5.** _____
6. Add the amounts on Form 1040, lines 23, and 25 through 31a, and any amount you entered on the dotted line next to line 32 **6.** _____
7. Subtract line 6 from line 5. If zero or less, **stop here.** None of your social security benefits are taxable **7.** _____
8. Enter: \$25,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2001; \$32,000 if married filing jointly; -0- if married filing separately and you lived with your spouse at any time in 2001. **8.** _____
9. Is the amount on line 8 less than the amount on line 7?
 - No.** None of your social security benefits are taxable. You do not have to enter any amounts on lines 20a or 20b of Form 1040. **But** if you are married filing separately and you **lived apart** from your spouse for all of 2001, enter -0- on line 20b. Be sure you entered “D” to the right of the word “benefits” on line 20a.
 - Yes.** Subtract line 8 from line 7 **9.** _____
10. Enter: \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2001; \$12,000 if married filing jointly; -0- if married filing separately and you lived with your spouse at any time in 2001. **10.** _____
11. Subtract line 10 from line 9. If zero or less, enter -0- **11.** _____
12. Enter the **smaller** of line 9 or line 10. **12.** _____
13. Enter one-half of line 12 **13.** _____
14. Enter the **smaller** of line 2 or line 13. **14.** _____
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- **15.** _____
16. Add lines 14 and 15. **16.** _____
17. Multiply line 1 by 85% (.85). **17.** _____
18. **Taxable social security benefits.** Enter the **smaller** of line 16 or line 17 **18.** _____
 - Enter the amount from line 1 above on Form 1040, line 20a.
 - Enter the amount from line 18 above on Form 1040, line 20b.



If part of your benefits are taxable for 2001 **and** they include benefits paid in 2001 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

Line 21**Other Income**

Do not report on this line any income from **self-employment** or fees received as a notary public. Instead, you **must** use **Schedule C, C-EZ, or F**, even if you do not have any business expenses. Also, **do not** report on line 21 any nonemployee compensation shown on **Form 1099-MISC**. Instead, see the chart on page 18 to find out where to report that income.

Use line 21 to report any other income not reported on your return or other schedules. See examples below. List the type and amount of income. If necessary, show the required information on an attached statement. For more details, see **Miscellaneous Taxable Income** in **Pub. 525**.



Do not report any nontaxable income on line 21, such as an advance payment of your 2001 taxes; child support; money or property that was inherited, willed to you, or received as a gift; or life insurance proceeds received because of a person's death.

Examples of **income to report** on line 21 are:

- Prizes and awards.
- Gambling winnings, including lotteries, raffles, a lump-sum payment from the sale of a right to receive future lottery payments, etc. For details on gambling losses, see the instructions for **Schedule A**, line 27, on page A-6.
- Jury duty fees. Also, see the instructions for line 32 on page 30.
- Alaska Permanent Fund dividends.
- Qualified state tuition program earnings.
- Reimbursements or other amounts received for items deducted in an earlier year, such as medical expenses, real estate taxes, or home mortgage interest. See **Recoveries** in **Pub. 525** for details on how to figure the amount to report.
- Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property. Also, see the instructions for line 32 on page 30.
- Income from an activity not engaged in for profit. See **Pub. 535**.
- Loss on certain corrective distributions of excess deferrals. See **Pub. 525**.

Adjusted Gross Income**Line 23****IRA Deduction**

If you made any nondeductible contributions to a traditional individual retirement arrangement (IRA) for 2001, you **must** report them on **Form 8606**.

If you made contributions to a traditional IRA for 2001, you may be able to take an IRA deduction. But you, or your spouse if filing a joint return, must have had earned income to do so. For IRA purposes, earned income includes certain alimony received. See **Pub. 590** for details. You should receive a statement by May 31, 2002, that shows all contributions to your traditional IRA for 2001.

Use the worksheet on page 28 to figure the amount, if any, of your IRA deduction. **But read the following list before you fill in the worksheet.**

- If you were age 70½ or older at the end of 2001, you **cannot** deduct any contributions made to your traditional IRA for 2001 or treat them as nondeductible contributions.
- You **cannot** deduct contributions to a Roth IRA or a Coverdell education savings account.



If you made contributions to both a traditional IRA and a Roth IRA for 2001, **do not** use the worksheet on page 28. Instead, use the worksheet in **Pub. 590** to figure the amount, if any, of your IRA deduction.

• You **cannot** deduct contributions to a 401(k) plan, section 457 plan, SIMPLE plan, or the Federal Thrift Savings Plan. These amounts are not included as income in box 1 of your W-2 form.

• If you made contributions to your IRA in 2001 that you deducted for 2000, **do not** include them in the worksheet.

• If you received a distribution from a nonqualified deferred compensation plan or section 457 plan that is included in box 1 of your W-2 form, **do not** include that distribution on line 8 of the worksheet. The distribution should be shown in box 11 of your W-2 form. If it is not, contact your employer for the amount of the distribution.

• You must file a joint return to deduct contributions to your spouse's IRA. Enter the total IRA deduction for you and your spouse on line 23.

• Do not include rollover contributions in figuring your deduction. Instead, see the instructions for lines 15a and 15b on page 23.

• Do not include trustees' fees that were billed separately and paid by you for your IRA. These fees can be deducted only as an itemized deduction on **Schedule A**.

• If the total of your IRA deduction on line 23 plus any nondeductible contribution to your traditional IRAs shown on **Form 8606** is less than your total traditional IRA contributions for 2001, see **Pub. 590** for special rules.



By April 1 of the year after the year in which you turn age 70½, you must start taking minimum required distributions from your traditional IRA. If you do not, you may have to pay a 50% additional tax on the amount that should have been distributed. For details, including how to figure the minimum required distribution, see **Pub. 590**.

Were You Covered by a Retirement Plan?

If you were covered by a retirement plan (qualified pension, profit-sharing (including 401(k)), annuity, SEP, SIMPLE, etc.) at work or through self-employment, your IRA deduction may be reduced or eliminated. But you can still make contributions to an IRA even if you cannot deduct them. In any case, the income earned on your IRA contributions is not taxed until it is paid to you.

The "Retirement plan" box in box 13 of your W-2 form should be checked if you were covered by a plan at work even if you were not vested in the plan. You are also covered by a plan if you were self-employed and had a SEP, SIMPLE, or qualified retirement plan.

If you were covered by a retirement plan and you file **Form 2555, 2555-EZ, or 8815**, or you exclude employer-provided adoption benefits, see **Pub. 590** to figure the amount, if any, of your IRA deduction.

Married Persons Filing Separately. If you were not covered by a retirement plan but your spouse was, **you** are considered covered by a plan unless you **lived apart** from your spouse for all of 2001.

Line 24

Student Loan Interest Deduction

Use the worksheet on page 29 to figure your student loan interest deduction if **all five** of the following apply.

1. You paid interest in 2001 on a qualified student loan (see page 29).

2. At least part of the interest paid in 2001 was paid during the first 60 months that interest payments were required to be made. See **Example** on page 29.

3. Your filing status is any status **except** married filing separately.

4. Your modified adjusted gross income (AGI) is less than: \$55,000 if single, head of household, or qualifying widow(er); \$75,000 if married filing jointly. Use lines

3 through 5 of the worksheet on page 29 to figure your modified AGI.

5. You are not claimed as a dependent on someone's (such as your parent's) 2001 tax return.

Exception. Use **Pub. 970** instead of the worksheet on page 29 to figure your student loan interest deduction if you file **Form 2555, 2555-EZ, or 4563**, or you exclude income from sources within Puerto Rico.

IRA Deduction Worksheet—Line 23

Keep for Your Records

Before you begin:

- ✓ Complete Form 1040, lines 25 through 31a, if they apply to you.
- ✓ Figure any amount to be entered on the dotted line next to line 32 (see page 30).
- ✓ Be sure you have read the list on page 27.



	Your IRA	Spouse's IRA
1a. Were you covered by a retirement plan (see page 27)?	1a. <input type="checkbox"/> Yes <input type="checkbox"/> No	
1b. If married filing jointly, was your spouse covered by a retirement plan?		1b. <input type="checkbox"/> Yes <input type="checkbox"/> No
<p>Next. If you checked "No" on line 1a, and, if married filing jointly, "No" on line 1b, skip lines 2–6, enter \$2,000 on line 7a (and 7b if applicable), and go to line 8. Otherwise, go to line 2.</p>		
2. Enter the amount shown below that applies to you.		
<ul style="list-style-type: none"> • Single, head of household, or married filing separately and you lived apart from your spouse for all of 2001, enter \$43,000 • Qualifying widow(er), enter \$63,000 • Married filing jointly, enter \$63,000 in both columns. But if you checked "No" on either line 1a or 1b, enter \$160,000 for the person who was not covered by a plan • Married filing separately and you lived with your spouse at any time in 2001, enter \$10,000 	} 2a. _____	} 2b. _____
3. Enter the amount from Form 1040, line 22	3. _____	
4. Add amounts on Form 1040, lines 25 through 31a, and any amount you entered on the dotted line next to line 32	4. _____	
5. Subtract line 4 from line 3. Enter the result in both columns	5a. _____	5b. _____
6. Is the amount on line 5 less than the amount on line 2?		
<input type="checkbox"/> No. None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606.		
<input type="checkbox"/> Yes. Subtract line 5 from line 2 in each column. If the result is \$10,000 or more, enter \$2,000 on line 7 for that column	6a. _____	6b. _____
7. Multiply lines 6a and 6b by 20% (.20). If the result is not a multiple of \$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200	7a. _____	7b. _____
8. Enter your wages, and your spouse's if filing jointly, and other earned income from Form 1040, minus any deductions on Form 1040, lines 27 and 29. Do not reduce wages by any loss from self-employment	8. _____	
<p> If married filing jointly and line 8 is less than \$4,000, stop here and see Pub. 590 to figure your IRA deduction.</p>		
9. Enter traditional IRA contributions made, or that will be made by April 15, 2002, for 2001 to your IRA on line 9a and to your spouse's IRA on line 9b	9a. _____	9b. _____
10. On line 10a, enter the smallest of line 7a, 8, or 9a. On line 10b, enter the smallest of line 7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b and enter the total on Form 1040, line 23. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)	10a. _____	10b. _____

Example. You took out a qualified student loan in 1994 while in college. You had 6 years to repay the loan and your first monthly payment was due July 1996, after you graduated. You made a payment every month as required. If you meet items 3 through 5 listed on page 28, you may use only the interest you paid for January through June 2001 to figure your deduction. June is the end of the 60-month period (July 1996–June 2001).

Qualified Student Loan. This is any loan you took out to pay the qualified higher education expenses for yourself, your spouse, or anyone who was your dependent when the loan was taken out. The person for whom the expenses were paid must have been an eligible student (defined on this page). However, a loan is not a qualified student loan if (a) any of the proceeds were used for other purposes or (b) the loan was from either a related person or a person who borrowed the proceeds under a qualified employer plan or a contract purchased under such a plan. To find out who is a related person, see Pub. 970.

Qualified higher education expenses generally include tuition, fees, room and board, and related expenses such as books and supplies. The expenses must be for ed-

ucation in a degree, certificate, or similar program at an eligible educational institution. An eligible educational institution includes most colleges, universities, and certain vocational schools. You must reduce the expenses by the following nontaxable benefits.

- Employer-provided educational assistance benefits that are not included in box 1 of your W-2 form(s).
- Excludable U.S. series EE and I savings bond interest from **Form 8815**.
- Qualified distributions from a Coverdell education savings account.
- Any scholarship, educational assistance allowance, or other payment (but **not** gifts, inheritances, etc.) excluded from income.

For more details on these expenses, see Pub. 970.

An **eligible student** is a person who:

- Was enrolled in a degree, certificate, or other program (including a program of study abroad that was approved for credit by the institution at which the student was enrolled) leading to a recognized educational credential at an eligible educational institution **and**

- Carried at least half the normal full-time workload for the course of study he or she was pursuing.

Line 25

Archer MSA Deduction

If you made a contribution to an Archer MSA for 2001, you may be able to take this deduction. See **Form 8853**.

Line 26

Moving Expenses

If you moved in connection with your job or business or started a new job, you may be able to take this deduction. But your new workplace must be at least 50 miles farther from your old home than your old home was from your old workplace. If you had no former workplace, your new workplace must be at least 50 miles from your old home. Use TeleTax topic 455 (see page 11) or see **Form 3903**.

Student Loan Interest Deduction Worksheet—Line 24

Keep for Your Records

Before you begin:

- ✓ Complete Form 1040, lines 25 through 31a, if they apply to you.
- ✓ Figure any amount to be entered on the dotted line next to line 32 (see page 30).
- ✓ See the instructions for line 24 that begin on page 28.
- ✓ Be sure you have read the **Exception** on page 28 to see if you can use this worksheet instead of Pub. 970 to figure your deduction.



<p>1. Enter the total interest you paid in 2001 on qualified student loans (defined above). Do not include interest that was required to be paid after the first 60 months</p> <p>2. Enter the smaller of line 1 or \$2,500</p> <p>3. Enter the amount from Form 1040, line 22</p> <p>4. Enter the total of the amounts from Form 1040, line 23, lines 25 through 31a, plus any amount you entered on the dotted line next to line 32</p> <p>5. Subtract line 4 from line 3</p> <p>6. Enter the amount shown below for your filing status.</p> <table style="margin-left: 20px;"> <tr> <td>• Single, head of household, or qualifying widow(er)—\$40,000</td> <td rowspan="2" style="font-size: 3em; vertical-align: middle;">}</td> <td rowspan="2" style="vertical-align: middle;">.</td> </tr> <tr> <td>• Married filing jointly—\$60,000</td> </tr> </table> <p>7. Is the amount on line 5 more than the amount on line 6? <input type="checkbox"/> No. Skip lines 7 and 8, enter -0- on line 9, and go to line 10. <input type="checkbox"/> Yes. Subtract line 6 from line 5</p> <p>8. Divide line 7 by \$15,000. Enter the result as a decimal (rounded to at least three places). Do not enter more than "1.000"</p> <p>9. Multiply line 2 by line 8</p> <p>10. Student loan interest deduction. Subtract line 9 from line 2. Enter the result here and on Form 1040, line 24. Do not include this amount in figuring any other deduction on your return (such as on Schedule A, C, E, etc.)</p>	• Single, head of household, or qualifying widow(er)—\$40,000	}	• Married filing jointly—\$60,000	<p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p> <p>5. _____</p> <p>6. _____</p> <p>7. _____</p> <p>8. _____</p> <p>9. _____</p> <p>10. _____</p>
• Single, head of household, or qualifying widow(er)—\$40,000	}			
• Married filing jointly—\$60,000					

Line 27

One-Half of Self-Employment Tax

If you were self-employed and owe self-employment tax, fill in **Schedule SE** to figure the amount of your deduction.

Line 28

Self-Employed Health Insurance Deduction

You may be able to deduct part of the amount paid for health insurance for yourself, your spouse, and dependents if **either** of the following applies.

- You were self-employed and had a net profit for the year.
- You received wages in 2001 from an S corporation in which you were a more-than-2% shareholder. Health insurance benefits paid for you may be shown in box 14 of your W-2 form.

The insurance plan must be established under your business. But if you were also eligible to participate in any subsidized health plan maintained by your or your spouse's employer for any month or part of a month in 2001, amounts paid for health insurance coverage for that month cannot be used to figure the deduction. For example, if you were eligible to participate in a subsidized health plan maintained by your spouse's employer from September 30 through December 31, you cannot use amounts paid for health insurance coverage for September through December to figure your deduction. For more details, see **Pub. 535**.

If you qualify to take the deduction, use the worksheet below to figure the amount you can deduct.

Exception. Use Pub. 535 instead of the worksheet below to find out how to figure your deduction if **any** of the following apply.

- You had more than one source of income subject to self-employment tax.
- You file **Form 2555** or **2555-EZ**.
- You are using amounts paid for qualified long-term care insurance to figure the deduction.

Line 29

Self-Employed SEP, SIMPLE, and Qualified Plans

If you were self-employed or a partner, you may be able to take this deduction. See **Pub. 560** or, if you were a minister, **Pub. 517**.

Line 30

Penalty on Early Withdrawal of Savings

The **Form 1099-INT** or **Form 1099-OID** you received will show the amount of any penalty you were charged.

Lines 31a and 31b

Alimony Paid

If you made payments to or for your spouse or former spouse under a divorce or separation instrument, you may be able to take this deduction. Use TeleTax topic 452 (see page 11) or see **Pub. 504**.

If you made payments to or for your spouse or former spouse under a divorce or separation instrument, you may be able to take this deduction. Use TeleTax topic 452 (see page 11) or see **Pub. 504**.

Line 32

Include in the total on line 32 any of the following adjustments. To find out if you can take the deduction, see the form or publication indicated. On the dotted line next to line 32, enter the amount of your deduction and identify it as indicated.

- Performing-arts-related expenses (see **Form 2106** or **2106-EZ**). Identify as "QPA."
- Jury duty pay given to your employer (see **Pub. 525**). Identify as "Jury Pay."
- Deductible expenses related to income reported on line 21 from the rental of personal property engaged in for profit. Identify as "PPR."
- Reforestation amortization (see **Pub. 535**). Identify as "RFST."
- Repayment of supplemental unemployment benefits under the Trade Act of 1974 (see **Pub. 525**). Identify as "Sub-Pay TRA."
- Contributions to section 501(c)(18) pension plans (see **Pub. 525**). Identify as "501(c)(18)."
- Contributions by certain chaplains to section 403(b) plans (see **Pub. 517**). Identify as "403(b)."
- Deduction for clean-fuel vehicles (see **Pub. 535**). Identify as "Clean-Fuel."
- Employee business expenses of fee-basis state or local government officials (see **Form 2106** or **2106-EZ**). Identify as "FBO."

Self-Employed Health Insurance Deduction Worksheet—Line 28

Keep for Your Records

- Before you begin:**
- ✓ Complete Form 1040, line 29, if it applies to you.
 - ✓ Be sure you have read the **Exception** above to see if you can use this worksheet instead of Pub. 535 to figure your deduction.



1. Enter the total amount paid in 2001 for health insurance coverage established under your business for 2001 for you, your spouse, and dependents. But do not include amounts for any month you were eligible to participate in an employer-sponsored health plan **1.** _____
2. Multiply line 1 by 60% (.60) **2.** _____
3. Enter your net profit and any other earned income* from the business under which the insurance plan is established, minus any deductions you claim on Form 1040, lines 27 and 29 **3.** _____
4. **Self-employed health insurance deduction.** Enter the **smaller** of line 2 or line 3 here and on Form 1040, line 28. **Do not** include this amount in figuring any medical expense deduction on Schedule A (Form 1040) **4.** _____

* **Earned income** includes net earnings and gains from the sale, transfer, or licensing of property you created. It does not include capital gain income. If you were a more-than-2% shareholder in the S corporation under which the insurance plan is established, earned income is your wages from that corporation.

Line 33

If line 33 is less than zero, you may have a net operating loss that you can carry to another tax year. See **Pub. 536**.

Tax and Credits

Line 35a

If you were age 65 or older or blind, check the appropriate box(es) on line 35a. If you were married and checked the box on line 6b of Form 1040 and your spouse was age 65 or older or blind, also check the appropriate box(es) for your spouse. Be sure to enter the total number of boxes checked.

Age

If you were age 65 or older on January 1, 2002, check the “65 or older” box on your 2001 return.

Blindness

If you were partially blind as of December 31, 2001, you must get a statement certified by your eye doctor or registered optometrist that:

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

- Your field of vision is 20 degrees or less.

If your eye condition is not likely to improve beyond the conditions listed above, you can get a statement certified by your eye doctor or registered optometrist to this effect instead.

You must keep the statement for your records.

Line 35b

If your spouse itemizes deductions on a separate return or if you were a dual-status alien, check the box on line 35b. But if you were a dual-status alien and you file a joint return with your spouse who was a U.S. citizen or resident at the end of 2001 and you and your spouse agree to be taxed on your combined worldwide income, **do not** check the box.

Line 36

Itemized Deductions or Standard Deduction

In most cases, your Federal income tax will be less if you take the **larger** of:

- Your itemized deductions or
- Your standard deduction.



If you checked the box on **line 35b**, your standard deduction is zero.

Itemized Deductions

To figure your itemized deductions, fill in **Schedule A**.

Standard Deduction

Most people can find their standard deduction by looking at the amounts listed under “All others” to the left of line 36 of Form 1040. But if you checked **any** box on **line 35a**, or you (or your spouse if filing jointly) can be claimed as a dependent on someone’s 2001 return, use the worksheet below or the chart on page 32, whichever applies, to figure your standard deduction. Also, if you checked the box on **line 35b**, your standard deduction is zero, even if you were age 65 or older or blind.

Electing To Itemize for State Tax or Other Purposes

If you itemize even though your itemized deductions are less than your standard deduction, enter “IE” on the dotted line next to line 36.

Standard Deduction Worksheet for Dependents—Line 36

Keep for Your Records

Use this worksheet only if someone can claim you, or your spouse if filing jointly, as a dependent.		
1.	Add \$250 to your earned income* . Enter the total	1. _____
2.	Minimum standard deduction	2. <u>750.00</u>
3.	Enter the larger of line 1 or line 2	3. _____
4.	Enter the amount shown below for your filing status.	
	<ul style="list-style-type: none"> • Single—\$4,550 • Married filing separately—\$3,800 • Married filing jointly or qualifying widow(er)—\$7,600 • Head of household—\$6,650 	4. _____
5.	Standard deduction.	
a.	Enter the smaller of line 3 or line 4. If under 65 and not blind, stop here and enter this amount on Form 1040, line 36. Otherwise , go to line 5b	5a. _____
b.	If 65 or older or blind, multiply the number on Form 1040, line 35a, by: \$1,100 if single or head of household; \$900 if married filing jointly or separately, or qualifying widow(er)	5b. _____
c.	Add lines 5a and 5b. Enter the total here and on Form 1040, line 36	5c. _____
* Earned income includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income. Generally, your earned income is the total of the amount(s) you reported on Form 1040, lines 7, 12, and 18, minus the amount, if any, on line 27.		

Standard Deduction Chart for People Age 65 or Older or Blind—Line 36

Do not use this chart if someone can claim you, or your spouse if filing jointly, as a dependent. Instead use the worksheet on page 31.

Enter the number from the box on line 35a of Form 1040

▶



Do not use the number of exemptions from line 6d.

IF your filing status is . . .	AND the number in the box above is . . .	THEN your standard deduction is . . .
Single	1	\$5,650
	2	6,750
Married filing jointly or Qualifying widow(er)	1	\$8,500
	2	9,400
	3	10,300
	4	11,200
Married filing separately	1	\$4,700
	2	5,600
	3	6,500
	4	7,400
Head of household	1	\$7,750
	2	8,850

Deduction for Exemptions Worksheet—Line 38

Keep for Your Records



- Is the amount on Form 1040, line 34, more than the amount shown on line 4 below for your filing status?
 - No.** Multiply \$2,900 by the total number of exemptions claimed on Form 1040, line 6d, and enter the result on line 38.
 - Yes.** *Continue*
 - Multiply \$2,900 by the total number of exemptions claimed on Form 1040, line 6d **2.** _____
 - Enter the amount from Form 1040, line 34 **3.** _____
 - Enter the amount shown below for your filing status.
 - Single—\$132,950
 - Married filing jointly or qualifying widow(er)—\$199,450
 - Married filing separately—\$99,725
 - Head of household—\$166,200
 } . . . **4.** _____
 - Subtract line 4 from line 3 **5.** _____
- Note.** If line 5 is more than: \$122,500 if single, married filing jointly, head of household, or qualifying widow(er); \$61,250 if married filing separately, **stop here.** You **cannot** take a deduction for exemptions.
- Divide line 5 by: \$2,500 if single, married filing jointly, head of household, or qualifying widow(er); \$1,250 if married filing separately. If the result is not a whole number, increase it to the next higher whole number (for example, increase 0.0004 to 1) **6.** _____
 - Multiply line 6 by 2% (.02) and enter the result as a decimal **7.** _____
 - Multiply line 2 by line 7 **8.** _____
 - Deduction for exemptions.** Subtract line 8 from line 2. Enter the result here and on Form 1040, line 38 **9.** _____

Line 40

Tax

Do you want the IRS to figure your tax for you?

Yes. See **Pub. 967** for details, including who is eligible and what to do. If you have paid too much, we will send you a refund. If you did not pay enough, we will send you a bill.

No. Use one of the following methods to figure your tax. Also include in the total on line 40 any of the following taxes.

- Tax from **Forms 8814** and **4972**. Be sure to check the appropriate box(es).

- Tax from recapture of an education credit. You may owe this tax if (a) you claimed an education credit in an earlier year and (b) you, your spouse if filing jointly, or your dependent received in 2001 either tax-free educational assistance or a refund of qualified expenses. See **Form 8863** for more details. If you owe this tax, enter the amount and "ECR" on the dotted line next to line 40.

Tax Table or Tax Rate Schedules. If your taxable income is less than \$100,000, you **must** use the Tax Table, which starts on page 59, to figure your tax. Be sure you use the correct column. If your taxable income is \$100,000 or more, use the Tax Rate Schedules on page 71.

Exception. Do not use the Tax Table or Tax Rate Schedules to figure your tax if **either 1 or 2** below applies.

1. You are required to figure your tax using the **Tax Computation Worksheet for Certain Dependents** below, **Form 8615, Schedule D**, or the **Capital Gain Tax Worksheet** on page 34.

2. You use **Schedule J** (for farm income) to figure your tax.

Tax Computation Worksheet for Certain Dependents. If you, or your spouse if filing jointly, can be claimed as a dependent on someone's 2001 return, you must use the worksheet below to figure your tax unless you received (before offset) an advance payment of your 2001 taxes. If any of the other methods listed in item **1** or **2** above apply to you, follow the **Special Rules** on the

worksheet to figure your tax. Your tax may be less if this worksheet applies.

Form 8615. Form 8615 must generally be used to figure the tax for any child who was under age 14 on January 1, 2002, and who had more than \$1,500 of investment income, such as taxable interest, ordinary dividends, or capital gains (including capital gain distributions). But if neither of the child's parents was alive on December 31, 2001, do not use Form 8615 to figure the child's tax.

Schedule D. If you had a net capital gain on Schedule D (both lines 16 and 17 of Schedule D are gains) and the amount on Form 1040, line 39, is more than zero, use Part IV of Schedule D to figure your tax.

Capital Gain Tax Worksheet. If you received capital gain distributions but you are not required to file Schedule D, use the worksheet on page 34 to figure your tax.

Schedule J. If you had income from farming, your tax may be less if you choose to figure it using income averaging on Schedule J.

Tax Computation Worksheet for Certain Dependents—Line 40

Keep for Your Records

Before you begin:

- ✓ Be sure you can use this worksheet (see **Tax Computation Worksheet for Certain Dependents** above).
- ✓ **Do not** use this worksheet if you, or your spouse if filing jointly, received (before offset) an advance payment of your 2001 taxes.
- ✓ Be sure you read the **Special Rules** below.



1. Figure the tax on the amount on Form 1040, line 39 (or the applicable line of the worksheet, schedule, or form listed below). Use the Tax Table or Tax Rate Schedules, whichever applies **1.** _____
2. Is the amount on line 1 more than the amount shown below for your filing status?
 - Single or married filing separately—\$900
 - Married filing jointly or qualifying widow(er)—\$1,800
 - Head of household—\$1,500

Yes. Enter: \$300 if single or married filing separately; \$500 if head of household; \$600 if married filing jointly or qualifying widow(er). } **2.** _____

No. Divide the amount on line 1 by 3.0.
3. Subtract line 2 from line 1. Enter the result here and on Form 1040, line 40 (or the applicable line of the worksheet, schedule, or form listed below) **3.** _____

Special Rules. If you use:

- The **Capital Gain Tax Worksheet** on page 34, use the worksheet above to figure the tax on lines 4 and 14 of the Capital Gain Tax Worksheet.
- **Schedule D, Part IV**, use the worksheet above to figure the tax on lines 25 and 39 of Part IV. If you use the **Schedule D Tax Worksheet** on page D-9, use the worksheet above to figure the tax on lines 15 and 36 of the Schedule D Tax Worksheet.
- **Schedule J**, use the worksheet above to figure the tax on line 4 of Schedule J.
- **Form 8615**, use the worksheet above to figure the tax on lines 15 and 17 of Form 8615 (and line 9 if the parent used this worksheet).
- **Other forms or worksheets** that require you to figure the tax using the 2001 Tax Table or Tax Rate Schedules, use the worksheet above to figure the tax on any line that would otherwise be figured using the 2001 Tax Table or Tax Rate Schedules.

Line 41

Alternative Minimum Tax

Use the worksheet on page 35 to see if you should fill in **Form 6251**.

Exception. Fill in Form 6251 instead of using the worksheet on page 35 if you claimed or received **any** of the following items.

1. Accelerated depreciation.
2. Stock by exercising an incentive stock option and you did not dispose of the stock in the same year.
3. Tax-exempt interest from private activity bonds.
4. Intangible drilling, circulation, research, experimental, or mining costs.
5. Amortization of pollution-control facilities or depletion.
6. Income or (loss) from tax-shelter farm activities or passive activities.
7. Percentage-of-completion income from long-term contracts.

8. Interest paid on a home mortgage **not** used to buy, build, or substantially improve your home.

9. Investment interest expense reported on **Form 4952**.

10. Net operating loss deduction.

11. Alternative minimum tax adjustments from an estate, trust, electing large partnership, or cooperative.

12. Section 1202 exclusion.



Form 6251 should be filled in for a child under age 14 if the child's adjusted gross income from Form 1040, line 34, exceeds the child's earned income by more than \$5,350.

Exception. You do not have to file Form 1116 to take this credit if **all five** of the following apply.

1. All of your gross foreign-source income is from interest and dividends and all of that income and the foreign tax paid on it is reported to you on **Form 1099-INT** or **Form 1099-DIV** (or substitute statement).

2. If you have dividend income from shares of stock, you held those shares for at least 16 days.

3. You are not filing **Form 4563** or excluding income from sources within Puerto Rico.

4. The total of your foreign taxes is not more than \$300 (not more than \$600 if married filing jointly).

5. All of your foreign taxes were:

- Legally owed and not eligible for a refund and
- Paid to countries that are recognized by the United States and do not support terrorism.

(Continued on page 35)

Line 43

Foreign Tax Credit

If you paid income tax to a foreign country, you may be able to take this credit. Generally, you must complete and attach **Form 1116** to do so.

Capital Gain Tax Worksheet—Line 40

Keep for Your Records

Before you begin:

- ✓ Be sure you do not have to file Schedule D (see the instructions for Form 1040, line 13, on page 23).
- ✓ Be sure you checked the box on line 13 of Form 1040.



1. Enter the amount from Form 1040, line 39	1. _____	
2. Enter the amount from Form 1040, line 13	2. _____	
3. Subtract line 2 from line 1. If zero or less, enter -0-	3. _____	
4. Figure the tax on the amount on line 3. Use the Tax Table or Tax Rate Schedules, whichever applies	4. _____	
5. Enter the smaller of:		
• The amount on line 1 or		
• \$27,050 if single; \$45,200 if married filing jointly or qualifying widow(er); \$22,600 if married filing separately; or \$36,250 if head of household.	5. _____	
6. Is the amount on line 3 equal to or more than the amount on line 5?		
<input type="checkbox"/> Yes. Leave lines 6 through 8 blank; go to line 9 and check the "No" box.		
<input type="checkbox"/> No. Enter the amount from line 3	6. _____	
7. Subtract line 6 from line 5	7. _____	
8. Multiply line 7 by 10% (.10)	8. _____	
9. Are the amounts on lines 2 and 7 the same?		
<input type="checkbox"/> Yes. Leave lines 9 through 12 blank; go to line 13.		
<input type="checkbox"/> No. Enter the smaller of line 1 or line 2	9. _____	
10. Enter the amount, if any, from line 7	10. _____	
11. Subtract line 10 from line 9. If zero or less, enter -0-	11. _____	
12. Multiply line 11 by 20% (.20)	12. _____	
13. Add lines 4, 8, and 12	13. _____	
14. Figure the tax on the amount on line 1. Use the Tax Table or Tax Rate Schedules, whichever applies	14. _____	
15. Tax on all taxable income (including capital gain distributions). Enter the smaller of line 13 or line 14 here and on Form 1040, line 40	15. _____	

For more details on these requirements, see the Instructions for Form 1116.

Do you meet all five requirements on page 34?

Yes. Enter on line 43 the **smaller** of your total foreign taxes or the amount on Form 1040, line 40.

No. See Form 1116 to find out if you can take the credit and, if you can, if you have to file Form 1116.

Line 44

Credit for Child and Dependent Care Expenses

You may be able to take this credit if you paid someone to care for your child **under age 13** or your dependent or spouse who could not care for himself or herself. For details, use TeleTax topic 602 (see page 11) or see **Form 2441**.

Line 45

Credit for the Elderly or the Disabled

You may be able to take this credit if by the end of 2001 (a) you were age 65 or older or (b) you retired on **permanent and total disability** and you had taxable disability income. But you usually **cannot** take the credit if the amount on Form 1040, line 34, is \$17,500 or more (\$20,000 if married filing jointly and only one spouse is eligible for

Worksheet To See if You Should Fill in Form 6251—Line 41

Keep for Your Records

Before you begin:

- ✓ Be sure you have read the **Exception** on page 34 to see if you must fill in Form 6251 instead of using this worksheet.
- ✓ If you are claiming the foreign tax credit (see the instructions for Form 1040, line 43, that begin on page 34), enter that credit on line 43.



1.	Enter the amount from Form 1040, line 37	1.	<u> </u>
2.	Are you filing Schedule A ?		
	<input type="checkbox"/> Yes. Leave line 2 blank and go to line 3.		
	<input type="checkbox"/> No. Enter your standard deduction from Form 1040, line 36, and go to line 5.	2.	<u> </u>
3.	Enter the smaller of the amount on Schedule A, line 4, or 2.5% (.025) of the amount on Form 1040, line 34.	3.	<u> </u>
4.	Add lines 9 and 26 of Schedule A and enter the total.	4.	<u> </u>
5.	Add lines 1 through 4 above.	5.	<u> </u>
6.	Enter the amount shown below for your filing status.		
	<ul style="list-style-type: none"> • Single or head of household—\$35,750 • Married filing jointly or qualifying widow(er)—\$49,000 • Married filing separately—\$24,500 	}	6. <u> </u>
7.	Is the amount on line 5 more than the amount on line 6?		
	<input type="checkbox"/> No. You do not need to fill in Form 6251.		
	<input type="checkbox"/> Yes. Subtract line 6 from line 5	7.	<u> </u>
8.	Enter the amount shown below for your filing status.		
	<ul style="list-style-type: none"> • Single or head of household—\$112,500 • Married filing jointly or qualifying widow(er)—\$150,000 • Married filing separately—\$75,000 	}	8. <u> </u>
9.	Is the amount on line 5 more than the amount on line 8?		
	<input type="checkbox"/> No. Enter -0- here and on line 10 and go to line 11.		
	<input type="checkbox"/> Yes. Subtract line 8 from line 5.	}	9. <u> </u>
10.	Multiply line 9 by 25% (.25) and enter the result but do not enter more than line 6 above	10.	<u> </u>
11.	Add lines 7 and 10	11.	<u> </u>
12.	Is the amount on line 11 more than the amount shown below for your filing status?		
	<ul style="list-style-type: none"> • Single, married filing jointly, head of household, or qualifying widow(er)—\$175,000 • Married filing separately—\$87,500 		
	<input type="checkbox"/> Yes. Fill in Form 6251 to see if you owe the alternative minimum tax.		
	<input type="checkbox"/> No. Multiply line 11 by 26% (.26)	12.	<u> </u>
13.	Enter the amount from Form 1040, line 40, minus the total of any tax from Form 4972 and any amount on Form 1040, line 43.	13.	<u> </u>
Next.	Is the amount on line 12 more than the amount on line 13?		
	<input type="checkbox"/> Yes. Fill in Form 6251 to see if you owe the alternative minimum tax.		
	<input type="checkbox"/> No. You do not need to fill in Form 6251.		

the credit; \$25,000 if married filing jointly and both spouses are eligible; \$12,500 if married filing separately). See **Schedule R** and its instructions for details.

Credit Figured by the IRS. If you can take this credit and you want us to figure it for you, see the Instructions for Schedule R.

eligible educational institution, you may be able to take an education credit. See **Form 8863** for details. However, you **cannot** take an education credit if **any** of the following apply.

- You are claimed as a dependent on someone's (such as your parent's) 2001 tax return.
- Your filing status is married filing separately.
- The amount on Form 1040, line 34, is \$50,000 or more (\$100,000 or more if married filing jointly).
- You (or your spouse) were a nonresident alien for any part of 2001 unless your filing status is married filing jointly.

Line 46

Education Credits

If you (or your dependent) paid qualified expenses in 2001 for yourself, your spouse, or your dependent to enroll in or attend an

Rate Reduction Credit Worksheet—Line 47

Keep for Your Records

Before you begin:

- ✓ If you received (before offset) an advance payment of your 2001 taxes equal to the amount shown below for your 2001 filing status, **stop**. You cannot take the credit because you have received the maximum amount of the credit.
 - Single or married filing separately — \$300
 - Head of household — \$500
 - Married filing jointly or qualifying widow(er) — \$600
- ✓ If you, or your spouse if filing a joint return, can be claimed as a dependent on another person's return, **stop**. You cannot take the credit.
- ✓ If you received (before offset) an advance payment and you filed a joint return for 2000, you and your spouse are each considered to have received one-half of the payment.



If you received Notice 1275, 1277, or 1278 have it available. The notice shows the amount of your advance payment (before offset).

1. Enter the amount from Form 1040, line 39. If line 39 is zero or blank, **stop**; you cannot take the credit **1.** _____
2. Enter the amount shown below for your filing status.
 - Single or married filing separately — \$6,000
 - Head of household — \$10,000
 - Married filing jointly or qualifying widow(er) — \$12,000
 } **2.** _____
3. Is the amount on line 1 less than the amount on line 2?
 - No.** Enter: \$300 if single or married filing separately; \$500 if head of household; \$600 if married filing jointly or qualifying widow(er).
 - Yes.** Multiply the amount on line 1 by 5% (.05). Enter the result.
 } **3.** _____
4. Enter the amount from Form 1040, line 42 **4.** _____
5. Add the amounts from Form 1040, lines 43 through 46. Enter the total . . . **5.** _____
6. Subtract line 5 from line 4. If the result is zero or less, **stop**; you cannot take the credit **6.** _____
7. Enter the **smaller** of line 3 or line 6 **7.** _____
8. Enter the amount, if any, of your advance payment (before offset). If filing a joint return, include your spouse's advance payment with yours **8.** _____
9. **Rate reduction credit.** Subtract line 8 from line 7. Enter the result here and, if more than zero, on Form 1040, line 47. If line 8 is more than line 7, you do not have to pay back the difference **9.** _____

Line 48—Child Tax Credit

What Is the Child Tax Credit?

This credit is for people who have a qualifying child as defined in the instructions for line 6c, column (4), on page 20. It is in addition to the credit for child and dependent care expenses on Form 1040, line 44, and the earned income credit on Form 1040, line 61a.

Three Steps To Take the Child Tax Credit!

- Step 1.** Make sure you have a qualifying child for the child tax credit. See the instructions for line 6c, column (4), on page 20.
- Step 2.** Make sure you checked the box in column (4) of line 6c on Form 1040 for each qualifying child.
- Step 3.** Answer the questions on this page to see if you may use the worksheet on page 38 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 7.

Questions

Who Must Use Pub. 972



- Are you excluding income from Puerto Rico **or** are you filing any of the following forms?
 - Form 2555 or 2555-EZ (relating to foreign earned income)
 - Form 4563 (exclusion of income for residents of American Samoa)

No. *Continue* 

Yes.  You must use Pub. 972 to figure your credit.

- Is the amount on Form 1040, line 34, more than the amount shown below for your filing status?
 - Married filing jointly – \$110,000
 - Single, head of household, or qualifying widow(er) – \$75,000
 - Married filing separately – \$55,000

No. *Continue* 

Yes.  You must use Pub. 972 to figure your credit.

- Are you claiming any of the following credits?
 - Adoption credit, Form 8839 (see the instructions for Form 1040, line 49, on page 39)
 - Mortgage interest credit, Form 8396 (see the instructions for Form 1040, line 50, on page 39)
 - District of Columbia first-time homebuyer credit, Form 8859

No. Use the worksheet on page 38 to figure your child tax credit.

Yes. You must use Pub. 972 to figure your child tax credit. You will also need the form(s) listed above for any credit(s) you are claiming.

Child Tax Credit Worksheet—Line 48

Keep for Your Records



Do not use this worksheet if you answered “Yes” to question 1, 2, or 3 on page 37. Instead, use Pub. 972.



1. Number of qualifying children: _____ × \$600. Enter the result. 1

2. Enter the amount from Form 1040, line 42. 2

3. Add the amounts from Form 1040:

Line 43 _____

Line 44 + _____

Line 45 + _____

Line 46 + _____

Line 47 + _____ Enter the total. 3

4. Are the amounts on lines 2 and 3 the same?

Yes.

You cannot take this credit because there is no tax to reduce. However, see the **TIP** below before completing the rest of your Form 1040.

No. Subtract line 3 from line 2. 4

5. Is the amount on line 1 more than the amount on line 4?

Yes. Enter the amount from line 4. Also, see the **TIP** below.

No. Enter the amount from line 1.

This is your child tax credit.

5

Enter this amount on Form 1040, line 48.



You may be able to take the **additional child tax credit** on Form 1040, line 63, if you answered “Yes” on line 4 or line 5 above.

- First, complete your Form 1040 through line 62.
- Then, use Form 8812 to figure any additional child tax credit.

Line 49**Adoption Credit**

You may be able to take this credit if you paid expenses in 2001 to adopt a child. See **Form 8839** for details.

Line 50**Other Credits**

Include in the total on line 50 any of the following credits and check the appropriate box(es). If box **d** is checked, also enter the form number. To find out if you can take the credit, see the form or publication indicated.

- Mortgage interest credit. If a state or local government gave you a mortgage credit certificate, see **Form 8396**.
- Credit for prior year minimum tax. If you paid alternative minimum tax in a prior year, see **Form 8801**.
- Qualified electric vehicle credit. If you placed a new electric vehicle in service in 2001, see **Form 8834**.
- General business credit. This credit consists of a number of credits that usually apply only to individuals who are partners, shareholders in an S corporation, self-employed, or who have rental property. See **Form 3800** or **Pub. 334**.
- Empowerment zone employment credit. See **Form 8844**.
- District of Columbia first-time home-buyer credit. See **Form 8859**.

Line 51

If you sold fuel produced from a nonconventional source, see Internal Revenue Code section 29 to find out if you can take the **nonconventional source fuel credit**. If you can, attach a schedule showing how you figured the credit. Include the credit in the total on line 51. Enter the amount and "FNS" on the dotted line next to line 51.

Other Taxes

Line 54**Social Security and Medicare Tax on Tip Income Not Reported to Employer**

If you received tips of \$20 or more in any month and you did not report the full amount to your employer, you must pay the social security and Medicare or railroad retirement (RRTA) tax on the unreported tips. You must also pay this tax if your W-2 form(s) shows allocated tips that you are including in your income on Form 1040, line 7.

To figure the tax, use **Form 4137**. To pay the RRTA tax, contact your employer. Your employer will figure and collect the tax.



You may be charged a penalty equal to 50% of the social security and Medicare tax due on tips you received but did not report to your employer.

Line 55**Tax on Qualified Plans Including IRAs, and Other Tax-Favored Accounts**

If **any** of the following apply, see **Form 5329** and its instructions to find out if you owe this tax and if you must file Form 5329.

1. You received any early distributions from (a) an IRA or other qualified retirement plan, (b) an annuity, or (c) a modified endowment contract entered into after June 20, 1988.
2. Excess contributions were made to your IRAs, Coverdell ESAs, or Archer MSAs.
3. You received distributions from Coverdell ESAs in excess of your qualified higher education expenses.
4. You were born before July 1, 1930, and did not take the minimum required distribution from your IRA or other qualified retirement plan.

Exception. If **only** item 1 applies to you and distribution code 1 is correctly shown in box 7 of your **Form 1099-R**, you do not have to file Form 5329. Instead, multiply the taxable amount of the distribution by 10% (.10) and enter the result on line 55. The taxable amount of the distribution is the part of the distribution you reported on line 15b or line 16b of Form 1040 or on

Form 4972. Also, put "No" under the heading "Other Taxes" to the left of line 55 to indicate that you do not have to file Form 5329. **But** if distribution code 1 is incorrectly shown in box 7 of Form 1099-R, you must file Form 5329.

Line 56**Advance Earned Income Credit Payments**

Enter the total amount of advance earned income credit (EIC) payments you received. These payments are shown in box 9 of your W-2 form(s).

Line 57**Household Employment Taxes**

If **any** of the following apply, see **Schedule H** and its instructions to find out if you owe these taxes.

1. You paid **any one** household employee (defined below) cash wages of \$1,300 or more in 2001. Cash wages include wages paid by checks, money orders, etc.
2. You withheld Federal income tax during 2001 at the request of any household employee.
3. You paid **total** cash wages of \$1,000 or more in **any** calendar **quarter** of 2000 or 2001 to household employees.



For item 1, do not count amounts paid to an employee who was under age 18 at any time in 2001 and was a student.

Household Employee. Any person who does household work is a household employee if you can control what will be done and how it will be done. Household work includes work done in or around your home by babysitters, nannies, health aides, maids, yard workers, and similar domestic workers.

Line 58**Total Tax**

Include in the total on line 58 any of the following taxes. To find out if you owe the tax, see the form or publication indicated. On the dotted line next to line 58, enter the amount of the tax and identify it as indicated.

(Continued on page 40)

Recapture of the Following Credits.

- Investment credit (see **Form 4255**). Identify as “ICR.”
- Low-income housing credit (see **Form 8611**). Identify as “LIHCR.”
- Qualified electric vehicle credit (see **Pub. 535**). Identify as “QEVCR.”
- Indian employment credit. Identify as “IECR.”

Recapture of Federal Mortgage Subsidy. If you sold your home in 2001 and it was financed (in whole or in part) from the proceeds of any tax-exempt qualified mortgage bond or you claimed the mortgage interest credit, see **Form 8828**. Identify as “FMSR.”

Section 72(m)(5) Excess Benefits Tax (see **Pub. 560**). Identify as “Sec. 72(m)(5).”

Uncollected Social Security and Medicare or RRTA Tax on Tips or Group-Term Life Insurance. This tax should be shown in box 12 of your Form W-2 with codes **A** and **B** or **M** and **N**. Identify as “UT.”

Golden Parachute Payments. If you received an excess parachute payment (EPP), you must pay a 20% tax on it. This tax should be shown in box 12 of your W-2 form with code **K**. If you received a **Form 1099-MISC**, the tax is 20% of the EPP shown in box 13. Identify as “EPP.”

Tax on Accumulation Distribution of Trusts. Enter the amount from **Form 4970** and identify as “ADT.”

Payments

Line 59**Federal Income Tax Withheld**

Add the amounts shown as Federal income tax withheld on your **Forms W-2, W-2G, and 1099-R**. Enter the total on line 59. The amount withheld should be shown in box 2 of Form W-2 or W-2G, and in box 4 of Form 1099-R. If line 59 includes amounts withheld as shown on Form 1099-R, attach the Form 1099-R to the front of your return.

If you received a 2001 Form 1099 showing Federal income tax withheld on dividends, interest income, unemployment compensation, social security benefits, or other income you received, include the amount withheld in the total on line 59. This should be shown in box 4 of the 1099 form or box 6 of **Form SSA-1099**.

Line 60

2001 Estimated Tax Payments

Enter any payments you made on your estimated Federal income tax (**Form 1040-ES**) for 2001. Include any overpayment from your 2000 return that you applied to your 2001 estimated tax.

If you and your spouse paid joint estimated tax but are now filing separate income tax returns, you can divide the amount paid in any way you choose as long as you both agree. If you cannot agree, you must divide the payments in proportion to each spouse's individual tax as shown on your separate returns for 2001. For an example of how to do this, see **Pub. 505**. Be sure to show both social security numbers (SSNs) in the space provided on the separate returns. If you or your spouse paid separate estimated tax but you are now filing a joint return, add the amounts you each paid. Follow these instructions even if your spouse died in 2001 or in 2002 before filing a 2001 return.

Divorced Taxpayers

If you got divorced in 2001 and you made joint estimated tax payments with your former spouse, put your former spouse's SSN in the space provided on the front of Form 1040. If you were divorced and remarried in 2001, put your present spouse's SSN in the space provided on the front of Form 1040. Also, under the heading “Payments” to the left of line 60, put your former spouse's SSN, followed by “DIV.”

Name Change

If you changed your name because of marriage, divorce, etc., and you made estimated tax payments using your former name, attach a statement to the front of Form 1040. On the statement, explain all the payments you and your spouse made in 2001 and the name(s) and SSN(s) under which you made them.

Lines 61a and 61b— Earned Income Credit (EIC)

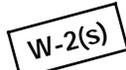
What Is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you **or** let the IRS figure the credit for you.
- If you have a qualifying child, complete and attach Schedule EIC.

You Will Need:



If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Step 1 All Filers

1. Is the amount on Form 1040, line 34, less than \$32,121 (or \$10,710 if a child did not live with you in 2001)?
 Yes. *Continue* → **No.** You cannot take the credit.
2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 44)?
 Yes. *Continue* → **No.** You cannot take the credit.
Put "No" directly to the right of line 61a.
3. Is your filing status married filing separately?
 Yes. You cannot take the credit. **No.** *Continue* →
4. Are you filing Form 2555 or 2555-EZ (relating to foreign earned income)?
 Yes. You cannot take the credit. **No.** *Continue* →
5. Were you a nonresident alien for any part of 2001?
 Yes. *See Nonresident Aliens on page 44.* **No.** *Go to Step 2.*

Step 2 Investment Income

1. Add the amounts from Form 1040:

Line 8a	_____			
Line 8b	+	_____		
Line 9	+	_____		
Line 13	+	_____		
Investment Income				=
2. Is your investment income more than \$2,450?
 Yes. *Continue* → **No.** *Skip the next question; go to Step 3.*
3. Are you filing Form 4797 (relating to sales of business property)?
 Yes. *See Form 4797 Filers on page 44.* **No.** You cannot take the credit.

Step 3 Who Must Use Pub. 596

Some people must use Pub. 596, Earned Income Credit, to see if they can take the credit and how to figure it. To see if you must use Pub. 596, answer the following questions.

1. Are you filing Schedule E?
 No. *Continue* → **Yes.** →
2. Are you claiming a loss on Form 1040, line 12, 13, or 18?
 No. *Continue* → **Yes.** →
3. Are you reporting income or a loss from the rental of personal property not used in a trade or business?
 No. *Continue* → **Yes.** →
4. Did you, or your spouse if filing a joint return, receive a distribution from a pension, annuity, IRA, or Coverdell ESA that is not fully taxable?
 No. *Continue* → **Yes.** →
5. Are you reporting income on Form 1040, line 21, from Form 8814 (relating to election to report child's interest and dividends)?
 No. *Continue* → **Yes.** →
6. Did you enter an amount other than zero on Form 1040, line 41?
 No. *Continue* → **Yes.** →
7. Did a child live with you in 2001?
 Yes. *Go to Step 4 on page 42.* **No.** *Go to Step 5 on page 42.*

You must use Pub. 596 to see if you can take the credit and how to figure it.



To get Pub. 596, see page 7.

Continued from page 41

Step 4 Qualifying Child

A qualifying child is a child who is your...

- Son Grandchild
- Daughter Stepchild
- Adopted child Foster child (see page 44)
- If the child was married, see page 44.

AND

was at the end of 2001...

Under age 19

or

Under age 24 and a student (see page 44)

or

Any age and permanently and totally disabled (see page 44)

AND

who...

Lived with you in the United States for more than half of 2001 or, if a foster child, for all of 2001.

If the child did not live with you for the required time, see Exception to "Time Lived With You" Condition on page 44.

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2001?

- Yes.**  You cannot take the credit. Put "No" directly to the right of line 61a.
- No.** Continue →

2. Do you have at least one child who meets the above conditions to be your qualifying child?

- Yes.** Continue →
- No.** Skip the next question; go to Step 5, question 2.

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2001?

- Yes.** See *Qualifying Child of More Than One Person* on page 44.
- No.** This child is your qualifying child. The child must have a social security number as defined on page 44 unless the child was born and died in 2001. Skip Step 5; go to Step 6.

Step 5 Filers Without a Qualifying Child

1. Look at the qualifying child conditions in Step 4. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2001?

- Yes.**  You cannot take the credit. Put "No" directly to the right of line 61a.
- No.** Continue →

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2001 tax return?

- Yes.**  You cannot take the credit.
- No.** Continue →

3. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2001?

- Yes.** Continue →
- No.**  You cannot take the credit. Put "No" directly to the right of line 61a.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2001? Members of the military stationed outside the United States, see page 44 before you answer.

- Yes.** Go to Step 6.
- No.**  You cannot take the credit. Put "No" directly to the right of line 61a.

Step 6 Modified Adjusted Gross Income

1. Add the amounts from Line 8b _____
Form 1040: Line 34 + _____

Modified Adjusted Gross Income = 

2. If you have:

- 2 or more qualifying children, is Box A less than \$32,121?
- 1 qualifying child, is Box A less than \$28,281?
- No qualifying children, is Box A less than \$10,710?

- Yes.** Go to Step 7 on page 43.
- No.**  You cannot take the credit.

(Continued on page 43)

Continued from page 42

Step 7 Nontaxable and Taxable Earned Income

- Add all your nontaxable earned income, including your spouse's if filing a joint return. This includes anything of value (money, goods, or services) that is not taxable that you received from your employer for your work. Types of nontaxable earned income are listed below.
 - Salary deferrals, such as a 401(k) plan or the Federal Thrift Savings Plan, shown in box 12 of your W-2 form. See page 44.
 - Salary reductions, such as under a cafeteria plan, unless they are included in box 1 of your W-2 form. See page 44.
 - Mandatory contributions to a state or local retirement plan.
 - Military employee basic housing, subsistence, and combat zone compensation. These amounts are shown in box 12 of your W-2 form with code Q.
 - Meals and lodging provided for the convenience of your employer.
 - Housing allowances or rental value of a parsonage for clergy members. If filing Schedule SE, see Clergy on this page.
 - Excludable dependent care benefits from Form 2441, line 18, employer-provided adoption benefits from Form 8839, line 26, and educational assistance benefits (these benefits may be shown in box 14 of your W-2 form).
 - Certain amounts received by Native Americans. See Pub. 596.
- Note.** Nontaxable earned income does not include welfare benefits or workfare payments (see page 44), or qualified foster care payments.

Nontaxable Earned Income =

Box B	
----------	--

Enter this amount on Form 1040, line 61b.



- Are you filing Schedule SE because you had church employee income of \$108.28 or more?
 - Yes.** See *Church Employees on this page.*
 - No.** *Continue* →

- Figure taxable earned income:
 - Form 1040, line 7 _____
 - Subtract, if included on line 7, any:
 - Taxable scholarship or fellowship grant not reported on a W-2 form
 - Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted on the dotted line next to line 7 of Form 1040)
 - Amount received as a pension or annuity from a nonqualified deferred compensation plan or a section 457 plan (put "DFC" and the amount subtracted on the dotted line next to line 7 of Form 1040). This amount may be shown in box 11 of your W-2 form. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Taxable Earned Income =

Box C	
----------	--

Go to question 4.

- Were you self-employed, or are you filing Schedule SE because you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?
 - Yes.** Skip Steps 8 and 9; go to Worksheet B on page 46.
 - No.** Go to Step 8.

Step 8 Total Earned Income

- Nontaxable Earned Income (Step 7, Box B) _____
 Taxable Earned Income (Step 7, Box C) + _____

Total Earned Income =

Box D	
----------	--

- If you have:
 - 2 or more qualifying children, is Box D less than \$32,121?
 - 1 qualifying child, is Box D less than \$28,281?
 - No qualifying children, is Box D less than \$10,710?

Yes. Go to Step 9. **No.**

STOP

 You cannot take the credit. Put "No" directly to the right of line 61a.

Step 9 How To Figure the Credit

- Do you want the IRS to figure the credit for you?
 - Yes.** See *Credit Figured by the IRS below.*
 - No.** Go to Worksheet A on page 45.

Definitions and Special Rules (listed in alphabetical order)

Adopted Child. Any child placed with you by an authorized placement agency for legal adoption. An authorized placement agency includes any person authorized by state law to place children for legal adoption. The adoption does not have to be final.

Church Employees. Determine how much of the amount on Form 1040, line 7, was also reported on Schedule SE, line 5a. Subtract that amount from the amount on Form 1040, line 7, and enter the result in the first space of Step 7, line 3. Be sure to answer "Yes" on line 4 of Step 7.

Clergy. If you are filing Schedule SE and the amount on line 2 of that schedule includes an amount that was also reported on Form 1040, line 7:

- Put "Clergy" directly to the right of line 61a of Form 1040.
- Do not include any housing allowance or rental value of the parsonage as nontaxable earned income in Box B if it is required to be included on Schedule SE, line 2.
- Determine how much of the amount on Form 1040, line 7, was also reported on Schedule SE, line 2.
- Subtract that amount from the amount on Form 1040, line 7. Enter the result in the first space of Step 7, line 3.
- Be sure to answer "Yes" on line 4 of Step 7.

Credit Figured by the IRS. To have the IRS figure the credit for you:

- Put "EIC" directly to the right of line 61a of Form 1040.
- Be sure you entered the amount of any nontaxable earned income (Step 7, Box B, on this page) on Form 1040, line 61b.

(Continued on page 44)

Continued from page 43

3. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, below.

Exception to “Time Lived With You” Condition. A child is considered to have lived with you for all of 2001 if the child was born or died in 2001 and your home was this child’s home for the entire time he or she was alive in 2001. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military below.

Form 4797 Filers. If the amount on Form 1040, line 13, includes an amount from Form 4797, you must use Pub. 596 to see if you can take the EIC and how to figure it. To get Pub. 596, see page 7. Otherwise, stop; you cannot take the EIC.

Form 8862, Who Must File. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But do not file Form 8862 if, after your EIC was reduced or disallowed in an earlier year:

- You filed Form 8862 (or other documents) and your EIC was then allowed and
- Your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

Foster Child. Any child you cared for as your own child **and** who is (a) your brother, sister, stepbrother, or stepsister; (b) a descendant (such as a child, including an adopted child) of your brother, sister, stepbrother, or stepsister; or (c) a child placed with you by an authorized placement agency. For example, if you acted as the parent of your niece or nephew, this child is considered your foster child.

Grandchild. Any descendant of your son, daughter, or adopted child. For example, a grandchild includes your great-grandchild, great-great-grandchild, etc.

Married Child. A child who was married at the end of 2001 is a qualifying child only if (a) you can claim him or her as your dependent on Form 1040, line 6c, or (b) this child’s other parent claims him or her as a dependent under the rules in Pub. 501 for children of divorced or separated parents.

Members of the Military. If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

Nonresident Aliens. If your filing status is married filing jointly, go to Step 2 on page 41. Otherwise, stop; you cannot take the EIC.

Permanently and Totally Disabled Child. A child who cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition:

- Has lasted or can be expected to last continuously for at least a year or
- Can lead to death.

Qualifying Child of More Than One Person. If the child meets the conditions to be a qualifying child of more than one person, only the person who had the **highest** modified adjusted gross income (AGI) for 2001 may treat that child as a qualifying child. The other person(s) cannot take the EIC for people who do not have a qualifying child. If the other person is your spouse and you are filing a joint return, this rule does not apply. If you have the highest modified AGI, this child is

your qualifying child. The child must have a social security number as defined below unless the child was born and died in 2001. Skip Step 5; go to Step 6 on page 42. If you do not have the highest modified AGI, stop; you cannot take the EIC. Put “No” directly to the right of line 61a.

Modified AGI is the total of the amounts on Form 1040, lines 8b and 34, increased by:

- Any loss claimed on Form 1040, line 13,
- Any loss from the rental of personal property not used in a trade or business,
- 75% of any losses on Form 1040, lines 12 and 18,
- Certain nontaxable distributions from a pension, annuity, or IRA (see Pub. 596), and
- Certain amounts reported on Schedule E (see Pub. 596).

Example. You and your 5-year-old daughter moved in with your mother in April 2001. You are not a qualifying child of your mother. Your daughter meets the conditions to be a qualifying child for both you and your mother. Your modified AGI for 2001 was \$8,000 and your mother’s was \$14,000. Because your mother’s modified AGI was higher, your daughter is your mother’s qualifying child. You **cannot** take any EIC even if your mother does not claim the credit. You would put “No” directly to the right of line 61a.

Salary Deferrals. Contributions from your pay to certain retirement plans, such as a 401(k) plan or the Federal Thrift Savings Plan, shown in box 12 of your W-2 form. The “Retirement plan” box in box 13 of your W-2 form should be checked.

Salary Reductions. Amounts you could have been paid but chose instead to have your employer contribute to certain benefit plans, such as a cafeteria plan. A cafeteria plan is a plan that allows you to choose to receive either cash or certain benefits that are not taxed (such as accident and health insurance).

Social Security Number (SSN). For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless “Not Valid for Employment” is printed on the social security card and the number was issued solely to apply for or receive a Federally funded benefit.

To find out how to get an SSN, see page 19. If you will not have an SSN by April 15, 2002, see What if You Cannot File on Time? on page 15.

Student. A child who during any 5 months of 2001:

- Was enrolled as a full-time student at a school or
- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

A **school** includes technical, trade, and mechanical schools. It does not include on-the-job training courses, correspondence schools, or night schools.

Welfare Benefits, Effect of Credit on. Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs, or how much you can receive from them.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

Workfare Payments. Cash payments certain people receive from a state or local agency that administers public assistance programs funded under the Federal Temporary Assistance for Needy Families (TANF) program in return for certain work activities such as:

- Work experience activities (including work associated with remodeling or repairing publicly assisted housing) if sufficient private sector employment is not available or
- Community service program activities.

Worksheet A—Earned Income Credit (EIC)—Lines 61a and 61b

Keep for Your Records

Before you begin: ✓ Be sure you are using the correct worksheet. **Do not** use this worksheet if you were self-employed, or you are filing Schedule SE because you had church employee income, or you are filing Schedule C or C-EZ as a statutory employee. Instead, use Worksheet B on page 46.



Part 1

All Filers Using Worksheet A

1. Enter your total earned income from Step 8, Box D, on page 43. 1

2. Look up the amount on line 1 above in the EIC Table on pages 48–50 to find the credit. Enter the credit here. 2

If line 2 is zero, You cannot take the credit. Put “No” directly to the right of line 61a.

3. Enter your modified adjusted gross income from Step 6, Box A, on page 42. 3

4. Are the amounts on lines 3 and 1 the same?
 Yes. Skip line 5; enter the amount from line 2 on line 6.
 No. Go to line 5.

Part 2

Filers Who Answered “No” on Line 4

5. Is the amount on line 3 less than:
 • \$5,950 if you do not have a qualifying child **or**
 • \$13,100 if you have one or more qualifying children?
 Yes. Leave line 5 blank; enter the amount from line 2 on line 6.
 No. Look up the amount on line 3 in the EIC Table on pages 48–50 to find the credit. Enter the credit here.

5

Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.

Part 3

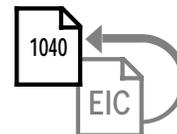
Your Earned Income Credit

6. **This is your earned income credit.** 6

Reminder—

- ✓ Be sure you entered the amount of any nontaxable earned income (Step 7, Box B, on page 43) on Form 1040, line 61b.
- ✓ If you have a qualifying child, complete and attach Schedule EIC.

Enter this amount on Form 1040, line 61a.



If your EIC for a year after 1996 was reduced or disallowed, see page 44 to find out if you must file Form 8862 to take the credit for 2001.

Worksheet B—Earned Income Credit (EIC)—Lines 61a and 61b

Keep for Your Records

Use this worksheet if you were self-employed, or you are filing Schedule SE because you had church employee income, or you are filing Schedule C or C-EZ as a statutory employee.



- ✓ Complete the parts below (Parts 1 through 3) that apply to you. Then, continue to Part 4.
- ✓ If you are married filing a joint return, include your spouse's amounts, if any, with yours to figure the amounts to enter in Parts 1 through 3.

Part 1

Self-Employed and People With Church Employee Income Filing Schedule SE

1a.	Enter the amount from Schedule SE, Section A, line 3, or Section B, line 3, whichever applies.		1a	
b.	Enter any amount from Schedule SE, Section B, line 4b, and line 5a.	+	1b	
c.	Add lines 1a and 1b.	=	1c	
d.	Enter the amount from Schedule SE, Section A, line 6, or Section B, line 13, whichever applies.	-	1d	
e.	Subtract line 1d from 1c.	=	1e	

Part 2

Self-Employed NOT Required To File Schedule SE

For example, your net earnings from self-employment were less than \$400.

2.	Do not include on these lines any statutory employee income or any amount exempt from self-employment tax as the result of the filing and approval of Form 4029 or Form 4361.			
a.	Enter any net farm profit or (loss) from Schedule F, line 36, and from farm partnerships, Schedule K-1 (Form 1065), line 15a*.		2a	
b.	Enter any net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9*.	+	2b	
c.	Add lines 2a and 2b.	=	2c	

*If you have any Schedule K-1 amounts, complete the appropriate line(s) of Schedule SE, Section A. Put your name and social security number on Schedule SE and attach it to your return.

Part 3

Statutory Employees Filing Schedule C or C-EZ

3.	Enter the amount from Schedule C, line 1, or Schedule C-EZ, line 1, that you are filing as a statutory employee.		3	
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Part 4

All Filers Using Worksheet B

Note. If line 4d includes income on which you should have paid self-employment tax but did not, we may reduce your credit by the amount of self-employment tax not paid.

4a.	Add lines 1e, 2c, and 3.		4a	
b.	Enter your nontaxable earned income from Step 7, Box B, on page 43.	+	4b	
c.	Enter your taxable earned income from Step 7, Box C, on page 43.	+	4c	
d.	Add lines 4a, 4b, and 4c. This is your total earned income.	=	4d	

5. If you have:
- 2 or more qualifying children, is line 4d less than \$32,121?
 - 1 qualifying child, is line 4d less than \$28,281?
 - No qualifying children, is line 4d less than \$10,710?
- Yes.** If you want the IRS to figure your credit, see page 43. *If you want to figure the credit yourself, enter the amount from line 4d on line 6 (page 47).*
- No.** You cannot take the credit. Put "No" directly to the right of line 61a.

(Continued on page 47)

Worksheet **B**—Continued from page 46

Keep for Your Records

Part 5

All Filers Using Worksheet B

6. Enter your total earned income from Part 4, line 4d, on page 46. 6

7. Look up the amount on line 6 above in the EIC Table on pages 48–50 to find the credit. Enter the credit here. 7

If line 7 is zero,  You cannot take the credit. Put “No” directly to the right of line 61a.

8. Enter your modified adjusted gross income from Step 6, Box A, on page 42. 8

9. Are the amounts on lines 8 and 6 the same?
- Yes.** Skip line 10; enter the amount from line 7 on line 11.
- No.** Go to line 10.

10. Is the amount on line 8 less than:
- \$5,950 if you do not have a qualifying child **or**
 - \$13,100 if you have one or more qualifying children?
- Yes.** Leave line 10 blank; enter the amount from line 7 on line 11.
- No.** Look up the amount on line 8 in the EIC Table on pages 48–50 to find the credit. Enter the credit here. 10
- Look at the amounts on lines 10 and 7. Then, enter the **smaller** amount on line 11.

Part 6

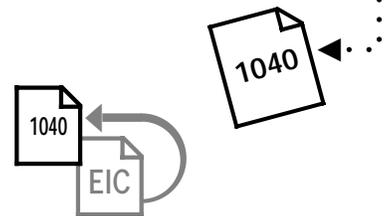
Your Earned Income Credit

11. **This is your earned income credit.** 11

Reminder—

- ✓ Be sure you entered the amount of any nontaxable earned income (Step 7, Box B, on page 43) on Form 1040, line 61b.
- ✓ If you have a qualifying child, complete and attach Schedule EIC.

Enter this amount on Form 1040, line 61a.



If your EIC for a year after 1996 was reduced or disallowed, see page 44 to find out if you must file Form 8862 to take the credit for 2001.

2001 Earned Income Credit (EIC) Table



This is not a tax table.

1. To find your credit, read down the "At least - But less than" columns and find the line that includes the amount you were told to look up from your EIC Worksheet.

2. Then, read across to the column that includes the number of qualifying children you have. Enter the credit from that column on your EIC Worksheet.

Example. If you have one qualifying child and the amount you are looking up from your EIC Worksheet is \$4,875, you would enter \$1,658.

If the amount you are looking up from the worksheet is—		And you have—		
		No children	One child	Two children
At least	But less than	Your credit is—		
4,800	4,850	364	1,641	1,930
4,850	4,900	364	1,658	1,950
4,900	4,950	364	1,675	1,970
4,950	5,000	364	1,692	1,990

If the amount you are looking up from the worksheet is—		And you have—			If the amount you are looking up from the worksheet is—		And you have—			If the amount you are looking up from the worksheet is—		And you have—							
		No children	One child	Two children			No children	One child	Two children			No children	One child	Two children					
At least	But less than	Your credit is—			At least	But less than	Your credit is—			At least	But less than	Your credit is—							
\$1	\$50	\$2	\$9	\$10	2,200	2,250	170	757	890	4,400	4,450	339	1,505	1,770	6,600	6,650	313	2,253	2,650
50	100	6	26	30	2,250	2,300	174	774	910	4,450	4,500	342	1,522	1,790	6,650	6,700	309	2,270	2,670
100	150	10	43	50	2,300	2,350	178	791	930	4,500	4,550	346	1,539	1,810	6,700	6,750	305	2,287	2,690
150	200	13	60	70	2,350	2,400	182	808	950	4,550	4,600	350	1,556	1,830	6,750	6,800	301	2,304	2,710
200	250	17	77	90	2,400	2,450	186	825	970	4,600	4,650	354	1,573	1,850	6,800	6,850	297	2,321	2,730
250	300	21	94	110	2,450	2,500	189	842	990	4,650	4,700	358	1,590	1,870	6,850	6,900	293	2,338	2,750
300	350	25	111	130	2,500	2,550	193	859	1,010	4,700	4,750	361	1,607	1,890	6,900	6,950	290	2,355	2,770
350	400	29	128	150	2,550	2,600	197	876	1,030	4,750	4,800	364	1,624	1,910	6,950	7,000	286	2,372	2,790
400	450	33	145	170	2,600	2,650	201	893	1,050	4,800	4,850	364	1,641	1,930	7,000	7,050	282	2,389	2,810
450	500	36	162	190	2,650	2,700	205	910	1,070	4,850	4,900	364	1,658	1,950	7,050	7,100	278	2,406	2,830
500	550	40	179	210	2,700	2,750	208	927	1,090	4,900	4,950	364	1,675	1,970	7,100	7,150	274	2,423	2,850
550	600	44	196	230	2,750	2,800	212	944	1,110	4,950	5,000	364	1,692	1,990	7,150	7,200	270	2,440	2,870
600	650	48	213	250	2,800	2,850	216	961	1,130	5,000	5,050	364	1,709	2,010	7,200	7,250	267	2,457	2,890
650	700	52	230	270	2,850	2,900	220	978	1,150	5,050	5,100	364	1,726	2,030	7,250	7,300	263	2,474	2,910
700	750	55	247	290	2,900	2,950	224	995	1,170	5,100	5,150	364	1,743	2,050	7,300	7,350	259	2,491	2,930
750	800	59	264	310	2,950	3,000	228	1,012	1,190	5,150	5,200	364	1,760	2,070	7,350	7,400	255	2,508	2,950
800	850	63	281	330	3,000	3,050	231	1,029	1,210	5,200	5,250	364	1,777	2,090	7,400	7,450	251	2,525	2,970
850	900	67	298	350	3,050	3,100	235	1,046	1,230	5,250	5,300	364	1,794	2,110	7,450	7,500	247	2,542	2,990
900	950	71	315	370	3,100	3,150	239	1,063	1,250	5,300	5,350	364	1,811	2,130	7,500	7,550	244	2,559	3,010
950	1,000	75	332	390	3,150	3,200	243	1,080	1,270	5,350	5,400	364	1,828	2,150	7,550	7,600	240	2,576	3,030
1,000	1,050	78	349	410	3,200	3,250	247	1,097	1,290	5,400	5,450	364	1,845	2,170	7,600	7,650	236	2,593	3,050
1,050	1,100	82	366	430	3,250	3,300	251	1,114	1,310	5,450	5,500	364	1,862	2,190	7,650	7,700	232	2,610	3,070
1,100	1,150	86	383	450	3,300	3,350	254	1,131	1,330	5,500	5,550	364	1,879	2,210	7,700	7,750	228	2,627	3,090
1,150	1,200	90	400	470	3,350	3,400	258	1,148	1,350	5,550	5,600	364	1,896	2,230	7,750	7,800	225	2,644	3,110
1,200	1,250	94	417	490	3,400	3,450	262	1,165	1,370	5,600	5,650	364	1,913	2,250	7,800	7,850	221	2,661	3,130
1,250	1,300	98	434	510	3,450	3,500	266	1,182	1,390	5,650	5,700	364	1,930	2,270	7,850	7,900	217	2,678	3,150
1,300	1,350	101	451	530	3,500	3,550	270	1,199	1,410	5,700	5,750	364	1,947	2,290	7,900	7,950	213	2,695	3,170
1,350	1,400	105	468	550	3,550	3,600	273	1,216	1,430	5,750	5,800	364	1,964	2,310	7,950	8,000	209	2,712	3,190
1,400	1,450	109	485	570	3,600	3,650	277	1,233	1,450	5,800	5,850	364	1,981	2,330	8,000	8,050	205	2,729	3,210
1,450	1,500	113	502	590	3,650	3,700	281	1,250	1,470	5,850	5,900	364	1,998	2,350	8,050	8,100	202	2,746	3,230
1,500	1,550	117	519	610	3,700	3,750	285	1,267	1,490	5,900	5,950	364	2,015	2,370	8,100	8,150	198	2,763	3,250
1,550	1,600	120	536	630	3,750	3,800	289	1,284	1,510	5,950	6,000	362	2,032	2,390	8,150	8,200	194	2,780	3,270
1,600	1,650	124	553	650	3,800	3,850	293	1,301	1,530	6,000	6,050	358	2,049	2,410	8,200	8,250	190	2,797	3,290
1,650	1,700	128	570	670	3,850	3,900	296	1,318	1,550	6,050	6,100	355	2,066	2,430	8,250	8,300	186	2,814	3,310
1,700	1,750	132	587	690	3,900	3,950	300	1,335	1,570	6,100	6,150	351	2,083	2,450	8,300	8,350	182	2,831	3,330
1,750	1,800	136	604	710	3,950	4,000	304	1,352	1,590	6,150	6,200	347	2,100	2,470	8,350	8,400	179	2,848	3,350
1,800	1,850	140	621	730	4,000	4,050	308	1,369	1,610	6,200	6,250	343	2,117	2,490	8,400	8,450	175	2,865	3,370
1,850	1,900	143	638	750	4,050	4,100	312	1,386	1,630	6,250	6,300	339	2,134	2,510	8,450	8,500	171	2,882	3,390
1,900	1,950	147	655	770	4,100	4,150	316	1,403	1,650	6,300	6,350	335	2,151	2,530	8,500	8,550	167	2,899	3,410
1,950	2,000	151	672	790	4,150	4,200	319	1,420	1,670	6,350	6,400	332	2,168	2,550	8,550	8,600	163	2,916	3,430
2,000	2,050	155	689	810	4,200	4,250	323	1,437	1,690	6,400	6,450	328	2,185	2,570	8,600	8,650	160	2,933	3,450
2,050	2,100	159	706	830	4,250	4,300	327	1,454	1,710	6,450	6,500	324	2,202	2,590	8,650	8,700	156	2,950	3,470
2,100	2,150	163	723	850	4,300	4,350	331	1,471	1,730	6,500	6,550	320	2,219	2,610	8,700	8,750	152	2,967	3,490
2,150	2,200	166	740	870	4,350	4,400	335	1,488	1,750	6,550	6,600	316	2,236	2,630	8,750	8,800	148	2,984	3,510

(Continued on page 49)

2001 Earned Income Credit (EIC) Table *Continued* (Caution. This is not a tax table.)

If the amount you are looking up from the worksheet is—		And you have—			If the amount you are looking up from the worksheet is—		And you have—			If the amount you are looking up from the worksheet is—		And you have—							
		No children	One child	Two children			No children	One child	Two children			No children	One child	Two children	No children	One child	Two children		
At least	But less than	Your credit is—			At least	But less than	Your credit is—			At least	But less than	Your credit is—							
8,800	8,850	144	2,428	3,530	13,900	13,950	0	2,294	3,832	16,700	16,750	0	1,847	3,242	19,500	19,550	0	1,399	2,653
8,850	8,900	140	2,428	3,550	13,950	14,000	0	2,286	3,822	16,750	16,800	0	1,839	3,232	19,550	19,600	0	1,391	2,642
8,900	8,950	137	2,428	3,570	14,000	14,050	0	2,278	3,811	16,800	16,850	0	1,831	3,221	19,600	19,650	0	1,383	2,632
8,950	9,000	133	2,428	3,590	14,050	14,100	0	2,270	3,801	16,850	16,900	0	1,823	3,211	19,650	19,700	0	1,375	2,621
9,000	9,050	129	2,428	3,610	14,100	14,150	0	2,262	3,790	16,900	16,950	0	1,815	3,200	19,700	19,750	0	1,367	2,611
9,050	9,100	125	2,428	3,630	14,150	14,200	0	2,254	3,779	16,950	17,000	0	1,807	3,190	19,750	19,800	0	1,359	2,600
9,100	9,150	121	2,428	3,650	14,200	14,250	0	2,246	3,769	17,000	17,050	0	1,799	3,179	19,800	19,850	0	1,351	2,590
9,150	9,200	117	2,428	3,670	14,250	14,300	0	2,238	3,758	17,050	17,100	0	1,791	3,169	19,850	19,900	0	1,343	2,579
9,200	9,250	114	2,428	3,690	14,300	14,350	0	2,230	3,748	17,100	17,150	0	1,783	3,158	19,900	19,950	0	1,335	2,569
9,250	9,300	110	2,428	3,710	14,350	14,400	0	2,222	3,737	17,150	17,200	0	1,775	3,148	19,950	20,000	0	1,327	2,558
9,300	9,350	106	2,428	3,730	14,400	14,450	0	2,214	3,727	17,200	17,250	0	1,767	3,137	20,000	20,050	0	1,319	2,547
9,350	9,400	102	2,428	3,750	14,450	14,500	0	2,206	3,716	17,250	17,300	0	1,759	3,127	20,050	20,100	0	1,311	2,537
9,400	9,450	98	2,428	3,770	14,500	14,550	0	2,198	3,706	17,300	17,350	0	1,751	3,116	20,100	20,150	0	1,303	2,526
9,450	9,500	94	2,428	3,790	14,550	14,600	0	2,190	3,695	17,350	17,400	0	1,743	3,106	20,150	20,200	0	1,295	2,516
9,500	9,550	91	2,428	3,810	14,600	14,650	0	2,182	3,685	17,400	17,450	0	1,735	3,095	20,200	20,250	0	1,287	2,505
9,550	9,600	87	2,428	3,830	14,650	14,700	0	2,174	3,674	17,450	17,500	0	1,727	3,085	20,250	20,300	0	1,279	2,495
9,600	9,650	83	2,428	3,850	14,700	14,750	0	2,166	3,664	17,500	17,550	0	1,719	3,074	20,300	20,350	0	1,271	2,484
9,650	9,700	79	2,428	3,870	14,750	14,800	0	2,158	3,653	17,550	17,600	0	1,711	3,063	20,350	20,400	0	1,263	2,474
9,700	9,750	75	2,428	3,890	14,800	14,850	0	2,150	3,643	17,600	17,650	0	1,703	3,053	20,400	20,450	0	1,255	2,463
9,750	9,800	72	2,428	3,910	14,850	14,900	0	2,142	3,632	17,650	17,700	0	1,695	3,042	20,450	20,500	0	1,247	2,453
9,800	9,850	68	2,428	3,930	14,900	14,950	0	2,134	3,622	17,700	17,750	0	1,687	3,032	20,500	20,550	0	1,239	2,442
9,850	9,900	64	2,428	3,950	14,950	15,000	0	2,126	3,611	17,750	17,800	0	1,679	3,021	20,550	20,600	0	1,231	2,432
9,900	9,950	60	2,428	3,970	15,000	15,050	0	2,118	3,600	17,800	17,850	0	1,671	3,011	20,600	20,650	0	1,224	2,421
9,950	10,000	56	2,428	3,990	15,050	15,100	0	2,110	3,590	17,850	17,900	0	1,663	3,000	20,650	20,700	0	1,216	2,411
10,000	10,050	52	2,428	4,008	15,100	15,150	0	2,102	3,579	17,900	17,950	0	1,655	2,990	20,700	20,750	0	1,208	2,400
10,050	10,100	49	2,428	4,008	15,150	15,200	0	2,094	3,569	17,950	18,000	0	1,647	2,979	20,750	20,800	0	1,200	2,390
10,100	10,150	45	2,428	4,008	15,200	15,250	0	2,086	3,558	18,000	18,050	0	1,639	2,969	20,800	20,850	0	1,192	2,379
10,150	10,200	41	2,428	4,008	15,250	15,300	0	2,078	3,548	18,050	18,100	0	1,631	2,958	20,850	20,900	0	1,184	2,368
10,200	10,250	37	2,428	4,008	15,300	15,350	0	2,070	3,537	18,100	18,150	0	1,623	2,948	20,900	20,950	0	1,176	2,358
10,250	10,300	33	2,428	4,008	15,350	15,400	0	2,062	3,527	18,150	18,200	0	1,615	2,937	20,950	21,000	0	1,168	2,347
10,300	10,350	29	2,428	4,008	15,400	15,450	0	2,054	3,516	18,200	18,250	0	1,607	2,927	21,000	21,050	0	1,160	2,337
10,350	10,400	26	2,428	4,008	15,450	15,500	0	2,046	3,506	18,250	18,300	0	1,599	2,916	21,050	21,100	0	1,152	2,326
10,400	10,450	22	2,428	4,008	15,500	15,550	0	2,038	3,495	18,300	18,350	0	1,591	2,906	21,100	21,150	0	1,144	2,316
10,450	10,500	18	2,428	4,008	15,550	15,600	0	2,030	3,485	18,350	18,400	0	1,583	2,895	21,150	21,200	0	1,136	2,305
10,500	10,550	14	2,428	4,008	15,600	15,650	0	2,023	3,474	18,400	18,450	0	1,575	2,884	21,200	21,250	0	1,128	2,295
10,550	10,600	10	2,428	4,008	15,650	15,700	0	2,015	3,464	18,450	18,500	0	1,567	2,874	21,250	21,300	0	1,120	2,284
10,600	10,650	7	2,428	4,008	15,700	15,750	0	2,007	3,453	18,500	18,550	0	1,559	2,863	21,300	21,350	0	1,112	2,274
10,650	10,700	3	2,428	4,008	15,750	15,800	0	1,999	3,443	18,550	18,600	0	1,551	2,853	21,350	21,400	0	1,104	2,263
10,700	10,750	*	2,428	4,008	15,800	15,850	0	1,991	3,432	18,600	18,650	0	1,543	2,842	21,400	21,450	0	1,096	2,253
10,750	13,100	0	2,428	4,008	15,850	15,900	0	1,983	3,421	18,650	18,700	0	1,535	2,832	21,450	21,500	0	1,088	2,242
13,100	13,150	0	2,422	4,001	15,900	15,950	0	1,975	3,411	18,700	18,750	0	1,527	2,821	21,500	21,550	0	1,080	2,232
13,150	13,200	0	2,414	3,990	15,950	16,000	0	1,967	3,400	18,750	18,800	0	1,519	2,811	21,550	21,600	0	1,072	2,221
13,200	13,250	0	2,406	3,980	16,000	16,050	0	1,959	3,390	18,800	18,850	0	1,511	2,800	21,600	21,650	0	1,064	2,211
13,250	13,300	0	2,398	3,969	16,050	16,100	0	1,951	3,379	18,850	18,900	0	1,503	2,790	21,650	21,700	0	1,056	2,200
13,300	13,350	0	2,390	3,959	16,100	16,150	0	1,943	3,369	18,900	18,950	0	1,495	2,779	21,700	21,750	0	1,048	2,189
13,350	13,400	0	2,382	3,948	16,150	16,200	0	1,935	3,358	18,950	19,000	0	1,487	2,769	21,750	21,800	0	1,040	2,179
13,400	13,450	0	2,374	3,937	16,200	16,250	0	1,927	3,348	19,000	19,050	0	1,479	2,758	21,800	21,850	0	1,032	2,168
13,450	13,500	0	2,366	3,927	16,250	16,300	0	1,919	3,337	19,050	19,100	0	1,471	2,748	21,850	21,900	0	1,024	2,158
13,500	13,550	0	2,358	3,916	16,300	16,350	0	1,911	3,327	19,100	19,150	0	1,463	2,737	21,900	21,950	0	1,016	2,147
13,550	13,600	0	2,350	3,906	16,350	16,400	0	1,903	3,316	19,150	19,200	0	1,455	2,726	21,950	22,000	0	1,008	2,137
13,600	13,650	0	2,342	3,895	16,400	16,450	0	1,895	3,306	19,200	19,250	0	1,447	2,716	22,000	22,050	0	1,000	2,126
13,650	13,700	0	2,334	3,885	16,450	16,500	0	1,887	3,295	19,250	19,300	0	1,439	2,705	22,050	22,100	0	992	2,116
13,700	13,750	0	2,326	3,874	16,500	16,550	0	1,879	3,285	19,300	19,350	0	1,431	2,695	22,100	22,150	0	984	2,105
13,750	13,800	0	2,318	3,864	16,550	16,600	0	1,871	3,274	19,350	19,400	0	1,423	2,684	22,150	22,200	0	976	2,095
13,800	13,850	0	2,310	3,853	16,600	16,650	0	1,863	3,264	19,400	19,450	0	1,415	2,674	22,200	22,250	0	968	2,084
13,850	13,900	0	2,302	3,843	16,650	16,700	0	1,855	3,253	19,450	19,500	0	1,407	2,663	22,250	22,300	0	960	2,074

*If the amount you are looking up from the worksheet is at least \$10,700 but less than \$10,710, your credit is \$1. Otherwise, you cannot take the credit.

(Continued on page 50)

2001 Earned Income Credit (EIC) Table *Continued* (Caution. This is not a tax table.)

If the amount you are looking up from the worksheet is—		And you have—			If the amount you are looking up from the worksheet is—		And you have—			If the amount you are looking up from the worksheet is—		And you have—							
		No children	One child	Two children			No children	One child	Two children			No children	One child	Two children	No children	One child	Two children		
At least	But less than	Your credit is—			At least	But less than	Your credit is—			At least	But less than	Your credit is—							
22,300	22,350	0	952	2,063	24,900	24,950	0	536	1,516	27,500	27,550	0	121	968	30,100	30,150	0	0	420
22,350	22,400	0	944	2,053	24,950	25,000	0	528	1,505	27,550	27,600	0	113	957	30,150	30,200	0	0	410
22,400	22,450	0	936	2,042	25,000	25,050	0	520	1,494	27,600	27,650	0	105	947	30,200	30,250	0	0	399
22,450	22,500	0	928	2,032	25,050	25,100	0	512	1,484	27,650	27,700	0	97	936	30,250	30,300	0	0	389
22,500	22,550	0	920	2,021	25,100	25,150	0	504	1,473	27,700	27,750	0	89	926	30,300	30,350	0	0	378
22,550	22,600	0	912	2,010	25,150	25,200	0	496	1,463	27,750	27,800	0	81	915	30,350	30,400	0	0	368
22,600	22,650	0	904	2,000	25,200	25,250	0	488	1,452	27,800	27,850	0	73	905	30,400	30,450	0	0	357
22,650	22,700	0	896	1,989	25,250	25,300	0	480	1,442	27,850	27,900	0	65	894	30,450	30,500	0	0	347
22,700	22,750	0	888	1,979	25,300	25,350	0	472	1,431	27,900	27,950	0	57	884	30,500	30,550	0	0	336
22,750	22,800	0	880	1,968	25,350	25,400	0	464	1,421	27,950	28,000	0	49	873	30,550	30,600	0	0	326
22,800	22,850	0	872	1,958	25,400	25,450	0	456	1,410	28,000	28,050	0	41	863	30,600	30,650	0	0	315
22,850	22,900	0	864	1,947	25,450	25,500	0	448	1,400	28,050	28,100	0	33	852	30,650	30,700	0	0	305
22,900	22,950	0	856	1,937	25,500	25,550	0	440	1,389	28,100	28,150	0	25	842	30,700	30,750	0	0	294
22,950	23,000	0	848	1,926	25,550	25,600	0	432	1,379	28,150	28,200	0	17	831	30,750	30,800	0	0	284
23,000	23,050	0	840	1,916	25,600	25,650	0	425	1,368	28,200	28,250	0	9	821	30,800	30,850	0	0	273
23,050	23,100	0	832	1,905	25,650	25,700	0	417	1,358	28,250	28,300	0	**	810	30,850	30,900	0	0	262
23,100	23,150	0	824	1,895	25,700	25,750	0	409	1,347	28,300	28,350	0	0	800	30,900	30,950	0	0	252
23,150	23,200	0	816	1,884	25,750	25,800	0	401	1,337	28,350	28,400	0	0	789	30,950	31,000	0	0	241
23,200	23,250	0	808	1,874	25,800	25,850	0	393	1,326	28,400	28,450	0	0	778	31,000	31,050	0	0	231
23,250	23,300	0	800	1,863	25,850	25,900	0	385	1,315	28,450	28,500	0	0	768	31,050	31,100	0	0	220
23,300	23,350	0	792	1,853	25,900	25,950	0	377	1,305	28,500	28,550	0	0	757	31,100	31,150	0	0	210
23,350	23,400	0	784	1,842	25,950	26,000	0	369	1,294	28,550	28,600	0	0	747	31,150	31,200	0	0	199
23,400	23,450	0	776	1,831	26,000	26,050	0	361	1,284	28,600	28,650	0	0	736	31,200	31,250	0	0	189
23,450	23,500	0	768	1,821	26,050	26,100	0	353	1,273	28,650	28,700	0	0	726	31,250	31,300	0	0	178
23,500	23,550	0	760	1,810	26,100	26,150	0	345	1,263	28,700	28,750	0	0	715	31,300	31,350	0	0	168
23,550	23,600	0	752	1,800	26,150	26,200	0	337	1,252	28,750	28,800	0	0	705	31,350	31,400	0	0	157
23,600	23,650	0	744	1,789	26,200	26,250	0	329	1,242	28,800	28,850	0	0	694	31,400	31,450	0	0	147
23,650	23,700	0	736	1,779	26,250	26,300	0	321	1,231	28,850	28,900	0	0	684	31,450	31,500	0	0	136
23,700	23,750	0	728	1,768	26,300	26,350	0	313	1,221	28,900	28,950	0	0	673	31,500	31,550	0	0	126
23,750	23,800	0	720	1,758	26,350	26,400	0	305	1,210	28,950	29,000	0	0	663	31,550	31,600	0	0	115
23,800	23,850	0	712	1,747	26,400	26,450	0	297	1,200	29,000	29,050	0	0	652	31,600	31,650	0	0	105
23,850	23,900	0	704	1,737	26,450	26,500	0	289	1,189	29,050	29,100	0	0	642	31,650	31,700	0	0	94
23,900	23,950	0	696	1,726	26,500	26,550	0	281	1,179	29,100	29,150	0	0	631	31,700	31,750	0	0	83
23,950	24,000	0	688	1,716	26,550	26,600	0	273	1,168	29,150	29,200	0	0	620	31,750	31,800	0	0	73
24,000	24,050	0	680	1,705	26,600	26,650	0	265	1,158	29,200	29,250	0	0	610	31,800	31,850	0	0	62
24,050	24,100	0	672	1,695	26,650	26,700	0	257	1,147	29,250	29,300	0	0	599	31,850	31,900	0	0	52
24,100	24,150	0	664	1,684	26,700	26,750	0	249	1,136	29,300	29,350	0	0	589	31,900	31,950	0	0	41
24,150	24,200	0	656	1,673	26,750	26,800	0	241	1,126	29,350	29,400	0	0	578	31,950	32,000	0	0	31
24,200	24,250	0	648	1,663	26,800	26,850	0	233	1,115	29,400	29,450	0	0	568	32,000	32,050	0	0	20
24,250	24,300	0	640	1,652	26,850	26,900	0	225	1,105	29,450	29,500	0	0	557	32,050	32,100	0	0	10
24,300	24,350	0	632	1,642	26,900	26,950	0	217	1,094	29,500	29,550	0	0	547	32,100	32,121	0	0	2
24,350	24,400	0	624	1,631	26,950	27,000	0	209	1,084	29,550	29,600	0	0	536	32,121 or more		0	0	0
24,400	24,450	0	616	1,621	27,000	27,050	0	201	1,073	29,600	29,650	0	0	526					
24,450	24,500	0	608	1,610	27,050	27,100	0	193	1,063	29,650	29,700	0	0	515					
24,500	24,550	0	600	1,600	27,100	27,150	0	185	1,052	29,700	29,750	0	0	505					
24,550	24,600	0	592	1,589	27,150	27,200	0	177	1,042	29,750	29,800	0	0	494					
24,600	24,650	0	584	1,579	27,200	27,250	0	169	1,031	29,800	29,850	0	0	484					
24,650	24,700	0	576	1,568	27,250	27,300	0	161	1,021	29,850	29,900	0	0	473					
24,700	24,750	0	568	1,558	27,300	27,350	0	153	1,010	29,900	29,950	0	0	463					
24,750	24,800	0	560	1,547	27,350	27,400	0	145	1,000	29,950	30,000	0	0	452					
24,800	24,850	0	552	1,537	27,400	27,450	0	137	989	30,000	30,050	0	0	441					
24,850	24,900	0	544	1,526	27,450	27,500	0	129	979	30,050	30,100	0	0	431					

**If the amount you are looking up from the worksheet is at least \$28,250 but less than \$28,281, your credit is \$3. Otherwise, you cannot take the credit.

Line 62**Excess Social Security and RRTA Tax Withheld**

If you, or your spouse if filing a joint return, had more than one employer for 2001 and total wages of more than \$80,400, too much social security tax may have been withheld. You can take a credit on this line for the amount withheld in excess of \$4,984.80. But if any one employer withheld more than \$4,984.80, you must ask that employer to refund the excess to you. You cannot claim it on your return. Figure this amount separately for you and your spouse.

If you had more than one railroad employer for 2001 and your total compensation was over \$59,700, too much railroad retirement (RRTA) tax may have been withheld.

For more details, see **Pub. 505**.

Line 63**Additional Child Tax Credit****What Is the Additional Child Tax Credit?**

This credit is for certain people who have at least one qualifying child as defined in the instructions for line 6c, column (4), on page 20. The additional child tax credit may give you a refund even if you do not owe any tax.

Two Steps To Take the Additional Child Tax Credit!

Step 1. Be sure you figured the amount, if any, of your child tax credit. See the instructions for line 48 that begin on page 37.

Step 2. Read the **TIP** at the end of your Child Tax Credit Worksheet. Use Form 8812 to see if you can take the additional child tax credit only if you meet the condition given in that **TIP**.

Line 64**Amount Paid With Request for Extension To File**

If you filed **Form 4868** to get an automatic extension of time to file Form 1040, enter any amount you paid with that form or by electronic funds withdrawal or credit card. If you paid by credit card, do not include on line 64 the convenience fee you were charged. Also, include any amounts paid with **Form 2688** or **2350**.

Line 65**Other Payments**

Check the box(es) on line 65 to report any credit from **Form 2439** or **4136**.

Refund

Line 67**Amount Overpaid**

If line 67 is under \$1, we will send a refund only on written request.

If you want to check the status of your refund, please wait at least 4 weeks from the date you filed your return to do so. See page 11 for details.



If the amount you overpaid is large, you may want to decrease the amount of income tax withheld from your pay by filing a new **Form W-4**. See **Income Tax Withholding and Estimated Tax Payments for 2002** on page 54.

Refund Offset

If you owe past-due Federal tax, state income tax, child support, spousal support, or certain Federal nontax debts, such as student loans, all or part of the overpayment on line 67 may be used (offset) to pay the past-due amount. Offsets for Federal taxes are made by the IRS. All other offsets are made by the Treasury Department's Financial Management Service (FMS). You will receive a notice from FMS showing the amount of the offset and the agency receiving it. To find out if you may have an offset or if you have any questions about it, contact the agency(ies) you owe the debt to.

Injured Spouse Claim

If you file a joint return and your spouse has not paid past-due Federal tax, state income tax, child support, spousal support, or a Federal nontax debt, such as a student loan, part or all of the overpayment on line 67 may be used (offset) to pay the past-due amount. But **your** part of the overpayment may be refunded to you after the offset occurs if certain conditions apply and you complete **Form 8379**. For details, use TeleTax topic 203 (see page 11) or see Form 8379.

Lines 68b Through 68d**Direct Deposit of Refund**

Complete lines 68b through 68d if you want us to directly deposit the amount shown on line 68a into your account at a bank or other financial institution (such as a mutual fund, brokerage firm, or credit union) instead of sending you a check.

Why Use Direct Deposit?

- You get your refund fast—even faster if you *e-file!*
- Payment is more secure—there is no check to get lost.
- More convenient. No trip to the bank to deposit your check.
- Saves tax dollars. A refund by direct deposit costs less than a check.



You can check with your financial institution to make sure your deposit will be accepted and to get the correct routing and account numbers. The IRS is not responsible for a lost refund if you enter the wrong account information.

If you file a joint return and fill in lines 68b through 68d, you are appointing your spouse as an agent to receive the refund. This appointment cannot be changed later.

Line 68b

The routing number **must** be **nine** digits. The first two digits must be 01 through 12 or 21 through 32. Otherwise, the direct deposit will be rejected and a check sent instead. On the sample check on page 52, the routing number is 250250025.

Your check may state that it is payable through a financial institution different from the one at which you have your checking account. If so, **do not** use the routing number on that check. Instead, contact your financial institution for the correct routing number to enter on line 68b.

Line 68d

The account number can be up to 17 characters (both numbers and letters). Include hyphens but omit spaces and special symbols. Enter the number from left to right and leave any unused boxes blank. On the sample check on page 52, the account number is 20202086. Be sure **not** to include the check number.

(Continued on page 52)



Some financial institutions will not allow a joint refund to be deposited into an individual account. If the direct deposit is rejected, a check will be sent instead. The IRS is not responsible if a financial institution rejects a direct deposit.

Line 69

Applied to Your 2002 Estimated Tax

Enter on line 69 the amount, if any, of the overpayment on line 67 you want applied to your 2002 estimated tax. We will apply this amount to your account unless you attach a statement requesting us to apply it to your spouse's account. Include your spouse's social security number in the attached statement.



This election to apply part or all of the amount overpaid to your 2002 estimated tax cannot be changed later.

Amount You Owe

Line 70

Amount You Owe



You do not have to pay if line 70 is under \$1.

Include any estimated tax penalty from line 71 in the amount you enter on line 70.

Sample Check—Lines 68b Through 68d

CURT MAPLE
ANNE MAPLE
123 Pear Lane
Anyplace, VA 20000

PAY TO THE ORDER OF _____ \$ 1234.00
DOLLARS

ANYPLACE BANK
Anyplace, VA 20000

Routing number (line 68b): 250250025
Account number (line 68d): 20202088

For _____

1:250250025:20202088:1234

Do not include the check number.

Note. The routing and account numbers may be in different places on your check.

You can pay by check, money order, or credit card. **Do not** include any estimated tax payment in your check, money order, or amount you charge. Instead, make the estimated tax payment separately.

To Pay by Check or Money Order. Make your check or money order payable to the “United States Treasury” for the full amount due. **Do not** send cash. **Do not** attach the payment to your return. Write “2001 Form 1040” and your name, address, daytime phone number, and social security number (SSN) on your payment. If you are filing a joint return, enter the SSN shown first on your tax return.

To help us process your payment, enter the amount on the right side of the check like this: \$ XXX.XX. Do not use dashes or lines (for example, do not enter “\$ XXX-” or “\$ XXX ^{XX}/₁₀₀”).

Then, please complete **Form 1040-V** following the instructions on that form and enclose it in the envelope with your tax return and payment. Although you do not have to use Form 1040-V, doing so allows us to process your payment more accurately and efficiently.

To Pay by Credit Card. You may use your American Express® Card, Discover® Card, or MasterCard® card. To pay by credit card, call toll free or access by Internet one of the service providers listed on this page and follow the instructions. A convenience fee will be charged by the service provider 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 you will have the option to either continue or cancel the transaction. You can also find out what the fee will be by calling the provider's toll-free automated customer

service number or visiting the provider's Web Site shown below. **If you paid by credit card**, enter on page 1 of Form 1040 in the upper left corner the confirmation number you were given at the end of the transaction and the amount you charged (not including the convenience fee).

PhoneCharge, Inc.
1-888-ALLTAXX (1-888-255-8299)
1-877-851-9964 (Customer Service)
www.1888ALLTAXX.com

Official Payments Corporation
1-800-2PAY-TAX (1-800-272-9829)
1-877-754-4413 (Customer Service)
www.officialpayments.com



You may need to (a) increase the amount of income tax withheld from your pay by filing a new **Form W-4** or (b) make estimated tax payments for 2002. See **Income Tax Withholding and Estimated Tax Payments for 2002** on page 54.

What if You Cannot Pay?

If you cannot pay the full amount shown on line 70 when you file, you may ask to make monthly **installment payments**. You may have up to 60 months to pay. However, you will be charged interest and may be charged a late payment penalty on the tax not paid by April 15, 2002, even if your request to pay in installments is granted. You must also pay a fee. To limit the interest and penalty charges, pay as much of the tax as possible when you file. 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**. You should receive a response to your request for installments within 30 days. But if you file your return after March 31, it may take us longer to reply.

Line 71

Estimated Tax Penalty



You must include household employment taxes reported on line 57 to see if you owe the penalty if line 59 is more than zero or you would owe the penalty even if you did not include those taxes. But if you entered an amount on Schedule H, line 7, include the total of that amount plus the amount on Form 1040, line 57.

(Continued on page 53)

You may owe this penalty if:

- Line 70 is at least \$1,000 and it is more than 10% of the tax shown on your return or
- You did not pay enough estimated tax by any of the due dates. This is true even if you are due a refund.

For most people, the “tax shown on your return” is the amount on line 58 minus the total of any amounts shown on lines 61a and 63 and Forms 8828, 4137, 4136, and 5329 (Parts III, IV, V, VI, and VII only).

Exception. You will not owe the penalty if your 2000 tax return was for a tax year of 12 full months **and either** of the following applies.

1. You had no tax liability for 2000 and you were a U.S. citizen or resident for all of 2000 **or**
2. The total of lines 59, 60, and 62 on your 2001 return is at least as much as the tax liability shown on your 2000 return. Your estimated tax payments for 2001 must have been made on time and for the required amount.



If your 2000 adjusted gross income was over \$150,000 (over \$75,000 if your 2001 filing status is married filing separately), item 2 above applies only if the total of lines 59, 60, and 62 on your 2001 return is at least 110% of the tax liability shown on your 2000 return. This rule does not apply to farmers and fishermen.

Figuring the Penalty

If the **Exception** above does not apply and you choose to figure the penalty yourself, see **Form 2210** (or **2210-F** for farmers and fishermen) to find out if you owe the penalty. If you do, you can use the form to figure the amount. In certain situations, you may be able to lower your penalty. For details, see the Instructions for Form 2210 (or 2210-F).

Enter the penalty on line 71. Add the penalty to any tax due and enter the total on line 70. If you are due a refund, subtract the penalty from the overpayment you show on line 67. **Do not** file Form 2210 with your return unless Form 2210 indicates that you must do so. Instead, keep it for your records.



Because Form 2210 is complicated, if you want to, you can leave line 71 blank and the IRS will figure the penalty and send you a bill. We will not charge you interest on the penalty if you pay by the date specified on the bill.

Third Party Designee

If you want to allow a friend, family member, or any other person you choose to discuss your 2001 tax return with the IRS, check the “Yes” box in the “Third Party Designee” area of your return. Also, enter the designee’s name, phone number, and any five numbers the designee chooses as his or her personal identification number (PIN). **But** 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. You do not have to provide the other information requested.

If you check the “Yes” box, you, and your spouse if filing a joint return, are authorizing the IRS to call the designee to answer any questions that may arise during the processing of your return. You are also authorizing the designee to:

- Give the IRS any information that is missing from your return,
- Call the IRS for information about the processing of your return or the status of your refund or payment(s), and
- Respond to certain IRS notices that you have shared with the designee about math errors, offsets, and return preparation. The notices will not be sent to the designee.

You are not authorizing the designee to receive any refund check, bind you to anything (including any additional tax liability), or otherwise represent you before the IRS. If you want to expand the designee’s authorization, see **Pub. 947**.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing your 2002 tax return. This is April 15, 2003, for most people.

Sign Your Return

Form 1040 is not considered a valid return unless you sign it. If you are filing a joint return, your spouse must also sign. If your spouse cannot sign the return, see **Pub. 501**. If you have someone prepare your return, you are still responsible for the correctness of the return. If you are filing a joint return as a surviving spouse, see **Death of a Taxpayer** on page 55.

Child’s Return

If your child cannot sign the return, either parent may sign the child’s name in the

space provided. Then, add “By (your signature), parent for minor child.”

Daytime Phone Number

Providing your daytime phone number may help speed the processing of your return. We may have questions about items on your return, such as the earned income credit, credit for child and dependent care expenses, etc. By answering our questions over the phone, we may be able to continue processing your return without mailing you a letter. If you are filing a joint return, you may enter either your or your spouse’s daytime phone number.

Paid Preparer Must Sign Your Return

Generally, anyone you pay to prepare your return must sign it by hand in the space provided. Signature stamps or labels cannot be used. The preparer must give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign your return.

Assemble Your Return

Assemble any schedules and forms behind Form 1040 in order of the “Attachment Sequence No.” shown in the upper right corner of the schedule or form. If you have supporting statements, arrange them in the same order as the schedules or forms they support and attach them last. **Do not** attach correspondence or other items unless required to do so. Attach a copy of Forms W-2, W-2G, and 2439 to the front of Form 1040. Also attach Form(s) 1099-R to the front of Form 1040 if tax was withheld.

General Information

How To Avoid Common Mistakes

Mistakes may delay your refund or result in notices being sent to you.

1. Make sure you entered the correct name and social security number (SSN) for each dependent you claim on line 6c. Also, make sure you check the box in column (4) of line 6c for each dependent under age 17 who is also a qualifying child for the child tax credit.

2. Check your math, especially for the child tax credit, earned income credit, taxable social security benefits, total income, itemized deductions or standard deduction, deduction for exemptions, taxable income, total tax, Federal income tax withheld, and refund or amount you owe.

3. Be sure you use the correct method to figure your tax. See the instructions for line 40 that begin on page 33.

4. Be sure to enter your SSN in the space provided on page 1 of Form 1040. If you are married filing a joint or separate return, also enter your spouse's SSN. Be sure to enter your SSN in the space next to your name.

5. Make sure your name and address are correct on the peel-off label. If not, enter the correct information. If you did not get a peel-off label, enter your (and your spouse's) name in the same order as shown on your last return.

6. If you are taking the standard deduction and you checked any box on line 35a or you (or your spouse if filing jointly) can be claimed as a dependent on someone else's 2001 return, see page 31 to be sure you entered the correct amount on line 36.

7. If you received capital gain distributions but were not required to file Schedule D, make sure you check the box on line 13.

8. Remember to **sign** and date Form 1040 and enter your occupation.

9. Attach your W-2 form(s) and other required forms and schedules. Put all forms and schedules in the proper order. See **Assemble Your Return** on page 53.

10. If you owe tax and are paying by check or money order, be sure to include all the required information on your payment. See the instructions for line 70 on page 52 for details.

What Are Your Rights as a Taxpayer?

You have the right to be treated fairly, professionally, promptly, and courteously by

IRS employees. Our goal at the IRS is to protect your rights so that you will have the highest confidence in the integrity, efficiency, and fairness of our tax system. To ensure that you always receive such treatment, you should know about the many rights you have at each step of the tax process. For details, see **Pub. 1**.

Innocent Spouse Relief

You may qualify for relief from liability for tax on a joint return if (a) there is an understatement of tax because your spouse omitted income or claimed false deductions or credits, (b) you are divorced, separated, or no longer living with your spouse, or (c) given all the facts and circumstances, it would not be fair to hold you liable. See **Form 8857** or **Pub. 971** for more details.

Income Tax Withholding and Estimated Tax Payments for 2002

If the amount you owe or the amount you overpaid is large, you may want to file a new **Form W-4** with your employer to change the amount of income tax withheld from your 2002 pay. For details on how to complete Form W-4, see **Pub. 919** or visit the IRS Web Site at www.irs.gov/prod/ind_info/webw4/index.html.

In general, you do not have to make estimated tax payments if you expect that your 2002 Form 1040 will show a tax refund or a tax balance due the IRS of less than \$1,000. If your total estimated tax (including any household employment taxes or alternative minimum tax) for 2002 is \$1,000 or more, see **Form 1040-ES**. It has a worksheet you can use to see if you have to make estimated tax payments. For more details, see **Pub. 505**.

Do Both the Name and SSN on Your Tax Forms Agree With Your Social Security Card?

If not, certain deductions and credits may be reduced or disallowed, your refund may be delayed, and you may not receive credit for your social security earnings. If your Form W-2, Form 1099, or other tax document shows an incorrect SSN or name, notify your employer or the form-issuing agent as soon as possible to make sure your earnings are credited to your social security record. If the name or SSN on your social security card is incorrect, call the Social Security Administration at 1-800-772-1213.

How Do You Make a Gift To Reduce the Public Debt?

If you wish to do so, make a check payable to "Bureau of the Public Debt." You can send it to: Bureau of the Public Debt, Department G, P.O. Box 2188, Parkersburg, WV 26106-2188. Or you can enclose the check with your income tax return when you file. Do not add your gift to any tax you may owe. See page 52 for details on how to pay any tax you owe.



If you itemize your deductions for 2002, you may be able to deduct this gift.

Address Change

If you move after you file, always notify the IRS in writing of your new address. To do this, you can use **Form 8822**.

How Long Should Records Be Kept?

Keep a copy of your tax return, worksheets you used, and records of all items appearing on it (such as W-2 and 1099 forms) until the statute of limitations runs out for that return. Usually, this is 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever is later. You should keep some records longer. For example, keep property records (including those on your home) as long as they are needed to figure the basis of the original or replacement property. For more details, see **Pub. 552**.

Amended Return

File **Form 1040X** to change a return you already filed. Generally, Form 1040X must be filed within 3 years after the date the original return was filed, or within 2 years after the date the tax was paid, whichever is later. But you may have more time to file Form 1040X if you are physically or mentally unable to manage your financial affairs. See **Pub. 556** for details.

Need a Copy of Your Tax Return?

If you need a copy of your tax return, use **Form 4506**. If you have questions about your account, call or write your local IRS office. If you want a printed copy of your account, it will be mailed to you free of charge.

Death of a Taxpayer

If a taxpayer died before filing a return for 2001, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. A personal representative can be an executor, administrator, or anyone who is in charge of the deceased taxpayer's property. If the deceased taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund. The person who files the return should enter "DECEASED," the deceased taxpayer's name, and the date of death across the top of the return.

If your spouse died in 2001 and you did not remarry in 2001, you can file a joint return. You can also file a joint return if your spouse died in 2002 before filing a return for 2001. A joint return should show your spouse's 2001 income before death and your income for all of 2001. Enter "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign.

The surviving spouse or personal representative should promptly notify all payers of income, including financial institutions, of the taxpayer's death. This will ensure the proper reporting of income earned by the taxpayer's estate or heirs. A deceased taxpayer's social security number should not be used for tax years after the year of death, except for estate tax return purposes.

Claiming a Refund for a Deceased Taxpayer

If you are filing a joint return as a surviving spouse, you only need to file the tax return to claim the refund. If you are a court-appointed representative, file the return and attach a copy of the certificate that shows your appointment. All other filers requesting the deceased taxpayer's refund must file the return and attach **Form 1310**.

For more details, use TeleTax topic 356 (see page 11) or see **Pub. 559**.



Delete the Paperwork. Hit

SEND

So easy, no wonder 40 million people use it! You can file electronically, sign electronically, and get your refund or even pay electronically. IRS *e-file* offers accurate, safe, and fast alternatives to filing on paper. IRS computers quickly and automatically check for errors or other missing information. This year, almost all forms and schedules can be

e-filed. Even returns with a foreign address can be *e-filed*! The chance of an audit of an *e-filed* tax return is no greater than with a paper filed return. Forty million taxpayers just like you filed their tax returns electronically using an IRS *e-file* option because of the many benefits:

- Accuracy!
- Security!
- Electronic Signatures!
- Proof of Acceptance!
- Fast Refunds!
- FREE/Low-Cost Filing!
- Electronic Payment Options!
- Federal/State *e-file*!



Use an Authorized IRS *e-file* Provider. Many tax professionals can electronically file paperless returns for their clients. As a taxpayer, you have two options: **1.** You can prepare your return, take it to a tax professional, ask to sign it electronically using a five-digit self-selected Personal Identification Number (PIN) and then have the tax professional transmit it electronically to the IRS, or **2.** You can have a tax professional prepare your return, you can sign it electronically using a five-digit self-selected PIN, and have your preparer transmit it for you electronically.

Depending on the tax professional and the specific services requested, a fee may be charged. Look for the "Authorized IRS *e-file* Provider" sign or check the IRS Web Site at www.irs.gov for an "Authorized IRS *e-file* Provider" near you.

Use Your Personal Computer. A computer with a modem and/or Internet access is all you need to file your tax return using IRS *e-file*. You can buy tax preparation software at various electronics stores or computer and office supply stores. You can download software from the Internet or prepare and file your return completely on-line by using a tax preparation software package on the Internet (nothing to buy or install). Best of all, you can *e-file* your tax return from the comfort of your home any time of the day or night. Sign your return electronically using a five-digit self-selected PIN to complete the process. There is no signature form to submit or Forms W-2 to send in. IRS *e-file* is totally paperless! Within 48 hours of filing, you will receive confirmation that the IRS has received your return. To find free and low-cost *e-file* opportunities for taxpayers who qualify or a list of all software companies that participate in the IRS *e-file* program, visit our Web Site at www.irs.gov. Once your return is prepared, you will need a modem and/or Internet access to file it electronically.



Use a Telephone. For millions of eligible taxpayers, TeleFile is the easiest way to file. TeleFile allows you to file your simple Federal income tax return using a touch-tone telephone. Only taxpayers who met the qualifications for Form 1040EZ in the prior year are eligible to receive the TeleFile Tax Package for the current year. A TeleFile Tax Package is automatically mailed to you if you are eligible. **Parents: If your children receive a TeleFile Tax Package, please encourage them to use TeleFile.**

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.

Visit a VITA or TCE Site. Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites are open to low-income individuals, others who need help with their tax returns, and the elderly. Both programs are free and can be found at many libraries, colleges, universities, shopping malls, and retirement and senior centers. Find the closest VITA or TCE site by calling 1-800-829-1040. Remember to take your spouse's, your dependent's, and your own social security cards and other identifying documents. Ask for IRS *e-file* at these sites.

DIRECT DEPOSIT
Simple. Safe. Secure.

Fast Refunds!

Choose Direct Deposit—a fast, simple, safe, secure way to have your Federal income tax refund deposited automatically into your checking or savings account. To choose Direct Deposit, taxpayers are prompted by the tax preparation software to indicate on the refund portion of the electronic return the financial institution's routing number, account number, and type of account—either checking or savings. Taxpayers who file electronically receive their refunds in less than half the time paper filers do and with Direct Deposit—in as few as 10 days!

Electronic Signatures! Paperless filing is easier than you think and it's available to most taxpayers who file electronically—including those first-time filers who were 16 or older on December 31, 2001. It's available to individuals preparing their own returns using tax preparation software or those who use a tax professional. Regardless of the *e-filing* method you choose, you may be able to participate in the Self-Select PIN program. If you are married filing a joint return, you and your spouse will each need to create a PIN and enter it as your electronic signature.

If using tax preparation software, the process includes completing your income tax return on your personal computer and when prompted, signing electronically. You will enter a five-digit PIN that will serve as your electronic signature.

For more details on qualifications and required taxpayer information for the Self-Select PIN or on IRS *e-file*, please visit the IRS Web Site at www.irs.gov.

Forms 8453 and 8453-OL. Your return is not complete without your signature. If you are not eligible or choose not to participate in the Self-Select PIN program for signing your return electronically, you must complete and sign **Form 8453** or **Form 8453-OL**, whichever applies.

Electronic Payment Options! If you owe tax, you can make your payment electronically.

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. This option is available using tax software packages, tax professionals, and TeleFile.

Credit Card. You can also *e-file* and pay in a single step by authorizing a credit card payment. This option is available through some tax preparation software packages and tax professionals. Two other ways to pay by credit card are by telephone or Internet (see **Amount You Owe** on page 52 for details). Service providers charge a convenience fee for credit card payments.

Federal/State *e-file*! File Federal and state tax returns together using *e-file* and double the benefits of *e-file*! The tax preparation software automatically transfers relevant data from the Federal income tax return to the state income tax return as the information is entered. Currently, 37 states and the District of Columbia participate in the Federal/State *e-file* program. To see a complete list of states, check the IRS Web Site at www.irs.gov.

Delete the Paperwork. Hit

SEND

All tax returns prepared electronically should be filed electronically. It's just a matter of clicking Send instead of Print! **Remember!** You get automatic confirmation within 48 hours that the IRS received your *e-filed* income tax return for processing.



Is Also Available! IRS

for Business *e-file* for Business is an electronic method to file business returns. For details, visit the IRS Web Site at www.irs.gov.



System offers another way to pay your Federal taxes. It's available to business and individual taxpayers. For details, visit www.EFTPS.gov or call EFTPS Customer Service at **1-800-555-4477** or **1-800-945-8400**.

Other Ways To Get Help

Send Your Written Tax Questions to the IRS. You should get an answer in about 30 days. If you do not have the address, call us. See page 13 for the number. Do not send questions with your return.

Assistance With Your Return. IRS offices can help you prepare your return. An assister will explain a Form 1040EZ, 1040A, or 1040 with Schedules A and B to you and other taxpayers in a group setting. You may also be able to file your return electronically by computer free of charge at some IRS offices. To find the IRS office nearest you, look in the phone book under "United States Government, Internal Revenue Service" or call us. See page 13 for the number.

VITA and TCE. These programs help older, disabled, low-income, and non-English-speaking people fill in their returns. For details, call us. See page 13 for the number. If you received a Federal income tax package in the mail, take it with you when you go for help. Also take a copy of your 2000 tax return if you have it. **Or** to find the nearest AARP Tax-Aide site, visit AARP's Web Site at www.aarp.org/taxaide or call **1-877-227-7844**.

On-Line Services. If you subscribe to an on-line service, ask about on-line filing or tax information.

Large-Print Forms and Instructions. **Pub. 1614** has large-print copies of Form 1040, Schedules A, B, D, E, EIC, and R, and Forms 1040-V and 8812, and their instructions. You can use the large-print forms and schedules as worksheets to figure your tax, but you cannot file them. You can get **Pub. 1614** by phone or mail. See pages 7 and 57.

Help for People With Disabilities. Telephone help is available using TTY/TDD equipment. See page 13 for the number. Braille materials are available at libraries that have special services for people with disabilities.

Interest and Penalties

Note. You do not have to figure the amount of any interest or penalties you may owe. Because figuring these amounts can be complicated, we will do it for you if you want. We will send you a bill for any amount due.

If you include interest or penalties (other than the estimated tax penalty) with your payment, identify and enter the amount in the bottom margin of Form 1040, page 2. **Do not** include interest or penalties (other than the estimated tax penalty) in the **amount you owe** on line 70.

Interest

We will charge you interest on taxes not paid by their due date, even if an extension of time to file is granted. We will also charge you interest on penalties imposed for failure to file, negligence, fraud, substantial valuation misstatements, and substantial understatements of tax. Interest is charged on the penalty from the due date of the return (including extensions).

Penalties

Late Filing. If you do not file your return by the due date (including extensions), the penalty is usually 5% of the amount due for each month or part of a month your return is late, unless you have a reasonable explanation. If you do, attach it to your return. The penalty can be as much as 25% (more in some cases) of the tax due. If your return is more than 60 days late, the minimum penalty will be \$100 or the amount of any tax you owe, whichever is smaller.

Late Payment of Tax. If you pay your taxes late, the penalty is usually 1/2 of 1% of the unpaid amount for each month or part of a month the tax is not paid. The penalty can be as much as 25% of the unpaid amount. It applies to any unpaid tax on the return. This penalty is in addition to interest charges on late payments.

Frivolous Return. In addition to any other penalties, the law imposes a penalty of \$500 for filing a frivolous return. A frivolous return is one that does not contain information needed to figure the correct tax or shows a substantially incorrect tax because you take a frivolous position or desire to delay or interfere with the tax laws. This includes altering or striking out the preprinted language above the space where you sign.

Other. Other penalties can be imposed for negligence, substantial understatement of tax, and fraud. Criminal penalties may be imposed for willful failure to file, tax evasion, or making a false statement. See **Pub. 17** for details on some of these penalties.

Order Blank for Forms and Publications

The most frequently ordered forms and publications are listed on the order blank below. See pages 8 through 10 for the titles of the forms and publications. We will mail you two copies of each form and one copy of each publication you order. To help reduce waste, please order only the items you need to prepare your return.



For faster ways of getting the items you need, such as by computer or fax, see page 7.

How To Use the Order Blank

Circle the items you need on the order blank below. Use the blank spaces to order items not listed. If you need more space, attach a separate sheet of paper.

Print or type your name and address accurately in the space provided below. An accurate address will ensure delivery of your order. Cut the order blank on the dotted line. Enclose the order blank in your own envelope and send it to the IRS address shown below that applies to you. You should

receive your order within 10 days after we receive your request.

Do not send your tax return to any of the addresses listed on this page. Instead, see the back cover.



Where To Mail Your Order Blank for Free Forms and Publications

IF you live in the . . .	THEN mail to . . .	AT this address . . .
Western United States	Western Area Distribution Center	Rancho Cordova, CA 95743-0001
Central United States	Central Area Distribution Center	P.O. Box 8903 Bloomington, IL 61702-8903
Eastern United States or a foreign country	Eastern Area Distribution Center	P.O. Box 85074 Richmond, VA 23261-5074

▲ Cut here ▲

Order Blank

Fill in your name and address.

Name		
Postal mailing address		Apt./Suite/Room
City	State	ZIP code
Foreign country		International postal code
Daytime phone number ()		

The items in bold may be picked up at many IRS offices, post offices, and libraries. You may also download all these items from the Internet at www.irs.gov or place an electronic order for them.

Circle the forms and publications you need. The instructions for any form you order will be included.

1040	Schedule F (1040)	Schedule 3 (1040A)	2441	8812	Pub. 463	Pub. 527	Pub. 910
Schedules A&B (1040)	Schedule H (1040)	1040EZ	3903	8822	Pub. 501	Pub. 529	Pub. 926
Schedule C (1040)	Schedule J (1040)	1040-ES (2002)	4562	8829	Pub. 502	Pub. 535	Pub. 929
Schedule C-EZ (1040)	Schedule R (1040)	1040-V	4868	8863	Pub. 505	Pub. 550	Pub. 936
Schedule D (1040)	Schedule SE (1040)	1040X	5329	9465	Pub. 508	Pub. 554	Pub. 970
Schedule D-1 (1040)	1040A	2106	8283	Pub. 1	Pub. 521	Pub. 575	Pub. 972
Schedule E (1040)	Schedule 1 (1040A)	2106-EZ	8582	Pub. 17	Pub. 523	Pub. 590	
Schedule EIC (1040A or 1040)	Schedule 2 (1040A)	2210	8606	Pub. 334	Pub. 525	Pub. 596	

N

2001 Tax Table

Caution. Dependents, see the worksheet on page 33.

Use if your taxable income is less than \$100,000.
If \$100,000 or more, use the Tax Rate Schedules.

Example. Mr. and Mrs. Brown are filing a joint return. Their taxable income on line 39 of Form 1040 is \$25,300. First, they find the \$25,300–25,350 income line. Next, they find the column for married filing jointly and read down the column. The amount shown where the income line and filing status column meet is \$3,799. This is the tax amount they should enter on line 40 of their Form 1040.

Sample Table

At least	But less than	Single	Married filing jointly*	Married filing separately	Head of a household
Your tax is—					
25,200	25,250	3,784	3,784	4,112	3,784
25,250	25,300	3,791	3,791	4,126	3,791
25,300	25,350	3,799	<u>3,799</u>	4,139	3,799
25,350	25,400	3,806	3,806	4,153	3,806

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—					
At least	But less than	Single	Married filing jointly*	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly*	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly*	Married filing separately	Head of a household		
Your tax is—		Your tax is—				Your tax is—		Your tax is—				Your tax is—		Your tax is—					
0	5	0	0	0	0	1,300	1,325	197	197	197	197	2,700	2,725	407	407	407	407		
5	15	2	2	2	2	1,325	1,350	201	201	201	201	2,725	2,750	411	411	411	411		
15	25	3	3	3	3	1,350	1,375	204	204	204	204	2,750	2,775	414	414	414	414		
25	50	6	6	6	6	1,375	1,400	208	208	208	208	2,775	2,800	418	418	418	418		
50	75	9	9	9	9	1,400	1,425	212	212	212	212	2,800	2,825	422	422	422	422		
75	100	13	13	13	13	1,425	1,450	216	216	216	216	2,825	2,850	426	426	426	426		
100	125	17	17	17	17	1,450	1,475	219	219	219	219	2,850	2,875	429	429	429	429		
125	150	21	21	21	21	1,475	1,500	223	223	223	223	2,875	2,900	433	433	433	433		
150	175	24	24	24	24	1,500	1,525	227	227	227	227	2,900	2,925	437	437	437	437		
175	200	28	28	28	28	1,525	1,550	231	231	231	231	2,925	2,950	441	441	441	441		
200	225	32	32	32	32	1,550	1,575	234	234	234	234	2,950	2,975	444	444	444	444		
225	250	36	36	36	36	1,575	1,600	238	238	238	238	2,975	3,000	448	448	448	448		
250	275	39	39	39	39	1,600	1,625	242	242	242	242	3,000							
275	300	43	43	43	43	1,625	1,650	246	246	246	246	3,000	3,050	454	454	454	454		
300	325	47	47	47	47	1,650	1,675	249	249	249	249	3,050	3,100	461	461	461	461		
325	350	51	51	51	51	1,675	1,700	253	253	253	253	3,100	3,150	469	469	469	469		
350	375	54	54	54	54	1,700	1,725	257	257	257	257	3,150	3,200	476	476	476	476		
375	400	58	58	58	58	1,725	1,750	261	261	261	261	3,200	3,250	484	484	484	484		
400	425	62	62	62	62	1,750	1,775	264	264	264	264	3,250	3,300	491	491	491	491		
425	450	66	66	66	66	1,775	1,800	268	268	268	268	3,300	3,350	499	499	499	499		
450	475	69	69	69	69	1,800	1,825	272	272	272	272	3,350	3,400	506	506	506	506		
475	500	73	73	73	73	1,825	1,850	276	276	276	276	3,400	3,450	514	514	514	514		
500	525	77	77	77	77	1,850	1,875	279	279	279	279	3,450	3,500	521	521	521	521		
525	550	81	81	81	81	1,875	1,900	283	283	283	283	3,500	3,550	529	529	529	529		
550	575	84	84	84	84	1,900	1,925	287	287	287	287	3,550	3,600	536	536	536	536		
575	600	88	88	88	88	1,925	1,950	291	291	291	291	3,600	3,650	544	544	544	544		
600	625	92	92	92	92	1,950	1,975	294	294	294	294	3,650	3,700	551	551	551	551		
625	650	96	96	96	96	1,975	2,000	298	298	298	298	3,700	3,750	559	559	559	559		
650	675	99	99	99	99	2,000								3,750	3,800	566	566	566	566
675	700	103	103	103	103	2,000	2,025	302	302	302	302	3,800	3,850	574	574	574	574		
700	725	107	107	107	107	2,025	2,050	306	306	306	306	3,850	3,900	581	581	581	581		
725	750	111	111	111	111	2,050	2,075	309	309	309	309	3,900	3,950	589	589	589	589		
750	775	114	114	114	114	2,075	2,100	313	313	313	313	3,950	4,000	596	596	596	596		
775	800	118	118	118	118	2,100	2,125	317	317	317	317	4,000							
800	825	122	122	122	122	2,125	2,150	321	321	321	321	4,000	4,050	604	604	604	604		
825	850	126	126	126	126	2,150	2,175	324	324	324	324	4,050	4,100	611	611	611	611		
850	875	129	129	129	129	2,175	2,200	328	328	328	328	4,100	4,150	619	619	619	619		
875	900	133	133	133	133	2,200	2,225	332	332	332	332	4,150	4,200	626	626	626	626		
900	925	137	137	137	137	2,225	2,250	336	336	336	336	4,200	4,250	634	634	634	634		
925	950	141	141	141	141	2,250	2,275	339	339	339	339	4,250	4,300	641	641	641	641		
950	975	144	144	144	144	2,275	2,300	343	343	343	343	4,300	4,350	649	649	649	649		
975	1,000	148	148	148	148	2,300	2,325	347	347	347	347	4,350	4,400	656	656	656	656		
1,000						2,325	2,350	351	351	351	351	4,400	4,450	664	664	664	664		
1,000	1,025	152	152	152	152	2,350	2,375	354	354	354	354	4,450	4,500	671	671	671	671		
1,025	1,050	156	156	156	156	2,375	2,400	358	358	358	358	4,500	4,550	679	679	679	679		
1,050	1,075	159	159	159	159	2,400	2,425	362	362	362	362	4,550	4,600	686	686	686	686		
1,075	1,100	163	163	163	163	2,425	2,450	366	366	366	366	4,600	4,650	694	694	694	694		
1,100	1,125	167	167	167	167	2,450	2,475	369	369	369	369	4,650	4,700	701	701	701	701		
1,125	1,150	171	171	171	171	2,475	2,500	373	373	373	373	4,700	4,750	709	709	709	709		
1,150	1,175	174	174	174	174	2,500	2,525	377	377	377	377	4,750	4,800	716	716	716	716		
1,175	1,200	178	178	178	178	2,525	2,550	381	381	381	381	4,800	4,850	724	724	724	724		
1,200	1,225	182	182	182	182	2,550	2,575	384	384	384	384	4,850	4,900	731	731	731	731		
1,225	1,250	186	186	186	186	2,575	2,600	388	388	388	388	4,900	4,950	739	739	739	739		
1,250	1,275	189	189	189	189	2,600	2,625	392	392	392	392	4,950	5,000	746	746	746	746		
1,275	1,300	193	193	193	193	2,625	2,650	396	396	396	396	<i>(Continued on page 60)</i>							
						2,650	2,675	399	399	399	399								
						2,675	2,700	403	403	403	403								

* This column must also be used by a qualifying widow(er).

2001 Tax Table—Continued **Caution.** Dependents, see the worksheet on page 33.

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
5,000						8,000						11,000					
5,000	5,050	754	754	754	754	8,000	8,050	1,204	1,204	1,204	1,204	11,000	11,050	1,654	1,654	1,654	1,654
5,050	5,100	761	761	761	761	8,050	8,100	1,211	1,211	1,211	1,211	11,050	11,100	1,661	1,661	1,661	1,661
5,100	5,150	769	769	769	769	8,100	8,150	1,219	1,219	1,219	1,219	11,100	11,150	1,669	1,669	1,669	1,669
5,150	5,200	776	776	776	776	8,150	8,200	1,226	1,226	1,226	1,226	11,150	11,200	1,676	1,676	1,676	1,676
5,200	5,250	784	784	784	784	8,200	8,250	1,234	1,234	1,234	1,234	11,200	11,250	1,684	1,684	1,684	1,684
5,250	5,300	791	791	791	791	8,250	8,300	1,241	1,241	1,241	1,241	11,250	11,300	1,691	1,691	1,691	1,691
5,300	5,350	799	799	799	799	8,300	8,350	1,249	1,249	1,249	1,249	11,300	11,350	1,699	1,699	1,699	1,699
5,350	5,400	806	806	806	806	8,350	8,400	1,256	1,256	1,256	1,256	11,350	11,400	1,706	1,706	1,706	1,706
5,400	5,450	814	814	814	814	8,400	8,450	1,264	1,264	1,264	1,264	11,400	11,450	1,714	1,714	1,714	1,714
5,450	5,500	821	821	821	821	8,450	8,500	1,271	1,271	1,271	1,271	11,450	11,500	1,721	1,721	1,721	1,721
5,500	5,550	829	829	829	829	8,500	8,550	1,279	1,279	1,279	1,279	11,500	11,550	1,729	1,729	1,729	1,729
5,550	5,600	836	836	836	836	8,550	8,600	1,286	1,286	1,286	1,286	11,550	11,600	1,736	1,736	1,736	1,736
5,600	5,650	844	844	844	844	8,600	8,650	1,294	1,294	1,294	1,294	11,600	11,650	1,744	1,744	1,744	1,744
5,650	5,700	851	851	851	851	8,650	8,700	1,301	1,301	1,301	1,301	11,650	11,700	1,751	1,751	1,751	1,751
5,700	5,750	859	859	859	859	8,700	8,750	1,309	1,309	1,309	1,309	11,700	11,750	1,759	1,759	1,759	1,759
5,750	5,800	866	866	866	866	8,750	8,800	1,316	1,316	1,316	1,316	11,750	11,800	1,766	1,766	1,766	1,766
5,800	5,850	874	874	874	874	8,800	8,850	1,324	1,324	1,324	1,324	11,800	11,850	1,774	1,774	1,774	1,774
5,850	5,900	881	881	881	881	8,850	8,900	1,331	1,331	1,331	1,331	11,850	11,900	1,781	1,781	1,781	1,781
5,900	5,950	889	889	889	889	8,900	8,950	1,339	1,339	1,339	1,339	11,900	11,950	1,789	1,789	1,789	1,789
5,950	6,000	896	896	896	896	8,950	9,000	1,346	1,346	1,346	1,346	11,950	12,000	1,796	1,796	1,796	1,796
6,000						9,000						12,000					
6,000	6,050	904	904	904	904	9,000	9,050	1,354	1,354	1,354	1,354	12,000	12,050	1,804	1,804	1,804	1,804
6,050	6,100	911	911	911	911	9,050	9,100	1,361	1,361	1,361	1,361	12,050	12,100	1,811	1,811	1,811	1,811
6,100	6,150	919	919	919	919	9,100	9,150	1,369	1,369	1,369	1,369	12,100	12,150	1,819	1,819	1,819	1,819
6,150	6,200	926	926	926	926	9,150	9,200	1,376	1,376	1,376	1,376	12,150	12,200	1,826	1,826	1,826	1,826
6,200	6,250	934	934	934	934	9,200	9,250	1,384	1,384	1,384	1,384	12,200	12,250	1,834	1,834	1,834	1,834
6,250	6,300	941	941	941	941	9,250	9,300	1,391	1,391	1,391	1,391	12,250	12,300	1,841	1,841	1,841	1,841
6,300	6,350	949	949	949	949	9,300	9,350	1,399	1,399	1,399	1,399	12,300	12,350	1,849	1,849	1,849	1,849
6,350	6,400	956	956	956	956	9,350	9,400	1,406	1,406	1,406	1,406	12,350	12,400	1,856	1,856	1,856	1,856
6,400	6,450	964	964	964	964	9,400	9,450	1,414	1,414	1,414	1,414	12,400	12,450	1,864	1,864	1,864	1,864
6,450	6,500	971	971	971	971	9,450	9,500	1,421	1,421	1,421	1,421	12,450	12,500	1,871	1,871	1,871	1,871
6,500	6,550	979	979	979	979	9,500	9,550	1,429	1,429	1,429	1,429	12,500	12,550	1,879	1,879	1,879	1,879
6,550	6,600	986	986	986	986	9,550	9,600	1,436	1,436	1,436	1,436	12,550	12,600	1,886	1,886	1,886	1,886
6,600	6,650	994	994	994	994	9,600	9,650	1,444	1,444	1,444	1,444	12,600	12,650	1,894	1,894	1,894	1,894
6,650	6,700	1,001	1,001	1,001	1,001	9,650	9,700	1,451	1,451	1,451	1,451	12,650	12,700	1,901	1,901	1,901	1,901
6,700	6,750	1,009	1,009	1,009	1,009	9,700	9,750	1,459	1,459	1,459	1,459	12,700	12,750	1,909	1,909	1,909	1,909
6,750	6,800	1,016	1,016	1,016	1,016	9,750	9,800	1,466	1,466	1,466	1,466	12,750	12,800	1,916	1,916	1,916	1,916
6,800	6,850	1,024	1,024	1,024	1,024	9,800	9,850	1,474	1,474	1,474	1,474	12,800	12,850	1,924	1,924	1,924	1,924
6,850	6,900	1,031	1,031	1,031	1,031	9,850	9,900	1,481	1,481	1,481	1,481	12,850	12,900	1,931	1,931	1,931	1,931
6,900	6,950	1,039	1,039	1,039	1,039	9,900	9,950	1,489	1,489	1,489	1,489	12,900	12,950	1,939	1,939	1,939	1,939
6,950	7,000	1,046	1,046	1,046	1,046	9,950	10,000	1,496	1,496	1,496	1,496	12,950	13,000	1,946	1,946	1,946	1,946
7,000						10,000						13,000					
7,000	7,050	1,054	1,054	1,054	1,054	10,000	10,050	1,504	1,504	1,504	1,504	13,000	13,050	1,954	1,954	1,954	1,954
7,050	7,100	1,061	1,061	1,061	1,061	10,050	10,100	1,511	1,511	1,511	1,511	13,050	13,100	1,961	1,961	1,961	1,961
7,100	7,150	1,069	1,069	1,069	1,069	10,100	10,150	1,519	1,519	1,519	1,519	13,100	13,150	1,969	1,969	1,969	1,969
7,150	7,200	1,076	1,076	1,076	1,076	10,150	10,200	1,526	1,526	1,526	1,526	13,150	13,200	1,976	1,976	1,976	1,976
7,200	7,250	1,084	1,084	1,084	1,084	10,200	10,250	1,534	1,534	1,534	1,534	13,200	13,250	1,984	1,984	1,984	1,984
7,250	7,300	1,091	1,091	1,091	1,091	10,250	10,300	1,541	1,541	1,541	1,541	13,250	13,300	1,991	1,991	1,991	1,991
7,300	7,350	1,099	1,099	1,099	1,099	10,300	10,350	1,549	1,549	1,549	1,549	13,300	13,350	1,999	1,999	1,999	1,999
7,350	7,400	1,106	1,106	1,106	1,106	10,350	10,400	1,556	1,556	1,556	1,556	13,350	13,400	2,006	2,006	2,006	2,006
7,400	7,450	1,114	1,114	1,114	1,114	10,400	10,450	1,564	1,564	1,564	1,564	13,400	13,450	2,014	2,014	2,014	2,014
7,450	7,500	1,121	1,121	1,121	1,121	10,450	10,500	1,571	1,571	1,571	1,571	13,450	13,500	2,021	2,021	2,021	2,021
7,500	7,550	1,129	1,129	1,129	1,129	10,500	10,550	1,579	1,579	1,579	1,579	13,500	13,550	2,029	2,029	2,029	2,029
7,550	7,600	1,136	1,136	1,136	1,136	10,550	10,600	1,586	1,586	1,586	1,586	13,550	13,600	2,036	2,036	2,036	2,036
7,600	7,650	1,144	1,144	1,144	1,144	10,600	10,650	1,594	1,594	1,594	1,594	13,600	13,650	2,044	2,044	2,044	2,044
7,650	7,700	1,151	1,151	1,151	1,151	10,650	10,700	1,601	1,601	1,601	1,601	13,650	13,700	2,051	2,051	2,051	2,051
7,700	7,750	1,159	1,159	1,159	1,159	10,700	10,750	1,609	1,609	1,609	1,609	13,700	13,750	2,059	2,059	2,059	2,059
7,750	7,800	1,166	1,166	1,166	1,166	10,750	10,800	1,616	1,616	1,616	1,616	13,750	13,800	2,066	2,066	2,066	2,066
7,800	7,850	1,174	1,174	1,174	1,174	10,800	10,850	1,624	1,624	1,624	1,624	13,800	13,850	2,074	2,074	2,074	2,074
7,850	7,900	1,181	1,181	1,181	1,181	10,850	10,900	1,631	1,631	1,631	1,631	13,850	13,900	2,081	2,081	2,081	2,081
7,900	7,950	1,189	1,189	1,189	1,189	10,900	10,950	1,639	1,639	1,639	1,639	13,900	13,950	2,089	2,089	2,089	2,089
7,950	8,000	1,196	1,196	1,196	1,196	10,950	11,000	1,646	1,646	1,646	1,646	13,950	14,000	2,096	2,096	2,096	2,096

* This column must also be used by a qualifying widow(er).

(Continued on page 61)

Caution. Dependents, see the worksheet on page 33. **2001 Tax Table—Continued**

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—																					
		Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household																		
At least	But less than	Your tax is—				At least	But less than	Your tax is—				At least	But less than	Your tax is—																					
14,000		17,000				20,000				15,000		18,000				21,000																			
14,000	14,050	2,104	2,104	2,104	2,104	17,000	17,050	2,554	2,554	2,554	2,554	20,000	20,050	3,004	3,004	3,004	3,004	15,000	15,050	2,254	2,254	2,254	2,254	18,000	18,050	2,704	2,704	2,704	2,704	21,000	21,050	3,154	3,154	3,154	3,154
14,050	14,100	2,111	2,111	2,111	2,111	17,050	17,100	2,561	2,561	2,561	2,561	20,050	20,100	3,011	3,011	3,011	3,011	15,050	15,100	2,261	2,261	2,261	2,261	18,050	18,100	2,711	2,711	2,711	2,711	21,050	21,100	3,161	3,161	3,161	3,161
14,100	14,150	2,119	2,119	2,119	2,119	17,100	17,150	2,569	2,569	2,569	2,569	20,100	20,150	3,019	3,019	3,019	3,019	15,100	15,150	2,269	2,269	2,269	2,269	18,100	18,150	2,719	2,719	2,719	2,719	21,100	21,150	3,169	3,169	3,169	3,169
14,150	14,200	2,126	2,126	2,126	2,126	17,150	17,200	2,576	2,576	2,576	2,576	20,150	20,200	3,026	3,026	3,026	3,026	15,150	15,200	2,276	2,276	2,276	2,276	18,150	18,200	2,726	2,726	2,726	2,726	21,150	21,200	3,176	3,176	3,176	3,176
14,200	14,250	2,134	2,134	2,134	2,134	17,200	17,250	2,584	2,584	2,584	2,584	20,200	20,250	3,034	3,034	3,034	3,034	15,200	15,250	2,284	2,284	2,284	2,284	18,200	18,250	2,734	2,734	2,734	2,734	21,200	21,250	3,184	3,184	3,184	3,184
14,250	14,300	2,141	2,141	2,141	2,141	17,250	17,300	2,591	2,591	2,591	2,591	20,250	20,300	3,041	3,041	3,041	3,041	15,250	15,300	2,291	2,291	2,291	2,291	18,250	18,300	2,741	2,741	2,741	2,741	21,250	21,300	3,191	3,191	3,191	3,191
14,300	14,350	2,149	2,149	2,149	2,149	17,300	17,350	2,599	2,599	2,599	2,599	20,300	20,350	3,049	3,049	3,049	3,049	15,300	15,350	2,299	2,299	2,299	2,299	18,300	18,350	2,749	2,749	2,749	2,749	21,300	21,350	3,199	3,199	3,199	3,199
14,350	14,400	2,156	2,156	2,156	2,156	17,350	17,400	2,606	2,606	2,606	2,606	20,350	20,400	3,056	3,056	3,056	3,056	15,350	15,400	2,306	2,306	2,306	2,306	18,350	18,400	2,756	2,756	2,756	2,756	21,350	21,400	3,206	3,206	3,206	3,206
14,400	14,450	2,164	2,164	2,164	2,164	17,400	17,450	2,614	2,614	2,614	2,614	20,400	20,450	3,064	3,064	3,064	3,064	15,400	15,450	2,314	2,314	2,314	2,314	18,400	18,450	2,764	2,764	2,764	2,764	21,400	21,450	3,214	3,214	3,214	3,214
14,450	14,500	2,171	2,171	2,171	2,171	17,450	17,500	2,621	2,621	2,621	2,621	20,450	20,500	3,071	3,071	3,071	3,071	15,450	15,500	2,321	2,321	2,321	2,321	18,450	18,500	2,771	2,771	2,771	2,771	21,450	21,500	3,221	3,221	3,221	3,221
14,500	14,550	2,179	2,179	2,179	2,179	17,500	17,550	2,629	2,629	2,629	2,629	20,500	20,550	3,079	3,079	3,079	3,079	15,500	15,550	2,329	2,329	2,329	2,329	18,500	18,550	2,779	2,779	2,779	2,779	21,500	21,550	3,229	3,229	3,229	3,229
14,550	14,600	2,186	2,186	2,186	2,186	17,550	17,600	2,636	2,636	2,636	2,636	20,550	20,600	3,086	3,086	3,086	3,086	15,550	15,600	2,336	2,336	2,336	2,336	18,550	18,600	2,786	2,786	2,786	2,786	21,550	21,600	3,236	3,236	3,236	3,236
14,600	14,650	2,194	2,194	2,194	2,194	17,600	17,650	2,644	2,644	2,644	2,644	20,600	20,650	3,094	3,094	3,094	3,094	15,600	15,650	2,344	2,344	2,344	2,344	18,600	18,650	2,794	2,794	2,794	2,794	21,600	21,650	3,244	3,244	3,244	3,244
14,650	14,700	2,201	2,201	2,201	2,201	17,650	17,700	2,651	2,651	2,651	2,651	20,650	20,700	3,101	3,101	3,101	3,101	15,650	15,700	2,351	2,351	2,351	2,351	18,650	18,700	2,801	2,801	2,801	2,801	21,650	21,700	3,251	3,251	3,251	3,251
14,700	14,750	2,209	2,209	2,209	2,209	17,700	17,750	2,659	2,659	2,659	2,659	20,700	20,750	3,109	3,109	3,109	3,109	15,700	15,750	2,359	2,359	2,359	2,359	18,700	18,750	2,809	2,809	2,809	2,809	21,700	21,750	3,259	3,259	3,259	3,259
14,750	14,800	2,216	2,216	2,216	2,216	17,750	17,800	2,666	2,666	2,666	2,666	20,750	20,800	3,116	3,116	3,116	3,116	15,750	15,800	2,366	2,366	2,366	2,366	18,750	18,800	2,816	2,816	2,816	2,816	21,750	21,800	3,266	3,266	3,266	3,266
14,800	14,850	2,224	2,224	2,224	2,224	17,800	17,850	2,674	2,674	2,674	2,674	20,800	20,850	3,124	3,124	3,124	3,124	15,800	15,850	2,374	2,374	2,374	2,374	18,800	18,850	2,824	2,824	2,824	2,824	21,800	21,850	3,274	3,274	3,274	3,274
14,850	14,900	2,231	2,231	2,231	2,231	17,850	17,900	2,681	2,681	2,681	2,681	20,850	20,900	3,131	3,131	3,131	3,131	15,850	15,900	2,381	2,381	2,381	2,381	18,850	18,900	2,831	2,831	2,831	2,831	21,850	21,900	3,281	3,281	3,281	3,281
14,900	14,950	2,239	2,239	2,239	2,239	17,900	17,950	2,689	2,689	2,689	2,689	20,900	20,950	3,139	3,139	3,139	3,139	15,900	15,950	2,389	2,389	2,389	2,389	18,900	18,950	2,839	2,839	2,839	2,839	21,900	21,950	3,289	3,289	3,289	3,289
14,950	15,000	2,246	2,246	2,246	2,246	17,950	18,000	2,696	2,696	2,696	2,696	20,950	21,000	3,146	3,146	3,146	3,146	15,950	16,000	2,396	2,396	2,396	2,396	18,950	19,000	2,846	2,846	2,846	2,846	21,950	22,000	3,296	3,296	3,296	3,296
16,000		19,000				22,000				16,000		19,000				22,000																			
16,000	16,050	2,404	2,404	2,404	2,404	19,000	19,050	2,854	2,854	2,854	2,854	22,000	22,050	3,304	3,304	3,304	3,304	16,000	16,050	2,404	2,404	2,404	2,404	19,000	19,050	2,854	2,854	2,854	2,854	22,000	22,050	3,304	3,304	3,304	3,304
16,050	16,100	2,411	2,411	2,411	2,411	19,050	19,100	2,861	2,861	2,861	2,861	22,050	22,100	3,311	3,311	3,311	3,311	16,050	16,100	2,411	2,411	2,411	2,411	19,050	19,100	2,861	2,861	2,861	2,861	22,050	22,100	3,311	3,311	3,311	3,311
16,100	16,150	2,419	2,419	2,419	2,419	19,100	19,150	2,869	2,869	2,869	2,869	22,100	22,150	3,319	3,319	3,319	3,319	16,100	16,150	2,419	2,419	2,419	2,419	19,100	19,150	2,869	2,869	2,869	2,869	22,100	22,150	3,319	3,319	3,319	3,319
16,150	16,200	2,426	2,426	2,426	2,426	19,150	19,200	2,876	2,876	2,876	2,876	22,150	22,200	3,326	3,326	3,326	3,326	16,150	16,200	2,426	2,426	2,426	2,426	19,150	19,200	2,876	2,876	2,876	2,876	22,150	22,200	3,326	3,326	3,326	3,326
16,200	16,250	2,434	2,434	2,434	2,434	19,200	19,250	2,884	2,884	2,884	2,884	22,200	22,250	3,334	3,334	3,334	3,334	16,200	16,250	2,434	2,434	2,434	2,434	19,200	19,250	2,884	2,884	2,884	2,884	22,200	22,250	3,334	3,334	3,334	3,334
16,250	16,300	2,441	2,441	2,441	2,441	19,250	19,300	2,891	2,891	2,891	2,891	22,250	22,300	3,341	3,341	3,341	3,341	16,250	16,300	2,441	2,441	2,441	2,441	19,250	19,300	2,891	2,891	2,891	2,891	22,250	22,300	3,341	3,341	3,341	3,341
16,300	16,350	2,449	2,449	2,449	2,449	19,300	19,350	2,899	2,899	2,899	2,899	22,300	22,350	3,349	3,349	3,349	3,349	16,300	16,350	2,449	2,449	2,449	2,449	19,300	19,350	2,899	2,899	2,899	2,899	22,300	22,350	3,349	3,349	3,349	3,349
16,350	16,400	2,456	2,456	2,456	2,456	19,350	19,400	2,906	2,906	2,906	2,906	22,350	22,400	3,356	3,356	3,356	3,356	16,350	16,400	2,456	2,456	2,456	2,456	19,350	19,400	2,906	2,906	2,906	2,906	22,350	22,400	3,356	3,356	3,356	3,356
16,400	16,450	2,464	2,464	2,464	2,464	19,400	19,450	2,914	2,914	2,914	2,914	22,400	22,450	3,364	3,364	3,364	3,364	16,400	16,450	2,464	2,464	2,464	2,464	19,400	19,450	2,914	2,914	2,914	2,914	22,400	22,450	3,364	3,364	3,364	3,364
16,450	16,500	2,471	2,471	2,471	2,471	19,450	19,500	2,921	2,921	2,921	2,921	22,450	22,500	3,371	3,371	3,371	3,371	16,450	16,500	2,471	2,471	2,471	2,471	19,450	19,500	2,921	2,921	2,921	2,921	22,450	22,500	3,371	3,371	3,371	3,371
16,500	16,550	2,479	2,479	2,479	2,479	19,500	19,550	2,929	2,929	2,929	2,929	22,500</																							

2001 Tax Table—Continued **Caution.** Dependents, see the worksheet on page 33.

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
23,000						26,000						29,000					
23,000	23,050	3,454	3,454	3,507	3,454	26,000	26,050	3,904	3,904	4,332	3,904	29,000	29,050	4,601	4,354	5,157	4,354
23,050	23,100	3,461	3,461	3,521	3,461	26,050	26,100	3,911	3,911	4,346	3,911	29,050	29,100	4,614	4,361	5,171	4,361
23,100	23,150	3,469	3,469	3,534	3,469	26,100	26,150	3,919	3,919	4,359	3,919	29,100	29,150	4,628	4,369	5,184	4,369
23,150	23,200	3,476	3,476	3,548	3,476	26,150	26,200	3,926	3,926	4,373	3,926	29,150	29,200	4,642	4,376	5,198	4,376
23,200	23,250	3,484	3,484	3,562	3,484	26,200	26,250	3,934	3,934	4,387	3,934	29,200	29,250	4,656	4,384	5,212	4,384
23,250	23,300	3,491	3,491	3,576	3,491	26,250	26,300	3,941	3,941	4,401	3,941	29,250	29,300	4,669	4,391	5,226	4,391
23,300	23,350	3,499	3,499	3,589	3,499	26,300	26,350	3,949	3,949	4,414	3,949	29,300	29,350	4,683	4,399	5,239	4,399
23,350	23,400	3,506	3,506	3,603	3,506	26,350	26,400	3,956	3,956	4,428	3,956	29,350	29,400	4,697	4,406	5,253	4,406
23,400	23,450	3,514	3,514	3,617	3,514	26,400	26,450	3,964	3,964	4,442	3,964	29,400	29,450	4,711	4,414	5,267	4,414
23,450	23,500	3,521	3,521	3,631	3,521	26,450	26,500	3,971	3,971	4,456	3,971	29,450	29,500	4,724	4,421	5,281	4,421
23,500	23,550	3,529	3,529	3,644	3,529	26,500	26,550	3,979	3,979	4,469	3,979	29,500	29,550	4,738	4,429	5,294	4,429
23,550	23,600	3,536	3,536	3,658	3,536	26,550	26,600	3,986	3,986	4,483	3,986	29,550	29,600	4,752	4,436	5,308	4,436
23,600	23,650	3,544	3,544	3,672	3,544	26,600	26,650	3,994	3,994	4,497	3,994	29,600	29,650	4,766	4,444	5,322	4,444
23,650	23,700	3,551	3,551	3,686	3,551	26,650	26,700	4,001	4,001	4,511	4,001	29,650	29,700	4,779	4,451	5,336	4,451
23,700	23,750	3,559	3,559	3,699	3,559	26,700	26,750	4,009	4,009	4,524	4,009	29,700	29,750	4,793	4,459	5,349	4,459
23,750	23,800	3,566	3,566	3,713	3,566	26,750	26,800	4,016	4,016	4,538	4,016	29,750	29,800	4,807	4,466	5,363	4,466
23,800	23,850	3,574	3,574	3,727	3,574	26,800	26,850	4,024	4,024	4,552	4,024	29,800	29,850	4,821	4,474	5,377	4,474
23,850	23,900	3,581	3,581	3,741	3,581	26,850	26,900	4,031	4,031	4,566	4,031	29,850	29,900	4,834	4,481	5,391	4,481
23,900	23,950	3,589	3,589	3,754	3,589	26,900	26,950	4,039	4,039	4,579	4,039	29,900	29,950	4,848	4,489	5,404	4,489
23,950	24,000	3,596	3,596	3,768	3,596	26,950	27,000	4,046	4,046	4,593	4,046	29,950	30,000	4,862	4,496	5,418	4,496
24,000						27,000						30,000					
24,000	24,050	3,604	3,604	3,782	3,604	27,000	27,050	4,054	4,054	4,607	4,054	30,000	30,050	4,876	4,504	5,432	4,504
24,050	24,100	3,611	3,611	3,796	3,611	27,050	27,100	4,064	4,061	4,621	4,061	30,050	30,100	4,889	4,511	5,446	4,511
24,100	24,150	3,619	3,619	3,809	3,619	27,100	27,150	4,078	4,069	4,634	4,069	30,100	30,150	4,903	4,519	5,459	4,519
24,150	24,200	3,626	3,626	3,823	3,626	27,150	27,200	4,092	4,076	4,648	4,076	30,150	30,200	4,917	4,526	5,473	4,526
24,200	24,250	3,634	3,634	3,837	3,634	27,200	27,250	4,106	4,084	4,662	4,084	30,200	30,250	4,931	4,534	5,487	4,534
24,250	24,300	3,641	3,641	3,851	3,641	27,250	27,300	4,119	4,091	4,676	4,091	30,250	30,300	4,944	4,541	5,501	4,541
24,300	24,350	3,649	3,649	3,864	3,649	27,300	27,350	4,133	4,099	4,689	4,099	30,300	30,350	4,958	4,549	5,514	4,549
24,350	24,400	3,656	3,656	3,878	3,656	27,350	27,400	4,147	4,106	4,703	4,106	30,350	30,400	4,972	4,556	5,528	4,556
24,400	24,450	3,664	3,664	3,892	3,664	27,400	27,450	4,161	4,114	4,717	4,114	30,400	30,450	4,986	4,564	5,542	4,564
24,450	24,500	3,671	3,671	3,906	3,671	27,450	27,500	4,174	4,121	4,731	4,121	30,450	30,500	4,999	4,571	5,556	4,571
24,500	24,550	3,679	3,679	3,919	3,679	27,500	27,550	4,188	4,129	4,744	4,129	30,500	30,550	5,013	4,579	5,569	4,579
24,550	24,600	3,686	3,686	3,933	3,686	27,550	27,600	4,202	4,136	4,758	4,136	30,550	30,600	5,027	4,586	5,583	4,586
24,600	24,650	3,694	3,694	3,947	3,694	27,600	27,650	4,216	4,144	4,772	4,144	30,600	30,650	5,041	4,594	5,597	4,594
24,650	24,700	3,701	3,701	3,961	3,701	27,650	27,700	4,229	4,151	4,786	4,151	30,650	30,700	5,054	4,601	5,611	4,601
24,700	24,750	3,709	3,709	3,974	3,709	27,700	27,750	4,243	4,159	4,799	4,159	30,700	30,750	5,068	4,609	5,624	4,609
24,750	24,800	3,716	3,716	3,988	3,716	27,750	27,800	4,257	4,166	4,813	4,166	30,750	30,800	5,082	4,616	5,638	4,616
24,800	24,850	3,724	3,724	4,002	3,724	27,800	27,850	4,271	4,174	4,827	4,174	30,800	30,850	5,096	4,624	5,652	4,624
24,850	24,900	3,731	3,731	4,016	3,731	27,850	27,900	4,284	4,181	4,841	4,181	30,850	30,900	5,109	4,631	5,666	4,631
24,900	24,950	3,739	3,739	4,029	3,739	27,900	27,950	4,298	4,189	4,854	4,189	30,900	30,950	5,123	4,639	5,679	4,639
24,950	25,000	3,746	3,746	4,043	3,746	27,950	28,000	4,312	4,196	4,868	4,196	30,950	31,000	5,137	4,646	5,693	4,646
25,000						28,000						31,000					
25,000	25,050	3,754	3,754	4,057	3,754	28,000	28,050	4,326	4,204	4,882	4,204	31,000	31,050	5,151	4,654	5,707	4,654
25,050	25,100	3,761	3,761	4,071	3,761	28,050	28,100	4,339	4,211	4,896	4,211	31,050	31,100	5,164	4,661	5,721	4,661
25,100	25,150	3,769	3,769	4,084	3,769	28,100	28,150	4,353	4,219	4,909	4,219	31,100	31,150	5,178	4,669	5,734	4,669
25,150	25,200	3,776	3,776	4,098	3,776	28,150	28,200	4,367	4,226	4,923	4,226	31,150	31,200	5,192	4,676	5,748	4,676
25,200	25,250	3,784	3,784	4,112	3,784	28,200	28,250	4,381	4,234	4,937	4,234	31,200	31,250	5,206	4,684	5,762	4,684
25,250	25,300	3,791	3,791	4,126	3,791	28,250	28,300	4,394	4,241	4,951	4,241	31,250	31,300	5,219	4,691	5,776	4,691
25,300	25,350	3,799	3,799	4,139	3,799	28,300	28,350	4,408	4,249	4,964	4,249	31,300	31,350	5,233	4,699	5,789	4,699
25,350	25,400	3,806	3,806	4,153	3,806	28,350	28,400	4,422	4,256	4,978	4,256	31,350	31,400	5,247	4,706	5,803	4,706
25,400	25,450	3,814	3,814	4,167	3,814	28,400	28,450	4,436	4,264	4,992	4,264	31,400	31,450	5,261	4,714	5,817	4,714
25,450	25,500	3,821	3,821	4,181	3,821	28,450	28,500	4,449	4,271	5,006	4,271	31,450	31,500	5,274	4,721	5,831	4,721
25,500	25,550	3,829	3,829	4,194	3,829	28,500	28,550	4,463	4,279	5,019	4,279	31,500	31,550	5,288	4,729	5,844	4,729
25,550	25,600	3,836	3,836	4,208	3,836	28,550	28,600	4,477	4,286	5,033	4,286	31,550	31,600	5,302	4,736	5,858	4,736
25,600	25,650	3,844	3,844	4,222	3,844	28,600	28,650	4,491	4,294	5,047	4,294	31,600	31,650	5,316	4,744	5,872	4,744
25,650	25,700	3,851	3,851	4,236	3,851	28,650	28,700	4,504	4,301	5,061	4,301	31,650	31,700	5,329	4,751	5,886	4,751
25,700	25,750	3,859	3,859	4,249	3,859	28,700	28,750	4,518	4,309	5,074	4,309	31,700	31,750	5,343	4,759	5,899	4,759
25,750	25,800	3,866	3,866	4,263	3,866	28,750	28,800	4,532	4,316	5,088	4,316	31,750	31,800	5,357	4,766	5,913	4,766
25,800	25,850	3,874	3,874	4,277	3,874	28,800	28,850	4,546	4,324	5,102	4,324	31,800	31,850	5,371	4,774	5,927	4,774
25,850	25,900	3,881	3,881	4,291	3,881	28,850	28,900	4,559	4,331	5,116	4,331	31,850	31,900	5,384	4,781	5,941	4,781
25,900	25,950	3,889	3,889	4,304	3,889	28,900	28,950	4,573	4,339	5,129	4,339	31,900	31,950	5,398	4,789	5,954	4,789
25,950	26,000	3,896	3,896	4,318	3,896	28,950	29,000	4,587									

Caution. Dependents, see the worksheet on page 33. **2001 Tax Table—Continued**

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
32,000						35,000						38,000					
32,000	32,050	5,426	4,804	5,982	4,804	35,000	35,050	6,251	5,254	6,807	5,254	38,000	38,050	7,076	5,704	7,632	5,926
32,050	32,100	5,439	4,811	5,996	4,811	35,050	35,100	6,264	5,261	6,821	5,261	38,050	38,100	7,089	5,711	7,646	5,939
32,100	32,150	5,453	4,819	6,009	4,819	35,100	35,150	6,278	5,269	6,834	5,269	38,100	38,150	7,103	5,719	7,659	5,953
32,150	32,200	5,467	4,826	6,023	4,826	35,150	35,200	6,292	5,276	6,848	5,276	38,150	38,200	7,117	5,726	7,673	5,967
32,200	32,250	5,481	4,834	6,037	4,834	35,200	35,250	6,306	5,284	6,862	5,284	38,200	38,250	7,131	5,734	7,687	5,981
32,250	32,300	5,494	4,841	6,051	4,841	35,250	35,300	6,319	5,291	6,876	5,291	38,250	38,300	7,144	5,741	7,701	5,994
32,300	32,350	5,508	4,849	6,064	4,849	35,300	35,350	6,333	5,299	6,889	5,299	38,300	38,350	7,158	5,749	7,714	6,008
32,350	32,400	5,522	4,856	6,078	4,856	35,350	35,400	6,347	5,306	6,903	5,306	38,350	38,400	7,172	5,756	7,728	6,022
32,400	32,450	5,536	4,864	6,092	4,864	35,400	35,450	6,361	5,314	6,917	5,314	38,400	38,450	7,186	5,764	7,742	6,036
32,450	32,500	5,549	4,871	6,106	4,871	35,450	35,500	6,374	5,321	6,931	5,321	38,450	38,500	7,199	5,771	7,756	6,049
32,500	32,550	5,563	4,879	6,119	4,879	35,500	35,550	6,388	5,329	6,944	5,329	38,500	38,550	7,213	5,779	7,769	6,063
32,550	32,600	5,577	4,886	6,133	4,886	35,550	35,600	6,402	5,336	6,958	5,336	38,550	38,600	7,227	5,786	7,783	6,077
32,600	32,650	5,591	4,894	6,147	4,894	35,600	35,650	6,416	5,344	6,972	5,344	38,600	38,650	7,241	5,794	7,797	6,091
32,650	32,700	5,604	4,901	6,161	4,901	35,650	35,700	6,429	5,351	6,986	5,351	38,650	38,700	7,254	5,801	7,811	6,104
32,700	32,750	5,618	4,909	6,174	4,909	35,700	35,750	6,443	5,359	6,999	5,359	38,700	38,750	7,268	5,809	7,824	6,118
32,750	32,800	5,632	4,916	6,188	4,916	35,750	35,800	6,457	5,366	7,013	5,366	38,750	38,800	7,282	5,816	7,838	6,132
32,800	32,850	5,646	4,924	6,202	4,924	35,800	35,850	6,471	5,374	7,027	5,374	38,800	38,850	7,296	5,824	7,852	6,146
32,850	32,900	5,659	4,931	6,216	4,931	35,850	35,900	6,484	5,381	7,041	5,381	38,850	38,900	7,309	5,831	7,866	6,159
32,900	32,950	5,673	4,939	6,229	4,939	35,900	35,950	6,498	5,389	7,054	5,389	38,900	38,950	7,323	5,839	7,879	6,173
32,950	33,000	5,687	4,946	6,243	4,946	35,950	36,000	6,512	5,396	7,068	5,396	38,950	39,000	7,337	5,846	7,893	6,187
33,000						36,000						39,000					
33,000	33,050	5,701	4,954	6,257	4,954	36,000	36,050	6,526	5,404	7,082	5,404	39,000	39,050	7,351	5,854	7,907	6,201
33,050	33,100	5,714	4,961	6,271	4,961	36,050	36,100	6,539	5,411	7,096	5,411	39,050	39,100	7,364	5,861	7,921	6,214
33,100	33,150	5,728	4,969	6,284	4,969	36,100	36,150	6,553	5,419	7,109	5,419	39,100	39,150	7,378	5,869	7,934	6,228
33,150	33,200	5,742	4,976	6,298	4,976	36,150	36,200	6,567	5,426	7,123	5,426	39,150	39,200	7,392	5,876	7,948	6,242
33,200	33,250	5,756	4,984	6,312	4,984	36,200	36,250	6,581	5,434	7,137	5,434	39,200	39,250	7,406	5,884	7,962	6,256
33,250	33,300	5,769	4,991	6,326	4,991	36,250	36,300	6,594	5,441	7,151	5,444	39,250	39,300	7,419	5,891	7,976	6,269
33,300	33,350	5,783	4,999	6,339	4,999	36,300	36,350	6,608	5,449	7,164	5,458	39,300	39,350	7,433	5,899	7,989	6,283
33,350	33,400	5,797	5,006	6,353	5,006	36,350	36,400	6,622	5,456	7,178	5,472	39,350	39,400	7,447	5,906	8,003	6,297
33,400	33,450	5,811	5,014	6,367	5,014	36,400	36,450	6,636	5,464	7,192	5,486	39,400	39,450	7,461	5,914	8,017	6,311
33,450	33,500	5,824	5,021	6,381	5,021	36,450	36,500	6,649	5,471	7,206	5,499	39,450	39,500	7,474	5,921	8,031	6,324
33,500	33,550	5,838	5,029	6,394	5,029	36,500	36,550	6,663	5,479	7,219	5,513	39,500	39,550	7,488	5,929	8,044	6,338
33,550	33,600	5,852	5,036	6,408	5,036	36,550	36,600	6,677	5,486	7,233	5,527	39,550	39,600	7,502	5,936	8,058	6,352
33,600	33,650	5,866	5,044	6,422	5,044	36,600	36,650	6,691	5,494	7,247	5,541	39,600	39,650	7,516	5,944	8,072	6,366
33,650	33,700	5,879	5,051	6,436	5,051	36,650	36,700	6,704	5,501	7,261	5,554	39,650	39,700	7,529	5,951	8,086	6,379
33,700	33,750	5,893	5,059	6,449	5,059	36,700	36,750	6,718	5,509	7,274	5,568	39,700	39,750	7,543	5,959	8,099	6,393
33,750	33,800	5,907	5,066	6,463	5,066	36,750	36,800	6,732	5,516	7,288	5,582	39,750	39,800	7,557	5,966	8,113	6,407
33,800	33,850	5,921	5,074	6,477	5,074	36,800	36,850	6,746	5,524	7,302	5,596	39,800	39,850	7,571	5,974	8,127	6,421
33,850	33,900	5,934	5,081	6,491	5,081	36,850	36,900	6,759	5,531	7,316	5,609	39,850	39,900	7,584	5,981	8,141	6,434
33,900	33,950	5,948	5,089	6,504	5,089	36,900	36,950	6,773	5,539	7,329	5,623	39,900	39,950	7,598	5,989	8,154	6,448
33,950	34,000	5,962	5,096	6,518	5,096	36,950	37,000	6,787	5,546	7,343	5,637	39,950	40,000	7,612	5,996	8,168	6,462
34,000						37,000						40,000					
34,000	34,050	5,976	5,104	6,532	5,104	37,000	37,050	6,801	5,554	7,357	5,651	40,000	40,050	7,626	6,004	8,182	6,476
34,050	34,100	5,989	5,111	6,546	5,111	37,050	37,100	6,814	5,561	7,371	5,664	40,050	40,100	7,639	6,011	8,196	6,489
34,100	34,150	6,003	5,119	6,559	5,119	37,100	37,150	6,828	5,569	7,384	5,678	40,100	40,150	7,653	6,019	8,209	6,503
34,150	34,200	6,017	5,126	6,573	5,126	37,150	37,200	6,842	5,576	7,398	5,692	40,150	40,200	7,667	6,026	8,223	6,517
34,200	34,250	6,031	5,134	6,587	5,134	37,200	37,250	6,856	5,584	7,412	5,706	40,200	40,250	7,681	6,034	8,237	6,531
34,250	34,300	6,044	5,141	6,601	5,141	37,250	37,300	6,869	5,591	7,426	5,719	40,250	40,300	7,694	6,041	8,251	6,544
34,300	34,350	6,058	5,149	6,614	5,149	37,300	37,350	6,883	5,599	7,439	5,733	40,300	40,350	7,708	6,049	8,264	6,558
34,350	34,400	6,072	5,156	6,628	5,156	37,350	37,400	6,897	5,606	7,453	5,747	40,350	40,400	7,722	6,056	8,278	6,572
34,400	34,450	6,086	5,164	6,642	5,164	37,400	37,450	6,911	5,614	7,467	5,761	40,400	40,450	7,736	6,064	8,292	6,586
34,450	34,500	6,099	5,171	6,656	5,171	37,450	37,500	6,924	5,621	7,481	5,774	40,450	40,500	7,749	6,071	8,306	6,599
34,500	34,550	6,113	5,179	6,669	5,179	37,500	37,550	6,938	5,629	7,494	5,788	40,500	40,550	7,763	6,079	8,319	6,613
34,550	34,600	6,127	5,186	6,683	5,186	37,550	37,600	6,952	5,636	7,508	5,802	40,550	40,600	7,777	6,086	8,333	6,627
34,600	34,650	6,141	5,194	6,697	5,194	37,600	37,650	6,966	5,644	7,522	5,816	40,600	40,650	7,791	6,094	8,347	6,641
34,650	34,700	6,154	5,201	6,711	5,201	37,650	37,700	6,979	5,651	7,536	5,829	40,650	40,700	7,804	6,101	8,361	6,654
34,700	34,750	6,168	5,209	6,724	5,209	37,700	37,750	6,993	5,659	7,549	5,843	40,700	40,750	7,818	6,109	8,374	6,668
34,750	34,800	6,182	5,216	6,738	5,216	37,750	37,800	7,007	5,666	7,563	5,857	40,750	40,800	7,832	6,116	8,388	6,682
34,800	34,850	6,196	5,224	6,752	5,224	37,800	37,850	7,021	5,674	7,577	5,871	40,800	40,850	7,846	6,124	8,402	6,696
34,850	34,900	6,209	5,231	6,766	5,231	37,850	37,900	7,034	5,681	7,591	5,884	40,850	40,900	7,859	6,131	8,416	6,709
34,900	34,950	6,223	5,239	6,779	5,239	37,900	37,950	7,048	5,689	7,604	5,898	40,900	40,950	7,873	6,139	8,429	6,723
34,950	35,000	6,237	5,246	6,793	5,246	37,950	38,000										

2001 Tax Table—Continued **Caution.** Dependents, see the worksheet on page 33.

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
41,000						44,000						47,000					
41,000	41,050	7,901	6,154	8,457	6,751	44,000	44,050	8,726	6,604	9,282	7,576	47,000	47,050	9,551	7,282	10,107	8,401
41,050	41,100	7,914	6,161	8,471	6,764	44,050	44,100	8,739	6,611	9,296	7,589	47,050	47,100	9,564	7,296	10,121	8,414
41,100	41,150	7,928	6,169	8,484	6,778	44,100	44,150	8,753	6,619	9,309	7,603	47,100	47,150	9,578	7,309	10,134	8,428
41,150	41,200	7,942	6,176	8,498	6,792	44,150	44,200	8,767	6,626	9,323	7,617	47,150	47,200	9,592	7,323	10,148	8,442
41,200	41,250	7,956	6,184	8,512	6,806	44,200	44,250	8,781	6,634	9,337	7,631	47,200	47,250	9,606	7,337	10,162	8,456
41,250	41,300	7,969	6,191	8,526	6,819	44,250	44,300	8,794	6,641	9,351	7,644	47,250	47,300	9,619	7,351	10,176	8,469
41,300	41,350	7,983	6,199	8,539	6,833	44,300	44,350	8,808	6,649	9,364	7,658	47,300	47,350	9,633	7,364	10,189	8,483
41,350	41,400	7,997	6,206	8,553	6,847	44,350	44,400	8,822	6,656	9,378	7,672	47,350	47,400	9,647	7,378	10,203	8,497
41,400	41,450	8,011	6,214	8,567	6,861	44,400	44,450	8,836	6,664	9,392	7,686	47,400	47,450	9,661	7,392	10,217	8,511
41,450	41,500	8,024	6,221	8,581	6,874	44,450	44,500	8,849	6,671	9,406	7,699	47,450	47,500	9,674	7,406	10,231	8,524
41,500	41,550	8,038	6,229	8,594	6,888	44,500	44,550	8,863	6,679	9,419	7,713	47,500	47,550	9,688	7,419	10,244	8,538
41,550	41,600	8,052	6,236	8,608	6,902	44,550	44,600	8,877	6,686	9,433	7,727	47,550	47,600	9,702	7,433	10,258	8,552
41,600	41,650	8,066	6,244	8,622	6,916	44,600	44,650	8,891	6,694	9,447	7,741	47,600	47,650	9,716	7,447	10,272	8,566
41,650	41,700	8,079	6,251	8,636	6,929	44,650	44,700	8,904	6,701	9,461	7,754	47,650	47,700	9,729	7,461	10,286	8,579
41,700	41,750	8,093	6,259	8,649	6,943	44,700	44,750	8,918	6,709	9,474	7,768	47,700	47,750	9,743	7,474	10,299	8,593
41,750	41,800	8,107	6,266	8,663	6,957	44,750	44,800	8,932	6,716	9,488	7,782	47,750	47,800	9,757	7,488	10,313	8,607
41,800	41,850	8,121	6,274	8,677	6,971	44,800	44,850	8,946	6,724	9,502	7,796	47,800	47,850	9,771	7,502	10,327	8,621
41,850	41,900	8,134	6,281	8,691	6,984	44,850	44,900	8,959	6,731	9,516	7,809	47,850	47,900	9,784	7,516	10,341	8,634
41,900	41,950	8,148	6,289	8,704	6,998	44,900	44,950	8,973	6,739	9,529	7,823	47,900	47,950	9,798	7,529	10,354	8,648
41,950	42,000	8,162	6,296	8,718	7,012	44,950	45,000	8,987	6,746	9,543	7,837	47,950	48,000	9,812	7,543	10,368	8,662
42,000						45,000						48,000					
42,000	42,050	8,176	6,304	8,732	7,026	45,000	45,050	9,001	6,754	9,557	7,851	48,000	48,050	9,826	7,557	10,382	8,676
42,050	42,100	8,189	6,311	8,746	7,039	45,050	45,100	9,014	6,761	9,571	7,864	48,050	48,100	9,839	7,571	10,396	8,689
42,100	42,150	8,203	6,319	8,759	7,053	45,100	45,150	9,028	6,769	9,584	7,878	48,100	48,150	9,853	7,584	10,409	8,703
42,150	42,200	8,217	6,326	8,773	7,067	45,150	45,200	9,042	6,776	9,598	7,892	48,150	48,200	9,867	7,598	10,423	8,717
42,200	42,250	8,231	6,334	8,787	7,081	45,200	45,250	9,056	6,787	9,612	7,906	48,200	48,250	9,881	7,612	10,437	8,731
42,250	42,300	8,244	6,341	8,801	7,094	45,250	45,300	9,069	6,801	9,626	7,919	48,250	48,300	9,894	7,626	10,451	8,744
42,300	42,350	8,258	6,349	8,814	7,108	45,300	45,350	9,083	6,814	9,639	7,933	48,300	48,350	9,908	7,639	10,464	8,758
42,350	42,400	8,272	6,356	8,828	7,122	45,350	45,400	9,097	6,828	9,653	7,947	48,350	48,400	9,922	7,653	10,478	8,772
42,400	42,450	8,286	6,364	8,842	7,136	45,400	45,450	9,111	6,842	9,667	7,961	48,400	48,450	9,936	7,667	10,492	8,786
42,450	42,500	8,299	6,371	8,856	7,149	45,450	45,500	9,124	6,856	9,681	7,974	48,450	48,500	9,949	7,681	10,506	8,799
42,500	42,550	8,313	6,379	8,869	7,163	45,500	45,550	9,138	6,869	9,694	7,988	48,500	48,550	9,963	7,694	10,519	8,813
42,550	42,600	8,327	6,386	8,883	7,177	45,550	45,600	9,152	6,883	9,708	8,002	48,550	48,600	9,977	7,708	10,533	8,827
42,600	42,650	8,341	6,394	8,897	7,191	45,600	45,650	9,166	6,897	9,722	8,016	48,600	48,650	9,991	7,722	10,547	8,841
42,650	42,700	8,354	6,401	8,911	7,204	45,650	45,700	9,179	6,911	9,736	8,029	48,650	48,700	10,004	7,736	10,561	8,854
42,700	42,750	8,368	6,409	8,924	7,218	45,700	45,750	9,193	6,924	9,749	8,043	48,700	48,750	10,018	7,749	10,574	8,868
42,750	42,800	8,382	6,416	8,938	7,232	45,750	45,800	9,207	6,938	9,763	8,057	48,750	48,800	10,032	7,763	10,588	8,882
42,800	42,850	8,396	6,424	8,952	7,246	45,800	45,850	9,221	6,952	9,777	8,071	48,800	48,850	10,046	7,777	10,602	8,896
42,850	42,900	8,409	6,431	8,966	7,259	45,850	45,900	9,234	6,966	9,791	8,084	48,850	48,900	10,059	7,791	10,616	8,909
42,900	42,950	8,423	6,439	8,979	7,273	45,900	45,950	9,248	6,979	9,804	8,098	48,900	48,950	10,073	7,804	10,629	8,923
42,950	43,000	8,437	6,446	8,993	7,287	45,950	46,000	9,262	6,993	9,818	8,112	48,950	49,000	10,087	7,818	10,643	8,937
43,000						46,000						49,000					
43,000	43,050	8,451	6,454	9,007	7,301	46,000	46,050	9,276	7,007	9,832	8,126	49,000	49,050	10,101	7,832	10,657	8,951
43,050	43,100	8,464	6,461	9,021	7,314	46,050	46,100	9,289	7,021	9,846	8,139	49,050	49,100	10,114	7,846	10,671	8,964
43,100	43,150	8,478	6,469	9,034	7,328	46,100	46,150	9,303	7,034	9,859	8,153	49,100	49,150	10,128	7,859	10,684	8,978
43,150	43,200	8,492	6,476	9,048	7,342	46,150	46,200	9,317	7,048	9,873	8,167	49,150	49,200	10,142	7,873	10,698	8,992
43,200	43,250	8,506	6,484	9,062	7,356	46,200	46,250	9,331	7,062	9,887	8,181	49,200	49,250	10,156	7,887	10,712	9,006
43,250	43,300	8,519	6,491	9,076	7,369	46,250	46,300	9,344	7,076	9,901	8,194	49,250	49,300	10,169	7,901	10,726	9,019
43,300	43,350	8,533	6,499	9,089	7,383	46,300	46,350	9,358	7,089	9,914	8,208	49,300	49,350	10,183	7,914	10,739	9,033
43,350	43,400	8,547	6,506	9,103	7,397	46,350	46,400	9,372	7,103	9,928	8,222	49,350	49,400	10,197	7,928	10,753	9,047
43,400	43,450	8,561	6,514	9,117	7,411	46,400	46,450	9,386	7,117	9,942	8,236	49,400	49,450	10,211	7,942	10,767	9,061
43,450	43,500	8,574	6,521	9,131	7,424	46,450	46,500	9,399	7,131	9,956	8,249	49,450	49,500	10,224	7,956	10,781	9,074
43,500	43,550	8,588	6,529	9,144	7,438	46,500	46,550	9,413	7,144	9,969	8,263	49,500	49,550	10,238	7,969	10,794	9,088
43,550	43,600	8,602	6,536	9,158	7,452	46,550	46,600	9,427	7,158	9,983	8,277	49,550	49,600	10,252	7,983	10,808	9,102
43,600	43,650	8,616	6,544	9,172	7,466	46,600	46,650	9,441	7,172	9,997	8,291	49,600	49,650	10,266	7,997	10,822	9,116
43,650	43,700	8,629	6,551	9,186	7,479	46,650	46,700	9,454	7,186	10,011	8,304	49,650	49,700	10,279	8,011	10,836	9,129
43,700	43,750	8,643	6,559	9,199	7,493	46,700	46,750	9,468	7,199	10,024	8,318	49,700	49,750	10,293	8,024	10,849	9,143
43,750	43,800	8,657	6,566	9,213	7,507	46,750	46,800	9,482	7,213	10,038	8,332	49,750	49,800	10,307	8,038	10,863	9,157
43,800	43,850	8,671	6,574	9,227	7,521	46,800	46,850	9,496	7,227	10,052	8,346	49,800	49,850	10,321	8,052	10,877	9,171
43,850	43,900	8,684	6,581	9,241	7,534	46,850	46,900	9,509	7,241	10,066	8,359	49,850	49,900	10,334	8,066	10,891	9,184
43,900	43,950	8,698	6,589	9,254	7,548	46,900	46,950	9,523	7,254	10,079	8,373	49,900	49,950	10,348	8,079	10,904	9,198
43,																	

Caution. Dependents, see the worksheet on page 33. **2001 Tax Table—Continued**

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
		Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household
At least	But less than	Your tax is—				At least	But less than	Your tax is—				At least	But less than	Your tax is—			
50,000						53,000						56,000					
50,000	50,050	10,376	8,107	10,932	9,226	53,000	53,050	11,201	8,932	11,757	10,051	56,000	56,050	12,026	9,757	12,624	10,876
50,050	50,100	10,389	8,121	10,946	9,239	53,050	53,100	11,214	8,946	11,771	10,064	56,050	56,100	12,039	9,771	12,639	10,889
50,100	50,150	10,403	8,134	10,959	9,253	53,100	53,150	11,228	8,959	11,784	10,078	56,100	56,150	12,053	9,784	12,654	10,903
50,150	50,200	10,417	8,148	10,973	9,267	53,150	53,200	11,242	8,973	11,798	10,092	56,150	56,200	12,067	9,798	12,670	10,917
50,200	50,250	10,431	8,162	10,987	9,281	53,200	53,250	11,256	8,987	11,812	10,106	56,200	56,250	12,081	9,812	12,685	10,931
50,250	50,300	10,444	8,176	11,001	9,294	53,250	53,300	11,269	9,001	11,826	10,119	56,250	56,300	12,094	9,826	12,700	10,944
50,300	50,350	10,458	8,189	11,014	9,308	53,300	53,350	11,283	9,014	11,839	10,133	56,300	56,350	12,108	9,839	12,715	10,958
50,350	50,400	10,472	8,203	11,028	9,322	53,350	53,400	11,297	9,028	11,853	10,147	56,350	56,400	12,122	9,853	12,731	10,972
50,400	50,450	10,486	8,217	11,042	9,336	53,400	53,450	11,311	9,042	11,867	10,161	56,400	56,450	12,136	9,867	12,746	10,986
50,450	50,500	10,499	8,231	11,056	9,349	53,450	53,500	11,324	9,056	11,881	10,174	56,450	56,500	12,149	9,881	12,761	10,999
50,500	50,550	10,513	8,244	11,069	9,363	53,500	53,550	11,338	9,069	11,894	10,188	56,500	56,550	12,163	9,894	12,776	11,013
50,550	50,600	10,527	8,258	11,083	9,377	53,550	53,600	11,352	9,083	11,908	10,202	56,550	56,600	12,177	9,908	12,792	11,027
50,600	50,650	10,541	8,272	11,097	9,391	53,600	53,650	11,366	9,097	11,922	10,216	56,600	56,650	12,191	9,922	12,807	11,041
50,650	50,700	10,554	8,286	11,111	9,404	53,650	53,700	11,379	9,111	11,936	10,229	56,650	56,700	12,204	9,936	12,822	11,054
50,700	50,750	10,568	8,299	11,124	9,418	53,700	53,750	11,393	9,124	11,949	10,243	56,700	56,750	12,218	9,949	12,837	11,068
50,750	50,800	10,582	8,313	11,138	9,432	53,750	53,800	11,407	9,138	11,963	10,257	56,750	56,800	12,232	9,963	12,853	11,082
50,800	50,850	10,596	8,327	11,152	9,446	53,800	53,850	11,421	9,152	11,977	10,271	56,800	56,850	12,246	9,977	12,868	11,096
50,850	50,900	10,609	8,341	11,166	9,459	53,850	53,900	11,434	9,166	11,991	10,284	56,850	56,900	12,259	9,991	12,883	11,109
50,900	50,950	10,623	8,354	11,179	9,473	53,900	53,950	11,448	9,179	12,004	10,298	56,900	56,950	12,273	10,004	12,898	11,123
50,950	51,000	10,637	8,368	11,193	9,487	53,950	54,000	11,462	9,193	12,018	10,312	56,950	57,000	12,287	10,018	12,914	11,137
51,000						54,000						57,000					
51,000	51,050	10,651	8,382	11,207	9,501	54,000	54,050	11,476	9,207	12,032	10,326	57,000	57,050	12,301	10,032	12,929	11,151
51,050	51,100	10,664	8,396	11,221	9,514	54,050	54,100	11,489	9,221	12,046	10,339	57,050	57,100	12,314	10,046	12,944	11,164
51,100	51,150	10,678	8,409	11,234	9,528	54,100	54,150	11,503	9,234	12,059	10,353	57,100	57,150	12,328	10,059	12,959	11,178
51,150	51,200	10,692	8,423	11,248	9,542	54,150	54,200	11,517	9,248	12,073	10,367	57,150	57,200	12,342	10,073	12,975	11,192
51,200	51,250	10,706	8,437	11,262	9,556	54,200	54,250	11,531	9,262	12,087	10,381	57,200	57,250	12,356	10,087	12,990	11,206
51,250	51,300	10,719	8,451	11,276	9,569	54,250	54,300	11,544	9,276	12,101	10,394	57,250	57,300	12,369	10,101	13,005	11,219
51,300	51,350	10,733	8,464	11,289	9,583	54,300	54,350	11,558	9,289	12,114	10,408	57,300	57,350	12,383	10,114	13,020	11,233
51,350	51,400	10,747	8,478	11,303	9,597	54,350	54,400	11,572	9,303	12,128	10,422	57,350	57,400	12,397	10,128	13,036	11,247
51,400	51,450	10,761	8,492	11,317	9,611	54,400	54,450	11,586	9,317	12,142	10,436	57,400	57,450	12,411	10,142	13,051	11,261
51,450	51,500	10,774	8,506	11,331	9,624	54,450	54,500	11,599	9,331	12,156	10,449	57,450	57,500	12,424	10,156	13,066	11,274
51,500	51,550	10,788	8,519	11,344	9,638	54,500	54,550	11,613	9,344	12,169	10,463	57,500	57,550	12,438	10,169	13,081	11,288
51,550	51,600	10,802	8,533	11,358	9,652	54,550	54,600	11,627	9,358	12,183	10,477	57,550	57,600	12,452	10,183	13,097	11,302
51,600	51,650	10,816	8,547	11,372	9,666	54,600	54,650	11,641	9,372	12,197	10,491	57,600	57,650	12,466	10,197	13,112	11,316
51,650	51,700	10,829	8,561	11,386	9,679	54,650	54,700	11,654	9,386	12,212	10,504	57,650	57,700	12,479	10,211	13,127	11,329
51,700	51,750	10,843	8,574	11,399	9,693	54,700	54,750	11,668	9,399	12,227	10,518	57,700	57,750	12,493	10,224	13,142	11,343
51,750	51,800	10,857	8,588	11,413	9,707	54,750	54,800	11,682	9,413	12,243	10,532	57,750	57,800	12,507	10,238	13,158	11,357
51,800	51,850	10,871	8,602	11,427	9,721	54,800	54,850	11,696	9,427	12,258	10,546	57,800	57,850	12,521	10,252	13,173	11,371
51,850	51,900	10,884	8,616	11,441	9,734	54,850	54,900	11,709	9,441	12,273	10,559	57,850	57,900	12,534	10,266	13,188	11,384
51,900	51,950	10,898	8,629	11,454	9,748	54,900	54,950	11,723	9,454	12,288	10,573	57,900	57,950	12,548	10,279	13,203	11,398
51,950	52,000	10,912	8,643	11,468	9,762	54,950	55,000	11,737	9,468	12,304	10,587	57,950	58,000	12,562	10,293	13,219	11,412
52,000						55,000						58,000					
52,000	52,050	10,926	8,657	11,482	9,776	55,000	55,050	11,751	9,482	12,319	10,601	58,000	58,050	12,576	10,307	13,234	11,426
52,050	52,100	10,939	8,671	11,496	9,789	55,050	55,100	11,764	9,496	12,334	10,614	58,050	58,100	12,589	10,321	13,249	11,439
52,100	52,150	10,953	8,684	11,509	9,803	55,100	55,150	11,778	9,509	12,349	10,628	58,100	58,150	12,603	10,334	13,264	11,453
52,150	52,200	10,967	8,698	11,523	9,817	55,150	55,200	11,792	9,523	12,365	10,642	58,150	58,200	12,617	10,348	13,280	11,467
52,200	52,250	10,981	8,712	11,537	9,831	55,200	55,250	11,806	9,537	12,380	10,656	58,200	58,250	12,631	10,362	13,295	11,481
52,250	52,300	10,994	8,726	11,551	9,844	55,250	55,300	11,819	9,551	12,395	10,669	58,250	58,300	12,644	10,376	13,310	11,494
52,300	52,350	11,008	8,739	11,564	9,858	55,300	55,350	11,833	9,564	12,410	10,683	58,300	58,350	12,658	10,389	13,325	11,508
52,350	52,400	11,022	8,753	11,578	9,872	55,350	55,400	11,847	9,578	12,426	10,697	58,350	58,400	12,672	10,403	13,341	11,522
52,400	52,450	11,036	8,767	11,592	9,886	55,400	55,450	11,861	9,592	12,441	10,711	58,400	58,450	12,686	10,417	13,356	11,536
52,450	52,500	11,049	8,781	11,606	9,899	55,450	55,500	11,874	9,606	12,456	10,724	58,450	58,500	12,699	10,431	13,371	11,549
52,500	52,550	11,063	8,794	11,619	9,913	55,500	55,550	11,888	9,619	12,471	10,738	58,500	58,550	12,713	10,444	13,386	11,563
52,550	52,600	11,077	8,808	11,633	9,927	55,550	55,600	11,902	9,633	12,487	10,752	58,550	58,600	12,727	10,458	13,402	11,577
52,600	52,650	11,091	8,822	11,647	9,941	55,600	55,650	11,916	9,647	12,502	10,766	58,600	58,650	12,741	10,472	13,417	11,591
52,650	52,700	11,104	8,836	11,661	9,954	55,650	55,700	11,929	9,661	12,517	10,779	58,650	58,700	12,754	10,486	13,432	11,604
52,700	52,750	11,118	8,849	11,674	9,968	55,700	55,750	11,943	9,674	12,532	10,793	58,700	58,750	12,768	10,499	13,447	11,618
52,750	52,800	11,132	8,863	11,688	9,982	55,750	55,800	11,957	9,688	12,548	10,807	58,750	58,800	12,782	10,513	13,463	11,632
52,800	52,850	11,146	8,877	11,702	9,996	55,800	55,850	11,971	9,702	12,563	10,821	58,800	58,850	12,796	10,527	13,478	11,646

2001 Tax Table—Continued **Caution.** Dependents, see the worksheet on page 33.

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
59,000						62,000						65,000					
59,000	59,050	12,851	10,582	13,539	11,701	62,000	62,050	13,676	11,407	14,454	12,526	65,000	65,050	14,501	12,232	15,369	13,351
59,050	59,100	12,864	10,596	13,554	11,714	62,050	62,100	13,689	11,421	14,469	12,539	65,050	65,100	14,514	12,246	15,384	13,364
59,100	59,150	12,878	10,609	13,569	11,728	62,100	62,150	13,703	11,434	14,484	12,553	65,100	65,150	14,528	12,259	15,399	13,378
59,150	59,200	12,892	10,623	13,585	11,742	62,150	62,200	13,717	11,448	14,500	12,567	65,150	65,200	14,542	12,273	15,415	13,392
59,200	59,250	12,906	10,637	13,600	11,756	62,200	62,250	13,731	11,462	14,515	12,581	65,200	65,250	14,556	12,287	15,430	13,406
59,250	59,300	12,919	10,651	13,615	11,769	62,250	62,300	13,744	11,476	14,530	12,594	65,250	65,300	14,569	12,301	15,445	13,419
59,300	59,350	12,933	10,664	13,630	11,783	62,300	62,350	13,758	11,489	14,545	12,608	65,300	65,350	14,583	12,314	15,460	13,433
59,350	59,400	12,947	10,678	13,646	11,797	62,350	62,400	13,772	11,503	14,561	12,622	65,350	65,400	14,597	12,328	15,476	13,447
59,400	59,450	12,961	10,692	13,661	11,811	62,400	62,450	13,786	11,517	14,576	12,636	65,400	65,450	14,611	12,342	15,491	13,461
59,450	59,500	12,974	10,706	13,676	11,824	62,450	62,500	13,799	11,531	14,591	12,649	65,450	65,500	14,624	12,356	15,506	13,474
59,500	59,550	12,988	10,719	13,691	11,838	62,500	62,550	13,813	11,544	14,606	12,663	65,500	65,550	14,638	12,369	15,521	13,488
59,550	59,600	13,002	10,733	13,707	11,852	62,550	62,600	13,827	11,558	14,622	12,677	65,550	65,600	14,653	12,383	15,537	13,502
59,600	59,650	13,016	10,747	13,722	11,866	62,600	62,650	13,841	11,572	14,637	12,691	65,600	65,650	14,668	12,397	15,552	13,516
59,650	59,700	13,029	10,761	13,737	11,879	62,650	62,700	13,854	11,586	14,652	12,704	65,650	65,700	14,683	12,411	15,567	13,529
59,700	59,750	13,043	10,774	13,752	11,893	62,700	62,750	13,868	11,599	14,667	12,718	65,700	65,750	14,698	12,424	15,582	13,543
59,750	59,800	13,057	10,788	13,768	11,907	62,750	62,800	13,882	11,613	14,683	12,732	65,750	65,800	14,714	12,438	15,598	13,557
59,800	59,850	13,071	10,802	13,783	11,921	62,800	62,850	13,896	11,627	14,698	12,746	65,800	65,850	14,729	12,452	15,613	13,571
59,850	59,900	13,084	10,816	13,798	11,934	62,850	62,900	13,909	11,641	14,713	12,759	65,850	65,900	14,744	12,466	15,628	13,584
59,900	59,950	13,098	10,829	13,813	11,948	62,900	62,950	13,923	11,654	14,728	12,773	65,900	65,950	14,759	12,479	15,643	13,598
59,950	60,000	13,112	10,843	13,829	11,962	62,950	63,000	13,937	11,668	14,744	12,787	65,950	66,000	14,775	12,493	15,659	13,612
60,000						63,000						66,000					
60,000	60,050	13,126	10,857	13,844	11,976	63,000	63,050	13,951	11,682	14,759	12,801	66,000	66,050	14,790	12,507	15,674	13,626
60,050	60,100	13,139	10,871	13,859	11,989	63,050	63,100	13,964	11,696	14,774	12,814	66,050	66,100	14,805	12,521	15,689	13,639
60,100	60,150	13,153	10,884	13,874	12,003	63,100	63,150	13,978	11,709	14,789	12,828	66,100	66,150	14,820	12,534	15,704	13,653
60,150	60,200	13,167	10,898	13,890	12,017	63,150	63,200	13,992	11,723	14,805	12,842	66,150	66,200	14,836	12,548	15,720	13,667
60,200	60,250	13,181	10,912	13,905	12,031	63,200	63,250	14,006	11,737	14,820	12,856	66,200	66,250	14,851	12,562	15,735	13,681
60,250	60,300	13,194	10,926	13,920	12,044	63,250	63,300	14,019	11,751	14,835	12,869	66,250	66,300	14,866	12,576	15,750	13,694
60,300	60,350	13,208	10,939	13,935	12,058	63,300	63,350	14,033	11,764	14,850	12,883	66,300	66,350	14,881	12,589	15,765	13,708
60,350	60,400	13,222	10,953	13,951	12,072	63,350	63,400	14,047	11,778	14,866	12,897	66,350	66,400	14,897	12,603	15,781	13,722
60,400	60,450	13,236	10,967	13,966	12,086	63,400	63,450	14,061	11,792	14,881	12,911	66,400	66,450	14,912	12,617	15,796	13,736
60,450	60,500	13,249	10,981	13,981	12,099	63,450	63,500	14,074	11,806	14,896	12,924	66,450	66,500	14,927	12,631	15,811	13,749
60,500	60,550	13,263	10,994	13,996	12,113	63,500	63,550	14,088	11,819	14,911	12,938	66,500	66,550	14,942	12,644	15,826	13,763
60,550	60,600	13,277	11,008	14,012	12,127	63,550	63,600	14,102	11,833	14,927	12,952	66,550	66,600	14,958	12,658	15,842	13,777
60,600	60,650	13,291	11,022	14,027	12,141	63,600	63,650	14,116	11,847	14,942	12,966	66,600	66,650	14,973	12,672	15,857	13,791
60,650	60,700	13,304	11,036	14,042	12,154	63,650	63,700	14,129	11,861	14,957	12,979	66,650	66,700	14,988	12,686	15,872	13,804
60,700	60,750	13,318	11,049	14,057	12,168	63,700	63,750	14,143	11,874	14,972	12,993	66,700	66,750	15,003	12,699	15,887	13,818
60,750	60,800	13,332	11,063	14,073	12,182	63,750	63,800	14,157	11,888	14,988	13,007	66,750	66,800	15,019	12,713	15,903	13,832
60,800	60,850	13,346	11,077	14,088	12,196	63,800	63,850	14,171	11,902	15,003	13,021	66,800	66,850	15,034	12,727	15,918	13,846
60,850	60,900	13,359	11,091	14,103	12,209	63,850	63,900	14,184	11,916	15,018	13,034	66,850	66,900	15,049	12,741	15,933	13,859
60,900	60,950	13,373	11,104	14,118	12,223	63,900	63,950	14,198	11,929	15,033	13,048	66,900	66,950	15,064	12,754	15,948	13,873
60,950	61,000	13,387	11,118	14,134	12,237	63,950	64,000	14,212	11,943	15,049	13,062	66,950	67,000	15,080	12,768	15,964	13,887
61,000						64,000						67,000					
61,000	61,050	13,401	11,132	14,149	12,251	64,000	64,050	14,226	11,957	15,064	13,076	67,000	67,050	15,095	12,782	15,979	13,901
61,050	61,100	13,414	11,146	14,164	12,264	64,050	64,100	14,239	11,971	15,079	13,089	67,050	67,100	15,110	12,796	15,994	13,914
61,100	61,150	13,428	11,159	14,179	12,278	64,100	64,150	14,253	11,984	15,094	13,103	67,100	67,150	15,125	12,809	16,009	13,928
61,150	61,200	13,442	11,173	14,195	12,292	64,150	64,200	14,267	11,998	15,110	13,117	67,150	67,200	15,141	12,823	16,025	13,942
61,200	61,250	13,456	11,187	14,210	12,306	64,200	64,250	14,281	12,012	15,125	13,131	67,200	67,250	15,156	12,837	16,040	13,956
61,250	61,300	13,469	11,201	14,225	12,319	64,250	64,300	14,294	12,026	15,140	13,144	67,250	67,300	15,171	12,851	16,055	13,969
61,300	61,350	13,483	11,214	14,240	12,333	64,300	64,350	14,308	12,039	15,155	13,158	67,300	67,350	15,186	12,864	16,070	13,983
61,350	61,400	13,497	11,228	14,256	12,347	64,350	64,400	14,322	12,053	15,171	13,172	67,350	67,400	15,202	12,878	16,086	13,997
61,400	61,450	13,511	11,242	14,271	12,361	64,400	64,450	14,336	12,067	15,186	13,186	67,400	67,450	15,217	12,892	16,101	14,011
61,450	61,500	13,524	11,256	14,286	12,374	64,450	64,500	14,349	12,081	15,201	13,199	67,450	67,500	15,232	12,906	16,116	14,024
61,500	61,550	13,538	11,269	14,301	12,388	64,500	64,550	14,363	12,094	15,216	13,213	67,500	67,550	15,247	12,919	16,131	14,038
61,550	61,600	13,552	11,283	14,317	12,402	64,550	64,600	14,377	12,108	15,232	13,227	67,550	67,600	15,263	12,933	16,147	14,052
61,600	61,650	13,566	11,297	14,332	12,416	64,600	64,650	14,391	12,122	15,247	13,241	67,600	67,650	15,278	12,947	16,162	14,066
61,650	61,700	13,579	11,311	14,347	12,429	64,650	64,700	14,404	12,136	15,262	13,254	67,650	67,700	15,293	12,961	16,177	14,079
61,700	61,750	13,593	11,324	14,362	12,443	64,700	64,750	14,418	12,149	15,277	13,268	67,700	67,750	15,308	12,974	16,192	14,093
61,750	61,800	13,607	11,338	14,378	12,457	64,750	64,800	14,432	12,163	15,293	13,282	67,750	67,800	15,324	12,988	16,208	14,107
61,800																	

Caution. Dependents, see the worksheet on page 33. **2001 Tax Table—Continued**

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
		Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household
At least	But less than	Your tax is—				At least	But less than	Your tax is—				At least	But less than	Your tax is—			
68,000						71,000						74,000					
68,000	68,050	15,400	13,057	16,284	14,176	71,000	71,050	16,315	13,882	17,199	15,001	74,000	74,050	17,230	14,707	18,114	15,826
68,050	68,100	15,415	13,071	16,299	14,189	71,050	71,100	16,330	13,896	17,214	15,014	74,050	74,100	17,245	14,721	18,129	15,839
68,100	68,150	15,430	13,084	16,314	14,203	71,100	71,150	16,345	13,909	17,229	15,028	74,100	74,150	17,260	14,734	18,144	15,853
68,150	68,200	15,446	13,098	16,330	14,217	71,150	71,200	16,361	13,923	17,245	15,042	74,150	74,200	17,276	14,748	18,160	15,867
68,200	68,250	15,461	13,112	16,345	14,231	71,200	71,250	16,376	13,937	17,260	15,056	74,200	74,250	17,291	14,762	18,175	15,881
68,250	68,300	15,476	13,126	16,360	14,244	71,250	71,300	16,391	13,951	17,275	15,069	74,250	74,300	17,306	14,776	18,190	15,894
68,300	68,350	15,491	13,139	16,375	14,258	71,300	71,350	16,406	13,964	17,290	15,083	74,300	74,350	17,321	14,789	18,205	15,908
68,350	68,400	15,507	13,153	16,391	14,272	71,350	71,400	16,422	13,978	17,306	15,097	74,350	74,400	17,337	14,803	18,221	15,922
68,400	68,450	15,522	13,167	16,406	14,286	71,400	71,450	16,437	13,992	17,321	15,111	74,400	74,450	17,352	14,817	18,236	15,936
68,450	68,500	15,537	13,181	16,421	14,299	71,450	71,500	16,452	14,006	17,336	15,124	74,450	74,500	17,367	14,831	18,251	15,949
68,500	68,550	15,552	13,194	16,436	14,313	71,500	71,550	16,467	14,019	17,351	15,138	74,500	74,550	17,382	14,844	18,266	15,963
68,550	68,600	15,568	13,208	16,452	14,327	71,550	71,600	16,483	14,033	17,367	15,152	74,550	74,600	17,398	14,858	18,282	15,977
68,600	68,650	15,583	13,222	16,467	14,341	71,600	71,650	16,498	14,047	17,382	15,166	74,600	74,650	17,413	14,872	18,297	15,991
68,650	68,700	15,598	13,236	16,482	14,354	71,650	71,700	16,513	14,061	17,397	15,179	74,650	74,700	17,428	14,886	18,312	16,004
68,700	68,750	15,613	13,249	16,497	14,368	71,700	71,750	16,528	14,074	17,412	15,193	74,700	74,750	17,443	14,899	18,327	16,018
68,750	68,800	15,629	13,263	16,513	14,382	71,750	71,800	16,544	14,088	17,428	15,207	74,750	74,800	17,459	14,913	18,343	16,032
68,800	68,850	15,644	13,277	16,528	14,396	71,800	71,850	16,559	14,102	17,443	15,221	74,800	74,850	17,474	14,927	18,358	16,046
68,850	68,900	15,659	13,291	16,543	14,409	71,850	71,900	16,574	14,116	17,458	15,234	74,850	74,900	17,489	14,941	18,373	16,059
68,900	68,950	15,674	13,304	16,558	14,423	71,900	71,950	16,589	14,129	17,473	15,248	74,900	74,950	17,504	14,954	18,388	16,073
68,950	69,000	15,690	13,318	16,574	14,437	71,950	72,000	16,605	14,143	17,489	15,262	74,950	75,000	17,520	14,968	18,404	16,087
69,000						72,000						75,000					
69,000	69,050	15,705	13,332	16,589	14,451	72,000	72,050	16,620	14,157	17,504	15,276	75,000	75,050	17,535	14,982	18,419	16,101
69,050	69,100	15,720	13,346	16,604	14,464	72,050	72,100	16,635	14,171	17,519	15,289	75,050	75,100	17,550	14,996	18,434	16,114
69,100	69,150	15,735	13,359	16,619	14,478	72,100	72,150	16,650	14,184	17,534	15,303	75,100	75,150	17,565	15,009	18,449	16,128
69,150	69,200	15,751	13,373	16,635	14,492	72,150	72,200	16,666	14,198	17,550	15,317	75,150	75,200	17,581	15,023	18,465	16,142
69,200	69,250	15,766	13,387	16,650	14,506	72,200	72,250	16,681	14,212	17,565	15,331	75,200	75,250	17,596	15,037	18,480	16,156
69,250	69,300	15,781	13,401	16,665	14,519	72,250	72,300	16,696	14,226	17,580	15,344	75,250	75,300	17,611	15,051	18,495	16,169
69,300	69,350	15,796	13,414	16,680	14,533	72,300	72,350	16,711	14,239	17,595	15,358	75,300	75,350	17,626	15,064	18,510	16,183
69,350	69,400	15,812	13,428	16,696	14,547	72,350	72,400	16,727	14,253	17,611	15,372	75,350	75,400	17,642	15,078	18,526	16,197
69,400	69,450	15,827	13,442	16,711	14,561	72,400	72,450	16,742	14,267	17,626	15,386	75,400	75,450	17,657	15,092	18,541	16,211
69,450	69,500	15,842	13,456	16,726	14,574	72,450	72,500	16,757	14,281	17,641	15,399	75,450	75,500	17,672	15,106	18,556	16,224
69,500	69,550	15,857	13,469	16,741	14,588	72,500	72,550	16,772	14,294	17,656	15,413	75,500	75,550	17,687	15,119	18,571	16,238
69,550	69,600	15,873	13,483	16,757	14,602	72,550	72,600	16,788	14,308	17,672	15,427	75,550	75,600	17,703	15,133	18,587	16,252
69,600	69,650	15,888	13,497	16,772	14,616	72,600	72,650	16,803	14,322	17,687	15,441	75,600	75,650	17,718	15,147	18,602	16,266
69,650	69,700	15,903	13,511	16,787	14,629	72,650	72,700	16,818	14,336	17,702	15,454	75,650	75,700	17,733	15,161	18,617	16,279
69,700	69,750	15,918	13,524	16,802	14,643	72,700	72,750	16,833	14,349	17,717	15,468	75,700	75,750	17,748	15,174	18,632	16,293
69,750	69,800	15,934	13,538	16,818	14,657	72,750	72,800	16,849	14,363	17,733	15,482	75,750	75,800	17,764	15,188	18,648	16,307
69,800	69,850	15,949	13,552	16,833	14,671	72,800	72,850	16,864	14,377	17,748	15,496	75,800	75,850	17,779	15,202	18,663	16,321
69,850	69,900	15,964	13,566	16,848	14,684	72,850	72,900	16,879	14,391	17,763	15,509	75,850	75,900	17,794	15,216	18,678	16,334
69,900	69,950	15,979	13,579	16,863	14,698	72,900	72,950	16,894	14,404	17,778	15,523	75,900	75,950	17,809	15,229	18,693	16,348
69,950	70,000	15,995	13,593	16,879	14,712	72,950	73,000	16,910	14,418	17,794	15,537	75,950	76,000	17,825	15,243	18,709	16,362
70,000						73,000						76,000					
70,000	70,050	16,010	13,607	16,894	14,726	73,000	73,050	16,925	14,432	17,809	15,551	76,000	76,050	17,840	15,257	18,724	16,376
70,050	70,100	16,025	13,621	16,909	14,739	73,050	73,100	16,940	14,446	17,824	15,564	76,050	76,100	17,855	15,271	18,739	16,389
70,100	70,150	16,040	13,634	16,924	14,753	73,100	73,150	16,955	14,459	17,839	15,578	76,100	76,150	17,870	15,284	18,754	16,403
70,150	70,200	16,056	13,648	16,940	14,767	73,150	73,200	16,971	14,473	17,855	15,592	76,150	76,200	17,886	15,298	18,770	16,417
70,200	70,250	16,071	13,662	16,955	14,781	73,200	73,250	16,986	14,487	17,870	15,606	76,200	76,250	17,901	15,312	18,785	16,431
70,250	70,300	16,086	13,676	16,970	14,794	73,250	73,300	17,001	14,501	17,885	15,619	76,250	76,300	17,916	15,326	18,800	16,444
70,300	70,350	16,101	13,689	16,985	14,808	73,300	73,350	17,016	14,514	17,900	15,633	76,300	76,350	17,931	15,339	18,815	16,458
70,350	70,400	16,117	13,703	17,001	14,822	73,350	73,400	17,032	14,528	17,916	15,647	76,350	76,400	17,947	15,353	18,831	16,472
70,400	70,450	16,132	13,717	17,016	14,836	73,400	73,450	17,047	14,542	17,931	15,661	76,400	76,450	17,962	15,367	18,846	16,486
70,450	70,500	16,147	13,731	17,031	14,849	73,450	73,500	17,062	14,556	17,946	15,674	76,450	76,500	17,977	15,381	18,861	16,499
70,500	70,550	16,162	13,744	17,046	14,863	73,500	73,550	17,077	14,569	17,961	15,688	76,500	76,550	17,992	15,394	18,876	16,513
70,550	70,600	16,178	13,758	17,062	14,877	73,550	73,600	17,093	14,583	17,977	15,702	76,550	76,600	18,008	15,408	18,892	16,527
70,600	70,650	16,193	13,772	17,077	14,891	73,600	73,650	17,108	14,597	17,992	15,716	76,600	76,650	18,023	15,422	18,907	16,541
70,650	70,700	16,208	13,786	17,092	14,904	73,650	73,700	17,123	14,611	18,007	15,729	76,650	76,700	18,038	15,436	18,922	16,554
70,700	70,750	16,223	13,799	17,107	14,918	73,700	73,750	17,138	14,624	18,022	15,743	76,700	76,750	18,053	15,449	18,937	16,568
70,750	70,800	16,239	13,813	17,123	14,932	73,750	73,800	17,154	14,638	18,038	15,757	76,750	76,800	18,069	15,463	18,953	16,582
70,800	70																

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
77,000						80,000						83,000					
77,000	77,050	18,145	15,532	19,029	16,651	80,000	80,050	19,060	16,357	19,944	17,476	83,000	83,050	19,975	17,182	20,859	18,301
77,050	77,100	18,160	15,546	19,044	16,664	80,050	80,100	19,075	16,371	19,959	17,489	83,050	83,100	19,990	17,196	20,874	18,314
77,100	77,150	18,175	15,559	19,059	16,678	80,100	80,150	19,090	16,384	19,974	17,503	83,100	83,150	20,005	17,209	20,889	18,328
77,150	77,200	18,191	15,573	19,075	16,692	80,150	80,200	19,106	16,398	19,990	17,517	83,150	83,200	20,021	17,223	20,905	18,342
77,200	77,250	18,206	15,587	19,090	16,706	80,200	80,250	19,121	16,412	20,005	17,531	83,200	83,250	20,036	17,237	20,920	18,356
77,250	77,300	18,221	15,601	19,105	16,719	80,250	80,300	19,136	16,426	20,020	17,544	83,250	83,300	20,051	17,251	20,936	18,369
77,300	77,350	18,236	15,614	19,120	16,733	80,300	80,350	19,151	16,439	20,035	17,558	83,300	83,350	20,066	17,264	20,954	18,383
77,350	77,400	18,252	15,628	19,136	16,747	80,350	80,400	19,167	16,453	20,051	17,572	83,350	83,400	20,082	17,278	20,972	18,397
77,400	77,450	18,267	15,642	19,151	16,761	80,400	80,450	19,182	16,467	20,066	17,586	83,400	83,450	20,097	17,292	20,990	18,411
77,450	77,500	18,282	15,656	19,166	16,774	80,450	80,500	19,197	16,481	20,081	17,599	83,450	83,500	20,112	17,306	21,007	18,424
77,500	77,550	18,297	15,669	19,181	16,788	80,500	80,550	19,212	16,494	20,096	17,613	83,500	83,550	20,127	17,319	21,025	18,438
77,550	77,600	18,313	15,683	19,197	16,802	80,550	80,600	19,228	16,508	20,112	17,627	83,550	83,600	20,143	17,333	21,043	18,452
77,600	77,650	18,328	15,697	19,212	16,816	80,600	80,650	19,243	16,522	20,127	17,641	83,600	83,650	20,158	17,347	21,061	18,466
77,650	77,700	18,343	15,711	19,227	16,829	80,650	80,700	19,258	16,536	20,142	17,654	83,650	83,700	20,173	17,361	21,078	18,479
77,700	77,750	18,358	15,724	19,242	16,843	80,700	80,750	19,273	16,549	20,157	17,668	83,700	83,750	20,188	17,374	21,096	18,493
77,750	77,800	18,374	15,738	19,258	16,857	80,750	80,800	19,289	16,563	20,173	17,682	83,750	83,800	20,204	17,388	21,114	18,507
77,800	77,850	18,389	15,752	19,273	16,871	80,800	80,850	19,304	16,577	20,188	17,696	83,800	83,850	20,219	17,402	21,132	18,521
77,850	77,900	18,404	15,766	19,288	16,884	80,850	80,900	19,319	16,591	20,203	17,709	83,850	83,900	20,234	17,416	21,149	18,534
77,900	77,950	18,419	15,779	19,303	16,898	80,900	80,950	19,334	16,604	20,218	17,723	83,900	83,950	20,249	17,429	21,167	18,548
77,950	78,000	18,435	15,793	19,319	16,912	80,950	81,000	19,350	16,618	20,234	17,737	83,950	84,000	20,265	17,443	21,185	18,562
78,000						81,000						84,000					
78,000	78,050	18,450	15,807	19,334	16,926	81,000	81,050	19,365	16,632	20,249	17,751	84,000	84,050	20,280	17,457	21,203	18,576
78,050	78,100	18,465	15,821	19,349	16,939	81,050	81,100	19,380	16,646	20,264	17,764	84,050	84,100	20,295	17,471	21,220	18,589
78,100	78,150	18,480	15,834	19,364	16,953	81,100	81,150	19,395	16,659	20,279	17,778	84,100	84,150	20,310	17,484	21,238	18,603
78,150	78,200	18,496	15,848	19,380	16,967	81,150	81,200	19,411	16,673	20,295	17,792	84,150	84,200	20,326	17,498	21,256	18,617
78,200	78,250	18,511	15,862	19,395	16,981	81,200	81,250	19,426	16,687	20,310	17,806	84,200	84,250	20,341	17,512	21,274	18,631
78,250	78,300	18,526	15,876	19,410	16,994	81,250	81,300	19,441	16,701	20,325	17,819	84,250	84,300	20,356	17,526	21,291	18,644
78,300	78,350	18,541	15,889	19,425	17,008	81,300	81,350	19,456	16,714	20,340	17,833	84,300	84,350	20,371	17,539	21,309	18,658
78,350	78,400	18,557	15,903	19,441	17,022	81,350	81,400	19,472	16,728	20,356	17,847	84,350	84,400	20,387	17,553	21,327	18,672
78,400	78,450	18,572	15,917	19,456	17,036	81,400	81,450	19,487	16,742	20,371	17,861	84,400	84,450	20,402	17,567	21,345	18,686
78,450	78,500	18,587	15,931	19,471	17,049	81,450	81,500	19,502	16,756	20,386	17,874	84,450	84,500	20,417	17,581	21,362	18,699
78,500	78,550	18,602	15,944	19,486	17,063	81,500	81,550	19,517	16,769	20,401	17,888	84,500	84,550	20,432	17,594	21,380	18,713
78,550	78,600	18,618	15,958	19,502	17,077	81,550	81,600	19,533	16,783	20,417	17,902	84,550	84,600	20,448	17,608	21,398	18,727
78,600	78,650	18,633	15,972	19,517	17,091	81,600	81,650	19,548	16,797	20,432	17,916	84,600	84,650	20,463	17,622	21,416	18,741
78,650	78,700	18,648	15,986	19,532	17,104	81,650	81,700	19,563	16,811	20,447	17,929	84,650	84,700	20,478	17,636	21,433	18,754
78,700	78,750	18,663	15,999	19,547	17,118	81,700	81,750	19,578	16,824	20,462	17,943	84,700	84,750	20,493	17,649	21,451	18,768
78,750	78,800	18,679	16,013	19,563	17,132	81,750	81,800	19,594	16,838	20,478	17,957	84,750	84,800	20,509	17,663	21,469	18,782
78,800	78,850	18,694	16,027	19,578	17,146	81,800	81,850	19,609	16,852	20,493	17,971	84,800	84,850	20,524	17,677	21,487	18,796
78,850	78,900	18,709	16,041	19,593	17,159	81,850	81,900	19,624	16,866	20,508	17,984	84,850	84,900	20,539	17,691	21,504	18,809
78,900	78,950	18,724	16,054	19,608	17,173	81,900	81,950	19,639	16,879	20,523	17,998	84,900	84,950	20,554	17,704	21,522	18,823
78,950	79,000	18,740	16,068	19,624	17,187	81,950	82,000	19,655	16,893	20,539	18,012	84,950	85,000	20,570	17,718	21,540	18,837
79,000						82,000						85,000					
79,000	79,050	18,755	16,082	19,639	17,201	82,000	82,050	19,670	16,907	20,554	18,026	85,000	85,050	20,585	17,732	21,558	18,851
79,050	79,100	18,770	16,096	19,654	17,214	82,050	82,100	19,685	16,921	20,569	18,039	85,050	85,100	20,600	17,746	21,575	18,864
79,100	79,150	18,785	16,109	19,669	17,228	82,100	82,150	19,700	16,934	20,584	18,053	85,100	85,150	20,615	17,759	21,593	18,878
79,150	79,200	18,801	16,123	19,685	17,242	82,150	82,200	19,716	16,948	20,600	18,067	85,150	85,200	20,631	17,773	21,611	18,892
79,200	79,250	18,816	16,137	19,700	17,256	82,200	82,250	19,731	16,962	20,615	18,081	85,200	85,250	20,646	17,787	21,629	18,906
79,250	79,300	18,831	16,151	19,715	17,269	82,250	82,300	19,746	16,976	20,630	18,094	85,250	85,300	20,661	17,801	21,646	18,919
79,300	79,350	18,846	16,164	19,730	17,283	82,300	82,350	19,761	16,989	20,645	18,108	85,300	85,350	20,676	17,814	21,664	18,933
79,350	79,400	18,862	16,178	19,746	17,297	82,350	82,400	19,777	17,003	20,661	18,122	85,350	85,400	20,692	17,828	21,682	18,947
79,400	79,450	18,877	16,192	19,761	17,311	82,400	82,450	19,792	17,017	20,676	18,136	85,400	85,450	20,707	17,842	21,700	18,961
79,450	79,500	18,892	16,206	19,776	17,324	82,450	82,500	19,807	17,031	20,691	18,149	85,450	85,500	20,722	17,856	21,717	18,974
79,500	79,550	18,907	16,219	19,791	17,338	82,500	82,550	19,822	17,044	20,706	18,163	85,500	85,550	20,737	17,869	21,735	18,988
79,550	79,600	18,923	16,233	19,807	17,352	82,550	82,600	19,838	17,058	20,722	18,177	85,550	85,600	20,753	17,883	21,753	19,002
79,600	79,650	18,938	16,247	19,822	17,366	82,600	82,650	19,853	17,072	20,737	18,191	85,600	85,650	20,768	17,897	21,771	19,016
79,650	79,700	18,953	16,261	19,837	17,379	82,650	82,700	19,868	17,086	20,752	18,204	85,650	85,700	20,783	17,911	21,788	19,029
79,700	79,750	18,968	16,274	19,852	17,393	82,700	82,750	19,883	17,099	20,767	18,218	85,700	85,750	20,798	17,924	21,806	19,043
79,750	79,800	18,984	16,288	19,868	17,407	82,750	82,800	19,899	17,113	20,783	18,232	85,750	85,800	20,814	17,938	21,824	

Caution. Dependents, see the worksheet on page 33. **2001 Tax Table—Continued**

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
		Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household
At least	But less than	Your tax is—				At least	But less than	Your tax is—				At least	But less than	Your tax is—			
86,000						89,000						92,000					
86,000	86,050	20,890	18,007	21,913	19,126	89,000	89,050	21,805	18,832	22,978	19,951	92,000	92,050	22,720	19,657	24,043	20,776
86,050	86,100	20,905	18,021	21,930	19,139	89,050	89,100	21,820	18,846	22,995	19,964	92,050	92,100	22,735	19,671	24,060	20,789
86,100	86,150	20,920	18,034	21,948	19,153	89,100	89,150	21,835	18,859	23,013	19,978	92,100	92,150	22,750	19,684	24,078	20,803
86,150	86,200	20,936	18,048	21,966	19,167	89,150	89,200	21,851	18,873	23,031	19,992	92,150	92,200	22,766	19,698	24,096	20,817
86,200	86,250	20,951	18,062	21,984	19,181	89,200	89,250	21,866	18,887	23,049	20,006	92,200	92,250	22,781	19,712	24,114	20,831
86,250	86,300	20,966	18,076	22,001	19,194	89,250	89,300	21,881	18,901	23,066	20,019	92,250	92,300	22,796	19,726	24,131	20,844
86,300	86,350	20,981	18,089	22,019	19,208	89,300	89,350	21,896	18,914	23,084	20,033	92,300	92,350	22,811	19,739	24,149	20,858
86,350	86,400	20,997	18,103	22,037	19,222	89,350	89,400	21,912	18,928	23,102	20,047	92,350	92,400	22,827	19,753	24,167	20,872
86,400	86,450	21,012	18,117	22,055	19,236	89,400	89,450	21,927	18,942	23,120	20,061	92,400	92,450	22,842	19,767	24,185	20,886
86,450	86,500	21,027	18,131	22,072	19,249	89,450	89,500	21,942	18,956	23,137	20,074	92,450	92,500	22,857	19,781	24,202	20,899
86,500	86,550	21,042	18,144	22,090	19,263	89,500	89,550	21,957	18,969	23,155	20,088	92,500	92,550	22,872	19,794	24,220	20,913
86,550	86,600	21,058	18,158	22,108	19,277	89,550	89,600	21,973	18,983	23,173	20,102	92,550	92,600	22,888	19,808	24,238	20,927
86,600	86,650	21,073	18,172	22,126	19,291	89,600	89,650	21,988	18,997	23,191	20,116	92,600	92,650	22,903	19,822	24,256	20,941
86,650	86,700	21,088	18,186	22,143	19,304	89,650	89,700	22,003	19,011	23,208	20,129	92,650	92,700	22,918	19,836	24,273	20,954
86,700	86,750	21,103	18,199	22,161	19,318	89,700	89,750	22,018	19,024	23,226	20,143	92,700	92,750	22,933	19,849	24,291	20,968
86,750	86,800	21,119	18,213	22,179	19,332	89,750	89,800	22,034	19,038	23,244	20,157	92,750	92,800	22,949	19,863	24,309	20,982
86,800	86,850	21,134	18,227	22,197	19,346	89,800	89,850	22,049	19,052	23,262	20,171	92,800	92,850	22,964	19,877	24,327	20,996
86,850	86,900	21,149	18,241	22,214	19,359	89,850	89,900	22,064	19,066	23,279	20,184	92,850	92,900	22,979	19,891	24,344	21,009
86,900	86,950	21,164	18,254	22,232	19,373	89,900	89,950	22,079	19,079	23,297	20,198	92,900	92,950	22,994	19,904	24,362	21,023
86,950	87,000	21,180	18,268	22,250	19,387	89,950	90,000	22,095	19,093	23,315	20,212	92,950	93,000	23,010	19,918	24,380	21,037
87,000						90,000						93,000					
87,000	87,050	21,195	18,282	22,268	19,401	90,000	90,050	22,110	19,107	23,333	20,226	93,000	93,050	23,025	19,932	24,398	21,051
87,050	87,100	21,210	18,296	22,285	19,414	90,050	90,100	22,125	19,121	23,350	20,239	93,050	93,100	23,040	19,946	24,415	21,064
87,100	87,150	21,225	18,309	22,303	19,428	90,100	90,150	22,140	19,134	23,368	20,253	93,100	93,150	23,055	19,959	24,433	21,078
87,150	87,200	21,241	18,323	22,321	19,442	90,150	90,200	22,156	19,148	23,386	20,267	93,150	93,200	23,071	19,973	24,451	21,092
87,200	87,250	21,256	18,337	22,339	19,456	90,200	90,250	22,171	19,162	23,404	20,281	93,200	93,250	23,086	19,987	24,469	21,106
87,250	87,300	21,271	18,351	22,356	19,469	90,250	90,300	22,186	19,176	23,421	20,294	93,250	93,300	23,101	20,001	24,486	21,119
87,300	87,350	21,286	18,364	22,374	19,483	90,300	90,350	22,201	19,189	23,439	20,308	93,300	93,350	23,116	20,014	24,504	21,133
87,350	87,400	21,302	18,378	22,392	19,497	90,350	90,400	22,217	19,203	23,457	20,322	93,350	93,400	23,132	20,028	24,522	21,147
87,400	87,450	21,317	18,392	22,410	19,511	90,400	90,450	22,232	19,217	23,475	20,336	93,400	93,450	23,147	20,042	24,540	21,161
87,450	87,500	21,332	18,406	22,427	19,524	90,450	90,500	22,247	19,231	23,492	20,349	93,450	93,500	23,162	20,056	24,557	21,174
87,500	87,550	21,347	18,419	22,445	19,538	90,500	90,550	22,262	19,244	23,510	20,363	93,500	93,550	23,177	20,069	24,575	21,188
87,550	87,600	21,363	18,433	22,463	19,552	90,550	90,600	22,278	19,258	23,528	20,377	93,550	93,600	23,193	20,083	24,593	21,202
87,600	87,650	21,378	18,447	22,481	19,566	90,600	90,650	22,293	19,272	23,546	20,391	93,600	93,650	23,208	20,097	24,611	21,216
87,650	87,700	21,393	18,461	22,498	19,579	90,650	90,700	22,308	19,286	23,563	20,404	93,650	93,700	23,223	20,111	24,628	21,230
87,700	87,750	21,408	18,474	22,516	19,593	90,700	90,750	22,323	19,299	23,581	20,418	93,700	93,750	23,238	20,124	24,646	21,245
87,750	87,800	21,424	18,488	22,534	19,607	90,750	90,800	22,339	19,313	23,599	20,432	93,750	93,800	23,254	20,138	24,664	21,261
87,800	87,850	21,439	18,502	22,552	19,621	90,800	90,850	22,354	19,327	23,617	20,446	93,800	93,850	23,269	20,152	24,682	21,276
87,850	87,900	21,454	18,516	22,569	19,634	90,850	90,900	22,369	19,341	23,634	20,459	93,850	93,900	23,284	20,166	24,699	21,291
87,900	87,950	21,469	18,529	22,587	19,648	90,900	90,950	22,384	19,354	23,652	20,473	93,900	93,950	23,299	20,179	24,717	21,306
87,950	88,000	21,485	18,543	22,605	19,662	90,950	91,000	22,400	19,368	23,670	20,487	93,950	94,000	23,315	20,193	24,735	21,322
88,000						91,000						94,000					
88,000	88,050	21,500	18,557	22,623	19,676	91,000	91,050	22,415	19,382	23,688	20,501	94,000	94,050	23,330	20,207	24,753	21,337
88,050	88,100	21,515	18,571	22,640	19,689	91,050	91,100	22,430	19,396	23,705	20,514	94,050	94,100	23,345	20,221	24,770	21,352
88,100	88,150	21,530	18,584	22,658	19,703	91,100	91,150	22,445	19,409	23,723	20,528	94,100	94,150	23,360	20,234	24,788	21,367
88,150	88,200	21,546	18,598	22,676	19,717	91,150	91,200	22,461	19,423	23,741	20,542	94,150	94,200	23,376	20,248	24,806	21,383
88,200	88,250	21,561	18,612	22,694	19,731	91,200	91,250	22,476	19,437	23,759	20,556	94,200	94,250	23,391	20,262	24,824	21,398
88,250	88,300	21,576	18,626	22,711	19,744	91,250	91,300	22,491	19,451	23,776	20,569	94,250	94,300	23,406	20,276	24,841	21,413
88,300	88,350	21,591	18,639	22,729	19,758	91,300	91,350	22,506	19,464	23,794	20,583	94,300	94,350	23,421	20,289	24,859	21,428
88,350	88,400	21,607	18,653	22,747	19,772	91,350	91,400	22,522	19,478	23,812	20,597	94,350	94,400	23,437	20,303	24,877	21,444
88,400	88,450	21,622	18,667	22,765	19,786	91,400	91,450	22,537	19,492	23,830	20,611	94,400	94,450	23,452	20,317	24,895	21,459
88,450	88,500	21,637	18,681	22,782	19,799	91,450	91,500	22,552	19,506	23,847	20,624	94,450	94,500	23,467	20,331	24,912	21,474
88,500	88,550	21,652	18,694	22,800	19,813	91,500	91,550	22,567	19,519	23,865	20,638	94,500	94,550	23,482	20,344	24,930	21,489
88,550	88,600	21,668	18,708	22,818	19,827	91,550	91,600	22,583	19,533	23,883	20,652	94,550	94,600	23,498	20,358	24,948	21,505
88,600	88,650	21,683	18,722	22,836	19,841	91,600	91,650	22,598	19,547	23,901	20,666	94,600	94,650	23,513	20,372	24,966	21,520
88,650	88,700	21,698	18,736	22,853	19,854	91,650	91,700	22,613	19,561	23,918	20,679	94,650	94,700	23,528	20,386	24,983	21,535
88,700	88,750	21,713	18,749	22,871	19,868	91,700	91,750	22,628	19,574	23,936	20,693	94,700	94,750	23,543	20,399	25,001	21,550
88,750	88,800	21,729	18,763	22,889	19,882	91,750	91,800	22,644	19,588	23,954	20,707	94,750	94,800	23,559	20,413	25,019	21,566
88,800	88																

2001 Tax Table—Continued Caution. Dependents, see the worksheet on page 33.

If line 39 (taxable income) is—		And you are—				If line 39 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—			
95,000						98,000					
95,000	95,050	23,635	20,482	25,108	21,642	98,000	98,050	24,550	21,307	26,173	22,557
95,050	95,100	23,650	20,496	25,125	21,657	98,050	98,100	24,565	21,321	26,190	22,572
95,100	95,150	23,665	20,509	25,143	21,672	98,100	98,150	24,580	21,334	26,208	22,587
95,150	95,200	23,681	20,523	25,161	21,688	98,150	98,200	24,596	21,348	26,226	22,603
95,200	95,250	23,696	20,537	25,179	21,703	98,200	98,250	24,611	21,362	26,244	22,618
95,250	95,300	23,711	20,551	25,196	21,718	98,250	98,300	24,626	21,376	26,261	22,633
95,300	95,350	23,726	20,564	25,214	21,733	98,300	98,350	24,641	21,389	26,279	22,648
95,350	95,400	23,742	20,578	25,232	21,749	98,350	98,400	24,657	21,403	26,297	22,664
95,400	95,450	23,757	20,592	25,250	21,764	98,400	98,450	24,672	21,417	26,315	22,679
95,450	95,500	23,772	20,606	25,267	21,779	98,450	98,500	24,687	21,431	26,332	22,694
95,500	95,550	23,787	20,619	25,285	21,794	98,500	98,550	24,702	21,444	26,350	22,709
95,550	95,600	23,803	20,633	25,303	21,810	98,550	98,600	24,718	21,458	26,368	22,725
95,600	95,650	23,818	20,647	25,321	21,825	98,600	98,650	24,733	21,472	26,386	22,740
95,650	95,700	23,833	20,661	25,338	21,840	98,650	98,700	24,748	21,486	26,403	22,755
95,700	95,750	23,848	20,674	25,356	21,855	98,700	98,750	24,763	21,499	26,421	22,770
95,750	95,800	23,864	20,688	25,374	21,871	98,750	98,800	24,779	21,513	26,439	22,786
95,800	95,850	23,879	20,702	25,392	21,886	98,800	98,850	24,794	21,527	26,457	22,801
95,850	95,900	23,894	20,716	25,409	21,901	98,850	98,900	24,809	21,541	26,474	22,816
95,900	95,950	23,909	20,729	25,427	21,916	98,900	98,950	24,824	21,554	26,492	22,831
95,950	96,000	23,925	20,743	25,445	21,932	98,950	99,000	24,840	21,568	26,510	22,847
96,000						99,000					
96,000	96,050	23,940	20,757	25,463	21,947	99,000	99,050	24,855	21,582	26,528	22,862
96,050	96,100	23,955	20,771	25,480	21,962	99,050	99,100	24,870	21,596	26,545	22,877
96,100	96,150	23,970	20,784	25,498	21,977	99,100	99,150	24,885	21,609	26,563	22,892
96,150	96,200	23,986	20,798	25,516	21,993	99,150	99,200	24,901	21,623	26,581	22,908
96,200	96,250	24,001	20,812	25,534	22,008	99,200	99,250	24,916	21,637	26,599	22,923
96,250	96,300	24,016	20,826	25,551	22,023	99,250	99,300	24,931	21,651	26,616	22,938
96,300	96,350	24,031	20,839	25,569	22,038	99,300	99,350	24,946	21,664	26,634	22,953
96,350	96,400	24,047	20,853	25,587	22,054	99,350	99,400	24,962	21,678	26,652	22,969
96,400	96,450	24,062	20,867	25,605	22,069	99,400	99,450	24,977	21,692	26,670	22,984
96,450	96,500	24,077	20,881	25,622	22,084	99,450	99,500	24,992	21,706	26,687	22,999
96,500	96,550	24,092	20,894	25,640	22,099	99,500	99,550	25,007	21,719	26,705	23,014
96,550	96,600	24,108	20,908	25,658	22,115	99,550	99,600	25,023	21,733	26,723	23,030
96,600	96,650	24,123	20,922	25,676	22,130	99,600	99,650	25,038	21,747	26,741	23,045
96,650	96,700	24,138	20,936	25,693	22,145	99,650	99,700	25,053	21,761	26,758	23,060
96,700	96,750	24,153	20,949	25,711	22,160	99,700	99,750	25,068	21,774	26,776	23,075
96,750	96,800	24,169	20,963	25,729	22,176	99,750	99,800	25,084	21,788	26,794	23,091
96,800	96,850	24,184	20,977	25,747	22,191	99,800	99,850	25,099	21,802	26,812	23,106
96,850	96,900	24,199	20,991	25,764	22,206	99,850	99,900	25,114	21,816	26,829	23,121
96,900	96,950	24,214	21,004	25,782	22,221	99,900	99,950	25,129	21,829	26,847	23,136
96,950	97,000	24,230	21,018	25,800	22,237	99,950	100,000	25,145	21,843	26,865	23,152
97,000						<div style="border: 1px solid black; border-radius: 50%; padding: 20px; width: fit-content; margin: 0 auto;"> <p>\$100,000 or over — use the Tax Rate Schedules on page 71</p> </div>					
97,000	97,050	24,245	21,032	25,818	22,252						
97,050	97,100	24,260	21,046	25,835	22,267						
97,100	97,150	24,275	21,059	25,853	22,282						
97,150	97,200	24,291	21,073	25,871	22,298						
97,200	97,250	24,306	21,087	25,889	22,313						
97,250	97,300	24,321	21,101	25,906	22,328						
97,300	97,350	24,336	21,114	25,924	22,343						
97,350	97,400	24,352	21,128	25,942	22,359						
97,400	97,450	24,367	21,142	25,960	22,374						
97,450	97,500	24,382	21,156	25,977	22,389						
97,500	97,550	24,397	21,169	25,995	22,404						
97,550	97,600	24,413	21,183	26,013	22,420						
97,600	97,650	24,428	21,197	26,031	22,435						
97,650	97,700	24,443	21,211	26,048	22,450						
97,700	97,750	24,458	21,224	26,066	22,465						
97,750	97,800	24,474	21,238	26,084	22,481						
97,800	97,850	24,489	21,252	26,102	22,496						
97,850	97,900	24,504	21,266	26,119	22,511						
97,900	97,950	24,519	21,279	26,137	22,526						
97,950	98,000	24,535	21,293	26,155	22,542						

* This column must also be used by a qualifying widow(er).

2001 Tax Rate Schedules



Use **only** if your taxable income (Form 1040, line 39) is \$100,000 or more. If less, use the **Tax Table**. Even though you cannot use the Tax Rate Schedules below if your taxable income is less than \$100,000, all levels of taxable income are shown so taxpayers can see the tax rate that applies to each level.

Schedule X—Use if your filing status is **Single**

If the amount on Form 1040, line 39, is: <i>Over-</i>	<i>But not over-</i>	Enter on Form 1040, line 40	<i>of the amount over-</i>
\$0	\$27,050	..... 15%	\$0
27,050	65,550	\$4,057.50 + 27.5%	27,050
65,550	136,750	14,645.00 + 30.5%	65,550
136,750	297,350	36,361.00 + 35.5%	136,750
297,350	.....	93,374.00 + 39.1%	297,350

Schedule Y-1—Use if your filing status is **Married filing jointly** or **Qualifying widow(er)**

If the amount on Form 1040, line 39, is: <i>Over-</i>	<i>But not over-</i>	Enter on Form 1040, line 40	<i>of the amount over-</i>
\$0	\$45,200	..... 15%	\$0
45,200	109,250	\$6,780.00 + 27.5%	45,200
109,250	166,500	24,393.75 + 30.5%	109,250
166,500	297,350	41,855.00 + 35.5%	166,500
297,350	.....	88,306.75 + 39.1%	297,350

Schedule Y-2—Use if your filing status is **Married filing separately**

If the amount on Form 1040, line 39, is: <i>Over-</i>	<i>But not over-</i>	Enter on Form 1040, line 40	<i>of the amount over-</i>
\$0	\$22,600	..... 15%	\$0
22,600	54,625	\$3,390.00 + 27.5%	22,600
54,625	83,250	12,196.88 + 30.5%	54,625
83,250	148,675	20,927.50 + 35.5%	83,250
148,675	.....	44,153.38 + 39.1%	148,675

Schedule Z—Use if your filing status is **Head of household**

If the amount on Form 1040, line 39, is: <i>Over-</i>	<i>But not over-</i>	Enter on Form 1040, line 40	<i>of the amount over-</i>
\$0	\$36,250	..... 15%	\$0
36,250	93,650	\$5,437.50 + 27.5%	36,250
93,650	151,650	21,222.50 + 30.5%	93,650
151,650	297,350	38,912.50 + 35.5%	151,650
297,350	.....	90,636.00 + 39.1%	297,350



Dependents,
see the
worksheet
on page 33.

Disclosure, Privacy Act, and Paperwork Reduction Act Notice

The IRS Restructuring and Reform Act of 1998, the Privacy Act of 1974, and Paperwork Reduction Act of 1980 require that when we ask you for information we must first tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it and whether your response is voluntary, required to obtain a benefit, or mandatory under the law.

This notice applies to all papers you file with us, including this tax return. It also applies to any questions we need to ask you so we can complete, correct, or process your return; figure your tax; and collect tax, interest, or penalties.

Our legal right to ask for information is Internal Revenue Code sections 6001, 6011, and 6012(a) and their regulations. They say that you must file a return or statement with us for any tax you are liable for. Your response is mandatory under these sections. Code section 6109 requires that you provide your social security number or individual taxpayer identification number on what you file. This is so we know who you are, and can process your return and other papers. You must fill in all parts of the tax form that apply to you. But you do not have to check the boxes for the Presidential Election Campaign Fund or for the third-party designee. You also do not have to provide your daytime phone number.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become

material in the administration of any Internal Revenue law.

We ask for tax return information to carry out the tax laws of the United States. We need it to figure and collect the right amount of tax.

If you do not file a return, do not provide the information we ask for, or provide fraudulent information, you may be charged penalties and be subject to criminal prosecution. We may also have to disallow the exemptions, exclusions, credits, deductions, or adjustments shown on the tax return. This could make the tax higher or delay any refund. Interest may also be charged.

Generally, tax returns and return information are confidential, as stated in Code section 6103. However, Code section 6103 allows or requires the Internal Revenue Service to disclose or give the information shown on your tax return to others as described in the Code. For example, we may disclose your tax information to the Department of Justice, to enforce the tax laws, both civil and criminal, and to cities, states, the District of Columbia, U.S. commonwealths or possessions, and certain foreign governments to carry out their tax laws. We may disclose your tax information to the Department of Treasury and contractors for tax administration purposes; and to other persons as necessary to obtain information which we cannot get in any other way in order to determine the amount of or to collect the tax you owe. We may disclose your tax information to the Comptroller General of the United States to permit the Comptroller General to review the Internal Revenue Service. We may also disclose your tax information to Committees of Congress; Federal, state, and local child support agencies; and to

other Federal agencies for the purposes of determining entitlement for benefits or the eligibility for and the repayment of loans.

Please keep this notice with your records. It may help you if we ask you for other information. If you have questions about the rules for filing and giving information, please call or visit any Internal Revenue Service office.

The Time It Takes To Prepare Your Return

We try to create forms and instructions that can be easily understood. Often this is difficult to do because our tax laws are very complex. For some people with income mostly from wages, filling in the forms is easy. For others who have businesses, pensions, stocks, rental income, or other investments, it is more difficult.

We Welcome Comments on Forms

If you have comments concerning the accuracy of the time estimates shown below or suggestions for making these forms simpler, we would be happy to hear from you. You can e-mail us your suggestions and comments through the [IRS Internet Home Page \(www.irs.gov/help/email2.html\)](http://www.irs.gov/help/email2.html) or write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send your return to this address. Instead, see the back cover.

Estimated Preparation Time

The time needed to complete and file Form 1040, its schedules, and accompanying worksheets will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to the IRS	Totals
Form 1040	2 hr., 46 min.	3 hr., 30 min.	6 hr., 37 min.	34 min.	13 hr., 27 min.
Sch. A	3 hr., 4 min.	39 min.	1 hr., 34 min.	20 min.	5 hr., 37 min.
Sch. B	33 min.	8 min.	25 min.	20 min.	1 hr., 26 min.
Sch. C	6 hr., 4 min.	1 hr., 31 min.	2 hr., 19 min.	41 min.	10 hr., 35 min.
Sch. C-EZ	45 min.	3 min.	35 min.	20 min.	1 hr., 43 min.
Sch. D	1 hr., 29 min.	2 hr., 59 min.	2 hr., 34 min.	34 min.	7 hr., 36 min.
Sch. D-1	13 min.	1 min.	11 min.	34 min.	59 min.
Sch. E	3 hr.	1 hr.	1 hr., 24 min.	34 min.	5 hr., 58 min.
Sch. EIC	-----	1 min.	13 min.	20 min.	34 min.
Sch. F:					
Cash Method	3 hr., 29 min.	36 min.	1 hr., 27 min.	20 min.	5 hr., 52 min.
Accrual Method	3 hr., 36 min.	26 min.	1 hr., 25 min.	20 min.	5 hr., 47 min.
Sch. H	1 hr., 38 min.	30 min.	53 min.	34 min.	3 hr., 35 min.
Sch. J	19 min.	11 min.	1 hr., 32 min.	20 min.	2 hr., 22 min.
Sch. R	19 min.	15 min.	30 min.	34 min.	1 hr., 38 min.
Sch. SE:					
Short	13 min.	14 min.	13 min.	13 min.	53 min.
Long	26 min.	20 min.	35 min.	20 min.	1 hr., 41 min.

Instructions for Schedules to Form 1040

2001 Instructions for Schedule A, Itemized Deductions

Use Schedule A (Form 1040) to figure your itemized deductions. In most cases, your Federal income tax will be less if you take the **larger** of your itemized deductions or your standard deduction.

If you itemize, you may deduct a part of your medical and dental expenses and unreimbursed employee business expenses, and amounts you paid for certain taxes, interest, contributions, and miscellaneous expenses. You may also deduct certain casualty and theft losses.



Do not include on Schedule A items deducted elsewhere, such as on Schedule C, C-EZ, E, or F.

Medical and Dental Expenses

You may deduct only the part of your medical and dental expenses that exceeds 7.5% of the amount on Form 1040, line 34.

Pub. 502 discusses the types of expenses that may and may not be deducted. It also explains when you may deduct capital expenses and special care expenses for disabled persons.



If you received a distribution from an MSA in 2001, see **Pub. 969** to figure your deduction.

Examples of Medical and Dental Payments You May Deduct

To the extent you were **not reimbursed**, you may deduct what you paid for:

- Insurance premiums for medical and dental care, including premiums for qualified long-term care contracts as defined in Pub. 502. But see **Limit on Long-Term Care Premiums You May Deduct** on this page. Reduce the insurance premiums by any self-employed health insurance deduction you claimed on Form 1040, line 28.



You **cannot** deduct insurance premiums paid with pretax dollars because the premiums are not included in box 1 of your W-2 form(s).

- Prescription medicines or insulin.
- Acupuncturists, chiropractors, dentists, eye doctors, medical doctors, occupational therapists, osteopathic doctors, physical therapists, podiatrists, psychiatrists, psychoanalysts (medical care only), and psychologists.
- Medical examinations, X-ray and laboratory services, insulin treatment, and whirlpool baths your doctor ordered.

- Nursing help (including your share of the employment taxes paid). If you paid someone to do both nursing and housework, you may deduct only the cost of the nursing help.

- Hospital care (including meals and lodging), clinic costs, and lab fees.

- Qualified long-term care services (see Pub. 502).

- The supplemental part of Medicare insurance (Medicare B).

- A program to stop smoking and for prescription medicines to alleviate nicotine withdrawal.

- Medical treatment at a center for drug or alcohol addiction.

- Medical aids such as eyeglasses, contact lenses, hearing aids, braces, crutches, wheelchairs, and guide dogs, including the cost of maintaining them.

- Surgery to improve vision including radial keratotomy or other laser eye surgery.

- Lodging expenses (but not meals) while away from home to receive medical care in a hospital or a medical care facility related to a hospital, provided there was no significant element of personal pleasure, recreation, or vacation in the travel. **Do not** deduct more than \$50 a night for each eligible person.

- Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received the care; or you may claim **12 cents a mile**. Add parking and tolls to the amount you claim under either method.

Note. Certain medical expenses paid out of a deceased taxpayer's estate may be claimed on the deceased taxpayer's final return. See Pub. 502 for details.

Limit on Long-Term Care Premiums You May Deduct. The amount you may deduct for qualified long-term care contracts (as

defined in Pub. 502) depends on the age, at the end of 2001, of the person for whom the premiums were paid. See the following chart for details.

IF the person was, at the end of 2001, age . . .	THEN the most you may deduct is . . .
40 or under	\$ 230
41–50	\$ 430
51–60	\$ 860
61–70	\$ 2,290
71 or older	\$ 2,860

Examples of Medical and Dental Payments You May Not Deduct

- The basic cost of Medicare insurance (Medicare A).



If you were 65 or older but not entitled to social security benefits, you may deduct premiums you voluntarily paid for Medicare A coverage.

- Cosmetic surgery unless it was necessary to improve a deformity related to a congenital abnormality, an injury from an accident or trauma, or a disfiguring disease.

- Life insurance or income protection policies.

- The Medicare tax on your wages and tips or the Medicare tax paid as part of the self-employment tax or household employment taxes.

- Nursing care for a healthy baby. But you may be able to take a credit for the amount you paid. See the instructions for Form 1040, line 44.

- Illegal operations or drugs.

- Nonprescription medicines (including nicotine gum and certain nicotine patches).

(Continued on page A-2)

- Travel your doctor told you to take for rest or a change.
- Funeral, burial, or cremation costs.

Line 1

Medical and Dental Expenses

Enter the total of your medical and dental expenses (see page A-1), after you reduce these expenses by any payments received from insurance or other sources. See **Reimbursements** below.



Do not forget to include insurance premiums you paid for medical and dental care. But if you claimed the self-employed health insurance deduction on Form 1040, line 28, reduce the premiums by the amount on line 28.

Whose Medical and Dental Expenses Can You Include? You may include medical and dental bills you paid for:

- Yourself and your spouse.
- All dependents you claim on your return.
- Your child whom you do not claim as a dependent because of the rules explained in **Pub. 501** for children of divorced or separated parents.
- Any person you could have claimed as a dependent on your return if that person had not received \$2,900 or more of gross income or had not filed a joint return.

Example. You provided over half of your mother's support but may not claim her as a dependent because she received wages of \$2,900 in 2001. You may include on line 1 any medical and dental expenses you paid in 2001 for your mother.

Reimbursements. If your insurance company paid the provider directly for part of your expenses, and you paid only the amount that remained, include on line 1 **only** the amount you paid. If you received a reimbursement in 2001 for medical or dental expenses you paid in 2001, reduce your 2001 expenses by this amount. If you received a reimbursement in 2001 for prior year medical or dental expenses, do not reduce your 2001 expenses by this amount. But if you deducted the expenses in the earlier year and the deduction reduced your tax, you must include the reimbursement in income on Form 1040, line 21. See **Pub. 502** for details on how to figure the amount to include.

Cafeteria Plans. Do not include on line 1 insurance premiums paid by an employer-sponsored health insurance plan (cafeteria plan) unless the premiums are included in box 1 of your W-2 form(s). Also, do not include any other medical and dental ex-

penses paid by the plan unless the amount paid is included in box 1 of your W-2 form(s).

Taxes You Paid

Taxes You May Not Deduct

- Federal income and excise taxes.
- Social security, Medicare, Federal unemployment (FUTA), and railroad retirement (RRTA) taxes.
- Customs duties.
- Federal estate and gift taxes. But see the instructions for line 27 on page A-6.
- Certain state and local taxes, including: general sales tax, tax on gasoline, car inspection fees, assessments for sidewalks or other improvements to your property, tax you paid for someone else, and license fees (marriage, driver's, dog, etc.).

Line 5

State and Local Income Taxes

Include on this line the state and local income taxes listed below.

- State and local income taxes withheld from your salary during 2001. Your W-2 form(s) will show these amounts. Forms W-2G, 1099-G, 1099-R, and 1099-MISC may also show state and local income taxes withheld.

- State and local income taxes paid in 2001 for a prior year, such as taxes paid with your 2000 state or local income tax return. **Do not** include penalties or interest.

- State and local estimated tax payments made during 2001, including any part of a prior year refund that you chose to have credited to your 2001 state or local income taxes.

- Mandatory contributions you made to the California, New Jersey, or New York Nonoccupational Disability Benefit Fund, Rhode Island Temporary Disability Benefit Fund, or Washington State Supplemental Workmen's Compensation Fund.

Do not reduce your deduction by:

- Any state or local income tax refund or credit you expect to receive for 2001 or
- Any refund of, or credit for, prior year state and local income taxes you actually received in 2001. Instead, see the instructions for Form 1040, line 10.

Line 6

Real Estate Taxes

Include taxes (state, local, or foreign) you paid on real estate you own that was not

used for business, but only if the taxes are based on the assessed value of the property. Also, the assessment must be made uniformly on property throughout the community, and the proceeds must be used for general community or governmental purposes. **Pub. 530** explains the deductions homeowners may take.

Do not include the following amounts on line 6.

- Itemized charges for services to specific property or persons (for example, a \$20 monthly charge per house for trash collection, a \$5 charge for every 1,000 gallons of water consumed, or a flat charge for mowing a lawn that had grown higher than permitted under a local ordinance).

- Charges for improvements that tend to increase the value of your property (for example, an assessment to build a new sidewalk). The cost of a property improvement is added to the basis of the property. However, a charge is deductible if it is used only to maintain an existing public facility in service (for example, a charge to repair an existing sidewalk, and any interest included in that charge).

If your mortgage payments include your real estate taxes, you may deduct only the amount the mortgage company actually paid to the taxing authority in 2001.

If you sold your home in 2001, any real estate tax charged to the buyer should be shown on your settlement statement and in box 5 of any **Form 1099-S** you received. This amount is considered a refund of real estate taxes. See **Refunds and Rebates** next. Any real estate taxes you paid at closing should be shown on your settlement statement.

Refunds and Rebates. If you received a refund or rebate in 2001 of real estate taxes you paid in 2001, reduce your deduction by the amount of the refund or rebate. If you received a refund or rebate in 2001 of real estate taxes you paid in an earlier year, do not reduce your deduction by this amount. Instead, you must include the refund or rebate in income on Form 1040, line 21, if you deducted the real estate taxes in the earlier year and the deduction reduced your tax. **Pub. 525** tells you how to figure the amount to include in income.

Line 7

Personal Property Taxes

Enter personal property tax you paid, but only if it is based on value alone and it is charged on a yearly basis.

Example. You paid a yearly fee for the registration of your car. Part of the fee was based on the car's value and part was based

on its weight. You may deduct only the part of the fee that was based on the car's value.

Line 8

Other Taxes

If you had any deductible tax not listed on line 5, 6, or 7, list the type and amount of tax. Enter only one total on line 8. Include on this line income tax you paid to a foreign country or U.S. possession.



You may want to take a credit for the foreign tax instead of a deduction. See the instructions for Form 1040, line 43, for details.

Interest You Paid

Whether your interest expense is treated as investment interest, personal interest, or business interest depends on how and when you used the loan proceeds. See **Pub. 535** for details.

In general, if you paid interest in 2001 that applies to any period after 2001, you may deduct only amounts that apply for 2001.

Lines 10 and 11

Home Mortgage Interest

A **home mortgage** is any loan that is secured by your main home or second home. It includes first and second mortgages, home equity loans, and refinanced mortgages.

A **home** may be a house, condominium, cooperative, mobile home, boat, or similar property. It must provide basic living accommodations including sleeping space, toilet, and cooking facilities.

Limit on Home Mortgage Interest. If you took out any mortgages after October 13, 1987, your deduction may be limited. Any additional amounts borrowed after October 13, 1987, on a line-of-credit mortgage you had on that date are treated as a mortgage taken out after October 13, 1987. If you refinanced a mortgage you had on October 13, 1987, treat the new mortgage as taken out on or before October 13, 1987. But if you refinanced for more than the balance of the old mortgage, treat the excess as a mortgage taken out after October 13, 1987.

See **Pub. 936** to figure your deduction if **either 1 or 2** next applies. If you had more than one home at the same time, the dollar amounts in **1** and **2** apply to the total mortgages on both homes.

1. You took out any mortgages after October 13, 1987, and used the proceeds for purposes other than to buy, build, or im-

prove your home, and all of these mortgages totaled over \$100,000 at any time during 2001. The limit is \$50,000 if married filing separately. An example of this type of mortgage is a home equity loan used to pay off credit card bills, buy a car, or pay tuition.

2. You took out any mortgages after October 13, 1987, and used the proceeds to buy, build, or improve your home, and these mortgages plus any mortgages you took out on or before October 13, 1987, totaled over \$1 million at any time during 2001. The limit is \$500,000 if married filing separately.



If the total amount of all mortgages is more than the fair market value of the home, additional limits apply. See **Pub. 936**.

Line 10

Enter on line 10 mortgage interest and points reported to you on **Form 1098**. If this form shows any refund of overpaid interest, do not reduce your deduction by the refund. Instead, see the instructions for Form 1040, line 21.

If you paid more interest to the recipient than is shown on Form 1098, see **Pub. 936** to find out if you can deduct the additional interest. If you can, attach a statement explaining the difference and enter "See attached" to the right of line 10.

Note. If you are claiming the **mortgage interest credit** (see the instructions for Form 1040, line 49), subtract the amount shown on line 3 of **Form 8396** from the total deductible interest you paid on your home mortgage. Enter the result on line 10.

Line 11

If you did not receive a Form 1098 from the recipient, report your deductible mortgage interest on line 11.

If you bought your home from the recipient, be sure to show that recipient's name, identifying no., and address on the dotted lines next to line 11. If the recipient is an individual, the identifying no. is his or her social security number (SSN). Otherwise, it is the employer identification number. You must also let the recipient know your SSN. If you do not show the required information about the recipient or let the recipient know your SSN, you may have to pay a \$50 penalty.

If you and at least one other person (other than your spouse if filing a joint return) were liable for and paid interest on the mortgage, and the other person received the Form 1098, attach a statement to your return showing the name and address of that person. To the right of line 11, enter "See attached."

Line 12

Points Not Reported on Form 1098

Points are shown on your settlement statement. Points you paid **only** to borrow money are generally deductible over the life of the loan. See **Pub. 936** to figure the amount you may deduct. Points paid for other purposes, such as for a lender's services, are not deductible.

Refinancing. Generally, you must deduct points you paid to refinance a mortgage over the life of the loan. This is true even if the new mortgage is secured by your main home.

If you used part of the proceeds to **improve your main home**, you may be able to deduct the part of the points related to the improvement in the year paid. See **Pub. 936** for details.



If you paid off a mortgage early, deduct any remaining points in the year you paid off the mortgage.

Line 13

Investment Interest

Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to passive activities or to securities that generate tax-exempt income.

Complete and attach **Form 4952** to figure your deduction.

Exception. You do not have to file Form 4952 if **all three** of the following apply.

- 1.** Your investment interest expense is not more than your investment income from interest and ordinary dividends.
- 2.** You have no other deductible investment expenses.
- 3.** You have no disallowed investment interest expense from 2000.

Note. Alaska Permanent Fund dividends, including those reported on **Form 8814**, are not investment income.

For more details, see **Pub. 550**.

Gifts to Charity

You may deduct contributions or gifts you gave to organizations that are religious, charitable, educational, scientific, or literary in purpose. You may also deduct what you gave to organizations that work to prevent cruelty to children or animals. Examples of these organizations are:

- Churches, mosques, synagogues, temples, etc.
- Boy Scouts, Boys and Girls Clubs of America, CARE, Girl Scouts, Goodwill Industries, Red Cross, Salvation Army, United Way, etc.
- Fraternal orders, if the gifts will be used for the purposes listed above.
- Veterans' and certain cultural groups.
- Nonprofit schools, hospitals, and organizations whose purpose is to find a cure for, or help people who have, arthritis, asthma, birth defects, cancer, cerebral palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.
- Federal, state, and local governments if the gifts are solely for public purposes.

To verify an organization's charitable status, you can:

- Check with the organization to which you made the donation. The organization should be able to provide you with verification of its charitable status.
- See **Pub. 78** for a list of most qualified organizations.
- Call our **Tax Exempt/Government Entities Customer Account Services at 1-877-829-5500**. Assistance is available Monday through Friday from 8:00 a.m. to 9:30 p.m. Eastern time.

Contributions You May Deduct

Contributions may be in cash (keep canceled checks, receipts, or other reliable written records showing the name of the organization and the date and amount given), property, or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations described earlier. If you drove to and from the volunteer work, you may take **14 cents a mile** or the actual cost of gas and oil. Add parking and tolls to the amount you claim under either method. But do not deduct any amounts that were repaid to you.

Gifts From Which You Benefit. If you made a gift and received a benefit in return, such as food, entertainment, or merchandise, you may generally only deduct the amount that is more than the value of the benefit. But this rule does not apply to certain membership benefits provided in return for an

annual payment of \$75 or less. For details, see **Pub. 526**.

Example. You paid \$70 to a charitable organization to attend a fund-raising dinner and the value of the dinner was \$40. You may deduct only \$30.

Gifts of \$250 or More. You may deduct a gift of \$250 or more only if you have a statement from the charitable organization showing the information in **1** and **2** below.

In figuring whether a gift is \$250 or more, do not combine separate donations. For example, if you gave your church \$25 each week for a total of \$1,300, treat each \$25 payment as a separate gift. If you made donations through payroll deductions, treat each deduction from each paycheck as a separate gift. See **Pub. 526** if you made a separate gift of \$250 or more through payroll deduction.

1. The amount of any money contributed and a description (but not value) of any property donated.

2. Whether the organization did or did not give you any goods or services in return for your contribution. If you did receive any goods or services, a description and estimate of the value must be included. If you received only intangible religious benefits (such as admission to a religious ceremony), the organization must state this, but it does not have to describe or value the benefit.



You must get the statement by the date you file your return or the due date (including extensions) for filing your return, whichever is earlier. **Do not** attach the statement to your return. Instead, keep it for your records.

Limit on the Amount You May Deduct. See **Pub. 526** to figure the amount of your deduction if **any** of the following apply.

- Your cash contributions or contributions of ordinary income property are more than 30% of the amount on Form 1040, line 34.
- Your gifts of capital gain property are more than 20% of the amount on Form 1040, line 34.
- You gave gifts of property that increased in value or gave gifts of the use of property.

You May Not Deduct as Contributions

- Travel expenses (including meals and lodging) while away from home, unless there was no significant element of personal pleasure, recreation, or vacation in the travel.
- Political contributions.

- Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups.

- Cost of raffle, bingo, or lottery tickets. But you may be able to deduct these expenses on line 27. See page A-6 for details.

- Cost of tuition. But you may be able to:

- 1.** Deduct this expense on line 20 (see page A-5) or

- 2.** Take a credit for this expense. See **Form 8863** for details.

- Value of your time or services.
- Value of blood given to a blood bank.
- The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).
- Gifts to individuals and groups that are run for personal profit.
- Gifts to foreign organizations. But you may be able to deduct gifts to certain U.S. organizations that transfer funds to foreign charities and certain Canadian, Israeli, and Mexican charities. See **Pub. 526** for details.

- Gifts to organizations engaged in certain political activities that are of direct financial interest to your trade or business. See Internal Revenue Code section 170(f)(9).

- Gifts to groups whose purpose is to lobby for changes in the laws.

- Gifts to civic leagues, social and sports clubs, labor unions, and chambers of commerce.

- Value of benefits received in connection with a contribution to a charitable organization. See **Pub. 526** for exceptions.

Line 15

Gifts by Cash or Check

Enter the total contributions you made in cash or by check (including out-of-pocket expenses).

Line 16

Other Than by Cash or Check

Enter your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale. For more details on determining the value of donated property, see **Pub. 561**.

If the amount of your deduction is more than \$500, you must complete and attach **Form 8283**. For this purpose, the "amount

of your deduction” means your deduction **before** applying any income limits that could result in a carryover of contributions. If your total deduction is over \$5,000, you may also have to get appraisals of the values of the donated property. See Form 8283 and its instructions for details.

Recordkeeping. If you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization’s name and address, the date and location of the gift, and a description of the property. For each gift of property, you should also keep reliable written records that include:

- How you figured the property’s value at the time you gave it. If the value was determined by an appraisal, keep a signed copy of the appraisal.
- The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.
- How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.
- Any conditions attached to the gift.

Note. If your total deduction for gifts of property is over \$500, you gave less than your entire interest in the property, or you made a “qualified conservation contribution,” your records should contain additional information. See Pub. 526 for details.

Line 17

Carryover From Prior Year

Enter any carryover of contributions that you could not deduct in an earlier year because they exceeded your adjusted gross income limit. See Pub. 526 for details.

Casualty and Theft Losses

Line 19

Complete and attach **Form 4684** to figure the amount of your loss to enter on line 19.

You may be able to deduct part or all of each loss caused by theft, vandalism, fire, storm, or similar causes, and car, boat, and other accidents. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You may deduct nonbusiness casualty or theft losses only to the extent that—

1. The amount of **each** separate casualty or theft loss is more than \$100 and
2. The total amount of **all** losses during the year is more than 10% of the amount on Form 1040, line 34.

Special rules apply if you had both gains and losses from nonbusiness casualties or thefts. See Form 4684 and its instructions for details.

Use line 22 of Schedule A to deduct the costs of proving that you had a property loss. Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.

For information on Federal disaster area losses, see **Pub. 547**.

Job Expenses and Most Other Miscellaneous Deductions

Pub. 529 discusses the types of expenses that may and may not be deducted.

Examples of expenses you may **not** deduct are:

- Political contributions.
- Personal legal expenses.
- Lost or misplaced cash or property.
- Expenses for meals during regular or extra work hours.
- The cost of entertaining friends.
- Commuting expenses. See Pub. 529 for the definition of commuting.
- Travel expenses for employment away from home if that period of employment exceeds 1 year. See Pub. 529 for an exception for certain Federal employees.
- Travel as a form of education.
- Expenses of attending a seminar, convention, or similar meeting unless it is related to your employment.
- Club dues. See Pub. 529 for exceptions.
- Expenses of adopting a child. But you may be able to take a credit for adoption expenses. See **Form 8839** for details.
- Fines and penalties.
- Expenses of producing tax-exempt income.

Line 20

Unreimbursed Employee Expenses

Enter the total job expenses you paid for which you were not reimbursed. (Amounts your employer included in box 1 of your W-2 form are not considered reimbursements.) But you **must** fill in and attach **Form 2106** if **either 1 or 2** next applies.

1. You claim any travel, transportation, meal, or entertainment expenses for your job.

2. Your employer paid you for any of your job expenses reportable on line 20.



If you used your own vehicle and item 2 does not apply, you may be able to file **Form 2106-EZ** instead.

If you do not have to file Form 2106 or 2106-EZ, list the type and amount of each expense on the dotted lines next to line 20. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 20.

Examples of other expenses to include on line 20 are:

- Safety equipment, small tools, and supplies needed for your job.
- Uniforms required by your employer that are not suitable for ordinary wear.
- Protective clothing required in your work, such as hard hats, safety shoes, and glasses.
- Physical examinations required by your employer.
- Dues to professional organizations and chambers of commerce.
- Subscriptions to professional journals.
- Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.
- Certain business use of part of your home. For details, including limits that apply, use TeleTax topic 509 (see page 11 of the Form 1040 instructions) or see **Pub. 587**.
- Certain educational expenses. For details, use TeleTax topic 513 (see page 11 of the Form 1040 instructions) or see **Pub. 508**.



You may be able to take a credit for your educational expenses instead of a deduction. See **Form 8863** for details.

Line 21

Tax Preparation Fees

Enter the fees you paid for preparation of your tax return, including fees paid for filing your return electronically. If you paid your tax by credit card, **do not** include the convenience fee you were charged.

Line 22

Other Expenses

Enter the total amount you paid to produce or collect taxable income and manage or

protect property held for earning income. But **do not** include any personal expenses. List the type and amount of each expense on the dotted lines next to line 22. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 22.

Examples of expenses to include on line 22 are:

- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (for example, trust account) fees.
- Your share of the investment expenses of a regulated investment company.
- Certain losses on nonfederally insured deposits in an insolvent or bankrupt financial institution. For details, including limits that apply, see **Pub. 529**.
- Casualty and theft losses of property used in performing services as an employee from **Form 4684**, lines 32 and 38b, or **Form 4797**, line 18b(1).
- Deduction for repayment of amounts under a claim of right if \$3,000 or less.

Other Miscellaneous Deductions

Line 27

Only the expenses listed next can be deducted on this line. List the type and amount of each expense on the dotted lines next to line 27. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 27.

- Gambling losses, but only to the extent of gambling winnings reported on Form 1040, line 21.
- Casualty and theft losses of income-producing property from **Form 4684**, lines 32 and 38b, or **Form 4797**, line 18b(1).
- Federal estate tax on income in respect of a decedent.
- Amortizable bond premium on bonds acquired before October 23, 1986.
- Deduction for repayment of amounts under a claim of right if over \$3,000. See **Pub. 525** for details.

- Certain unrecovered investment in a pension.

- Impairment-related work expenses of a disabled person.

For more details, see **Pub. 529**.

Total Itemized Deductions

Line 28

Use the worksheet below to figure the amount to enter on line 28 if the amount on Form 1040, line 34, is over \$132,950 if single, married filing jointly, head of household, or qualifying widow(er); \$66,475 if married filing separately.

Itemized Deductions Worksheet—Line 28

Keep for Your Records



- | | |
|---|----------|
| 1. Add the amounts on Schedule A, lines 4, 9, 14, 18, 19, 26, and 27 | 1. _____ |
| 2. Add the amounts on Schedule A, lines 4, 13, and 19, plus any gambling and casualty or theft losses included on line 27 | 2. _____ |



Be sure your total gambling and casualty or theft losses are clearly identified on the dotted lines next to line 27.

- | | | |
|--|---|-----------|
| 3. Is the amount on line 2 less than the amount on line 1? | | |
| <input type="checkbox"/> No. | Your deduction is not limited. Enter the amount from line 1 above on Schedule A, line 28. | |
| <input type="checkbox"/> Yes. | Subtract line 2 from line 1 | 3. _____ |
| 4. | Multiply line 3 above by 80% (.80) | 4. _____ |
| 5. | Enter the amount from Form 1040, line 34 | 5. _____ |
| 6. | Enter: \$132,950 if single, married filing jointly, head of household, or qualifying widow(er); \$66,475 if married filing separately | 6. _____ |
| 7. Is the amount on line 6 less than the amount on line 5? | | |
| <input type="checkbox"/> No. | Your deduction is not limited. Enter the amount from line 1 above on Schedule A, line 28. | |
| <input type="checkbox"/> Yes. | Subtract line 6 from line 5 | 7. _____ |
| 8. | Multiply line 7 above by 3% (.03) | 8. _____ |
| 9. | Enter the smaller of line 4 or line 8 | 9. _____ |
| 10. | Total itemized deductions. Subtract line 9 from line 1. Enter the result here and on Schedule A, line 28 | 10. _____ |

2001 Instructions for Schedule B, Interest and Ordinary Dividends



You may list more than one payer on each entry space for lines 1 and 5, but be sure to clearly show the amount paid next to the payer's name. Add the separate amounts paid by the payers listed on an entry space and enter the total in the "Amount" column. If you still need more space, attach separate statements that are the same size as the printed schedule. Use the same format as lines 1 and 5, but show your totals on Schedule B. Be sure to put your name and social security number (SSN) on the statements and attach them at the end of your return.

Part I. Interest

Line 1

Interest

Report on line 1 **all** of your taxable interest. List each payer's name and show the amount.

Special Rules

Seller-Financed Mortgages

If you sold your home or other property and the buyer used the property as a personal residence, list first any interest the buyer paid you on a mortgage or other form of seller financing. Be sure to show the buyer's name, address, and SSN. You must also let the buyer know your SSN. If you do not show the buyer's name, address, and SSN, or let the buyer know your SSN, you may have to pay a \$50 penalty.

Nominees

If you received a **Form 1099-INT** that includes interest you received as a nominee (that is, in your name, but the interest actually belongs to someone else), report the total on line 1. Do this even if you later distributed some or all of this income to others. Under your last entry on line 1, put a subtotal of all interest listed on line 1.

Use Schedule B (Form 1040) if **any** of the following apply.

- You had over \$400 of taxable interest.
- Any of the **Special Rules** listed in the instructions for line 1 below apply to you.
- You are claiming the exclusion of interest from series EE or I U.S. savings bonds issued after 1989.
- You had over \$400 of ordinary dividends.
- You received ordinary dividends as a nominee.
- You **(a)** had a foreign account or **(b)** received a distribution from, or were a grantor of, or transferor to, a foreign trust. Part III of the schedule has questions about foreign accounts and trusts.

Below this subtotal, enter "Nominee Distribution" and show the total interest you received as a nominee. Subtract this amount from the subtotal and enter the result on line 2.



If you received interest as a nominee, you must give the actual owner a **Form 1099-INT** unless the owner is your spouse. You must also file a **Form 1096** and a **Form 1099-INT** with the IRS. For more details, see the **General Instructions for Forms 1099, 1098, 5498, and W-2G** and **Instructions for Forms 1099-INT and 1099-OID**.

Accrued Interest

When you buy bonds between interest payment dates and pay accrued interest to the seller, this interest is taxable to the seller. If you received a **Form 1099** for interest as a purchaser of a bond with accrued interest, follow the rules earlier under **Nominees** to see how to report the accrued interest on Schedule B. But identify the amount to be subtracted as "Accrued Interest."

Tax-Exempt Interest

If you received a **Form 1099-INT** for tax-exempt interest, follow the rules earlier under **Nominees** to see how to report the interest on Schedule B. But identify the amount to be subtracted as "Tax-Exempt Interest."

Original Issue Discount (OID)

If you are reporting OID in an amount less than the amount shown on **Form 1099-OID**, follow the rules earlier under **Nominees** to see how to report the OID on Schedule B. But identify the amount to be subtracted as "OID Adjustment."

Amortizable Bond Premium

If you are reducing your interest income on a bond by the amount of amortizable bond premium, follow the rules earlier under **Nominees** to see how to report the interest

on Schedule B. But identify the amount to be subtracted as "ABP Adjustment."

Line 3

Excludable Interest on Series EE and I U.S. Savings Bonds Issued After 1989

If, during 2001, you cashed series EE or I U.S. savings bonds issued after 1989 and you paid qualified higher education expenses for yourself, your spouse, or your dependents, you may be able to exclude part or all of the interest on those bonds. See **Form 8815** for details.

Part II. Ordinary Dividends

Note. You may have to file **Form 5471** if, in 2001, you were an officer or director of a foreign corporation. You may also have to file **Form 5471** if, in 2001, you owned 10% or more of the total **(a)** value of a foreign corporation's stock or **(b)** combined voting power of all classes of a foreign corporation's stock with voting rights. For details, see **Form 5471** and its instructions.

Line 5

Ordinary Dividends

Report on line 5 **all** of your ordinary dividends. List each payer's name and show the amount.



Do not report capital gain distributions on line 5. Instead, see the instructions for **Form 1040**, line 13.

(Continued on page B-2)

Nominees

If you received a **Form 1099-DIV** that includes ordinary dividends you received as a nominee (that is, in your name, but the ordinary dividends actually belong to someone else), report the total on line 5. Do this even if you later distributed some or all of this income to others. Under your last entry on line 5, put a subtotal of all ordinary dividends listed on line 5. Below this subtotal, enter "Nominee Distribution" and show the total ordinary dividends you received as a nominee. Subtract this amount from the subtotal and enter the result on line 6.



If you received ordinary dividends as a nominee, you must give the actual owner a **Form 1099-DIV** unless the owner is your spouse. You must also file a **Form 1096** and a **Form 1099-DIV** with the IRS. For more details, see the **General Instructions for Forms 1099, 1098, 5498, and W-2G** and **Instructions for Form 1099-DIV**.

Part III. Foreign Accounts and Trusts

Lines 7a and 7b

Foreign Accounts

Line 7a

Check the "Yes" box on line 7a if **either 1 or 2** next applies.

1. You own more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

2. At any time during the year you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

Note. Item **2** does not apply to foreign securities held in a U.S. securities account.

Exceptions. Check the "No" box if any of the following applies to you.

- The combined value of the accounts was \$10,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.
- You were an officer or employee of a commercial bank that is supervised by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation; the account was in your employer's name; **and** you did not have a personal financial interest in the account.
- You were an officer or employee of a domestic corporation with securities listed on national securities exchanges or with assets of more than \$1 million and 500 or more shareholders of record; the account was in your employer's name; you did not have a personal financial interest in the account; and the corporation's chief financial officer has given you written notice that the corporation has filed a current report that includes the account.

See **Form TD F 90-22.1** to find out if you are considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

If you checked the "Yes" box on line 7a, file **Form TD F 90-22.1** by June 30, 2002, with the **Department of the Treasury** at the address shown on that form. **Do not** attach it to **Form 1040**.

Line 7b

If you checked the "Yes" box on line 7a, enter the name of the foreign country or countries in the space provided on line 7b. Attach a separate statement if you need more space.

Line 8

Foreign Trusts

If you received a distribution from a foreign trust, you must provide additional information. For this purpose, a loan of cash or marketable securities generally is considered to be a distribution. See **Form 3520** for details.

If you were the grantor of, or transferor to, a foreign trust that existed during 2001, you may have to file **Form 3520**.

2001 Instructions for Schedule C, Profit or Loss From Business

Use Schedule C (Form 1040) to report income or loss from a business you operated or a profession you practiced as a sole proprietor. Also, use Schedule C to report wages and expenses you had as a statutory employee. An activity qualifies as a business if your primary purpose for engaging in the activity is for income or profit and you are involved in the activity with continuity and regularity. For example, a sporadic activity or a hobby does not qualify as a business. To report income from a nonbusiness activity, see the instructions for Form 1040, line 21.

Small businesses and statutory employees with expenses of \$2,500 or less may be able to file **Schedule C-EZ** instead of Schedule C. See Schedule C-EZ for details.

You may be subject to state and local taxes and other requirements such as business licenses and fees. Check with your state and local governments for more information.

Section references are to the Internal Revenue Code.

General Instructions

Other Schedules and Forms You May Have To File

Schedule A to deduct interest, taxes, and casualty losses not related to your business.

Schedule E to report rental real estate and royalty income or (loss) that is **not** subject to self-employment tax.

Schedule F to report profit or (loss) from farming.

Schedule SE to pay self-employment tax on income from any trade or business.

Form 4562 to claim depreciation on assets placed in service in 2001, to claim amortization that began in 2001, or to report information on listed property.

Form 4684 to report a casualty or theft gain or loss involving property used in your trade or business or income-producing property.

Form 4797 to report sales, exchanges, and involuntary conversions (not from a casualty or theft) of trade or business property.

Form 8271 if you are claiming or reporting on Schedule C or C-EZ any income, deduction, loss, credit, or other tax benefit from a tax shelter.

Form 8594 to report certain purchases or sales of groups of assets that constitute a trade or business.

Form 8824 to report like-kind exchanges.

Form 8829 to claim expenses for business use of your home.

Husband-Wife Business. If you and your spouse jointly own and operate a business and share in the profits and losses, you are partners in a partnership, whether or not you have a formal partnership agreement. **Do not** use Schedule C or C-EZ. Instead, file **Form 1065**. See **Pub. 541** for more details.

Single-Member Limited Liability Company (LLC). Generally, a single-member domestic LLC is not treated as a separate entity for Federal income tax purposes. If you are the sole member of a domestic LLC, file Schedule C or C-EZ (or Schedule E or

F, if applicable). However, you may elect to treat a domestic LLC as a corporation. See **Form 8832** for details on the election and the tax treatment of a foreign LLC.

Heavy Highway Vehicle Use Tax. If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a Federal highway motor vehicle use tax. See **Form 2290** to find out if you owe this tax.

Information Returns. You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other similar basis for resale. For details, see the 2001 **General Instructions for Forms 1099, 1098, 5498, and W-2G**.

If you received cash of more than \$10,000 in one or more related transactions in your trade or business, you may have to file **Form 8300**. For details, see **Pub. 1544**.

Additional Information

See **Pub. 334** for more information for small businesses.

Specific Instructions

Filers of Form 1041. **Do not** complete the block labeled "Social security number." Instead, enter your employer identification number (EIN) on line D.

Line A

Describe the business or professional activity that provided your principal source of income reported on line 1. If you owned more than one business, you must complete a separate Schedule C for each business. Give the general field or activity and the type of product or service. If your general field or activity is wholesale or retail trade, or services connected with production services (mining, construction, or manufacturing), also give the type of customer or client.

For example, "wholesale sale of hardware to retailers" or "appraisal of real estate for lending institutions."

Line D

You need an EIN only if you had a qualified retirement plan or were required to file an employment, excise, estate, trust, or alcohol, tobacco, and firearms tax return. If you need an EIN, file **Form SS-4**. If you do not have an EIN, leave line D blank. **Do not** enter your SSN.

Line E

Enter your business address. Show a street address instead of a box number. Include the suite or room number, if any. If you conducted the business from your home located at the address shown on Form 1040, page 1, you do not have to complete this line.

Line F

Generally, you can use the cash method, accrual method, or any other method permitted by the Internal Revenue Code. In all cases, the method used must clearly reflect income. Unless you are a qualifying taxpayer, you must use the accrual method for sales and purchases of inventory items. See the Part III instructions on page C-6 for the definition of a qualifying taxpayer. Special rules apply to long-term contracts. See section 460 for details.

If you use the **cash method**, show all items of taxable income actually or constructively received during the year (in cash, property, or services). Income is constructively received when it is credited to your account or set aside for you to use. Also, show amounts actually paid during the year for deductible expenses.

If you use the **accrual method**, report income when you earn it and deduct expenses when you incur them even if you do not pay them during the tax year.

Accrual-basis taxpayers are put on a cash basis for deducting business expenses owed to a related cash-basis taxpayer. Other rules determine the timing of deductions based on economic performance. See **Pub. 538**.

To change your accounting method, you generally must file **Form 3115**. You may also have to make an adjustment to prevent amounts of income or expense from being duplicated or omitted. This is called a section 481(a) adjustment, which is taken into account over a period not to exceed 4 years.

Example. You change to the cash method of accounting and choose to account for inventoriable items in the same manner as materials and supplies that are not incidental. You accrued sales in 2000 for which you received payment in 2001. You must report those sales in both years as a result of changing your accounting method and must make a section 481(a) adjustment to prevent duplication of income.

See Rev. Proc. 99-49, 1999-2 C.B. 725, to figure the amount of this adjustment for 2001. You can find Rev. Proc. 99-49 on page 725 of Internal Revenue Bulletin 1999-52 at www.irs.gov. Include any positive section 481(a) adjustment on line 6. If the section 481(a) adjustment is negative, report it in Part V.

Line G

Participation, for purposes of the following seven material participation tests, generally includes any work you did in connection with an activity if you owned an interest in the activity at the time you did the work. The capacity in which you did the work does not matter. However, work is not treated as participation if it is work that an owner would not customarily do in the same type of activity and one of your main reasons for doing the work was to avoid the disallowance of losses or credits from the activity under the passive activity rules.

Work you did as an investor in an activity is not treated as participation unless you were directly involved in the day-to-day management or operations of the activity. Work done as an investor includes:

1. Studying and reviewing financial statements or reports on the activity,
2. Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use, and
3. Monitoring the finances or operations of the activity in a nonmanagerial capacity.

Participation by your spouse during the tax year in an activity you own can be counted as your participation in the activity. This applies even if your spouse did not own an interest in the activity and whether or not you and your spouse file a joint return.

Material Participation. For purposes of the passive activity rules, you materially participated in the operation of this trade or business activity during 2001 if you meet any of the following seven tests.

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year was substantially all of the participation in the activity of all individuals

(including individuals who did not own any interest in the activity) for the tax year.

3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other person for the tax year. This includes individuals who did not own any interest in the activity.

4. The activity is a significant participation activity for the tax year, and you participated in all significant participation activities for more than 500 hours during the year. An activity is a "significant participation activity" if it involves the conduct of a trade or business, you participated in the activity for more than 100 hours during the tax year, and you did not materially participate under any of the material participation tests (other than this test 4).

5. You materially participated in the activity for any 5 of the prior 10 tax years.

6. The activity is a personal service activity in which you materially participated for any 3 prior tax years. A personal service activity is an activity that involves performing personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.

7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year. But you do not meet this test if you participated in the activity for 100 hours or less during the tax year. Your participation in managing the activity does not count in determining if you meet this test if any person (except you) (a) received compensation for performing management services in connection with the activity or (b) spent more hours during the tax year than you spent performing management services in connection with the activity (regardless of whether the person was compensated for the services).

If you meet any of the above tests, check the "Yes" box.

If you **do not** meet any of the above tests, check the "No" box. This business is a **passive activity**. If you have a loss from this business, see **Limit on Losses** below. If you have a profit from this business activity but have current year losses from other passive activities or you have prior year unallowed passive activity losses, see the Instructions for Form 8582.

Exception for Oil and Gas. If you are filing Schedule C to report income and deductions from an oil or gas well in which you own a working interest directly or through an entity that does not limit your liability, check the "Yes" box. The activity of owning the working interest is not a passive activity regardless of your participation.

Limit on Losses. If you checked the "No" box and you have a loss from this business, you may have to use **Form 8582** to figure

your allowable loss, if any, to enter on Schedule C, line 31. Generally, you can deduct losses from passive activities only to the extent of income from passive activities.

For details, see **Pub. 925**.

Line H

If you started or acquired this business in 2001, check the box on line H. Also check the box if you are reopening or restarting this business after temporarily closing it, and you did not file a 2000 Schedule C or C-EZ for this business.

Part I. Income

Except as otherwise provided in the Internal Revenue Code, gross income includes all income from whatever source derived. Gross income, however, does not include extraterritorial income that is qualifying foreign trade income. Use **Form 8873** to figure the extraterritorial income exclusion. Report it on Schedule C as explained in the Instructions for Form 8873.

Line 1

Enter gross receipts from your trade or business. Include amounts you received in your trade or business that were properly shown on **Forms 1099-MISC**. If the total amounts that were reported in box 7 of Forms 1099-MISC are more than the total you are reporting on line 1, attach a statement explaining the difference.

Statutory Employees. If you received a Form W-2 and the "Statutory employee" box in box 13 of that form was checked, report your income and expenses related to that income on Schedule C or C-EZ. Enter your statutory employee income from box 1 of Form W-2 on line 1 of Schedule C or C-EZ and **check the box** on that line. Social security and Medicare tax should have been withheld from your earnings; therefore, you do not owe self-employment tax on these earnings. Statutory employees include full-time life insurance agents, certain agent or commission drivers and traveling salespersons, and certain homeworkers.

If you had both self-employment income and statutory employee income, you **must** file two Schedules C. You **cannot** use Schedule C-EZ or combine these amounts on a single Schedule C.

Installment Sales. Generally, the installment method may not be used to report income from the sale of (a) personal property regularly sold under the installment method or (b) real property held for resale to customers. But the installment method may be used to report income from sales of certain residential lots and timeshares if you elect to pay interest on the tax due on that income after the year of sale. See section 453(l)(2)(B) for details. If you make this election, include the interest on Form 1040,

line 58. Also, enter "453(1)(3)" and the amount of the interest on the dotted line to the left of line 58.

If you use the installment method, attach a schedule to your return. Show separately for 2001 and the 3 preceding years: gross sales, cost of goods sold, gross profit, percentage of gross profit to gross sales, amounts collected, and gross profit on amounts collected.

Line 6

Report on line 6 amounts from finance reserve income, scrap sales, bad debts you recovered, interest (such as on notes and accounts receivable), state gasoline or fuel tax refunds you got in 2001, credit for Federal tax paid on gasoline or other fuels claimed on your 2000 Form 1040, prizes and awards related to your trade or business, and other kinds of miscellaneous business income. Include amounts you received in your trade or business as shown on **Form 1099-PATR**. Also, include any recapture of the deduction for clean-fuel vehicles used in your business and clean-fuel vehicle refueling property. For details, see **Pub. 535**.

If the business use percentage of any listed property (defined in the instructions for line 13 on this page) decreased to 50% or less in 2001, report on this line any recapture of excess depreciation, including any section 179 expense deduction. Use **Form 4797** to figure the recapture. Also, if the business use percentage drops to 50% or less on leased listed property (other than a vehicle), include on this line any inclusion amount. See **Pub. 946** to figure the amount.

Part II. Expenses

Capitalizing Costs of Property. If you produced real or tangible personal property or acquired property for resale, certain expenses attributable to the property generally must be included in inventory costs or capitalized. In addition to direct costs, producers of inventory property generally must also include part of certain indirect costs in their inventory. Purchasers of personal property acquired for resale must include part of certain indirect costs in inventory only if the average annual gross receipts for the 3 prior tax years exceed \$10 million. Also, you must capitalize part of the indirect costs that benefit real or tangible personal property constructed for use in a trade or business, or noninventory property produced for sale to customers. Reduce the amounts on lines 8–26 and Part V by amounts capitalized. For details, see **Pub. 538**.

Exception for Certain Small Producers. Producers whose average annual gross receipts are \$1 million or less who account for inventoriable items in the same manner as materials and supplies that are not incidental may currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs. See

Cost of Goods Sold on page C-6 for more details.

Exception for Creative Property. If you are an artist, author, or photographer, you may be exempt from the capitalization rules. However, your personal efforts must have created (or reasonably be expected to create) the property. This exception does not apply to any expense related to printing, photographic plates, motion picture films, video tapes, or similar items. These expenses are subject to the capitalization rules. For details, see **Pub. 538**.

Line 9

Include debts and partial debts from sales or services that were included in income and are definitely known to be worthless. If you later collect a debt that you deducted as a bad debt, include it as income in the year collected. For details, see **Pub. 535**.

Line 10

You can deduct the actual expenses of running your car or truck or take the **standard mileage rate**. You **must** use actual expenses if you used your vehicle for hire (such as a taxicab) or you used more than one vehicle simultaneously in your business (such as in fleet operations). You cannot use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

You can take the standard mileage rate for 2001 **only** if:

- You owned the vehicle and use the standard mileage rate for the first year you placed the vehicle in service or
- You leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

If you deduct actual expenses:

- Include on line 10 the business portion of expenses for gasoline, oil, repairs, insurance, tires, license plates, etc., and
- Show depreciation on line 13 and rent or lease payments on line 20a.

If you take the standard mileage rate, multiply the number of business miles by 34.5 cents. Add to this amount your parking fees and tolls, and enter the total on line 12. **Do not** deduct depreciation, rent or lease payments, or your actual operating expenses.

For details, see **Pub. 463**.

Information on Your Vehicle. If you claim any car and truck expenses, you must provide certain information on the use of your vehicle by completing one of the following.

- Part IV of Schedule C or Part III of Schedule C-EZ if: (a) you are claiming the standard mileage rate, you lease your vehicle, or your vehicle is fully depreciated and (b) you are **not** required to file **Form 4562** for any other reason. If you used more than

one vehicle during the year, attach your own schedule with the information requested in Part IV of Schedule C, or Part III of Schedule C-EZ, for each additional vehicle.

- Part V of Form 4562 if you are claiming depreciation on your vehicle or you are required to file Form 4562 for any other reason (see the instructions for line 13).

Line 12

Enter your deduction for depletion on this line. If you have timber depletion, attach **Form T**. See **Pub. 535** for details.

Line 13

Depreciation and Section 179 Expense Deduction. Depreciation is the annual deduction allowed to recover the cost or other basis of business or investment property having a useful life substantially beyond the tax year. You can also depreciate improvements made to leased business property. However, stock in trade, inventories, and land are not depreciable. Depreciation starts when you first use the property in your business or for the production of income. It ends when you take the property out of service, deduct all your depreciable cost or other basis, or no longer use the property in your business or for the production of income. You may also elect under section 179 to expense part of the cost of certain property you bought in 2001 for use in your business. See the Instructions for Form 4562 to figure the amount to enter on line 13.

When To Attach Form 4562. You must complete and attach Form 4562 **only** if:

- You are claiming depreciation on property placed in service during 2001;
- You are claiming depreciation on listed property (defined below), regardless of the date it was placed in service; or
- You are claiming a section 179 expense deduction.

If you acquired depreciable property for the first time in 2001, see **Pub. 946**.

Listed property generally includes, but is not limited to:

- Passenger automobiles weighing 6,000 pounds or less;
- Any other property used for transportation if the nature of the property lends itself to personal use, such as motorcycles, pickup trucks, etc.;
- Any property used for entertainment or recreational purposes (such as photographic, phonographic, communication, and video recording equipment);
- Cellular telephones or other similar telecommunications equipment; and
- Computers or peripheral equipment.

Exceptions. Listed property does not include photographic, phonographic, communication, or video equipment used exclusively in your trade or business or at

your regular business establishment. It also does not include any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating the establishment. For purposes of these exceptions, a portion of your home is treated as a regular business establishment only if that portion meets the requirements under section 280A(c)(1) for deducting expenses for the business use of your home.

See the instructions for line 6 on page C-3 if the business use percentage of any listed property decreased to 50% or less in 2001.

Line 14

Deduct contributions to employee benefit programs that are not an incidental part of a pension or profit-sharing plan included on line 19. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs.

Do not include on line 14 any contributions you made on your behalf as a self-employed person to an accident and health plan or for group-term life insurance. You may be able to deduct on Form 1040, line 28, part of the amount you paid for health insurance on behalf of yourself, your spouse, and dependents, even if you do not itemize your deductions. See the instructions for Form 1040, line 28, for details.

Line 15

Deduct premiums paid for business insurance on line 15. Deduct on line 14 amounts paid for employee accident and health insurance. Do not deduct amounts credited to a reserve for self-insurance or premiums paid for a policy that pays for your lost earnings due to sickness or disability. For details, see **Pub. 535**.

Lines 16a and 16b

Interest Allocation Rules. The tax treatment of interest expense differs depending on its type. For example, home mortgage interest and investment interest are treated differently. "Interest allocation" rules require you to allocate (classify) your interest expense so it is deducted (or capitalized) on the correct line of your return and receives the right tax treatment. These rules could affect how much interest you are allowed to deduct on Schedule C or C-EZ.

Generally, you allocate interest expense by tracing how the proceeds of the loan were used. See **Pub. 535** for details.

Do not deduct interest you paid or accrued on debts allocable to investment property. This interest is generally deducted on **Schedule A**. For details, see **Pub. 550**.

If you paid interest on a debt secured by your main home and any of the proceeds from that debt were used in connection with your trade or business, see **Pub. 535** to figure

the amount that is deductible on Schedule C or C-EZ.

If you have a mortgage on real property used in your business (other than your main home), enter on line 16a the interest you paid for 2001 to banks or other financial institutions for which you received a **Form 1098** (or similar statement). If you did not receive a Form 1098, enter the interest on line 16b.

If you paid more mortgage interest than is shown on Form 1098, see **Pub. 535** to find out if you can deduct the additional interest. If you can, include the amount on line 16a. Attach a statement to your return explaining the difference and enter "See attached" in the margin next to line 16a.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, include your share of the interest on line 16b. Attach a statement to your return showing the name and address of the person who received the Form 1098. In the margin next to line 16b, enter "See attached."

If you paid interest in 2001 that applies to future years, deduct only the part that applies to 2001.

Line 17

Include on this line fees for tax advice related to your business and for preparation of the tax forms related to your business.

Line 19

Enter your deduction for contributions to a pension, profit-sharing, or annuity plan, or plans for the benefit of your employees. If the plan includes you as a self-employed person, enter contributions made as an employer on your behalf on Form 1040, line 29, not on Schedule C.

Generally, you must file the applicable form listed below if you maintain a pension, profit-sharing, or other funded-deferred compensation plan. The filing requirement is not affected by whether or not the plan qualified under the Internal Revenue Code, or whether or not you claim a deduction for the current tax year. There is a penalty for failure to timely file these forms.

Form 5500. File this form for a plan that is not a one-participant plan (see below).

Form 5500-EZ. File this form for a one-participant plan. A **one-participant plan** is a plan that only covers you (or you and your spouse).

For details, see **Pub. 560**.

Lines 20a and 20b

If you rented or leased vehicles, machinery, or equipment, enter on line 20a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you

may have to reduce your deduction by an amount called the **inclusion amount**.

You may have to do this if—

The lease term began during . . .	And the vehicle's fair market value on the first day of the lease exceeded . . .
1999, 2000, or 2001	\$15,500
1997 or 1998	15,800
1995 or 1996	15,500
If the lease term began before 1995, see Pub. 463 to find out if you have an inclusion amount.	

See **Pub. 463** to figure your inclusion amount.

Enter on line 20b amounts paid to rent or lease other property, such as office space in a building.

Line 21

Deduct the cost of repairs and maintenance. Include labor, supplies, and other items that do not add to the value or increase the life of the property. Do not deduct the value of your own labor. Do not deduct amounts spent to restore or replace property; they must be capitalized.

Line 22

Generally, you can deduct the cost of supplies only to the extent you actually consumed and used them in your business during the tax year (unless you deducted them in a prior tax year). However, if you had incidental supplies on hand for which you kept no inventories or records of use, you may deduct the cost of supplies you actually purchased during the tax year, provided that method clearly reflects income.

Line 23

You can deduct the following taxes and licenses on this line.

- State and local sales taxes imposed on you as the seller of goods or services. If you collected this tax from the buyer, you must also include the amount collected in gross receipts or sales on line 1.

- Real estate and personal property taxes on business assets.

- Licenses and regulatory fees for your trade or business paid each year to state or local governments. But some licenses, such as liquor licenses, may have to be amortized. See **Pub. 535** for details.

- Social security and Medicare taxes paid to match required withholding from your employees' wages. Also, Federal unemployment tax paid. Reduce your deduction by the amount of the current year credit shown on line 4 of **Form 8846**.

- Federal highway use tax.

Do not deduct the following on this line.

- Federal income taxes, including your self-employment tax. However, you may deduct one-half of your self-employment tax on Form 1040, line 27.

- Estate and gift taxes.
- Taxes assessed to pay for improvements, such as paving and sewers.
- Taxes on your home or personal use property.
- State and local sales taxes on property purchased for use in your business. Instead, treat these taxes as part of the cost of the property.
- State and local sales taxes imposed on the buyer that you were required to collect and pay over to state or local governments. These taxes are not included in gross receipts or sales nor are they a deductible expense. However, if the state or local government allowed you to retain any part of the sales tax you collected, you must include that amount as income on line 6.
- Other taxes and license fees not related to your business.

Line 24a

Enter your expenses for lodging and transportation connected with overnight travel for business while away from your tax home. Generally, your tax home is your main place of business regardless of where you maintain your family home. You cannot deduct expenses paid or incurred in connection with employment away from home if that period of employment exceeds 1 year. Also, you cannot deduct travel expenses for your spouse, your dependent, or any other individual unless that person is your employee, the travel is for a bona fide business purpose, and the expenses would otherwise be deductible by that person.

Do not include expenses for meals and entertainment on this line. Instead, see the instructions for lines 24b and 24c below.

You cannot deduct expenses for attending a foreign convention unless it is directly related to your trade or business and it is as reasonable for the meeting to be held outside the North American area as within it. These rules apply to both employers and employees. Other rules apply to luxury water travel.

For details, see **Pub. 463**.

Lines 24b and 24c

On line 24b, enter your total business meal and entertainment expenses. Include meals while traveling away from home for business. Instead of the actual cost of your meals while traveling away from home, you may use the standard meal allowance. For more details, see **Pub. 463** and **Pub. 1542**.

Business meal expenses are deductible only if they are (a) directly related to or associated with the active conduct of your

trade or business, (b) not lavish or extravagant, and (c) incurred while you or your employee is present at the meal.

You cannot deduct any expense paid or incurred for a facility (such as a yacht or hunting lodge) used for any activity usually considered entertainment, amusement, or recreation.

Also, you cannot deduct membership dues for any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion. But it does not include civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards, unless a principal purpose of the organization is to entertain, or provide entertainment facilities for, members or their guests.

There are exceptions to these rules as well as other rules that apply to sky-box rentals and tickets to entertainment events. See **Pub. 463**.

Generally, you may deduct only 50% of your business meal and entertainment expenses, including meals incurred while away from home on business. For individuals subject to the Department of Transportation (DOT) hours of service limits, that percentage is increased to 60% for business meals consumed during, or incident to, any period of duty for which those limits are in effect. Individuals subject to the DOT hours of service limits include the following persons:

- Certain air transportation workers (such as pilots, crew, dispatchers, mechanics, and control tower operators) who are under Federal Aviation Administration regulations.
- Interstate truck operators who are under DOT regulations.
- Certain merchant mariners who are under Coast Guard regulations.

However, you may fully deduct meals and entertainment furnished or reimbursed to an employee if you properly treat the expense as wages subject to withholding. You may also fully deduct meals and entertainment provided to a nonemployee to the extent the expenses are includible in the gross income of that person and reported on Form 1099-MISC. See **Pub. 535** for details and other exceptions.

Figure how much of the amount on line 24b is not deductible and enter that amount on line 24c.

Line 25

Deduct only utility expenses for your trade or business.

Local Telephone Service. If you used your home phone for business, do not deduct the base rate (including taxes) of the first phone

line into your residence. But you can deduct expenses for any additional costs you incurred for business that are more than the cost of the base rate for the first phone line. For example, if you had a second line, you can deduct the business percentage of the charges for that line, including the base rate charges.

Line 26

Enter the total salaries and wages for the tax year. Do not include salaries and wages deducted elsewhere on your return or amounts paid to yourself. Reduce your deduction by the current year credits claimed on:

- **Form 5884**, Work Opportunity Credit,
- **Form 8844**, Empowerment Zone Employment Credit,
- **Form 8845**, Indian Employment Credit, and
- **Form 8861**, Welfare-to-Work Credit.



If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount applicable to depreciation and other expenses claimed elsewhere.

Line 30

Business Use of Your Home. You may be able to deduct certain expenses for business use of your home, subject to limitations. You must attach **Form 8829** if you claim this deduction. For details, see the Instructions for Form 8829 and **Pub. 587**.

Line 31

If you have a loss, the amount of loss you can deduct this year may be limited. Go to line 32 before entering your loss on line 31. If you answered "No" to Question G on Schedule C, also see the Instructions for Form 8582. Enter the net profit or **deductible** loss here. Combine this amount with any profit or loss from other businesses, and enter the total on Form 1040, line 12, and Schedule SE, line 2. Estates and trusts should enter the total on Form 1041, line 3.

If you have a net profit on line 31, this amount is earned income and may qualify you for the earned income credit. See the instructions for Form 1040, lines 61a and 61b, for details.

Statutory Employees. Include your net profit or deductible loss from line 31 with other Schedule C amounts on Form 1040, line 12. However, **do not** report this amount on Schedule SE, line 2. If you are required to file Schedule SE because of other self-employment income, see the Instructions for Schedule SE.

Line 32

At-Risk Rules. Generally, if you have (a) a business loss and (b) amounts in the business for which you are **not at risk**, you will have to complete **Form 6198** to figure your allowable loss. The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the business.

Check **box 32b** if you have amounts for which you are not at risk in this business, such as the following.

- Nonrecourse loans used to finance the business, to acquire property used in the business, or to acquire the business that are not secured by your own property (other than property used in the business). However, there is an exception for certain non-recourse financing borrowed by you in connection with holding real property.

- Cash, property, or borrowed amounts used in the business (or contributed to the business, or used to acquire the business) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the business from a person who has an interest in the business, other than as a creditor, or who is related under section 465(b)(3) to a person (other than you) having such an interest.

If all amounts are at risk in this business, check **box 32a** and enter your loss on line 31. But if you answered "No" to Question G, you may need to complete **Form 8582** to figure your deductible loss. See the Instructions for Form 8582 for details.

If you checked **box 32b**, see Form 6198 to determine the amount of your deductible loss. But if you answered "No" to Question G, your loss may be further limited. See the Instructions for Form 8582. If your at-risk amount is zero or less, enter zero on line 31. Be sure to attach Form 6198 to your return. If you checked box 32b and you do not attach Form 6198, the processing of your tax return may be delayed.

Any loss from this business not allowed for 2001 because of the at-risk rules is treated as a deduction allocable to the business in 2002. For details, see the Instructions for Form 6198 and **Pub. 925**.

Part III. Cost of Goods Sold

Generally, if you engaged in a trade or business in which the production, purchase, or sale of merchandise was an income-producing factor, you must take inventories into account at the beginning and end of your tax year.

However, if you are a qualifying taxpayer, you may adopt or change your accounting

method to account for inventoriable items in the same manner as materials and supplies that are not incidental. A **qualifying taxpayer** is a taxpayer (a) whose average annual gross receipts for the 3 prior tax years are \$1 million or less and (b) whose business is not a tax shelter (as defined in section 448(d)(3)). Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year you paid for the raw materials or merchandise, if you are also using the cash method). Enter amounts paid for all raw materials and merchandise during 2001 on line 36. The amount you can deduct for 2001 is figured on line 42. For additional guidance on this method of accounting for inventoriable items, see Rev. Proc. 2001-10. You can find Rev. Proc. 2001-10 on page 272 of Internal Revenue Bulletin 2001-2 at www.irs.gov.

Note. Certain direct and indirect expenses may have to be capitalized or included in inventory. See the instructions for Part II beginning on page C-3.

Line 33

Your inventories can be valued at cost; cost or market value, whichever is lower; or any other method approved by the IRS. However, you are required to use cost if you are using the cash method of accounting.

Line 35

If you are changing your method of accounting beginning with 2001, refigure last year's closing inventory using your new method of accounting and enter the result on line 35. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation and take it into account when figuring your section 481(a) adjustment. See the example on page C-2 for details.

Line 41

If you account for inventoriable items in the same manner as materials and supplies that are not incidental, enter on line 41 the portion of your raw materials and merchandise purchased for resale that are included on line 40 and were not sold during the year.

Part V. Other Expenses

Include all ordinary and necessary business expenses not deducted elsewhere on Schedule C. List the type and amount of each expense separately in the space provided. Enter the total on lines 48 and 27. Do not include the cost of business equipment or

furniture, replacements or permanent improvements to property, or personal, living, and family expenses. Do not include charitable contributions. Also, you may not deduct fines or penalties paid to a government for violating any law. For details on business expenses, see **Pub. 535**.

Amortization. Include amortization in this part. For amortization that begins in 2001, you must complete and attach **Form 4562**.

You may amortize:

- The cost of pollution-control facilities.
- Amounts paid for research and experimentation.
- Certain business startup costs.
- Qualified forestation and reforestation costs. See Pub. 535 for limitations.
- Amounts paid to acquire, protect, expand, register, or defend trademarks or trade names.
- Goodwill and certain other intangibles.

In general, you **may not** amortize real property construction period interest and taxes. Special rules apply for allocating interest to real or personal property produced in your trade or business.

At-Risk Loss Deduction. Any loss from this activity that was not allowed as a deduction last year because of the at-risk rules is treated as a deduction allocable to this activity in 2001.

Capital Construction Fund. Do not claim on Schedule C or C-EZ the deduction for amounts contributed to a capital construction fund set up under the Merchant Marine Act of 1936. Instead, reduce the amount you would otherwise enter on Form 1040, line 39, by the amount of the deduction. Next to line 39, enter "CCF" and the amount of the deduction. For details, see **Pub. 595**.

Deduction for Clean-Fuel Vehicles and Clean-Fuel Vehicle Refueling Property. You may deduct part of the cost of qualified clean-fuel vehicle property used in your business and qualified clean-fuel vehicle refueling property. See Pub. 535 for details.

Disabled Access Credit and the Deduction for Removing Barriers to Individuals With Disabilities and the Elderly. You may be able to claim a tax credit of up to \$5,000 for eligible expenditures paid or incurred in 2001 to provide access to your business for individuals with disabilities. See **Form 8826** for details. You can also deduct up to \$15,000 of costs paid or incurred in 2001 to remove architectural or transportation barriers to individuals with disabilities and the elderly. However, you cannot take both the credit and the deduction on the same expenditures.

Principal Business or Professional Activity Codes

These codes for the Principal Business or Professional Activity classify sole proprietorships by the type of activity they are engaged in to facilitate the administration of the Internal Revenue Code. These six-digit codes are based on the North American Industry Classification System (NAICS).

Select the category that best describes your primary business activity (for example, Real Estate). Then select the activity that best identifies the principal source of your sales or receipts (for example, real estate agent). Now find the six-digit code assigned to this activity and **enter it on line B of**

Schedule C or C-EZ (for example, 531210, the Code for offices of real estate agents and brokers).

Note. If your principal source of income is from farming activities, you should file **Schedule F, Profit or Loss From Farming.**

<p>Accommodation, Food Services, & Drinking Places</p> <p>Accommodation</p> <p>721310 Rooming & boarding houses</p> <p>721210 RV (recreational vehicle) parks & recreational camps</p> <p>721100 Travel accommodation (including hotels, motels, & bed & breakfast inns)</p> <p>Food Services & Drinking Places</p> <p>722410 Drinking places (alcoholic beverages)</p> <p>722110 Full-service restaurants</p> <p>722210 Limited-service eating places</p> <p>722300 Special food services (including food service contractors & caterers)</p>	<p>Support Activities for Agriculture & Forestry</p> <p>115210 Support activities for animal production (including farriers)</p> <p>115110 Support activities for crop production (including cotton ginning, soil preparation, planting, & cultivating)</p> <p>115310 Support activities for forestry</p>	<p>Finance & Insurance</p> <p>Credit Intermediation & Related Activities</p> <p>522100 Depository credit intermediation (including commercial banking, savings institutions, & credit unions)</p> <p>522200 Nondepository credit intermediation (including sales financing & consumer lending)</p> <p>522300 Activities related to credit intermediation (including loan brokers)</p>	<p>Information</p> <p>511000 Publishing industries</p> <p>Broadcasting & Telecommunications</p> <p>513000 Broadcasting & telecommunications</p> <p>Information Services & Data Processing Services</p> <p>514210 Data processing services</p> <p>514100 Information services (including news syndicates, libraries, & on-line information services)</p> <p>Motion Picture & Sound Recording</p> <p>512100 Motion picture & video industries (except video rental)</p> <p>512200 Sound recording industries</p>
<p>Administrative & Support and Waste Management & Remediation Services</p> <p>Administrative & Support Services</p> <p>561430 Business service centers (including private mail centers & copy shops)</p> <p>561740 Carpet & upholstery cleaning services</p> <p>561440 Collection agencies</p> <p>561450 Credit bureaus</p> <p>561410 Document preparation services</p> <p>561300 Employment services</p> <p>561710 Exterminating & pest control services</p> <p>561210 Facilities support (management) services</p> <p>561600 Investigation & security services</p> <p>561720 Janitorial services</p> <p>561730 Landscaping services</p> <p>561110 Office administrative services</p> <p>561420 Telephone call centers (including telephone answering services & telemarketing bureaus)</p> <p>561500 Travel arrangement & reservation services</p> <p>561490 Other business support services (including repossession services, court reporting, & stenotype services)</p> <p>561790 Other services to buildings & dwellings</p> <p>561900 Other support services (including packaging & labeling services, & convention & trade show organizers)</p> <p>Waste Management & Remediation Services</p> <p>562000 Waste management & remediation services</p>	<p>Arts, Entertainment, & Recreation</p> <p>Amusement, Gambling, & Recreation Industries</p> <p>713100 Amusement parks & arcades</p> <p>713200 Gambling industries</p> <p>713900 Other amusement & recreation services (including golf courses, skiing facilities, marinas, fitness centers, bowling centers, skating rinks, miniature golf courses)</p> <p>Museums, Historical Sites, & Similar Institutions</p> <p>712100 Museums, historical sites, & similar institutions</p> <p>Performing Arts, Spectator Sports, & Related Industries</p> <p>711410 Agents & managers for artists, athletes, entertainers, & other public figures</p> <p>711510 Independent artists, writers, & performers</p> <p>711100 Performing arts companies</p> <p>711300 Promoters of performing arts, sports, & similar events</p> <p>711210 Spectator sports (including professional sports clubs & racetrack operations)</p>	<p>Insurance Agents, Brokers, & Related Activities</p> <p>524210 Insurance agencies & brokerages</p> <p>524290 Other insurance related activities</p> <p>Securities, Commodity Contracts, & Other Financial Investments & Related Activities</p> <p>523140 Commodity contracts brokers</p> <p>523130 Commodity contracts dealers</p> <p>523110 Investment bankers & securities dealers</p> <p>523210 Securities & commodity exchanges</p> <p>523120 Securities brokers</p> <p>523900 Other financial investment activities (including investment advice)</p>	<p>Manufacturing</p> <p>315000 Apparel mfg.</p> <p>312000 Beverage & tobacco product mfg.</p> <p>334000 Computer & electronic product mfg.</p> <p>335000 Electrical equipment, appliance, & component mfg.</p> <p>332000 Fabricated metal product mfg.</p> <p>337000 Furniture & related product mfg.</p> <p>333000 Machinery mfg.</p> <p>339110 Medical equipment & supplies mfg.</p> <p>322000 Paper mfg.</p> <p>324100 Petroleum & coal products mfg.</p> <p>326000 Plastics & rubber products mfg.</p> <p>331000 Primary metal mfg.</p> <p>323100 Printing & related support activities</p> <p>313000 Textile mills</p> <p>314000 Textile product mills</p> <p>336000 Transportation equipment mfg.</p> <p>321000 Wood product mfg.</p> <p>339900 Other miscellaneous mfg.</p>
<p>Agriculture, Forestry, Hunting, & Fishing</p> <p>112900 Animal production (including breeding of cats and dogs)</p> <p>114110 Fishing</p> <p>113000 Forestry & logging (including forest nurseries & timber tracts)</p> <p>114210 Hunting & trapping</p>	<p>Construction</p> <p>233110 Land subdivision & land development</p> <p>233300 Nonresidential building construction</p> <p>233200 Residential building construction</p> <p>Heavy Construction</p> <p>234100 Highway, street, bridge, & tunnel construction</p> <p>234900 Other heavy construction</p> <p>Special Trade Contractors</p> <p>235500 Carpentry & floor contractors</p> <p>235710 Concrete contractors</p> <p>235310 Electrical contractors</p> <p>235400 Masonry, drywall, insulation, & tile contractors</p> <p>235210 Painting & wall covering contractors</p> <p>235110 Plumbing, heating, & air-conditioning contractors</p> <p>235610 Roofing, siding, & sheet metal contractors</p> <p>235810 Water well drilling contractors</p> <p>235900 Other special trade contractors</p>	<p>Health Care & Social Assistance</p> <p>Ambulatory Health Care Services</p> <p>621610 Home health care services</p> <p>621510 Medical & diagnostic laboratories</p> <p>621310 Offices of chiropractors</p> <p>621210 Offices of dentists</p> <p>621330 Offices of mental health practitioners (except physicians)</p> <p>621320 Offices of optometrists</p> <p>621340 Offices of physical, occupational & speech therapists, & audiologists</p> <p>621111 Offices of physicians (except mental health specialists)</p> <p>621112 Offices of physicians, mental health specialists</p> <p>621391 Offices of podiatrists</p> <p>621399 Offices of all other miscellaneous health practitioners</p> <p>621400 Outpatient care centers</p> <p>621900 Other ambulatory health care services (including ambulance services, blood, & organ banks)</p> <p>Hospitals</p> <p>622000 Hospitals</p> <p>Nursing & Residential Care Facilities</p> <p>623000 Nursing & residential care facilities</p> <p>Social Assistance</p> <p>624410 Child day care services</p> <p>624200 Community food & housing, & emergency & other relief services</p> <p>624100 Individual & family services</p> <p>624310 Vocational rehabilitation services</p>	<p>Chemical Manufacturing</p> <p>325100 Basic chemical mfg.</p> <p>325500 Paint, coating, & adhesive mfg.</p> <p>325300 Pesticide, fertilizer, & other agricultural chemical mfg.</p> <p>325410 Pharmaceutical & medicine mfg.</p> <p>325200 Resin, synthetic rubber, & artificial & synthetic fibers & filaments mfg.</p> <p>325600 Soap, cleaning compound, & toilet preparation mfg.</p> <p>325900 Other chemical product & preparation mfg.</p> <p>Food Manufacturing</p> <p>311110 Animal food mfg.</p> <p>311800 Bakeries & tortilla mfg.</p> <p>311500 Dairy product mfg.</p> <p>311400 Fruit & vegetable preserving & speciality food mfg.</p> <p>311200 Grain & oilseed milling</p> <p>311610 Animal slaughtering & processing</p> <p>311710 Seafood product preparation & packaging</p> <p>311300 Sugar & confectionery product mfg.</p> <p>311900 Other food mfg. (including coffee, tea, flavorings, & seasonings)</p>

Principal Business or Professional Activity Codes (continued)

<p>Leather & Allied Product Manufacturing</p> <p>316210 Footwear mfg. (including leather, rubber, & plastics)</p> <p>316110 Leather & hide tanning & finishing</p> <p>316990 Other leather & allied product mfg.</p> <p>Nonmetallic Mineral Product Manufacturing</p> <p>327300 Cement & concrete product mfg.</p> <p>327100 Clay product & refractory mfg.</p> <p>327210 Glass & glass product mfg.</p> <p>327400 Lime & gypsum product mfg.</p> <p>327900 Other nonmetallic mineral product mfg.</p>	<p>541350 Building inspection services</p> <p>541340 Drafting services</p> <p>541330 Engineering services</p> <p>541360 Geophysical surveying & mapping services</p> <p>541320 Landscape architecture services</p> <p>541370 Surveying & mapping (except geophysical) services</p> <p>541380 Testing laboratories</p> <p>Computer Systems Design & Related Services</p> <p>541510 Computer systems design & related services</p> <p>Specialized Design Services</p> <p>541400 Specialized design services (including interior, industrial, graphic, & fashion design)</p>	<p>448110 Men's clothing stores</p> <p>448210 Shoe stores</p> <p>448120 Women's clothing stores</p> <p>448190 Other clothing stores</p> <p>Electronic & Appliance Stores</p> <p>443130 Camera & photographic supplies stores</p> <p>443120 Computer & software stores</p> <p>443111 Household appliance stores</p> <p>443112 Radio, television, & other electronics stores</p> <p>Food & Beverage Stores</p> <p>445310 Beer, wine, & liquor stores</p> <p>445220 Fish & seafood markets</p> <p>445230 Fruit & vegetable markets</p> <p>445100 Grocery stores (including supermarkets & convenience stores without gas)</p> <p>445210 Meat markets</p> <p>445290 Other specialty food stores</p> <p>Furniture & Home Furnishing Stores</p> <p>442110 Furniture stores</p> <p>442200 Home furnishings stores</p> <p>Gasoline Stations</p> <p>447100 Gasoline stations (including convenience stores with gas)</p> <p>General Merchandise Stores</p> <p>452000 General merchandise stores</p> <p>Health & Personal Care Stores</p> <p>446120 Cosmetics, beauty supplies, & perfume stores</p> <p>446130 Optical goods stores</p> <p>446110 Pharmacies & drug stores</p> <p>446190 Other health & personal care stores</p> <p>Motor Vehicle & Parts Dealers</p> <p>441300 Automotive parts, accessories, & tire stores</p> <p>441222 Boat dealers</p> <p>441221 Motorcycle dealers</p> <p>441110 New car dealers</p> <p>441210 Recreational vehicle dealers (including motor home & travel trailer dealers)</p> <p>441120 Used car dealers</p> <p>441229 All other motor vehicle dealers</p> <p>Sporting Goods, Hobby, Book, & Music Stores</p> <p>451211 Book stores</p> <p>451120 Hobby, toy, & game stores</p> <p>451140 Musical instrument & supplies stores</p> <p>451212 News dealers & newsstands</p> <p>451220 Precordered tape, compact disc, & record stores</p> <p>451130 Sewing, needlework, & piece goods stores</p> <p>451110 Sporting goods stores</p> <p>Miscellaneous Store Retailers</p> <p>453920 Art dealers</p> <p>453110 Florists</p> <p>453220 Gift, novelty, & souvenir stores</p> <p>453930 Manufactured (mobile) home dealers</p> <p>453210 Office supplies & stationery stores</p> <p>453910 Pet & pet supplies stores</p> <p>453310 Used merchandise stores</p> <p>453990 All other miscellaneous store retailers (including tobacco, candle, & trophy shops)</p> <p>Nonstore Retailers</p> <p>454110 Electronic shopping & mail-order houses</p> <p>454310 Fuel dealers</p> <p>454210 Vending machine operators</p> <p>454390 Other direct selling establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)</p>	<p>Transportation & Warehousing</p> <p>481000 Air transportation</p> <p>485510 Charter bus industry</p> <p>484110 General freight trucking, local</p> <p>484120 General freight trucking, long-distance</p> <p>485210 Interurban & rural bus transportation</p> <p>486000 Pipeline transportation</p> <p>482110 Rail transportation</p> <p>487000 Scenic & sightseeing transportation</p> <p>485410 School & employee bus transportation</p> <p>484200 Specialized freight trucking (including household moving vans)</p> <p>485300 Taxi & limousine service</p> <p>485110 Urban transit systems</p> <p>483000 Water transportation</p> <p>485990 Other transit & ground passenger transportation</p> <p>488000 Support activities for transportation (including motor vehicle towing)</p> <p>Couriers & Messengers</p> <p>492000 Couriers & messengers</p> <p>Warehousing & Storage Facilities</p> <p>493100 Warehousing & storage (except lessors of miniwarehouses & self-storage units)</p>
<p>Mining</p> <p>212110 Coal mining</p> <p>212200 Metal ore mining</p> <p>212300 Nonmetallic mineral mining & quarrying</p> <p>211110 Oil & gas extraction</p> <p>213110 Support activities for mining</p>	<p>Other Professional, Scientific, & Technical Services</p> <p>541800 Advertising & related services</p> <p>541600 Management, scientific, & technical consulting services</p> <p>541910 Market research & public opinion polling</p> <p>541920 Photographic services</p> <p>541700 Scientific research & development services</p> <p>541930 Translation & interpretation services</p> <p>541940 Veterinary services</p> <p>541990 All other professional, scientific, & technical services</p>		
<p>Other Services</p> <p>Personal & Laundry Services</p> <p>812111 Barber shops</p> <p>812112 Beauty salons</p> <p>812220 Cemeteries & crematories</p> <p>812310 Coin-operated laundries & drycleaners</p> <p>812320 Drycleaning & laundry services (except coin-operated) (including laundry & drycleaning drop off & pickup sites)</p> <p>812210 Funeral homes & funeral services</p> <p>812330 Linen & uniform supply</p> <p>812113 Nail salons</p> <p>812930 Parking lots & garages</p> <p>812910 Pet care (except veterinary) services</p> <p>812920 Photofinishing</p> <p>812190 Other personal care services (including diet & weight reducing centers)</p> <p>812990 All other personal services</p> <p>Repair & Maintenance</p> <p>811120 Automotive body, paint, interior, & glass repair</p> <p>811110 Automotive mechanical & electrical repair & maintenance</p> <p>811190 Other automotive repair & maintenance (including oil change & lubrication shops & car washes)</p> <p>811310 Commercial & industrial machinery & equipment (except automotive & electronic) repair & maintenance</p> <p>811210 Electronic & precision equipment repair & maintenance</p> <p>811430 Footwear & leather goods repair</p> <p>811410 Home & garden equipment & appliance repair & maintenance</p> <p>811420 Reupholstery & furniture repair</p> <p>811490 Other personal & household goods repair & maintenance</p>	<p>Real Estate & Rental & Leasing</p> <p>Real Estate</p> <p>531100 Lessors of real estate (including miniwarehouses & self-storage units)</p> <p>531210 Offices of real estate agents & brokers</p> <p>531320 Offices of real estate appraisers</p> <p>531310 Real estate property managers</p> <p>531390 Other activities related to real estate</p> <p>Rental & Leasing Services</p> <p>532100 Automotive equipment rental & leasing</p> <p>532400 Commercial & industrial machinery & equipment rental & leasing</p> <p>532210 Consumer electronics & appliances rental</p> <p>532220 Formal wear & costume rental</p> <p>532310 General rental centers</p> <p>532230 Video tape & disc rental</p> <p>532290 Other consumer goods rental</p>		
<p>Professional, Scientific, & Technical Services</p> <p>541100 Legal services</p> <p>541211 Offices of certified public accountants</p> <p>541214 Payroll services</p> <p>541213 Tax preparation services</p> <p>541219 Other accounting services</p> <p>Architectural, Engineering, & Related Services</p> <p>541310 Architectural services</p>	<p>Religious, Grantmaking, Civic, Professional, & Similar Organizations</p> <p>813000 Religious, grantmaking, civic, professional, & similar organizations</p>		
	<p>Retail Trade</p> <p>Building Material & Garden Equipment & Supplies Dealers</p> <p>444130 Hardware stores</p> <p>444110 Home centers</p> <p>444200 Lawn & garden equipment & supplies stores</p> <p>444120 Paint & wallpaper stores</p> <p>444190 Other building materials dealers</p> <p>Clothing & Accessories Stores</p> <p>448130 Children's & infants' clothing stores</p> <p>448150 Clothing accessories stores</p> <p>448140 Family clothing stores</p> <p>448310 Jewelry stores</p> <p>448320 Luggage & leather goods stores</p>		
		<p>Utilities</p> <p>221000 Utilities</p>	<p>Wholesale Trade</p> <p>Wholesale Trade, Durable Goods</p> <p>421600 Electrical goods</p> <p>421200 Furniture & home furnishing</p> <p>421700 Hardware, & plumbing & heating equipment & supplies</p> <p>421940 Jewelry, watch, precious stone, & precious metals</p> <p>421300 Lumber & other construction materials</p> <p>421800 Machinery, equipment, & supplies</p> <p>421500 Metal & mineral (except petroleum)</p> <p>421100 Motor vehicle & motor vehicle parts & supplies</p> <p>421400 Professional & commercial equipment & supplies</p> <p>421930 Recyclable materials</p> <p>421910 Sporting & recreational goods & supplies</p> <p>421920 Toy & hobby goods & supplies</p> <p>421990 Other miscellaneous durable goods</p> <p>Wholesale Trade, Nondurable Goods</p> <p>422300 Apparel, piece goods, & notions</p> <p>422800 Beer, wine, & distilled alcoholic beverage</p> <p>422920 Books, periodicals, & newspapers</p> <p>422600 Chemical & allied products</p> <p>422210 Drugs & druggists' sundries</p> <p>422500 Farm product raw materials</p> <p>422910 Farm supplies</p> <p>422930 Flower, nursery stock, & florists' supplies</p> <p>422400 Grocery & related products</p> <p>422950 Paint, varnish, & supplies</p> <p>422100 Paper & paper products</p> <p>422700 Petroleum & petroleum products</p> <p>422940 Tobacco & tobacco products</p> <p>422990 Other miscellaneous nondurable goods</p> <p>999999 Unclassified establishments (unable to classify)</p>

2001 Instructions for Schedule D, Capital Gains and Losses

Use Schedule D (Form 1040) to report the following.

- The sale or exchange of a capital asset (defined on this page) not reported on another form or schedule.
- Gains from involuntary conversions (other than from casualty or theft) of capital assets not held for business or profit.
- Capital gain distributions not reported directly on Form 1040, line 13.
- Nonbusiness bad debts.

Additional Information. See **Pub. 544** and **Pub. 550** for more details. For a comprehensive filled-in example of Schedule D, see Pub. 550.

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Changes To Note

• We have simplified the tax computation in Part IV for most taxpayers by eliminating 14 lines. Because of this change, taxpayers with unrecaptured section 1250 gain or 28% rate gain must complete a new worksheet on page D-9 to figure the tax on line 40 of Part IV.

• For 2001 and later years, qualified 5-year gain is taxed at 8% to the extent it otherwise would have been taxed at 10%. See the instructions for line 29 on page D-8.

• You may make an election to recognize gain on certain assets held on January 1, 2001. See page D-2 for details.

Other Forms You May Have To File

Use **Form 4797** to report the following.

- The sale or exchange of:
 1. Property used in a trade or business;
 2. Depreciable and amortizable property;
 3. Oil, gas, geothermal, or other mineral property; and
 4. Section 126 property.
- The involuntary conversion (other than from casualty or theft) of property used in a trade or business and capital assets held for business or profit.
- The disposition of noncapital assets other than inventory or property held primarily for sale to customers in the ordinary course of your trade or business.
- Ordinary loss on the sale, exchange, or worthlessness of small business investment company (section 1242) stock.
- Ordinary loss on the sale, exchange, or worthlessness of small business (section 1244) stock.
- Ordinary gain or loss on securities held in connection with your trading business, if you previously made a mark-to-market election. See **Special Rules for Traders in Securities** beginning on page D-3.

Use **Form 4684** to report involuntary conversions of property due to casualty or theft.

Use **Form 6781** to report gains and losses from section 1256 contracts and straddles.

Use **Form 8824** to report like-kind exchanges. A like-kind exchange occurs when you exchange business or investment property for property of a like kind.

Capital Asset

Most property you own and use for personal purposes, pleasure, or investment is a capital asset. For example, your house, furniture, car, stocks, and bonds are capital assets. A capital asset is any property held by you **except** the following.

- Stock in trade or other property included in inventory or held mainly for sale to customers.
- Accounts or notes receivable for services performed in the ordinary course of your trade or business or as an employee, or from the sale of stock in trade or other property held mainly for sale to customers.
- Depreciable property used in your trade or business, even if it is fully depreciated.
- Real estate used in your trade or business.
- Copyrights, literary, musical, or artistic compositions, letters or memoranda, or similar property: (a) created by your personal efforts; (b) prepared or produced for you (in the case of letters, memoranda, or similar property); or (c) that you received from someone who created them or for whom they were created, as mentioned in (a) or (b), in a way (such as by gift) that entitled you to the basis of the previous owner.
- U.S. Government publications, including the Congressional Record, that you received from the government, other than by purchase at the normal sales price, or that you got from someone who had received it in a similar way, if your basis is determined by reference to the previous owner's basis.
- Certain commodities derivative financial instruments held by a dealer. See section 1221(a)(6).
- Certain hedging transactions entered into in the normal course of your trade or business. See section 1221(a)(7).
- Supplies regularly used in your trade or business.

Short Term or Long Term

Separate your capital gains and losses according to how long you held or owned the property. The holding period for short-term capital gains and losses is 1 year or less. The holding period for long-term capital gains and losses is more than 1 year. To figure the holding period, begin counting on the day after you received the property and include the day you disposed of it.

If you disposed of property that you acquired by inheritance, report the disposition as a long-term gain or loss, regardless of how long you held the property.

A nonbusiness bad debt must be treated as a short-term capital loss. See Pub. 550 for what qualifies as a nonbusiness bad debt and how to enter it on Schedule D.

Capital Gain Distributions

These distributions are paid by a mutual fund (or other regulated investment company) or real estate investment trust from its net realized long-term capital gains. Enter on line 13, column (f), the **total** capital gain distributions paid to you during the year, regardless of how long you held your investment. This amount is shown in box 2a of **Form 1099-DIV**.

If there is an amount in box 2b of Form 1099-DIV, include that amount on line 13, column (g).

If there is an amount in box 2c, include that amount on line 2 of the **Qualified 5-Year Gain Worksheet** on page D-8 if you are required to complete line 29 of Schedule D.

If there is an amount in box 2d, include that amount on line 11 of the **Unrecaptured Section 1250 Gain Worksheet** on page D-7 if you are required to complete line 19 of Schedule D.

If there is an amount in box 2e, see **Exclusion of Gain on Qualified Small Business (QSB) Stock** beginning on page D-4.

If you received capital gain distributions as a nominee (that is, they were paid to you but actually belong to someone else), report on line 13 only the amount that belongs to you. Attach a statement showing the full amount you received and the amount you received as a nominee. See the Instructions

for Schedule B for filing requirements for Forms 1099-DIV and 1096.

Election To Recognize Gain on Certain Assets Held on January 1, 2001

You may elect to treat certain assets you held on January 1, 2001, as having been sold and then reacquired on the same date. The purpose of the election is to make future gain on the asset eligible for an 18% (instead of 20%) capital gains tax rate. The 18% tax rate is applicable to the extent the gain would otherwise be taxed at 20% if the holding period of the asset begins after December 31, 2000, and the asset is held for more than 5 years.

Any gain on the deemed sale **must** be recognized without regard to any provision of the Internal Revenue Code. For example, if you make the deemed election with respect to your main home, you cannot exclude the gain on the deemed sale under section 121.

A loss from a deemed sale is not allowed in any tax year, but the asset will be eligible for the 18% rate on any future gain. Your basis in the reacquired asset is its closing market price or fair market value, whichever applies, on the date of the deemed sale, whether the deemed sale results in a gain or an unallowed loss.

Any readily tradable stock (that is a capital asset) not sold before January 2, 2001, for which the election is made is deemed to have been sold on January 2, 2001, at its closing market price on that date and reacquired on that date for the same amount. For this purpose, readily tradable stock includes shares issued by an open-end mutual fund. Any other capital asset or property used in a trade or business (section 1231 property) held on January 1, 2001, for which the election is made is deemed to have been sold and reacquired on January 1, 2001, for its fair market value on that date.

If you make the election with respect to your interest in a pass-through entity (such as a mutual fund, partnership, S corporation, etc.) and the pass-through entity makes the election with respect to assets it holds, the pass-through entity's election will be considered to immediately precede your election for deemed sales that occur on the same day.

To make the election, report the deemed sale(s) on your 2001 tax return as if it was an actual sale. However, if the deemed sale results in a loss, enter zero instead of the amount of the loss. Attach a statement to your return stating that you are making an election under section 311 of the Taxpayer Relief Act of 1997 and listing the asset(s) for which you are making the election. You must file the tax return no later than its due date (including extensions). However, if you timely filed your tax return without making the election for one or more eligible assets, you can still make the election for those

assets on an amended return filed within 6 months of the due date of your tax return (excluding extensions). Write "Election Under Section 311 of the Taxpayer Relief Act of 1997" at the top of the amended return. Once made, an election for any asset is irrevocable.

Note. You may **not** make this election for any asset that you disposed of (in a transaction in which gain or loss is recognized in whole or in part) before the close of the 1-year period beginning on the date that the asset would have been treated as sold under this election.

Sale of Your Home

If you sold or exchanged your main home, **do not** report it on your tax return unless your gain exceeds your exclusion amount. Generally, if you meet the two tests below, you can exclude up to \$250,000 of gain. If both you and your spouse meet these tests and you file a joint return, you can exclude up to \$500,000 of gain (but only one spouse needs to meet the ownership requirement in **Test 1**).

Test 1. You owned and used the home as your main home for 2 years or more during the 5-year period ending on the date you sold or exchanged your home.

Test 2. You have not sold or exchanged another main home during the 2-year period ending on the date of the sale or exchange of your home.

See **Pub. 523** for details, including how to report any taxable gain on Schedule D, if:

- You do not meet one of the above two tests,
- You (or your spouse if married) used any part of the home for business or rental purposes after May 6, 1997, **or**
- Your gain exceeds your exclusion amount.

Partnership Interests

A sale or other disposition of an interest in a partnership may result in ordinary income, collectibles gain (28% rate gain), or unreaptured section 1250 gain. For details on 28% rate gain, see page D-6. For details on unreaptured section 1250 gain, see the instructions for line 19 beginning on page D-6.

Capital Assets Held for Personal Use

Generally, gain from the sale or exchange of a capital asset held for personal use is a capital gain. Report it on Schedule D, Part I or Part II. However, if you converted depreciable property to personal use, all or part of the gain on the sale or exchange of that property may have to be recaptured as ordinary income. Use Part III of **Form 4797** to figure the amount of ordinary income recapture. The recapture amount is included

on line 31 (and line 13) of Form 4797. **Do not** enter any gain for this property on line 32 of Form 4797. If you are not completing Part III for any other properties, enter "N/A" on line 32. If the total gain is more than the recapture amount, enter "From Form 4797" in column (a) of line 1 or line 8 of Schedule D, skip columns (b) through (e), and in column (f) enter the excess of the total gain over the recapture amount.

Loss from the sale or exchange of a capital asset held for personal use is not deductible. But if you had a loss from the sale or exchange of real estate held for personal use for which you received a **Form 1099-S**, you must report the transaction on Schedule D even though the loss is not deductible. For example, you have a loss on the sale of a vacation home that is not your main home and you received a **Form 1099-S** for the transaction. Report the transaction on line 1 or 8, depending on how long you owned the home. Complete columns (a) through (e). Because the loss is not deductible, enter zero in column (f).

Nondeductible Losses

Do not deduct a loss from the direct or indirect sale or exchange of property between any of the following.

- Members of a family.
- A corporation and an individual owning more than 50% of the corporation's stock (unless the loss is from a distribution in complete liquidation of a corporation).
- A grantor and a fiduciary of a trust.
- A fiduciary and a beneficiary of the same trust.
- A fiduciary and a beneficiary of another trust created by the same grantor.
- An executor of an estate and a beneficiary of that estate, unless the sale or exchange was to satisfy a pecuniary bequest (that is, a bequest of a sum of money).
- An individual and a tax-exempt organization controlled by the individual or the individual's family.

See **Pub. 544** for more details on sales and exchanges between related parties.

If you disposed of (a) an asset used in an activity to which the at-risk rules apply or (b) any part of your interest in an activity to which the at-risk rules apply, and you have amounts in the activity for which you are not at risk, see the Instructions for Form 6198.

If the loss is allowable under the at-risk rules, it may then be subject to the passive activity rules. See **Form 8582** and its instructions for details on reporting capital gains and losses from a passive activity.

Items for Special Treatment

- Transactions by a securities dealer. See section 1236.
- Bonds and other debt instruments. See **Pub. 550**.
- Certain real estate subdivided for sale that may be considered a capital asset. See section 1237.
- Gain on the sale of depreciable property to a more than 50% owned entity or to a trust of which you are a beneficiary. See **Pub. 544**.
- Gain on the disposition of stock in an interest charge domestic international sales corporation. See section 995(c).
- Gain on the sale or exchange of stock in certain foreign corporations. See section 1248.
- Transfer of property to a partnership that would be treated as an investment company if it were incorporated. See **Pub. 541**.
- Sales of stock received under a qualified public utility dividend reinvestment plan. See **Pub. 550**.
- Transfer of appreciated property to a political organization. See section 84.
- In general, no gain or loss is recognized on the transfer of property from an individual to a spouse or a former spouse if the transfer is incident to a divorce. See **Pub. 504**.
- Amounts received on the retirement of a debt instrument generally are treated as received in exchange for the debt instrument. See **Pub. 550**.
- Any loss on the disposition of converted wetland or highly erodible cropland that is first used for farming after March 1, 1986, is reported as a long-term capital loss on Schedule D, but any gain is reported as ordinary income on **Form 4797**.
- Amounts received by shareholders in corporate liquidations. See **Pub. 550**.
- Cash received in lieu of fractional shares of stock as a result of a stock split or stock dividend. See **Pub. 550**.
- Mutual fund load charges may not be taken into account in determining gain or loss on certain dispositions of stock in mutual funds if reinvestment rights were exercised. See **Pub. 564**.
- The sale or exchange of S corporation stock or an interest in a trust held for more than 1 year may result in collectibles gain (28% rate gain). See page D-6.
- Gain or loss on the disposition of securities futures contracts. See **Pub. 550**.
- Gain on the constructive sale of certain appreciated financial positions. See **Pub. 550**.
- The receipt of cash or stock (that you later sold) upon the demutualization of an insurance company. See **Pub. 550** or use TeleTax topic 430 (see page 11 of the Form 1040 instructions).

• Certain constructive ownership transactions. Gain in excess of the gain you would have recognized if you had held a financial asset directly during the term of a derivative contract must be treated as ordinary income. See section 1260. If any portion of the constructive ownership transaction was open in any prior year, you may have to pay interest. See section 1260(b) for details, including how to figure the interest. Include the interest as an additional tax on Form 1040, line 58. Write "Section 1260(b) interest" and the amount of the interest to the left of line 58. This interest is not deductible.

• The sale of publicly traded securities, if you elect to postpone gain by purchasing common stock or a partnership interest in a specialized small business investment company during the 60-day period that began on the date of the sale. See **Pub. 550**.

• The sale of qualified securities held for at least 3 years to an employee stock ownership plan or eligible worker-owned cooperative, if you elect to postpone gain by purchasing qualified replacement property. See **Pub. 550**.

• The sale of qualified empowerment zone assets acquired after December 21, 2000, that you held for more than 1 year, if you elect to postpone gain by purchasing other qualified empowerment zone assets during the 60-day period that began on the date of the sale. See **Pub. 550** and **Pub. 954**.

Wash Sales

A wash sale occurs when you sell or otherwise dispose of stock or securities (including a contract or option to acquire or sell stock or securities) at a loss and, within 30 days before or after the sale or disposition, you directly or indirectly:

- Buy substantially identical stock or securities,
- Acquire substantially identical stock or securities in a fully taxable trade, or
- Enter into a contract or option to acquire substantially identical stock or securities.

You **cannot** deduct losses from wash sales unless the loss was incurred in the ordinary course of your business as a dealer in stock or securities. The basis of the substantially identical property (or contract or option to acquire such property) is its cost increased by the disallowed loss. For more details on wash sales, see **Pub. 550**.

Report a wash sale transaction on line 1 or 8. Enter the full amount of the (loss) in column (f). Directly below the line on which you reported the loss, enter "Wash Sale" in column (a), and enter as a positive amount in column (f) the amount of the loss not allowed.

Special Rules for Traders in Securities

You are a **trader in securities** if you are engaged in the **business** of buying and selling securities for your own account. To be engaged in business as a trader in securities:

- You must seek to **profit from daily market movements** in the prices of securities and not from dividends, interest, or capital appreciation.
- Your activity must be **substantial**.
- You must carry on the activity with **continuity** and **regularity**.

The following facts and circumstances should be considered in determining if your activity is a business.

- Typical holding periods for securities bought and sold.
- The frequency and dollar amount of your trades during the year.
- The extent to which you pursue the activity to produce income for a livelihood.
- The amount of time you devote to the activity.

You are considered an investor, and not a trader, if your activity does not meet the above definition of a business. It does not matter whether you call yourself a trader or a "day trader."

Like an investor, a trader must report each sale of securities (taking into account commissions and any other costs of acquiring or disposing of the securities) on Schedule D or D-1 or on an attached statement containing all the same information for each sale in a similar format. However, if a trader previously made the mark-to-market election (see below), each transaction is reported in Part II of **Form 4797** instead of Schedules D and D-1. Regardless of whether a trader reports his or her gains and losses on Schedules D and D-1 or Form 4797, the gain or loss from the disposition of securities is **not** taken into account when figuring net earnings from self-employment on Schedule SE. See the Instructions for Schedule SE for an exception that applies to section 1256 contracts.

The limitation on investment interest expense that applies to investors does not apply to interest paid or incurred in a trading business. A trader reports interest expense and other expenses (excluding commissions and other costs of acquiring or disposing of securities) from a trading business on Schedule C (instead of Schedule A).

A trader also may hold securities for investment. The rules for investors generally will apply to those securities. Allocate interest and other expenses between your trading business and your investment securities.

Mark-To-Market Election for Traders

A trader may make an election under section 475(f) to report all gains and losses from

securities held in connection with a trading business as ordinary income (or loss), including securities held at the end of the year. Securities held at the end of the year are "marked to market" by treating them as if they were sold (and reacquired) for fair market value on the last business day of the year. Generally, the election must be made by the due date (**not** including extensions) of the tax return for the year **prior** to the year for which the election becomes effective. To be effective for 2001, the election must have been made by April 16, **2001**.

Starting with the year the election becomes effective, a trader reports all gains and losses from securities held in connection with the trading business, including securities held at the end of the year, in Part II of Form 4797. If you previously made the election, see the Instructions for Form 4797. For details on making the mark-to-market election for 2002, see Pub. 550 or Rev. Proc. 99-17, 1999-1 C.B. 503. You can find Rev. Proc. 99-17 on page 52 of Internal Revenue Bulletin 1999-7 at www.irs.gov.

If you hold securities for investment, they must be identified as such in your records on the day they are acquired (for example, by holding the securities in a separate brokerage account). Securities held for investment are not marked-to-market.

Short Sales

A short sale is a contract to sell property you borrowed for delivery to a buyer. At a later date, you either buy substantially identical property and deliver it to the lender or deliver property that you held but did not want to transfer at the time of the sale. Usually, your holding period is the amount of time you actually held the property eventually delivered to the lender to close the short sale. However, your gain when closing a short sale is short term if you (a) held substantially identical property for 1 year or less on the date of the short sale or (b) acquired property substantially identical to the property sold short after the short sale but on or before the date you close the short sale. If you held substantially identical property for more than 1 year on the date of a short sale, any loss realized on the short sale is a long-term capital loss, even if the property used to close the short sale was held 1 year or less.

Gain or Loss From Options

Report on Schedule D gain or loss from the closing or expiration of an option that is not a section 1256 contract but is a capital asset in your hands. If an option you purchased expired, enter the expiration date in column (c) and enter "**EXPIRED**" in column (d). If an option that was granted (written) expired, enter the expiration date in column (b) and enter "**EXPIRED**" in column (e). Fill in the other columns as appropriate. See **Pub. 550** for details.

Undistributed Capital Gains

Include on line 11, column (f), the amount from box 1a of **Form 2439**. This represents your share of the undistributed long-term capital gains of the regulated investment company (including a mutual fund) or real estate investment trust.

If there is an amount in box 1b of Form 2439, include that amount on line 11, column (g).

If there is an amount in box 1c, include that amount on line 2 of the **Qualified 5-Year Gain Worksheet** on page D-8 if you are required to complete line 29 of Schedule D.

If there is an amount in box 1d, include that amount on line 11 of the **Unrecaptured Section 1250 Gain Worksheet** on page D-7 if you are required to complete line 19 of Schedule D.

If there is an amount in box 1e, see **Exclusion of Gain on Qualified Small Business (QSB) Stock** on this page.

Enter on Form 1040, line 65, the tax paid as shown in box 2 of Form 2439. Also on line 65, check the box for Form 2439. Add to the basis of your stock the excess of the amount included in income over the amount of the credit for the tax paid. See **Pub. 550** for details.

Installment Sales

If you sold property (other than publicly traded stocks or securities) at a gain and you will receive a payment in a tax year after the year of sale, you generally must report the sale on the installment method unless you elect not to. Use **Form 6252** to report the sale on the installment method. Also use Form 6252 to report any payment received in 2001 from a sale made in an earlier year that you reported on the installment method.

To elect out of the installment method, report the full amount of the gain on Schedule D on a timely filed return (including extensions) for the year of the sale. If your original return was filed on time, you may make the election on an amended return filed no later than 6 months after the due date of your return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return.

Exclusion of Gain on Qualified Small Business (QSB) Stock

Section 1202 allows for an exclusion of up to 50% of the eligible gain on the sale or exchange of QSB stock. The section 1202 exclusion applies only to QSB stock held for more than 5 years.

To be **QSB stock**, the stock must meet **all** of the following tests.

- It must be stock in a C corporation (that is, not S corporation stock).

- It must have been originally issued after August 10, 1993.

- As of the date the stock was issued, the corporation was a domestic C corporation with total gross assets of \$50 million or less (a) at all times after August 9, 1993, and before the stock was issued and (b) immediately after the stock was issued. Gross assets include those of any predecessor of the corporation. All corporations that are members of the same parent-subsidiary controlled group are treated as one corporation.

- You must have acquired the stock at its original issue (either directly or through an underwriter), either in exchange for money or other property or as pay for services (other than as an underwriter) to the corporation. In certain cases, you may meet the test if you acquired the stock from another person who met the test (such as by gift or inheritance) or through a conversion or exchange of QSB stock you held.

- During substantially all the time you held the stock:

1. The corporation was a C corporation,
2. At least 80% of the value of the corporation's assets were used in the active conduct of one or more qualified businesses (defined below), and
3. The corporation **was not** a foreign corporation, DISC, former DISC, regulated investment company, real estate investment trust, REMIC, FASIT, cooperative, or a corporation that has made (or that has a subsidiary that has made) a section 936 election.

Note. A specialized small business investment company (SSBIC) is treated as having met test 2 above.

A **qualified business** is any business **other than a—**

- Business involving services performed in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services.

- Business whose principal asset is the reputation or skill of one or more employees.

- Banking, insurance, financing, leasing, investing, or similar business.

- Farming business (including the raising or harvesting of trees).

- Business involving the production of products for which percentage depletion can be claimed.

- Business of operating a hotel, motel, restaurant, or similar business.

For more details about limits and additional requirements that may apply, see section 1202.

Pass-Through Entities

If you held an interest in a pass-through entity (a partnership, S corporation, or mutual fund or other regulated investment

company) that sold QSB stock, to qualify for the exclusion you must have held the interest on the date the pass-through entity acquired the QSB stock and at all times thereafter until the stock was sold.

How To Report

Report in column (f) of line 8 the entire gain realized on the sale of QSB stock. In column (g) of line 8, report as 28% rate gain an amount equal to the section 1202 exclusion. Complete all other columns as indicated. Directly below the line on which you reported the gain, enter in column (a) "Section 1202 exclusion" and enter as a (loss) in column (f) the amount of the allowable exclusion.

Gain From Form 1099-DIV. If you received a Form 1099-DIV with a gain in box 2e, part or all of that gain (which is also included in box 2a) may be eligible for the section 1202 exclusion. In column (a) of line 8, enter the name of the corporation whose stock was sold. In column (f), enter the amount of your allowable exclusion as a loss. In column (g), enter the amount of your allowable exclusion as a gain.

Gain From Form 2439. If you received a Form 2439 with a gain in box 1e, part or all of that gain (which is also included in box 1a) may be eligible for the section 1202 exclusion. In column (a) of line 8, enter the name of the corporation whose stock was sold. In column (f), enter the amount of your allowable exclusion as a loss. In column (g), enter the amount of your allowable exclusion as a gain.

Gain From an Installment Sale of QSB Stock. If all payments are not received in the year of sale, a sale of QSB stock that is not traded on an established securities market generally is treated as an installment sale and is reported on Form 6252. Figure the allowable section 1202 exclusion for the year by multiplying the total amount of the exclusion by a fraction, the numerator of which is the amount of eligible gain to be recognized for the tax year and the denominator of which is the total amount of eligible gain. In column (a) of line 8, enter the name of the corporation whose stock was sold. In column (f), enter the amount of your allowable exclusion as a loss. In column (g), enter the amount of your allowable exclusion as a gain.

Alternative Minimum Tax. You must enter 42% of your allowable exclusion for the year on **Form 6251**, line 14m.

Rollover of Gain From QSB Stock

If you sold QSB stock (defined on page D-4) that you held for more than 6 months, you may elect to postpone gain if you purchase other QSB stock during the 60-day period that began on the date of the sale. A pass-

through entity also may make the election to postpone gain. The benefit of the postponed gain applies to your share of the entity's postponed gain if you held an interest in the entity for the entire period the entity held the QSB stock. If a pass-through entity sold QSB stock held for more than 6 months and you held an interest in the entity for the entire period the entity held the stock, you also may elect to postpone gain if you, rather than the pass-through entity, purchase the replacement QSB stock within the 60-day period.

You must recognize gain to the extent the sale proceeds exceed the cost of the replacement stock. Reduce the basis of the replacement stock by any postponed gain.

You must make the election no later than the due date (including extensions) for filing your tax return for the tax year in which the QSB stock was sold. If your original return was filed on time, you may make the election on an amended return filed no later than 6 months after the due date of your return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return.

To make the election, report the entire gain realized on the sale on line 1 or 8. Directly below the line on which you reported the gain, enter in column (a) "Section 1045 rollover," and enter as a (loss) in column (f) the amount of the postponed gain.

Specific Instructions

Lines 1 and 8

Enter all sales and exchanges of capital assets, including stocks, bonds, etc., and real estate (if not reported on Form 4684, 4797, 6252, 6781, or 8824). But **do not** report the sale of your main home unless required (see page D-2). Include these transactions even if you did not receive a **Form 1099-B** or **1099-S** (or substitute statement) for the transaction. You can use stock ticker symbols or abbreviations to describe the property as long as they are based on the descriptions of the property as shown on Form 1099-B or 1099-S (or substitute statement).

Use **Schedule D-1** to list additional transactions for lines 1 and 8. Use as many Schedules D-1 as you need. Enter on Schedule D, lines 2 and 9, the combined totals from all your Schedules D-1.



Add the following amounts reported to you for 2001 on Forms 1099-B and 1099-S (or substitute statements) that you are not reporting on another form or schedule included with your return: (a) proceeds from transactions involving stocks, bonds, and other securities and (b) gross proceeds from real estate transactions (other than the sale of your main home if you are not required

to report it). If this total is **more** than the total of lines 3 and 10, attach an explanation of the difference.

Column (b)—Date Acquired

Enter in this column the date the asset was acquired. Use the trade date for stocks and bonds traded on an exchange or over-the-counter market. For stock or other property sold short, enter the date the stock or property was delivered to the broker or lender to close the short sale.

If you disposed of property that you acquired by inheritance, report the gain or (loss) on line 8 and enter "**INHERITED**" in column (b) instead of the date you acquired the property.

If you sold a block of stock (or similar property) that was acquired through several different purchases, you may report the sale on one line and enter "**VARIOUS**" in column (b). However, you still must report the short-term gain or (loss) on the sale in Part I and the long-term gain or (loss) in Part II.

Column (c)—Date Sold

Enter in this column the date the asset was sold. Use the trade date for stocks and bonds traded on an exchange or over-the-counter market. For stock or other property sold short, enter the date you sold the stock or property you borrowed to open the short sale transaction.

Column (d)—Sales Price

Enter in this column either the gross sales price or the net sales price from the sale. If you sold stocks or bonds and you received a Form 1099-B (or substitute statement) from your broker that shows gross sales price, enter that amount in column (d). But if Form 1099-B (or substitute statement) indicates that gross proceeds minus commissions and option premiums were reported to the IRS, enter that net amount in column (d). If you enter the net amount in column (d), **do not** include the commissions and option premiums from the sale in column (e).

You should not have received a Form 1099-B (or substitute statement) for a transaction merely representing the return of your original investment in a nontransferable obligation, such as a savings bond or a certificate of deposit. But if you did, report the amount shown on Form 1099-B (or substitute statement) in both columns (d) and (e).



Be sure to add all sales price entries on lines 1 and 8, column (d), to amounts on lines 2 and 9, column (d). Enter the totals on lines 3 and 10.

Column (e)—Cost or Other Basis

In general, the cost or other basis is the cost of the property plus purchase commissions and improvements, minus depreciation,



Use this worksheet to figure your capital loss carryovers from 2001 to 2002 if Schedule D, line 18, is a loss and (a) that loss is a smaller loss than the loss on Schedule D, line 17, or (b) Form 1040, line 37, is a loss. Otherwise, you do not have any carryovers.

1. Enter the amount from Form 1040, line 37. If a loss, enclose the amount in parentheses	1. _____
2. Enter the loss from Schedule D, line 18, as a positive amount	2. _____
3. Combine lines 1 and 2. If zero or less, enter -0-	3. _____
4. Enter the smaller of line 2 or line 3	4. _____
If line 7 of Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.	
5. Enter the loss from Schedule D, line 7, as a positive amount	5. _____
6. Enter any gain from Schedule D, line 16	6. _____
7. Add lines 4 and 6	7. _____
8. Short-term capital loss carryover to 2002. Subtract line 7 from line 5. If zero or less, enter -0-	8. _____
If line 16 of Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.	
9. Enter the loss from Schedule D, line 16, as a positive amount	9. _____
10. Enter any gain from Schedule D, line 7	10. _____
11. Subtract line 5 from line 4. If zero or less, enter -0-	11. _____
12. Add lines 10 and 11	12. _____
13. Long-term capital loss carryover to 2002. Subtract line 12 from line 9. If zero or less, enter -0-	13. _____

amortization, and depletion. If you inherited the property, got it as a gift, or received it in a tax-free exchange, involuntary conversion, or “wash sale” of stock, you may not be able to use the actual cost as the basis. If you do not use the actual cost, attach an explanation of your basis.

If you sold stock, adjust your basis by subtracting all the nontaxable distributions you received before the sale. Also adjust your basis for any stock splits. See **Pub. 550** for details.

You may elect to use an average basis for all shares of a mutual fund if you acquired the shares at various times and prices and you left the shares on deposit in an account handled by a custodian or agent who acquired or redeemed those shares. If you are reporting an average basis, include “AVGB” in column (a) of Schedule D. For details on making the election and how to figure average basis, see **Pub. 564**.

The basis of property acquired by gift is generally the basis of the property in the hands of the donor. The basis of property acquired from a decedent is generally the fair market value at the date of death. See **Pub. 544** for details.

Increase the cost or other basis of an original issue discount (OID) debt instrument by the amount of OID that has been included in gross income for that instrument.

If a charitable contribution deduction is allowed because of a bargain sale of property to a charitable organization, the adjusted basis for purposes of determining gain from the sale is the amount that has the same ratio to the adjusted basis as the amount realized has to the fair market value.

Increase your cost or other basis by any expense of sale, such as broker’s fees, commissions, state and local transfer taxes, and

option premiums, before making an entry in column (e), unless you reported the net sales price in column (d).

For more details, see **Pub. 551**.

Column (f)—Gain or (Loss)

You **must** make a separate entry in this column for each transaction reported on lines 1 and 8 and any other line(s) that applies to you. For lines 1 and 8, subtract the amount in column (e) from the amount in column (d). Enter negative amounts in parentheses.

Column (g)—28% Rate Gain or (Loss)

Enter in column (g) **only** the amount, if any, from Part II, column (f), that is equal to the amount of your section 1202 exclusion from the eligible gain on qualified small business stock (see page D-4) or from collectibles gains and losses. A **collectibles gain or loss** is any long-term gain or deductible long-term loss from the sale or exchange of a collectible that is a capital asset.

Collectibles include works of art, rugs, antiques, metals (such as gold, silver, and platinum bullion), gems, stamps, coins, alcoholic beverages, and certain other tangible property.

Also include gain (but not loss) from the sale or exchange of an interest in a partnership, S corporation, or trust held for more than 1 year and attributable to unrealized appreciation of collectibles. For details, see Regulations section 1.1(h)-1. Also attach the statement required under Regulations section 1.1(h)-1(e).

Line 19

If you complete Part IV, complete the worksheet on page D-7 if **any** of the following apply for 2001.

- You sold or otherwise disposed of section 1250 property (generally, real property that you depreciated) held more than 1 year.
- You received installment payments for section 1250 property held more than 1 year for which you are reporting gain on the installment method.
- You received a Schedule K-1 from an estate or trust, partnership, or S corporation that shows “unrecaptured section 1250 gain.”
- You received a Form 1099-DIV or Form 2439 from a real estate investment trust or regulated investment company (including a mutual fund) that reports “unrecaptured section 1250 gain.”
- You reported a long-term capital gain from the sale or exchange of an interest in a partnership that owned section 1250 property.

Instructions for the Unrecaptured Section 1250 Gain Worksheet on Page D-7

Lines 1 through 3. If you had more than one property described on line 1, complete lines 1 through 3 for each property on a separate worksheet. Enter the total of the line 3 amounts for all properties on line 3 and go to line 4.

Line 4. To figure the amount to enter on line 4, follow the steps below for each installment sale of trade or business property held more than 1 year.

Step 1. Figure the **smaller** of (a) the depreciation allowed or allowable or (b) the

total gain for the sale. This is the **smaller** of line 22 or line 24 of your 2001 Form 4797 (or the comparable lines of Form 4797 for the year of sale) for the property.

Step 2. Reduce the amount figured in step 1 by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of your 2001 Form 4797 (or the comparable line of Form 4797 for the year of sale) for the property. The result is your total unrecaptured section 1250 gain that must be allocated to the installment payments received from the sale.

Step 3. Generally, the amount of section 1231 gain on each installment payment is treated as unrecaptured section 1250 gain until the total unrecaptured section 1250 gain figured in step 2 has been used in full. Figure the amount of gain treated as unrecaptured section 1250 gain for installment payments received in 2001 as the **smaller** of (a) the amount from line 26 or line 37 of the 2001 Form 6252, whichever applies, or (b) the amount of unrecaptured section 1250 gain remaining to be reported. This amount is generally the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section

1250 ordinary income recapture). However, if you chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use only the amount you chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. Include this amount on line 4.

Line 10. Include on line 10 your share of the partnership's unrecaptured section 1250 gain that would result if the partnership had transferred all of its section 1250 property in a fully taxable transaction immediately before you sold or exchanged your interest in that partnership. If you recognized less than all of the realized gain, the partnership will be treated as having transferred only a proportionate amount of each section 1250 property. For details, see Regulations section 1.1(h)-1. Also attach the statement required under Regulations section 1.1(h)-1(e).

Line 12. An example of an amount to include on line 12 is unrecaptured section 1250 gain from the sale of a vacation home

you previously used as a rental property but converted to personal use prior to the sale. To figure the amount to enter on line 12, follow the applicable instructions below.

Installment sales. To figure the amount to include on line 12, follow the steps below for each installment sale of property held more than 1 year for which you did not make an entry in Part I of your Form 4797 for the year of sale.

• **Step 1.** Figure the **smaller** of (a) the depreciation allowed or allowable or (b) the total gain for the sale. This is the **smaller** of line 22 or line 24 of your 2001 Form 4797 (or the comparable lines of Form 4797 for the year of sale) for the property.

• **Step 2.** Reduce the amount figured in step 1 by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of your 2001 Form 4797 (or the comparable line of Form 4797 for the year of sale) for the property. The result is your total unrecaptured section 1250 gain that must be allocated to the installment payments received from the sale.

Unrecaptured Section 1250 Gain Worksheet—Line 19

Keep for Your Records



If you are not reporting a gain on Form 4797, line 7, skip lines 1 through 9 and go to line 10.

1. If you have a section 1250 property in Part III of Form 4797 for which you made an entry in Part I of Form 4797 (but not on Form 6252), enter the smaller of line 22 or line 24 of Form 4797 for that property. If you did not have any such property, go to line 4. If you had more than one such property, see instructions	1. _____
2. Enter the amount from Form 4797, line 26g, for the property for which you made an entry on line 1	2. _____
3. Subtract line 2 from line 1	3. _____
4. Enter the total unrecaptured section 1250 gain included on line 26 or line 37 of Form(s) 6252 from installment sales of trade or business property held more than 1 year (see instructions)	4. _____
5. Enter the total of any amounts reported to you on a Schedule K-1 from a partnership or an S corporation as "unrecaptured section 1250 gain"	5. _____
6. Add lines 3 through 5	6. _____
7. Enter the smaller of line 6 or the gain from Form 4797, line 7	7. _____
8. Enter the amount, if any, from Form 4797, line 8	8. _____
9. Subtract line 8 from line 7. If zero or less, enter -0-	9. _____
10. Enter the amount of any gain from the sale or exchange of an interest in a partnership attributable to unrecaptured section 1250 gain (see instructions)	10. _____
11. Enter the total of any amounts reported to you on a Schedule K-1, Form 1099-DIV, or Form 2439 as "unrecaptured section 1250 gain" from an estate, trust, real estate investment trust, or mutual fund (or other regulated investment company)	11. _____
12. Enter the total of any unrecaptured section 1250 gain from sales (including installment sales) or other dispositions of section 1250 property held more than 1 year for which you did not make an entry in Part I of Form 4797 for the year of sale (see instructions)	12. _____
13. Add lines 9 through 12	13. _____
14. Enter the gain or (loss) from Schedule D, line 15	14. _____
15. Enter the (loss), if any, from Schedule D, line 7. If Schedule D, line 7, is zero or a gain, enter -0-	15. _____
16. Combine lines 14 and 15. If the result is zero or a gain, enter -0-. If the result is a (loss), enter it as a positive amount	16. _____
17. Unrecaptured section 1250 gain. Subtract line 16 from line 13. If zero or less, enter -0-. Enter the result here and on Schedule D, line 19	17. _____

• **Step 3.** Generally, the amount of capital gain on each installment payment is treated as unrecaptured section 1250 gain until the total unrecaptured section 1250 gain figured in step 2 has been used in full. Figure the amount of gain treated as unrecaptured section 1250 gain for installment payments received in 2001 as the **smaller** of (a) the amount from line 26 or line 37 of your 2001 Form 6252, whichever applies, or (b) the amount of unrecaptured section 1250 gain remaining to be reported. This amount is generally the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section 1250 ordinary income recapture). However, if you chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use only the amount you chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. Include this amount on line 12.

Other sales or dispositions of section 1250 property. For each sale of property held more than 1 year (for which you did not make an entry in Part I of Form 4797), figure the **smaller** of (a) the depreciation allowed or allowable or (b) the total gain for the sale. This is the **smaller** of line 22 or line 24 of Form 4797 for the property. Next, reduce that amount by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of Form 4797 for the property. The result is the total unrecaptured section 1250 gain for the sale. Include this amount on line 12.

Line 29—Qualified 5-Year Gain

Qualified 5-year gain is long-term capital gain (other than 28% rate gain or gain on line 6 or 10 through 12 of the **Unrecaptured Section 1250 Gain Worksheet**) from the sale or other disposition of property held more than 5 years. Qualified 5-year gain is taxed at 8% to the extent the gain would otherwise be taxed at 10%. To figure your qualified 5-year gain, complete the worksheet on this page if any of the following apply.

- You sold or otherwise disposed of property at a gain that you had held for more than 5 years.
- You received a Schedule K-1 from an estate, trust, partnership, or S corporation that reports “qualified 5-year gain.”
- You received a Form 1099-DIV (or Form 2439) with “qualified 5-year gain” reported in box 2c (box 1c of Form 2439).
- You received payments from an installment sale of property that you had held for more than 5 years when you entered into the installment sale.

Example. John and Carol Maple had the following capital gains for 2001.

1. A sale of stock held for 3 years at a gain of \$3,700.
2. A sale of stock held for more than 5 years at a gain of \$500.
3. A sale of stock held for 6 years at a loss of \$1,950.
4. An \$1,800 capital gain distribution from a mutual fund reported in box 2a of Form 1099-DIV. The Form 1099-DIV also shows \$900 in box 2c.
5. A sale of a painting held for more than 5 years at a gain of \$1,800.

6. A sale of a rental home for \$101,000 purchased in 1995 for \$100,000, on which \$4,300 of allowable straight-line depreciation was claimed, for a net gain of \$5,300.

7. A Schedule K-1 from a partnership reporting \$2,300 of total long-term capital gain, \$200 “qualified 5-year gain” from capital assets, a \$5,200 net loss from trade or business (section 1231) property, and \$400 “qualified 5-year gain” from trade or business (section 1231) property.

8. A long-term capital loss carryover of \$5,800.

John and Carol Maple have total qualified 5-year gain of \$3,000 figured on the **Qualified 5-Year Gain Worksheet** as follows. They enter \$2,300 from items 2 and 5 on line 1. To complete line 2, the Maples first determine that the amount on their Form 4797, line 7, is \$100, consisting of the \$5,300 gain from item 6 and the \$5,200 loss from item 7. Because Form 4797, line 7, is more than zero, they include the \$5,300 gain from item 6 and the \$400 gain from item 7, or \$5,700, on line 2. The Maples enter zero on line 3. They enter \$900 from item 4 and \$200 from item 7, or \$1,100, on line 4. The Maples add lines 1 through 4 of the worksheet and enter \$9,100 on line 5. On line 6, they include the \$1,800 gain from item 5 because it is 28% rate gain from the sale of a collectible and \$4,300 from item 6 because it is included on line 6 of the **Unrecaptured Section 1250 Gain Worksheet**. (The Maples entered \$4,300 on line 1 of the Unrecaptured Section 1250 Gain Worksheet, zero on line 2, and \$4,300 on lines 3 and 6.) The Maples subtract the \$6,100 on line 6 of the worksheet from the \$9,100 on line 5. They enter the result, \$3,000 on line 7 of the worksheet and on Schedule D, line 29.

Qualified 5-Year Gain Worksheet—Line 29

Keep for Your Records



1. Enter the total of all gains that you reported on line 8, column (f), of Schedules D and D-1 from dispositions of property held more than 5 years. Do not reduce these gains by any losses	1. _____
2. Enter the total of all gains from dispositions of property held more than 5 years from Form 4797, Part I, but only if Form 4797, line 7, is more than zero. Do not reduce these gains by any losses	2. _____
3. Enter the total of all capital gains from dispositions of property held more than 5 years from Form 4684, line 4; Form 6252; Form 6781, Part II; and Form 8824. Do not reduce these gains by any losses	3. _____
4. Enter the total of any qualified 5-year gain reported to you on:	
<ul style="list-style-type: none"> • Form 1099-DIV, box 2c; • Form 2439, box 1c; and • Schedule K-1 from a partnership, S corporation, estate, or trust (do not include gains from section 1231 property; take them into account on line 2 above, but only if Form 4797, line 7, is more than zero). 	} 4. _____
5. Add lines 1 through 4	5. _____
6. Enter the part, if any, of the gain on line 5 that is:	
<ul style="list-style-type: none"> • Attributable to 28% rate gain or • Included on line 6, 10, 11, or 12 of the Unrecaptured Section 1250 Gain Worksheet on page D-7. 	} 6. _____
7. Qualified 5-year gain. Subtract line 6 from line 5. Enter the result here and on Schedule D, line 29	7. _____



Complete this worksheet only if line 15 or line 19 of Schedule D is more than zero. Otherwise, complete Part IV of Schedule D to figure your tax. **Exception: Do not** use Schedule D, Part IV, or this worksheet to figure your tax if line 16 or line 17 of Schedule D or Form 1040, line 39, is zero or less; instead, see the instructions for Form 1040, line 40.

1. Enter your taxable income from Form 1040, line 39 1. _____
 2. Enter the **smaller** of line 16 or line 17 of Schedule D 2. _____
 3. If you are filing Form 4952, enter the amount from Form 4952, line 4e. Otherwise, enter -0-. **Also enter this amount on Schedule D, line 22** 3. _____
 4. Subtract line 3 from line 2. If zero or less, enter -0- 4. _____
 5. Combine lines 7 and 15 of Schedule D. If zero or less, enter -0- 5. _____
 6. Enter the **smaller** of line 5 above or Schedule D, line 15, but not less than zero 6. _____
 7. Enter the amount from Schedule D, line 19 7. _____
 8. Add lines 6 and 7 8. _____
 9. Subtract line 8 from line 4. If zero or less, enter -0- 9. _____
 10. Subtract line 9 from line 1. If zero or less, enter -0- 10. _____
 11. Enter the **smaller** of:
 - The amount on line 1 or
 - \$45,200 if married filing jointly or qualifying widow(er);
 - \$27,050 if single;
 - \$36,250 if head of household; or
 - \$22,600 if married filing separately
 11. _____
 12. Enter the **smaller** of line 10 or line 11 12. _____
 13. Subtract line 4 from line 1. If zero or less, enter -0- 13. _____
 14. Enter the **larger** of line 12 or line 13 ► 14. _____
 15. Figure the tax on the amount on line 14. Use the Tax Table or Tax Rate Schedules, whichever applies ► 15. _____
- If lines 11 and 12 are the same, skip lines 16 through 21 and go to line 22. Otherwise, go to line 16.**
16. Subtract line 12 from line 11 ► 16. _____
 17. Enter your qualified 5-year gain, if any, from line 7 of the worksheet on page D-8. **Also enter this amount on Schedule D, line 29** 17. _____
 18. Enter the **smaller** of line 16 above or line 17 above 18. _____
 19. Multiply line 18 by 8% (.08) 19. _____
 20. Subtract line 18 from line 16 20. _____
 21. Multiply line 20 by 10% (.10) 21. _____
- If lines 1 and 11 are the same, skip lines 22 through 34 and go to line 35. Otherwise, go to line 22.**
22. Enter the **smaller** of line 1 or line 9 22. _____
 23. Enter the amount from line 16 (if line 16 is blank, enter -0-) 23. _____
 24. Subtract line 23 from line 22 ► 24. _____
 25. Multiply line 24 by 20% (.20) 25. _____
- If line 7 is zero or blank, skip lines 26 through 31 and go to line 32. Otherwise, go to line 26.**
26. Enter the **smaller** of line 4 or line 7 26. _____
 27. Add lines 4 and 14 27. _____
 28. Enter the amount from line 1 above 28. _____
 29. Subtract line 28 from line 27. If zero or less, enter -0- 29. _____
 30. Subtract line 29 from line 26. If zero or less, enter -0- ► 30. _____
 31. Multiply line 30 by 25% (.25) 31. _____
- If line 6 is zero, skip lines 32 through 34 and go to line 35. Otherwise, go to line 32.**
32. Add lines 14, 16, 24, and 30 32. _____
 33. Subtract line 32 from line 1 33. _____
 34. Multiply line 33 by 28% (.28) 34. _____
 35. Add lines 15, 19, 21, 25, 31, and 34 35. _____
 36. Figure the tax on the amount on line 1. Use the Tax Table or Tax Rate Schedules, whichever applies 36. _____
 37. **Tax on all taxable income (including capital gains).** Enter the **smaller** of line 35 or line 36. Also enter this amount on Schedule D, line 40, and Form 1040, line 40 37. _____

2001 Instructions for Schedule E, Supplemental Income and Loss

Use Schedule E (Form 1040) to report income or loss from rental real estate, royalties, partnerships, S corporations, estates, trusts, and residual interests in REMICs.

You may attach your own schedule(s) to report income or loss from any of these sources. Use the same format as on Schedule E.

Enter separately on Schedule E the total income and the total loss for each part. Enclose loss figures in (parentheses).

Part I

Income or Loss From Rental Real Estate and Royalties

Use Part I to report:

- Income and expenses from rentals of real estate (including personal property leased with real estate) and
- Royalty income and expenses.

See the instructions for lines 3 and 4 to determine if you should report your rental real estate and royalty income on **Schedule C, Schedule C-EZ, or Form 4835** instead of Schedule E.

If you own a part interest in a rental real estate property, report only your part of the income and expenses on Schedule E.

Complete lines 1 and 2 for each rental real estate property. Leave these lines blank for each royalty property.

If you have more than three rental real estate or royalty properties, complete and attach as many Schedules E as you need to list them. But fill in the "Totals" column on only one Schedule E. The figures in the "Totals" column on that Schedule E should be the combined totals of all your Schedules E. If you are also using page 2 of Schedule E, use the same Schedule E on which you entered the combined totals for Part I.

Personal Property. Do not use Schedule E to report income and expenses from the rental of personal property, such as equipment or vehicles. Instead, use Schedule C or C-EZ if you are in the business of renting personal property. You are in the business of renting personal property if the primary purpose for renting the property is income or profit and you are involved in the rental activity with continuity and regularity.

If your rental of personal property is not a business, see the Instructions for Form 1040, lines 21 and 32, to find out how to report the income and expenses.

Extraterritorial Income Exclusion. Except as otherwise provided in the Internal Revenue Code, gross income includes all income

from whatever source derived. Gross income, however, does not include extraterritorial income that is qualifying foreign trade income. Use **Form 8873** to figure the extraterritorial income exclusion. Report it on Schedule E as explained in the Instructions for Form 8873.

Filers of Form 1041

If you are a fiduciary filing Schedule E with Form 1041, enter the estate's or trust's employer identification number (EIN) in the space for "Your social security number."

Line 1

For rental real estate property only, show:

- The kind of property you rented (for example, townhouse).
- The street address, city or town, and state. You do not have to give the ZIP code.
- Your percentage of ownership in the property, if less than 100%.

Line 2

If you rented out a dwelling unit that you also used for **personal purposes** during the year, you may not be able to deduct all the expenses for the rental part. "Dwelling unit" (unit) means a house, apartment, condominium, or similar property.

A day of **personal use** is any day, or part of a day, that the unit was used by:

- You for personal purposes;
- Any other person for personal purposes, if that person owns part of the unit (unless rented to that person under a "shared equity" financing agreement);
- Anyone in your family (or in the family of someone else who owns part of the unit), unless the unit is rented at a fair rental price to that person as his or her main home;
- Anyone who pays less than a fair rental price for the unit; or
- Anyone under an agreement that lets you use some other unit.

Do not count as personal use:

- Any day you spent working substantially full time repairing and maintaining the unit, even if family members used it for recreational purposes on that day or
- Any days you used the unit as your main home before or after renting it or offering it for rent, if you rented or tried to rent it for at least 12 consecutive months (or for a period of less than 12 consecutive months at the end of which you sold or exchanged it).

Check "Yes" if you or your family used the unit for personal purposes in 2001 more than the **greater** of:

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

Otherwise, check "No."

If you checked "No," you can deduct all your expenses for the rental part, subject to the **At-Risk Rules** and the **Passive Activity Loss Rules** explained on pages E-3 and E-4.

If you checked "Yes" and rented the unit out for fewer than 15 days, do not report the rental income and do not deduct any rental expenses. If you itemize deductions on Schedule A, you may deduct allowable interest, taxes, and casualty losses.

If you checked "Yes" and rented the unit out for at least 15 days, you may **not** be able to deduct all your rental expenses. You can deduct all of the following expenses for the rental part on Schedule E.

- Mortgage interest.
- Real estate taxes.
- Casualty losses.
- Other rental expenses not related to your use of the unit as a home, such as advertising expenses and rental agents' fees.

If any income is left after deducting these expenses, you can deduct other expenses, including depreciation, up to the amount of remaining income. You can carry over to 2002 the amounts you cannot deduct.

See **Pub. 527** for details.

Line 3

If you received rental income from real estate (including personal property leased with real estate) and you were not in the real estate business, report the income on line 3. Include income received for renting a room or other space. If you received services or property instead of money as rent, report the fair market value as rental income.

Be sure to enter the total of all your rents in the "Totals" column even if you have only one property.

If you provided significant services to the renter, such as maid service, report the rental activity on Schedule C or C-EZ, not on Schedule E. Significant services **do not** include the furnishing of heat and light, cleaning of public areas, trash collection, or similar services.

If you were in the real estate sales business, include on line 3 only the rent received from real estate (including personal property leased with real estate) you held for investment or speculation. Do not use Schedule E to report income and expenses from rentals of real estate held for sale to customers in the ordinary course of your real estate sales business. Instead, use Schedule C or C-EZ for these rentals.

For more details on rental income, use TeleTax topic 414 (see page 11 of the Form 1040 instructions) or see Pub. 527.

Rental Income From Farm Production or Crop Shares. Report farm rental income and expenses on Form 4835 if:

- You received rental income based on crops or livestock produced by the tenant **and**
- You did not manage or operate the farm to any great extent.

Line 4

Report on line 4 **royalties** from oil, gas, or mineral properties (not including operating interests); copyrights; and patents. Use a separate column (A, B, or C) for each royalty property. Be sure to enter the total of all your royalties in the "Totals" column even if you have only one source of royalties.

If you received \$10 or more in royalties during 2001, the payer should send you a **Form 1099-MISC** or similar statement by January 31, 2002, showing the amount you received.

If you are in business as a self-employed writer, inventor, artist, etc., report your royalty income and expenses on Schedule C or C-EZ.

You may be able to treat amounts received as "royalties" for the transfer of a

patent or amounts received on the disposal of coal and iron ore as the sale of a capital asset. For details, see **Pub. 544**.

Enter on line 4 the gross amount of royalty income, even if state or local taxes were withheld from oil or gas payments you received. Include taxes withheld by the producer on line 16.

General Instructions for Lines 5 Through 21

Enter your rental and royalty expenses for each property in the appropriate column. You can deduct all ordinary and necessary expenses, such as taxes, interest, repairs, insurance, management fees, agents' commissions, and depreciation.

Do not deduct the value of your own labor or amounts paid for capital investments or capital improvements.

Enter your total expenses for mortgage interest (line 12), total expenses before depreciation expense or depletion (line 19), and depreciation expenses or depletion (line 20) in the "Totals" column even if you have only one property.

Renting Out Part of Your Home. If you rent out only part of your home or other property, deduct the part of your expenses that applies to the rented part.

Credit or Deduction for Access Expenditures. You may be able to claim a tax credit for eligible expenditures paid or incurred in 2001 to provide access to your business for individuals with disabilities. See **Form 8826** for details.

You can also deduct up to \$15,000 of qualified costs paid or incurred in 2001 to remove architectural or transportation barriers to individuals with disabilities and the elderly.

You cannot take both the credit and the deduction for the same expenditures. See **Pub. 535** for details.

Line 6

You may deduct ordinary and necessary auto and travel expenses related to your rental activities, including 50% of meal expenses incurred while traveling away from home. You generally can either deduct your actual expenses or take the standard mileage rate. You **must** use actual expenses if you use more than one vehicle simultaneously in your rental activities (as in fleet operations). You cannot use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

You can use the standard mileage rate for 2001 **only** if:

- You owned the vehicle and use the standard mileage rate for the first year you placed the vehicle in service or

- You leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

If you deduct actual auto expenses:

- Include on line 6 the rental activity portion of the cost of gasoline, oil, repairs, insurance, tires, etc. and

- Show auto rental or lease payments on line 18 and depreciation on line 20.

If you take the standard mileage rate, multiply the number of miles you drove your auto in connection with your rental activities by 34.5 cents. Include this amount and your parking fees and tolls on line 6.

If you claim any auto expenses (actual or the standard mileage rate), you must complete Part V of **Form 4562** and attach Form 4562 to your return.

See Pub. 527 and **Pub. 463** for details.

Line 10

Include on line 10 fees for tax advice and the preparation of tax forms related to your rental real estate or royalty properties.

Do not deduct legal fees paid or incurred to defend or protect title to property, to recover property, or to develop or improve property. Instead, you must capitalize these fees and add them to the property's basis.

Lines 12 and 13

In general, to determine the interest expense allocable to your rental activities, you must have records to show how the proceeds of each debt were used. Specific tracing rules apply for allocating debt proceeds and repayment. See Pub. 535 for details.

If you have a mortgage on your rental property, enter on line 12 the amount of interest you paid for 2001 to banks or other financial institutions. Be sure to fill in the "Totals" column.

Do not deduct prepaid interest when you paid it. You can deduct it only in the year to which it is properly allocable. Points, including loan origination fees, charged only for the use of money must be deducted over the life of the loan.

If you paid \$600 or more in interest on a mortgage during 2001, the recipient should send you a **Form 1098** or similar statement by January 31, 2002, showing the total interest received from you.

If you paid more mortgage interest than is shown on your Form 1098 or similar statement, see Pub. 535 to find out if you can deduct the additional interest. If you can,

enter the entire amount on line 12. Attach a statement to your return explaining the difference. Write "See attached" in the left margin next to line 12.

Note. If the recipient was not a financial institution or you did not receive a Form 1098 from the recipient, report your deductible mortgage interest on line 13.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage, and the other person received Form 1098, report your share of the interest on line 13. Attach a statement to your return showing the name and address of the person who received Form 1098. In the left margin next to line 13, write "See attached."

Line 14

You may deduct the cost of repairs made to keep your property in good working condition. Repairs generally do not add significant value to the property or extend its life. Examples of repairs are fixing a broken lock or painting a room. Improvements that increase the value of the property or extend its life, such as replacing a roof or renovating a kitchen, must be capitalized and depreciated (that is, they cannot be deducted in full in the year they are paid or incurred). See the instructions for line 20.

Line 17

You may deduct the cost of ordinary and necessary telephone calls related to your rental activities or royalty income (for example, calls to the renter). However, the base rate (including taxes and other charges) for local telephone service for the first telephone line into your residence is a personal expense and is not deductible.

Line 20

Depreciation is the annual deduction you must take to recover the cost or other basis of business or investment property having a useful life substantially beyond the tax year. Land is not depreciable.

Depreciation starts when you first use the property in your business or for the production of income. It ends when you deduct all your depreciable cost or other basis or no longer use the property in your business or for the production of income.

See the Instructions for Form 4562 to figure the amount of depreciation to enter on line 20. Be sure to fill in the "Totals" column.

You must complete and attach Form 4562 **only** if you are claiming:

- Depreciation on property first placed in service during 2001;

- Depreciation on listed property (defined in the Instructions for Form 4562), including a vehicle, regardless of the date it was placed in service; or

- A section 179 expense deduction or amortization of costs that began in 2001.

See Pub. 527 for more information on depreciation of residential rental property. See **Pub. 946** for a more comprehensive guide to depreciation.

If you own mineral property or an oil, gas, or geothermal well, you may be able to take a deduction for depletion. See Pub. 535 for details.

Line 22

At-Risk Rules

Generally, you must complete **Form 6198** to figure your allowable loss if you have:

- A loss from an activity carried on as a trade or business or for the production of income **and**

- Amounts in the activity for which you are not at risk.

The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the activity. However, the at-risk rules do not apply to losses from an activity of holding real property, if you acquired your interest in the activity before 1987 and the property was placed in service before 1987. The activity of holding mineral property does not qualify for this exception.

In most cases, you are **not** at risk for amounts such as the following.

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity that are not secured by your own property (other than property used in the activity). However, there is an exception for certain nonrecourse financing borrowed by you in connection with holding real property. See **Qualified nonrecourse financing** below.

- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the activity from a person who has an interest in the activity (other than as a creditor) or who is related, under Internal Revenue Code section 465(b)(3), to a person (other than you) having such an interest.

Qualified nonrecourse financing is treated as an amount at risk if it is secured by real property used in an activity of holding real property that is subject to the at-risk rules. Qualified nonrecourse financing is financing for which no one is personally liable for repayment and is:

- Borrowed by you in connection with holding real property,

- Not convertible from a debt obligation to an ownership interest, **and**

- Loaned or guaranteed by any Federal, state, or local government, or borrowed by you from a **qualified person**.

A **qualified person** is a person who actively and regularly engages in the business of lending money, such as a bank or savings and loan association. A qualified person **cannot** be:

- Related to you (unless the nonrecourse financing obtained is commercially reasonable and on the same terms as loans involving unrelated persons),

- The seller of the property (or a person related to the seller), or

- A person who receives a fee due to your investment in real property (or a person related to that person).

If you have amounts for which you are not at risk, use Form 6198 to determine the amount of your deductible loss. Enter that amount in the appropriate column of Schedule E, line 22. In the space to the left of line 22, write "Form 6198." Attach Form 6198 to your return.

Line 23

Do not complete line 23 if the amount on line 22 is from royalty properties.

If you have a rental real estate loss from a passive activity (defined on page E-4), the amount of loss you can deduct may be limited by the passive activity loss rules. You may need to complete **Form 8582** to figure the amount of loss, if any, to enter on line 23.

If your rental real estate loss is not from a passive activity **or** you meet the following exception, you do not have to complete Form 8582. Enter the loss from line 22 on line 23.

Exception for Certain Rental Real Estate Activities. If you meet **all three** of the following conditions, your rental real estate losses are not limited by the passive activity loss rules. If you **do not** meet **all three** of these conditions, see the Instructions for Form 8582 to find out if you must complete and attach Form 8582.

1. Rental real estate activities are your only passive activities.

2. You do not have any prior year unallowed losses from any passive activities.

3. All of the following apply if you have an overall net loss from these activities:

- You actively participated (defined below) in all of the rental real estate activities;
- If married filing separately, you lived apart from your spouse all year;
- Your overall net loss from these activities is \$25,000 or less (\$12,500 or less if married filing separately);
- You have no current or prior year unallowed credits from passive activities; **and**
- Your modified adjusted gross income (defined later) is \$100,000 or less (\$50,000 or less if married filing separately).

Active Participation. You can meet the active participation requirement without regular, continuous, and substantial involvement in real estate activities. But you must have participated in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Such management decisions include:

- Approving new tenants,
- Deciding on rental terms,
- Approving capital or repair expenditures, and
- Other similar decisions.

You are not considered to actively participate if, at any time during the tax year, your interest (including your spouse's interest) in the activity was less than 10% by value of all interests in the activity.

Modified Adjusted Gross Income. This is your adjusted gross income from Form 1040, line 33, without taking into account:

- Any passive activity loss,
- Rental real estate losses allowed under the exception for real estate professionals (explained on this page),
- Taxable social security or equivalent railroad retirement benefits,
- Deductible contributions to a traditional IRA or certain other qualified retirement plans under Internal Revenue Code section 219,
- The student loan interest deduction,
- The deduction for one-half of self-employment tax, and
- The exclusion of amounts received under an employer's adoption assistance program.

However, if you file **Form 8815**, include in your modified adjusted gross income the savings bond interest excluded on line 14 of that form.

Passive Activity Loss Rules

The passive activity loss rules may limit the amount of losses you can deduct. These rules apply to losses in Parts I, II, and III, and line 39 of Schedule E.

Losses from passive activities may be subject first to the at-risk rules. Losses deductible under the at-risk rules are then subject to the passive activity loss rules.

You generally can deduct losses from passive activities only to the extent of income from passive activities. An exception applies to certain rental real estate activities (as previously explained).

Passive Activity. A passive activity is any business activity in which you **do not** materially participate and any rental activity, except as provided on this page. If you are a limited partner, you generally are not treated as having materially participated in the partnership's activities for the year.

The rental of real or personal property is generally a rental activity under the passive activity loss rules, but exceptions apply. If your rental of property is not treated as a rental activity, you must determine whether it is a trade or business activity, and if so, whether you materially participated in the activity for the tax year.

See the Instructions for Form 8582 to determine whether you materially participated in the activity and for the definition of "rental activity."

See **Pub. 925** for special rules that apply to rentals of:

- Substantially nondepreciable property,
- Property incidental to development activities, and
- Property to activities in which you materially participate.

Exception for Real Estate Professionals. If you were a real estate professional in 2001, any rental real estate activity in which you materially participated is not a passive activity. You were a **real estate professional** only if you met **both** of the following conditions.

1. More than half of the personal services you performed in trades or businesses were performed in real property trades or businesses in which you materially participated.

2. You performed more than 750 hours of services in real property trades or businesses in which you materially participated.

For purposes of this rule, each interest in rental real estate is a separate activity, unless you elect to treat all your interests in rental real estate as one activity. To make this election, attach a statement to your original tax return that declares you are a qualifying taxpayer for the year and you are making the election under Internal Revenue Code section 469(c)(7)(A). The election applies

for the year made and all later years in which you are a real estate professional. You may revoke the election only if your facts and circumstances materially change.

If you are married filing jointly, either you or your spouse must separately meet both of the above conditions, without taking into account services performed by the other spouse.

A real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Services you performed as an employee are not treated as performed in a real property trade or business unless you owned more than 5% of the stock (or more than 5% of the capital or profits interest) in the employer.

If you were a real estate professional for 2001, complete line 42 on page 2 of Schedule E.

Other Exceptions. The rental of your home that you also used for personal purposes is not a passive activity. See the instructions for line 2.

A working interest in an oil or gas well that you held directly or through an entity that did not limit your liability is not a passive activity even if you do not materially participate.

Royalty income not derived in the ordinary course of a trade or business reported on Schedule E generally is not considered income from a passive activity.

For details on passive activities, see the Instructions for Form 8582 and Pub. 925.

Parts II and III

If you need more space in Part II or III to list your income or losses, attach a continuation sheet using the same format as shown in Part II or III. However, be sure to complete the "Totals" columns for lines 28a and 28b, or lines 33a and 33b, as appropriate. If you also completed Part I on more than one Schedule E, use the same Schedule E on which you entered the combined totals in Part I.

Tax Shelter Registration Number. Complete and attach **Form 8271** if you are reporting any deduction, loss, credit, other tax benefit, or income from an interest purchased or otherwise acquired in a tax shelter.

Form 8271 is used to report the name, tax shelter registration number, and identifying number of the tax shelter. There is a \$250 penalty if you do not report the registration number of the tax shelter on your tax return.

Tax Preference Items. If you are a partner, a shareholder in an S corporation, or a beneficiary of an estate or trust, you must take into account your share of preferences and adjustments from these entities for the alternative minimum tax on **Form 6251** or Schedule I of **Form 1041**.

Part II

Income or Loss From Partnerships and S Corporations

If you are a member of a partnership or joint venture or a shareholder in an S corporation, use Part II to report your share of the partnership or S corporation income (even if not received) or loss.

You should receive a **Schedule K-1** from the partnership or S corporation. You should also receive a copy of the Partner's or Shareholder's Instructions for Schedule K-1. Your copy of Schedule K-1 and its instructions will tell you where on your return to report your share of the items. If you did not receive these instructions with your Schedule K-1, see page 7 of the Form 1040 instructions for how to get a copy. **Do not** attach Schedules K-1 to your return. Keep them for your records.

If you are treating items on your tax return differently from the way the partnership (other than an electing large partnership) or S corporation reported them on its return, you may have to file **Form 8082**. If you are a partner in an electing large partnership, you must report the items shown on Schedule K-1 (Form 1065-B) on your tax return the same way that the partnership reported the items on Schedule K-1.

Special Rules That Limit Losses. Please note the following.

- If you have a current year loss, or a prior year unallowed loss, from a partnership or an S corporation, see **At-Risk Rules** and **Passive Activity Loss Rules** on pages E-3 and E-4.

Partners and S corporation shareholders should get a separate statement of income, expenses, deductions, and credits for each activity engaged in by the partnership and S corporation. If you are subject to the at-risk rules for any activity, use Form 6198 to figure the amount of any deductible loss. If the activity is nonpassive, enter any deductible loss from Form 6198 on the appropriate line in Part II, column (i), of Schedule E.

- If you have a passive activity loss, you generally need to complete Form 8582 to figure the amount of the allowable loss to enter in Part II, column (g), for that activity. But if you are a **general** partner or an S

corporation shareholder reporting your share of a partnership or an S corporation loss from a rental real estate activity **and** you meet **all three** of the conditions listed in the instructions for line 23, you do not have to complete Form 8582. Instead, enter your allowable loss in Part II, column (g).

If you have passive activity income, complete Part II, column (h), for that activity.

If you have nonpassive income or losses, complete Part II, columns (i) through (k), as appropriate.

Partnerships

See the Schedule K-1 instructions before entering on your return other partnership items from a passive activity or income or loss from any publicly traded partnership.

If you have other partnership items, such as depletion, from a nonpassive activity, show each item on a separate line in Part II. You may deduct unreimbursed ordinary and necessary expenses you paid on behalf of the partnership if you were required to pay these expenses under the partnership agreement. Enter deductible **unreimbursed partnership expenses** from nonpassive activities on a separate line in Part II, column (i). However, enter on Schedule A any unreimbursed partnership expenses deductible as itemized deductions.

Report allowable interest expense paid or incurred from debt-financed acquisitions in Part II or on Schedule A depending on the type of expenditure to which the interest is allocated. See Pub. 535 for details.

If you claimed a credit for Federal tax on gasoline or other fuels on your 2000 Form 1040 based on information received from the partnership, enter as income in column (h) or column (k), whichever applies, the amount of the credit claimed for 2000.

If you have losses or deductions from a prior year that you could not deduct because of the at-risk or basis rules, and the amounts are now deductible, **do not** combine the prior year amounts with any current year amounts to arrive at a net figure to report on Schedule E. Instead, report the prior year amounts and the current year amounts on separate lines of Schedule E.

Part or all of your share of partnership income or loss from the operation of the business may be considered net earnings from self-employment that must be reported on **Schedule SE**. Enter the amount from Schedule K-1 (Form 1065), line 15a (or from Schedule K-1 (Form 1065-B), box 9 (code **K-1**)), on Schedule SE, after you reduce this amount by any allowable expenses attributable to that income.

Foreign Partnerships. If you are a U.S. person, you may have to file **Form 8865** if any of the following applies:

- You controlled a foreign partnership (that is, you owned more than a 50% direct or indirect interest in the partnership).

- You owned at least a 10% direct or indirect interest in a foreign partnership while U.S. persons controlled that partnership.

- You had an acquisition, disposition, or change in proportional interest of a foreign partnership that:

1. Increased your direct interest to at least 10% or reduced your direct interest of at least 10% to less than 10% or

2. Changed your direct interest by at least a 10% interest.

- You contributed property to a foreign partnership in exchange for a partnership interest if:

1. Immediately after the contribution, you owned, directly or indirectly, at least a 10% interest in the partnership or

2. The fair market value of the property you contributed to the partnership in exchange for a partnership interest, when added to other contributions of property you made to the partnership during the preceding 12-month period, exceeds \$100,000.

Also, you may have to file Form 8865 to report certain dispositions by a foreign partnership of property you previously contributed to that partnership if you were a partner at the time of the disposition.

For more details, including penalties for failing to file Form 8865, see Form 8865 and its separate instructions.

S Corporations

If you are a shareholder in an S corporation, your share of the corporation's aggregate losses and deductions (combined income, losses, and deductions) is limited to the adjusted basis of your corporate stock and any debt the corporation owes you. Any loss or deduction not allowed this year because of the basis limitation may be carried forward and deducted in a later year subject to the basis limitation for that year.

If you are claiming a deduction for your share of an aggregate loss, attach to your return a computation of the adjusted basis of your corporate stock and of any debt the corporation owes you. See the Schedule K-1 instructions for details.

After applying the basis limitation, the deductible amount of your aggregate losses and deductions may be further reduced by the at-risk rules and the passive activity loss rules explained earlier.

If you have losses or deductions from a prior year that you could not deduct because of the basis or at-risk limitations, and the amounts are now deductible, **do not** combine the prior year amounts with any current year amounts to arrive at a net figure to report on Schedule E. Instead, report the

prior year amounts and the current year amounts on separate lines of Schedule E.

Distributions of prior year accumulated earnings and profits of S corporations are dividends and are reported on Form 1040, line 9.

Interest expense relating to the acquisition of shares in an S corporation may be fully deductible on Schedule E. For details, see Pub. 535.

Your share of the net income of an S corporation is **not** subject to self-employment tax.

Part III

Income or Loss From Estates and Trusts

If you are a beneficiary of an estate or trust, use Part III to report your part of the income (even if not received) or loss. You should receive a **Schedule K-1** (Form 1041) from the fiduciary. Your copy of Schedule K-1 and its instructions will tell you where on your return to report the items from Schedule K-1. **Do not** attach Schedule K-1 to your return. Keep it for your records.

If you are treating items on your tax return differently from the way the estate or trust reported them on its return, you may have to file Form 8082.

If you have estimated taxes credited to you from a trust (Schedule K-1, line 14a), write "ES payment claimed" and the amount on the dotted line next to line 36. **Do not** include this amount in the total on line 36. Instead, enter the amount on Form 1040, line 60.

A U.S. person who transferred property to a foreign trust may have to report the income received by the trust as a result of the transferred property if, during 2001, the trust had a U.S. beneficiary. For details, see **Form 3520**.

Part IV

Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)

If you are the holder of a residual interest in a real estate mortgage investment conduit (REMIC), use Part IV to report your total share of the REMIC's taxable income or loss for each quarter included in your tax year. You should receive **Schedule Q** (Form 1066) and instructions from the REMIC for each quarter. **Do not** attach Schedules Q to your return. Keep them for your records.

If you are treating REMIC items on your tax return differently from the way the REMIC reported them on its return, you may have to file Form 8082.

If you are the holder of a residual interest in more than one REMIC, attach a continuation sheet using the same format as in Part IV. Enter the totals of columns (d) and (e) on line 38 of Schedule E. If you also completed Part I on more than one Schedule E, use the same Schedule E on which you entered the combined totals in Part I.

REMIC income or loss is not income or loss from a passive activity.

Note. If you are the holder of a regular interest in a REMIC, **do not** use Schedule E to report the income you received. Instead, report it on Form 1040, line 8a.

Column (c). Report the total of the amounts shown on Schedule(s) Q, line 2c. This is the **smallest** amount you are allowed to report as your taxable income (Form 1040, line 39). It is also the **smallest** amount you are allowed to report as your alternative minimum taxable income (AMTI) (Form 6251, line 21).

If the amount in column (c) is larger than your taxable income would otherwise be, enter the amount from column (c) on Form 1040, line 39. Similarly, if the amount in column (c) is larger than your AMTI would otherwise be, enter the amount from column (c) on Form 6251, line 21. Write "Sch. Q" on the dotted line to the left of this amount on Form 1040 or 6251.

Note. These rules also apply to estates and trusts that hold a residual interest in a REMIC. Be sure to make the appropriate entries on the comparable lines on Form 1041.



Do not include the amount shown in column (c) in the total on line 38 of Schedule E.

Column (e). Report the total of the amounts shown on Schedule(s) Q, line 3b. If you itemize your deductions on Schedule A, include this amount on line 22.

Part V

Summary

Line 41

You will not be charged a penalty for underpayment of estimated tax if:

1. Your gross farming or fishing income for 2000 or 2001 is at least two-thirds of your gross income and
 2. You file your 2001 tax return and pay the tax due by March 1, 2002.
-

2001 Instructions for Schedule F, Profit or Loss From Farming

Use Schedule F (Form 1040) to report farm income and expenses. File it with Form 1040, 1041, 1065, or 1065-B.

This activity may subject you to state and local taxes and other requirements such as business licenses and fees. Check with your state and local governments for more information.

Additional Information. **Pub. 225** has samples of filled-in forms and schedules, and lists important dates that apply to farmers.

General Instructions

Other Schedules and Forms You May Have To File

Schedule E to report rental income from pastureland that is based on a flat charge. Report this income in Part I of Schedule E. But report on line 10 of Schedule F pasture income received from taking care of someone else's livestock.

Schedule J to figure your tax by averaging your farm income over the previous 3 years. Doing so may reduce your tax.

Schedule SE to pay self-employment tax on income from any trade or business, including farming.

Form 4562 to claim depreciation on assets placed in service in 2001, to claim amortization that began in 2001, or to report information on vehicles and other listed property.

Form 4684 to report a casualty or theft gain or loss involving farm business property including livestock held for draft, breeding, sport, or dairy purposes.

See Pub. 225 for more information on how to report various farm losses, such as losses due to death of livestock or damage to crops or other farm property.

Form 4797 to report sales, exchanges, or involuntary conversions (other than from a casualty or theft) of certain farm property. Also use this form to report sales of livestock held for draft, breeding, sport, or dairy purposes.

Form 4835 to report rental income based on farm production or crop shares if you did not materially participate (for self-employment tax purposes) in the management or operation of the farm. This income is not subject to self-employment tax. See Pub. 225.

Form 8824 to report like-kind exchanges.

Heavy Highway Vehicle Use Tax

If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a Federal highway motor vehicle use tax. See **Form 2290** to find out if you owe this tax.

Information Returns

You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other similar basis for resale. For more information, see the 2001 General Instructions for Forms 1099, 1098, 5498, and W-2G.

If you received cash of more than \$10,000 in one or more related transactions in your farming business, you may have to file **Form 8300**. For details, see **Pub. 1544**.

Estimated Tax

If you had to make estimated tax payments in 2001 and you underpaid your estimated tax, you will not be charged a penalty if **both** of the following apply.

1. Your gross farming or fishing income for 2000 or 2001 is at least two-thirds of your gross income.
2. You file your 2001 tax return and pay the tax due by March 1, 2002.

For details, see Pub. 225.

Specific Instructions

Filers of Forms 1041, 1065, and 1065-B

Do not complete the block labeled "Social security number (SSN)." Instead, enter your employer identification number (EIN) on line D.

Lines A and B

On line A, enter your principal crop or activity for the current year.

On line B, enter one of the 14 principal agricultural activity codes listed in Part IV on page 2 of Schedule F. Select the code that best describes the source of most of your income.

Line C

If you use the **cash method**, check the box labeled "Cash." Generally, report income in the year in which you actually or constructively received it and deduct expenses in the year you paid them. Complete Parts I and II of Schedule F.

If you use the **accrual method**, check the box labeled "Accrual." Generally, report income in the year in which you earned it and deduct expenses in the year you incurred them, even if you did not pay them in that year. Complete Parts II, III, and line 11 of Schedule F.

Other rules apply that determine the timing of deductions based on economic performance. See **Pub. 538** for details.

Farming syndicates cannot use the cash method of accounting. A farming syndicate may be a partnership, any other noncorporate group, or an S corporation if:

- The interests in the business have ever been for sale in a way that would require registration with any Federal or state agency or
- More than 35% of the loss during any tax year is shared by limited partners or limited entrepreneurs. A **limited partner** is one who can lose only the amount invested or required to be invested in the partnership. A **limited entrepreneur** is a person who does not take any active part in managing the business.

Line D

You need an employer identification number (EIN) only if you had a qualified retirement plan or were required to file an employment, excise, estate, trust, partnership, or alcohol, tobacco, and firearms tax return. If you need an EIN, file **Form SS-4**. If you do not have an EIN, leave line D blank. **Do not** enter your SSN.

Line E

Material Participation. For the definition of material participation for purposes of the passive activity rules, see the instructions for Schedule C, line G, on page C-2. If you meet any of the material participation tests described in those instructions, check the "Yes" box.

If you are a retired or disabled farmer, you are treated as materially participating in a farming business if you materially participated 5 of the 8 years preceding your retirement or disability. Also, a surviving spouse is treated as materially participating in a farming activity if the real property used for farming meets the estate tax rules for special valuation of farm property passed from a qualifying decedent, and the surviving spouse actively manages the farm.

Check the "No" box if you did not materially participate. If you checked "No" and you have a loss from this business, see **Limit on Losses** below. If you have a profit from this business activity but have current year losses from other passive activities or prior year unallowed passive activity losses, see the Instructions for Form 8582.

Limit on Losses. If you checked the "No" box on line E and you have a loss from this business, you may have to use Form 8582 to figure your allowable loss, if any, to enter on Schedule F, line 36. Generally, you can deduct losses from passive activities only to the extent of income from passive activities. For details, see **Pub. 925**.

Part I. Farm Income—Cash Method

In Part I, show income received for items listed on lines 1 through 10. Generally, count both the cash actually or constructively received and the fair market value of goods or other property received for these items. Income is constructively received when it is credited to your account or set aside for you to use. However, farm production flexibility contract payments received under the Federal Agriculture Improvement

and Reform Act of 1996 are required to be included in income only in the year of actual receipt.

If you ran the farm yourself and received rents based on crop shares or farm production, report these rents as income on line 4.

Sales of Livestock Because of Weather-Related Conditions

If you sold livestock because of drought, flood, or other weather-related conditions, you can elect to report the income from the sale in the year after the year of sale if **all** three of the following apply.

1. Your main business is farming.
2. You can show that you sold the livestock only because of weather-related conditions.
3. Your area qualified for Federal aid.

Forms 1099 or CCC-1099-G

If you received Forms 1099 or CCC-1099-G showing amounts paid to you, first determine if the amounts are to be included with farm income. Then, use the following chart to determine where to report the income on Schedule F. Include the Form 1099 or CCC-1099-G amounts in the total amount reported on that line.

Form	Where to report
1099-PATR	Line 5a
1099-A	Line 7b
1099-MISC (for crop insurance) . . .	Line 8a
1099-G or CCC-1099-G (for disaster payments) .	Line 8a
1099-G or CCC-1099-G (for other agricultural program payments) . . .	Line 6a

You may also receive **Form 1099-MISC** for other types of income. In this case, report it on whichever line best describes the income. For example, if you received a Form 1099-MISC for custom farming work, include this amount on line 9, "Custom hire (machine work) income."

Lines 1 and 2

On line 1, show amounts received from sales of livestock and other items bought for resale. On line 2, show the cost or other basis of the livestock and other items you actually sold.

Line 4

Show amounts received from sales of livestock, produce, grains, and other products you raised.

Lines 5a and 5b

If you received distributions from a cooperative in 2001, you should receive **Form 1099-PATR**. On line 5a, show your total distributions from cooperatives. This includes patronage dividends, nonpatronage distributions, per-unit retain allocations, and redemption of nonqualified notices and per-unit retain allocations.

Show patronage dividends (distributions) received in cash, and the dollar amount of qualified written notices of allocation. If you received property as patronage dividends, report the fair market value of the property as income. Include cash advances received from a marketing cooperative. If you received per-unit retains in cash, show the amount of cash. If you received qualified per-unit retain certificates, show the stated dollar amount of the certificate.

Do not include as income on line 5b patronage dividends from buying personal or family items, capital assets, or depreciable assets. Enter these amounts on line 5a only. If you do not report patronage dividends from these items as income, you must subtract the amount of the dividend from the cost or other basis of these items.

Lines 6a and 6b

Enter on line 6a the **total** of the following amounts.

- Price support payments.
- Market gain from the repayment of a secured Commodity Credit Corporation (CCC) loan for less than the original loan amount.
- Diversion payments.
- Cost-share payments (sight drafts).
- Payments in the form of materials (such as fertilizer or lime) or services (such as grading or building dams).

These amounts are government payments you received, usually reported to you on **Form 1099-G**. You may also receive **Form CCC-1099-G** from the Department of Ag-

riculture showing the amounts and types of payments made to you.

On line 6b, report only the taxable amount. For example, do not report the market gain shown on Form CCC-1099-G on line 6b if you elected to report CCC loan proceeds as income in the year received (see **Lines 7a Through 7c** below). No gain results from redemption of the commodity because you previously reported the CCC loan proceeds as income. You are treated as repurchasing the commodity for the amount of the loan repayment. However, if you did not report the CCC loan proceeds under the election, you must report the market gain on line 6b.

Lines 7a Through 7c

Commodity Credit Corporation Loans. Generally, you do not report CCC loan proceeds as income. However, if you pledge part or all of your production to secure a CCC loan, you may elect to report the loan proceeds as income in the year you receive them, instead of the year you sell the crop. If you make this election (or made the election in a prior year), report loan proceeds you received in 2001 on line 7a. Attach a statement to your return showing the details of the loan(s).

Forfeited CCC Loans. Include the full amount forfeited on line 7b, even if you reported the loan proceeds as income.

If you **did not** elect to report the loan proceeds as income, also include the forfeited amount on line 7c.

If you did elect to report the loan proceeds as income, you generally will not have an entry on line 7c. But if the amount forfeited is different from your basis in the commodity, you may have an entry on line 7c.

See **Pub. 225** for details on the tax consequences of electing to report CCC loan proceeds as income or forfeiting CCC loans.

Lines 8a Through 8d

In general, you must report crop insurance proceeds in the year you receive them. Federal crop disaster payments are treated as crop insurance proceeds. However, if 2001 was the year of damage, you may elect to include certain proceeds in income for 2002. To make this election, check the box on line 8c and attach a statement to your return. See **Pub. 225** for a description of the proceeds for which an election may be made and for what you must include in your statement.

Generally, if you elect to defer any eligible crop insurance proceeds, you must defer all such crop insurance proceeds (including Federal disaster payments).

Enter on line 8a the **total** crop insurance proceeds you received in 2001, even if you elect to include them in income for 2002.

Enter on line 8b the taxable amount of the proceeds you received in 2001. Do not include proceeds you elect to include in income for 2002.

Enter on line 8d the amount, if any, of crop insurance proceeds you received in 2000 and elected to include in income for 2001.

Line 10

Use this line to report income not shown on lines 1 through 9, such as the following.

- Illegal Federal irrigation subsidies. See **Pub. 225**.

- Bartering income.

- Income from discharge of indebtedness. Generally, if a debt is canceled or forgiven, you must include the canceled amount in income. If a Federal agency, financial institution, or credit union canceled or forgave a debt you owed of \$600 or more, it should send you a **Form 1099-C**, or similar statement, by January 31, 2002, showing the amount of debt canceled in 2001. However, certain solvent farmers may exclude discharged qualified farm indebtedness from income. To find out if you must include any discharge of indebtedness in income, see **Pub. 225**.

- State gasoline or fuel tax refund you received in 2001.

- The amount of credit for Federal tax paid on fuels claimed on your 2000 Form 1040.

- The amount of credit for alcohol used as a fuel that was entered on **Form 6478**.

- Any recapture of excess depreciation, including any section 179 expense deduction, if the business use percentage of any listed property decreased to 50% or less in 2001. Use **Form 4797** to figure the recapture. See the instructions for Schedule C, line 13, on page C-3 for the definition of listed property.

- The inclusion amount on leased listed property (other than vehicles) when the business use percentage drops to 50% or less. See **Pub. 946** to figure the amount.

- Any recapture of the deduction for clean-fuel vehicles used in your business and clean-fuel vehicle refueling property. For details on how to figure recapture, see **Pub. 535**.

- The gain or loss on the sale of commodity futures contracts if the contracts were made to protect you from price changes. These are a form of business insurance and are considered hedges. If you had a loss in a closed futures contract, enclose it in parentheses.



For property acquired and hedging positions established, you must clearly identify on your books and records both the hedging transaction and the item(s) or aggregate risk that is being hedged.

Purchase or sales contracts are not true hedges if they offset losses that already occurred. If you bought or sold commodity futures with the hope of making a profit due to favorable price changes, report the profit or loss on **Form 6781** instead of this line.

Part II. Farm Expenses

Do not deduct the following.

- Personal or living expenses (such as taxes, insurance, or repairs on your home) that do not produce farm income.

- Expenses of raising anything you or your family used.

- The value of animals you raised that died.

- Inventory losses.

- Personal losses.

If you were repaid for any part of an expense, you must subtract the amount you were repaid from the deduction.

Capitalizing Costs of Property. If you produced real or tangible personal property or acquired property for resale, certain expenses must be included in inventory costs or capitalized. These expenses include the direct costs of the property and the share of any indirect costs allocable to that property. However, these rules generally do not apply to:

1. Expenses of producing any plant that has a preproductive period of 2 years or less,

2. Expenses of raising animals, or

3. Expenses of replanting certain crops if they were lost or damaged by reason of freezing temperatures, disease, drought, pests, or casualty.

Note. Exceptions **1** and **2** above do not apply to tax shelters, farm syndicates, or partnerships required to use the accrual method of accounting under Internal Revenue Code section 447 or 448.

But you may be able to deduct rather than capitalize the expenses of producing a plant with a preproductive period of more than 2 years. See **Election To Deduct Certain Preproductive Period Expenses** on page F-4.

Do not reduce your deductions on lines 12 through 34e by the preproductive period expenses you are required to capitalize. Instead, enter the total amount capitalized in parentheses on line 34f. See **Preproductive Period Expenses** on page F-6 for details.

If you revoked an election made before 1989 to deduct preproductive period expenses for animals, you must continue to apply the alternative depreciation rules to property placed in service while your election was in effect. Also, the expenses you previously chose to deduct will have to be recaptured as ordinary income when you dispose of the animals.

Election To Deduct Certain Preproductive Period Expenses. If the preproductive period of any plant you produce is more than 2 years, you may choose to currently deduct the expenses rather than capitalize them. But you may not make this election for the costs of planting or growing citrus or almond groves that are incurred before the end of the 4th tax year beginning with the tax year you planted them in their permanent grove. By deducting the preproductive period expenses for which you may make this election, you are treated as having made the election.

Note. In the case of a partnership or S corporation, the election must be made by the partner or shareholder. This election may not be made by tax shelters, farm syndicates, or partners in partnerships required to use the accrual method of accounting under Internal Revenue Code section 447 or 448.

If you make the election to deduct preproductive expenses for plants, any gain you realize when disposing of the plants is ordinary income up to the amount of the preproductive expenses you deducted. Also, the alternative depreciation rules apply to property placed in service in any tax year your election is in effect. Unless you obtain IRS consent, you must make this election for the first tax year in which you engage in a farming business involving the production of property subject to the capitalization rules. You may not revoke this election without IRS consent.

For details, see **Pub. 225**.

Prepaid Farm Supplies. Generally, if you use the cash method of accounting and your prepaid farm supplies are more than 50% of your other deductible farm expenses, your deduction for those supplies may be limited. Prepaid farm supplies include expenses for feed, seed, fertilizer, and similar farm supplies not used or consumed during the year. They also include the cost of poultry that would be allowable as a deduction in a later tax year if you were to (a) capitalize the cost of poultry bought for use in your farm busi-

ness and deduct it ratably over the lesser of 12 months or the useful life of the poultry and (b) deduct the cost of poultry bought for resale in the year you sell or otherwise dispose of it.

If the limit applies, you can deduct prepaid farm supplies that do not exceed 50% of your other deductible farm expenses in the year of payment. You can deduct the excess only in the year you use or consume the supplies (other than poultry, which is deductible as explained above). For details and exceptions to these rules, see Pub. 225.

Line 12

You can deduct the actual expenses of running your car or truck or take the standard mileage rate. You **must** use actual expenses if you used your vehicle for hire or you used more than one vehicle simultaneously in your business (such as in fleet operations). You cannot use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

You can take the standard mileage rate for 2001 **only** if:

- You owned the vehicle and use the standard mileage rate for the first year you placed the vehicle in service or
- You leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

If you deduct actual expenses:

- Include on line 12 the business portion of expenses for gasoline, oil, repairs, insurance, tires, license plates, etc., and
- Show depreciation on line 16 and rent or lease payments on line 26a.

If you take the standard mileage rate, multiply the number of business miles by 34.5 cents. Add to this amount your parking fees and tolls, and enter the total on line 12. **Do not** deduct depreciation, rent or lease payments, or your actual operating expenses.

If you claim any car or truck expenses (actual or the standard mileage rate), you must provide the information requested in Part V of **Form 4562**. Be sure to attach Form 4562 to your return.

For details, see **Pub. 463**.

Line 14

Deductible soil and water conservation expenses generally are those that are paid to conserve soil and water or to prevent erosion of land used for farming. These expenses include (but are not limited to) the cost of leveling, grading and terracing, contour furrowing, the construction, control, and protection of diversion channels, drainage ditches, earthen dams, watercourses, outlets

and ponds, the eradication of brush, and the planting of windbreaks.

These expenses can be deducted only if they are consistent with a conservation plan approved by the Natural Resources Conservation Service (NRCS) of the Department of Agriculture for the area in which your land is located. If no plan exists, the expenses must be consistent with a plan of a comparable state agency. You cannot deduct the expenses if they were paid or incurred for land used in farming in a foreign country.

Do not deduct expenses you paid or incurred to drain or fill wetlands, to prepare land for center pivot irrigation systems, or to clear land.

Your deduction may not exceed 25% of your gross income from farming (excluding certain gains from selling assets such as farm machinery and land). If your conservation expenses are more than the limit, the excess may be carried forward and deducted in later tax years. However, the amount deductible for any 1 year may not exceed the 25% gross income limit for that year.

For details, see **Pub. 225**.

Line 15

Enter amounts paid for custom hire or machine work (the machine operator furnished the equipment).

Do not include amounts paid for rental or lease of equipment that you operated yourself. Instead, report those amounts on line 26a.

Line 16

You can deduct depreciation of buildings, improvements, cars and trucks, machinery, and other farm equipment of a permanent nature.

Do not deduct depreciation on your home, furniture or other personal items, land, livestock you bought or raised for resale, or other property in your inventory.

You may also elect under Internal Revenue Code section 179 to expense a portion of the cost of certain tangible property you bought in 2001 for use in your business.

For details, including when you must complete and attach **Form 4562**, see the instructions for Schedule C, line 13, on page C-3.

Line 17

Deduct contributions to employee benefit programs that are not an incidental part of a pension or profit-sharing plan included on line 25. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs.

Do not include on line 17 any contributions you made on your behalf as a self-employed person to an accident and health plan or for group-term life insurance. You may be able to deduct on Form 1040, line 28, part of the amount you paid for health insurance on behalf of yourself, your spouse, and dependents even if you do not itemize your deductions. See the instructions for Form 1040, line 28, for details.

Line 18

Generally, you cannot currently deduct expenses for feed to be consumed by your livestock in a later tax year. See **Prepaid Farm Supplies** on page F-4.

Line 20

Do not include the cost of transportation incurred in purchasing livestock held for resale as freight paid. Instead, add these costs to the cost of the livestock, and deduct them when the livestock is sold.

Line 22

Deduct on this line premiums paid for farm business insurance. Deduct on line 17 amounts paid for employee accident and health insurance. Amounts credited to a reserve for self-insurance or premiums paid for a policy that pays for your lost earnings due to sickness or disability are not deductible.

Lines 23a and 23b

Interest Allocation Rules. The tax treatment of interest expense differs depending on its type. For example, home mortgage interest and investment interest are treated differently. "Interest allocation" rules require you to allocate (classify) your interest expense so it is deducted on the correct line of your return and receives the right tax treatment. These rules could affect how much interest you are allowed to deduct on Schedule F.

Generally, you allocate interest expense by tracing how the proceeds of the loan are used. See **Pub. 535** for details.

If you paid interest on a debt secured by your main home and any of the proceeds

from that debt were used in your farming business, see Pub. 535 to figure the amount to include on lines 23a and 23b.

How To Report. If you have a mortgage on real property used in your farming business (other than your main home), enter on line 23a the interest you paid for 2001 to banks or other financial institutions for which you received a **Form 1098** (or similar statements). If you did not receive a Form 1098, enter the interest on line 23b.

If you paid more mortgage interest than is shown on Form 1098, see Pub. 535 to find out if you can deduct the additional interest. If you can, include the amount on line 23a. Attach a statement to your return explaining the difference and enter "See attached" in the margin next to line 23a.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, include your share of the interest on line 23b. Attach a statement to your return showing the name and address of the person who received the Form 1098. In the margin next to line 23b, enter "See attached."

Do not deduct interest you prepaid in 2001 for later years; include only the part that applies to 2001.

Line 24

Enter the amounts you paid for farm labor. Do not include amounts paid to yourself. Reduce your deduction by the current year credits claimed on:

- **Form 5884**, Work Opportunity Credit,
- **Form 8844**, Empowerment Zone Employment Credit,
- **Form 8845**, Indian Employment Credit, and
- **Form 8861**, Welfare-to-Work Credit.

Count the cost of boarding farm labor but not the value of any products they used from the farm. Count only what you paid household help to care for farm laborers.



If you provided taxable fringe benefits to your employees, such as personal use of a car, do not include in farm labor the amounts you depreciated or deducted elsewhere.

Line 25

Enter your deduction for contributions to employee pension, profit-sharing, or annuity plans. If the plan included you as a self-employed person, see the instructions for Schedule C, line 19, on page C-4.

Lines 26a and 26b

If you rented or leased vehicles, machinery, or equipment, enter on line 26a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you may have to reduce your deduction by an **inclusion amount**. For details, see the instructions for Schedule C, lines 20a and 20b, on page C-4.

Enter on line 26b amounts paid to rent or lease other property such as pasture or farm land.

Line 27

Enter amounts you paid for repairs and maintenance of farm buildings, machinery, and equipment. You can also include what you paid for tools of short life or minimal cost, such as shovels and rakes.

Do not deduct repairs or maintenance on your home.

Line 31

You can deduct the following taxes on this line.

- Real estate and personal property taxes on farm business assets.
- Social security and Medicare taxes you paid to match what you are required to withhold from farm employees' wages and any Federal unemployment tax paid.
- Federal highway use tax.

Do not deduct the following taxes on this line.

- Federal income taxes, including your self-employment tax. However, you may deduct one-half of your self-employment tax on Form 1040, line 27.
- Estate and gift taxes.
- Taxes assessed for improvements, such as paving and sewers.
- Taxes on your home or personal use property.
- State and local sales taxes on property purchased for use in your farm business. Instead, treat these taxes as part of the cost of the property.
- Other taxes not related to your farm business.

Line 32

Enter amounts you paid for gas, electricity, water, etc., for business use on the farm. Do not include personal utilities. You cannot deduct the base rate (including taxes) of the first telephone line into your residence, even if you use it for business. See the instructions for Schedule C, line 25, on page C-5.

Lines 34a Through 34f

Include all ordinary and necessary farm expenses not deducted elsewhere on Schedule F, such as advertising, office supplies, etc. **Do not** include fines or penalties paid to a government for violating any law.

Amortization. You can amortize qualifying reforestation and reforestation costs over 84 months. You can also amortize certain business startup costs over a period of at least 60 months. For details, see **Pub. 535**. For amortization that begins in 2001, you must complete and attach **Form 4562**.

At-Risk Loss Deduction. Any loss from this activity that was not allowed as a deduction last year because of the at-risk rules is treated as a deduction allocable to this activity in 2001.

Bad Debts. See the instructions for Schedule C, line 9, on page C-3.

Business Use of Your Home. You may be able to deduct certain expenses for business use of your home, subject to limitations. Use the worksheet in **Pub. 587** to figure your allowable deduction. **Do not** use **Form 8829**.

Deduction for Clean-Fuel Vehicles and Clean-Fuel Vehicle Refueling Property. You may deduct part of the cost of qualified clean-fuel vehicle property used in your business and qualified clean-fuel vehicle refueling property. See **Pub. 535** for details.

Legal and Professional Fees. You can deduct on this line fees for tax advice related to your farm business and for preparation of the tax forms related to your farm business.

Travel, Meals, and Entertainment. Generally, you can deduct expenses for farm business travel and 50% of your business meals and entertainment. But there are exceptions and limitations. See the instructions for Schedule C, lines 24a through 24c, on page C-5.

Preproductive Period Expenses. If you had preproductive period expenses in 2001 and you decided to capitalize them, you **must** enter the total of these expenses in parentheses on line 34f and enter "263A" in the space to the left of the total.

If you entered an amount in parentheses on line 34f because you have preproductive period expenses you are capitalizing, subtract the amount on line 34f from the total of lines 12 through 34e. Enter the result on line 35.

For details, see **Capitalizing Costs of Property** on page F-3 and **Pub. 225**.

Line 36

If you have a loss, the amount of loss you can deduct this year may be limited. Go on to line 37 before entering your loss on line 36. If you checked the "No" box on line E on Schedule F, also see the Instructions for Form 8582. Enter the net profit or **deductible** loss here and on Form 1040, line 18, and Schedule SE, line 1. Estates and trusts should enter the net profit or deductible loss here and on **Form 1041**, line 6. Partnerships should stop here and enter the profit or loss on this line and on **Form 1065**, line 5 (or **Form 1065-B**, line 7).

If you have a net profit on line 36, this amount is earned income and may qualify you for the earned income credit if you meet certain conditions. See the instructions for Form 1040, lines 61a and 61b, for details.

Line 37

At-Risk Rules. Generally, if you have (a) a loss from a farming activity and (b) amounts in the activity for which you are **not at risk**, you will have to complete **Form 6198** to figure your allowable loss. The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the activity.

Check **box 37b** if you have amounts for which you are not at risk in this activity, such as the following.

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire the activity that are not secured by your own property (other than property used in the activity). However, there is an exception for certain nonrecourse financing borrowed by you in connection with holding real property.

- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related under Internal Revenue Code section 465(b)(3) to a person (other than you) having such an interest.

If all amounts are at risk in this business, check **box 37a** and enter your loss on line 36. But if you checked the "No" box on line E, you may need to complete **Form 8582** to figure your allowable loss to enter on line 36. See the Instructions for Form 8582.

If you checked **box 37b**, see Form 6198 to determine the amount of your deductible loss and enter that amount on line 36. But

if you checked the "No" box on line E, your loss may be further limited. See the Instructions for Form 8582. If your at-risk amount is zero or less, enter zero on line 36. Be sure to attach Form 6198 to your return. If you checked box 37b and you do not attach Form 6198, the processing of your tax return may be delayed.

Any loss from this activity not allowed for 2001 because of the at-risk rules is treated as a deduction allocable to the activity in 2002.

For details, see **Pub. 925** and the Instructions for Form 6198.

Part III. Farm Income—Accrual Method

If you use the accrual method, report farm income when you earn it, not when you receive it. Generally, you must include animals and crops in your inventory if you use this method. See **Pub. 538** for exceptions, inventory methods, how to change methods of accounting, and for rules that require certain costs to be capitalized or included in inventory.

Line 38

Enter the amount earned from the sale of livestock, produce, grains, and other products you raised.

Lines 39a Through 41c

See the instructions for lines 5a through 7c that begin on page F-2.

Line 44

See the instructions for line 10 on page F-3.

2001 Instructions for Schedule J, Farm Income Averaging

General Instructions

Negative Taxable Income

If your deductions exceeded your gross income for any year that is a base year for 2001 (1998, 1999, or 2000), your taxable income for farm income averaging purposes for that year may be negative. See the instructions for lines 5, 9, and 13. If you had taxable income from farming in 1998 or 1999 and your deductions exceeded your gross income for any of the 3 years preceding those years (base years), your taxable income for farm income averaging purposes for a base year may be negative. You can use that negative amount instead of limiting the amount to zero when figuring your tax using Schedule J for 1998 or 1999. Unless you have already done so, file an amended return on **Form 1040X** for 1998 or 1999 and attach Schedule J. Filing Form 1040X may result in a refund. You may file Form 1040X for 1998 or 1999 and use Schedule J to figure your tax even if you did not use Schedule J on your original 1998 or 1999 tax return. If you did use Schedule J to figure your tax for 1998 or 1999 and the taxable income for any of the base years was zero, you **must** refigure your tax using a 1998 or 1999 Schedule J **before** completing Schedule J for 2001 (or 2000). You also should amend your 1998 or 1999 tax return. Figure the amount to enter on lines 5, 9, and 13 of a 1998 or 1999 Schedule J in the manner shown for those lines in these instructions, but substituting the applicable base years. Also, do not limit the amount on lines 5, 9, 11, 13, and 15 to zero. If you refigure your tax for 1998 using Schedule J, use the amounts refigured for 1998 to refigure your 1999 Schedule J.

 If you used Schedule J to figure your tax for 2000, you will use amounts only from the 2000 Schedule J when completing your 2001 Schedule J.

Use Schedule J (Form 1040) to elect to figure your 2001 tax by averaging, over the previous 3 years (base years), all or part of your 2001 taxable income from your trade or business of farming. Making this election may give you a lower tax if your 2001 income from farming is high and your taxable income for one or more of the 3 prior years was low.

If you owe alternative minimum tax (AMT) for 2001 (figured without regard to farm income averaging), filing Schedule J will not reduce your total tax for 2001. Filing Schedule J may, however, increase your credit for prior year minimum tax in a later tax year.

This election does not apply when figuring your tentative minimum tax on **Form 6251** (that is, you cannot average your AMT farm income). Also, you do not have to recompute, because of this election, the tax liability of any minor child who was required to use your tax rates in the prior years.

Prior Year Tax Returns

You may need copies of your original or amended income tax returns for 1998, 1999, and 2000 to figure your tax on Schedule J. If you do not have copies of those returns, you can get them by filing **Form 4506**. See your Form 1040 instruction booklet to find out how to get this form. Keep a copy of your 2001 income tax return for use in 2002, 2003, or 2004.

Specific Instructions

Line 2

Elected Farm Income

To figure elected farm income, first figure your taxable income from farming. **Taxable income from farming** includes all income, gains, losses, and deductions attributable to any farming business. However, it does not include gain from the sale or other disposition of land.

Your **elected farm income** is the amount of your taxable income from farming that you elect to include on line 2. You do not have to include all of your taxable income from farming on line 2. It may be to your advantage to include less than the full amount, depending on how the amount you include on line 2 affects your tax bracket for the current and prior 3 tax years.

Your elected farm income cannot exceed your taxable income. Also, the portion of your elected farm income treated as a net capital gain cannot exceed the **smaller** of your total net capital gain or your net capital gain attributable to your farming business. If your elected farm income includes net capital gain, you must allocate an equal portion of the net capital gain to each of the base years. If, for any base year, you had a capital loss that resulted in a capital loss carryover to the next tax year, **do not** reduce the elected farm income allocated to that base year by any part of the carryover.

Farming Business. A farming business is the trade or business of cultivating land or raising or harvesting any agricultural or horticultural commodity. This includes:

- Operating a nursery or sod farm;
- Raising or harvesting of trees bearing fruits, nuts, or other crops;
- Raising ornamental trees (but not evergreen trees that are more than 6 years old when severed from the roots);
- Raising, shearing, feeding, caring for, training, and managing animals; and
- Leasing land to a tenant engaged in a farming business, but **only** if the lease payments are based on a share of the tenant's production (not a fixed amount).

A farming business **does not** include:

- Contract harvesting of an agricultural or horticultural commodity grown or raised by someone else or
- Merely buying or reselling plants or animals grown or raised by someone else.



Generally, farm income, gains, losses, and deductions are reported on:

- **Form 1040**, line 7, to the extent of wages and other compensation you received as a shareholder in an S corporation engaged in a farming business;
- **Schedule D**;
- **Schedule E**, Part II;
- **Schedule F**;
- **Form 4797**; and
- **Form 4835**.

Line 4

Figure the tax on the amount on line 3 using the **2001 Tax Table**, Tax Rate Schedules, or Capital Gain Tax Worksheet from your 2001 Form 1040 instruction booklet, or use Schedule D. Enter the tax on line 4.

Line 5

If you used Schedule J to figure your tax for 2000 (that is, you entered the amount from line 22 of that Schedule J on Form 1040, line 40, or on Form 1040X), enter on line 5 the amount from line 11 of your 2000 Schedule J. If you used Schedule J to figure your tax for 1999 but not 2000, enter on line 5 the amount from line 15 of your 1999 Schedule J. If you used Schedule J to figure your tax for 1998 but not 1999 nor 2000, enter on line 5 the amount from line 3 of your 1998 Schedule J.

If you figured your tax for 1998, 1999, and 2000 without using Schedule J, enter on line 5 the taxable income from your 1998 tax return (or as previously adjusted by the IRS, an amended return, etc.). But if the taxable income on your 1998 tax return is zero or less, complete the worksheet below to figure the amount to enter on line 5.

If you filed your 1998 tax return using TeleFile, enter the taxable income from your TeleFile Tax Record. If you did not file a tax return for 1998, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 1998 for at least 3 years after April 15, 2002 (or the date you file your 2001 tax return, if later), even if you did not file a tax return for 1998.

Instructions for 1998 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 1998 Schedule D, line 18, is not allowed for farm income averaging purposes to the extent it did not reduce your capital loss carryover to 1999. This could happen if the taxable income before subtracting exemptions shown on your 1998 Form 1040, line 37 (or as previously adjusted), was less than zero. Enter the amount by which your 1998 capital loss carryover to 1999 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 1998 Schedule D, line 17, over the loss on your 1998 Schedule D, line 18. If you had any net operating loss (NOL) carrybacks to 1998, be sure you refigured your 1998 capital loss carryover to 1999.

Line 3. If you had an NOL for 1998, enter the amount of that NOL as figured on line 28 of the 1998 Form 1045, Schedule A, you filed with **Form 1045** or Form 1040X. If you did not have an NOL for 1998, enter the portion, if any, of the NOL carryovers and carrybacks to 1998 that were not used in 1998 and were carried to years after 1998.

Example. John Farmington did not use farm income averaging for 1998, 1999, nor 2000. John has \$18,000 of elected farm income on line 2. The taxable income before subtracting exemptions shown on his 1998 Form 1040, line 37, was \$3,700. A deduction for exemptions of \$2,700 was shown on line 38, and line 39, taxable income, was \$1,000. However, John had a \$22,950 NOL in 1999, \$9,000 of which was remaining to carry to 1998 after the NOL was carried back to

1997. To complete line 1 of the worksheet, John combines the \$9,000 NOL deduction with the \$3,700 from his 1998 Form 1040, line 37. The result is a negative \$5,300. John subtracts from that amount the \$2,700 deduction for exemptions. That result is a negative \$8,000, John's 1998 taxable income, which he enters as a positive amount on line 1 of the 1998 worksheet.

When John filed his 1998 tax return, he had a \$3,000 net capital loss deduction on Schedule D, line 18 (which was also entered on Form 1040, line 13), a \$7,000 loss on Schedule D, line 17, and a \$4,000 capital loss carryover to 1999. However, when John carried back the 1999 NOL to 1998, he refigured his 1998 capital loss carryover to 1999 as \$7,000. John adds the \$3,000 from Schedule D, line 18, and the \$7,000 carryover. He subtracts from the result the \$7,000 loss on his Schedule D, line 17, and enters \$3,000 on line 2 of the worksheet.

John had \$1,000 of taxable income in 1998 that reduced the 1999 NOL carryback. The \$2,700 of exemptions and \$3,000 net capital loss deduction also reduced the amount of the 1999 NOL carryback. Therefore, only \$2,300 was available to carry to 2000 and later years, as shown on his 1999 Form 1045, Schedule B, line 9. John enters the \$2,300 on line 3 of the worksheet, and \$5,300 on line 4. He then subtracts the \$5,300 from the \$8,000 on line 1 and enters the result, \$2,700, on line 5 of the worksheet. He enters a negative \$2,700 on Schedule J, line 5. He combines that amount with the \$6,000 on Schedule J, line 6, and enters \$3,300 on Schedule J, line 7.

1998 Taxable Income Worksheet—Line 5

Keep for Your Records

Complete this worksheet if you figured your tax for both 1999 and 2000 without using Schedule J **and** the taxable income on your 1998 tax return is zero or less. See the instructions above before completing this worksheet.

1. Figure the taxable income from your 1998 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 1998, **do not** include any NOL carryovers or carrybacks to 1998. Enter the result as a positive amount **1.** _____
2. If there is a loss on your 1998 Schedule D, line 18, add that loss (as a positive amount) and your 1998 capital loss carryover to 1999. Subtract from that sum the amount of the loss on your 1998 Schedule D, line 17, and enter the result . . . **2.** _____
3. If you had an NOL for 1998, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 1998 that were not used in 1998 and were carried to years after 1998 **3.** _____
4. Add lines 2 and 3 **4.** _____
5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 5 **5.** _____

Line 8

If line 7 is zero, enter zero on line 8. Otherwise, figure the tax on the amount on line 7 using either:

- The 1998 Tax Rate Schedules below or
- The Schedule D you filed for 1998 (but use the 1998 Tax Rate Schedules below instead of the 1998 Tax Table when figuring the tax on Schedule D, lines 33 and 53).

1998 Tax Rate Schedules—Line 8

Schedule X—Use if your 1998 filing status was Single				Schedule Y-2—Use if your 1998 filing status was Married filing separately			
If the amount on Schedule J, line 7, is:		Enter on Schedule J, line 8	<i>of the amount over—</i>	If the amount on Schedule J, line 7, is:		Enter on Schedule J, line 8	<i>of the amount over—</i>
<i>Over—</i>	<i>But not over—</i>			<i>Over—</i>	<i>But not over—</i>		
\$0	\$25,350	..... 15%	\$0	\$0	\$21,175	..... 15%	\$0
25,350	61,400	\$3,802.50 + 28%	25,350	21,175	51,150	\$3,176.25 + 28%	21,175
61,400	128,100	13,896.50 + 31%	61,400	51,150	77,975	11,569.25 + 31%	51,150
128,100	278,450	34,573.50 + 36%	128,100	77,975	139,225	19,885.00 + 36%	77,975
278,450	.....	88,699.50 + 39.6%	278,450	139,225	.....	41,935.00 + 39.6%	139,225
Schedule Y-1—Use if your 1998 filing status was Married filing jointly or Qualifying widow(er)				Schedule Z—Use if your 1998 filing status was Head of household			
If the amount on Schedule J, line 7, is:		Enter on Schedule J, line 8	<i>of the amount over—</i>	If the amount on Schedule J, line 7, is:		Enter on Schedule J, line 8	<i>of the amount over—</i>
<i>Over—</i>	<i>But not over—</i>			<i>Over—</i>	<i>But not over—</i>		
\$0	\$42,350	..... 15%	\$0	\$0	\$33,950	..... 15%	\$0
42,350	102,300	\$6,352.50 + 28%	42,350	33,950	87,700	\$5,092.50 + 28%	33,950
102,300	155,950	23,138.50 + 31%	102,300	87,700	142,000	20,142.50 + 31%	87,700
155,950	278,450	39,770.00 + 36%	155,950	142,000	278,450	36,975.50 + 36%	142,000
278,450	.....	83,870.00 + 39.6%	278,450	278,450	.....	86,097.50 + 39.6%	278,450

Line 9

If you used Schedule J to figure your tax for 2000 (that is, you entered the amount from line 22 of that Schedule J on Form 1040, line 40, or on Form 1040X), enter on line 9 the amount from line 15 of your 2000 Schedule J. If you used Schedule J to figure your tax for 1999 but not 2000, enter on line 9 the amount from line 3 of your 1999 Schedule J.

If you figured your tax for both 1999 and 2000 without using Schedule J, enter on line 9 the taxable income from your 1999 tax return (or as previously adjusted by the IRS, an amended return, etc.). But if the taxable income on your 1999 tax return is zero or less, complete the worksheet below to figure the amount to enter on line 9.

If you filed your 1999 tax return using TeleFile, enter the taxable income from your TeleFile Tax Record. If you did not file a tax return for 1999, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 1999 until at least 3 years after April 15, 2002 (or the date you file your 2001 tax return, if later), even if you did not file a tax return for 1999.

Instructions for 1999 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 1999 Schedule D, line 18, is not allowed for farm income averaging purposes to the extent it did not reduce your capital loss carryover to 2000. This could happen if the taxable income before subtracting exemptions shown on your 1999 Form 1040, line 37 (or as previously adjusted), was less than zero. Enter the amount by which your 1999 capital loss carryover to 2000 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 1999 Schedule D, line 17, over the loss on your 1999 Schedule D, line 18. If you had any NOL carrybacks to 1999, be sure you refigured your 1999 capital loss carryover to 2000.

Line 3. If you had an NOL for 1999, enter the amount of that NOL as figured on line 27 of the 1999 Form 1045, Schedule A, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 1999, enter the portion, if any, of the NOL carryovers and carrybacks to 1999 that were not used in 1999 and were carried to years after 1999.

Example. John Farmington did not use farm income averaging for 1998, 1999 nor 2000. The taxable income before subtracting exemptions on his 1999 Form 1040, line 37, is a negative \$30,250. A deduction for exemptions of \$2,750 is shown on line 38, and line 39, taxable income, is limited to zero.

John subtracts from the \$30,250 loss the \$2,750 deduction for exemptions. The result is a negative \$33,000, John's 1999 taxable income, which he enters as a positive amount on line 1 of the 1999 worksheet.

John had a \$3,000 net capital loss deduction on Schedule D, line 18 (which was also entered on Form 1040, line 13), and a \$7,000 loss on Schedule D, line 17 (as adjusted). He also had a \$7,000 capital loss carryover to 2000. John adds the \$3,000 from Schedule D, line 18, and the \$7,000 carryover. He subtracts from the result the \$7,000 loss on his Schedule D, line 17, and enters \$3,000 on line 2 of the worksheet.

John enters \$22,950 on line 3 of the worksheet, the 1999 NOL from his 1999 Form 1045, Schedule A, line 27. Of the \$33,000 negative taxable income, the \$2,750 deduction for exemptions, the \$3,000 capital loss deduction, and his \$4,300 standard deduction were not allowed in figuring the NOL. John had a \$22,950 loss on his 1999 Schedule F, the only other item on his 1999 tax return.

John enters \$25,950 on line 4 and \$7,050 on line 5. He enters \$7,050 as a negative amount on Schedule J, line 9. He enters \$6,000 on Schedule J, line 10, and a negative \$1,050 on Schedule J, line 11. If he uses Schedule J to figure his tax for 2002, he will enter the negative \$1,050 amount on his 2002 Schedule J as his 1999 taxable income for farm income averaging purposes.

1999 Taxable Income Worksheet—Line 9

Keep for Your Records

Complete this worksheet if you did not use Schedule J to figure your tax for 2000 **and** the taxable income on your 1999 tax return is zero or less. See the instructions above before completing this worksheet.

1. Figure the taxable income from your 1999 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 1999, **do not** include any NOL carryovers or carrybacks to 1999. Enter the result as a positive amount **1.** _____
2. If there is a loss on your 1999 Schedule D, line 18, add that loss (as a positive amount) and your 1999 capital loss carryover to 2000. Subtract from that sum the amount of the loss on your 1999 Schedule D, line 17, and enter the result . . . **2.** _____
3. If you had an NOL for 1999, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 1999 that were not used in 1999 and were carried to years after 1999 **3.** _____
4. Add lines 2 and 3 **4.** _____
5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 9 **5.** _____

Line 12

If line 11 is zero or less, enter zero on line 12. Otherwise, figure the tax on the amount on line 11 using:

- The 1999 Tax Rate Schedules below,
- The 1999 Capital Gain Tax Worksheet below, or

• The Schedule D you filed for 1999 (but use the 1999 Tax Rate Schedules below instead of the 1999 Tax Table when figuring the tax on Schedule D, lines 33 and 53).

1999 Tax Rate Schedules—Line 12

Schedule X—Use if your 1999 filing status was Single				Schedule Y-2—Use if your 1999 filing status was Married filing separately			
If the amount on Schedule J, line 11, is:		Enter on Schedule J, line 12	of the amount over—	If the amount on Schedule J, line 11, is:		Enter on Schedule J, line 12	of the amount over—
Over—	But not over—			Over—	But not over—		
\$0	\$25,750	15%	\$0	\$0	\$21,525	15%	\$0
25,750	62,450	\$3,862.50 + 28%	25,750	21,525	52,025	\$3,228.75 + 28%	21,525
62,450	130,250	14,138.50 + 31%	62,450	52,025	79,275	11,768.75 + 31%	52,025
130,250	283,150	35,156.50 + 36%	130,250	79,275	141,575	20,216.25 + 36%	79,275
283,150		90,200.50 + 39.6%	283,150	141,575		42,644.25 + 39.6%	141,575
Schedule Y-1—Use if your 1999 filing status was Married filing jointly or Qualifying widow(er)				Schedule Z—Use if your 1999 filing status was Head of household			
If the amount on Schedule J, line 11, is:		Enter on Schedule J, line 12	of the amount over—	If the amount on Schedule J, line 11, is:		Enter on Schedule J, line 12	of the amount over—
Over—	But not over—			Over—	But not over—		
\$0	\$43,050	15%	\$0	\$0	\$34,550	15%	\$0
43,050	104,050	\$6,457.50 + 28%	43,050	34,550	89,150	\$5,182.50 + 28%	34,550
104,050	158,550	23,537.50 + 31%	104,050	89,150	144,400	20,470.50 + 31%	89,150
158,550	283,150	40,432.50 + 36%	158,550	144,400	283,150	37,598.00 + 36%	144,400
283,150		85,288.50 + 39.6%	283,150	283,150		87,548.00 + 39.6%	283,150

1999 Capital Gain Tax Worksheet—Line 12

Keep for Your Records

Use this worksheet to figure the tax on the amount on line 11 of Schedule J **only** if you entered capital gain distributions directly on line 13 of your 1999 Form 1040 and checked the box on that line **and** you do not have to use Schedule D to figure your tax.

- Enter the amount from Schedule J, line 11 1. _____
- Enter the amount from your 1999 Form 1040, line 13 2. _____
- Subtract line 2 from line 1. If zero or less, enter -0- 3. _____
- Figure the tax on the amount on line 3. Use the 1999 Tax Rate Schedules above 4. _____
- Enter the **smaller** of:
 - The amount on line 1 above or
 - \$25,750 if single for 1999; \$43,050 if married filing jointly or qualifying widow(er); \$21,525 if married filing separately; or \$34,550 if head of household. } 5. _____
- Enter the amount from line 3 6. _____
- Subtract line 6 from line 5. If zero or less, enter -0- and go to line 9 7. _____
- Multiply line 7 by 10% (.10) 8. _____
- Enter the **smaller** of line 1 or line 2 9. _____
- Enter the amount, if any, from line 7 10. _____
- Subtract line 10 from line 9. If zero or less, enter -0- and go to line 13 11. _____
- Multiply line 11 by 20% (.20) 12. _____
- Add lines 4, 8, and 12 13. _____
- Figure the tax on the amount on line 1. Use the 1999 Tax Rate Schedules above 14. _____
- Tax.** Enter the **smaller** of line 13 or line 14 here and on Schedule J, line 12 15. _____

Line 13

If you used Schedule J to figure your tax for 2000 (that is, you entered the amount from line 22 of that Schedule J on Form 1040, line 40, or on Form 1040X), enter on line 13 the amount from line 3 of that Schedule J.

If you did not use Schedule J to figure your tax for 2000, enter on line 13 the taxable income from your 2000 tax return (or as previously adjusted by the IRS, an amended return, etc.). But if the taxable income on your 2000 tax return is zero or less, complete the worksheet below to figure the amount to enter on line 13.

If you filed your 2000 tax return using TeleFile, enter the taxable income from your TeleFile Tax Record. If you did not file a tax return for 2000, use the amount you would have reported as your taxable income had you been required to file a tax return. Be sure to keep all your records for 2000 until at least 3 years after April 15, 2002 (or the date you file your 2001 tax return, if later), even if you did not file a tax return for 2000.

Instructions for 2000 Taxable Income Worksheet

Line 2. Any net capital loss deduction on your 2000 Schedule D, line 18, is not allowed for farm income averaging purposes to the extent it did not reduce your capital loss carryover to 2001. This could happen if the taxable income before subtracting exemptions shown on your 2000 Form 1040, line 37 (or as previously adjusted), was less than zero. Enter the amount by which your 2000 capital loss carryover to 2001 (the sum of your short- and long-term capital loss carryovers) exceeds the excess of the loss on your 2000 Schedule D, line 17, over the loss on your 2000 Schedule D, line 18.

Line 3. If you had an NOL for 2000, enter the amount of that NOL as figured on line 27 of the 2000 Form 1045, Schedule A, you filed with Form 1045 or Form 1040X. If you did not have an NOL for 2000, enter the portion, if any, of the NOL carryovers and carrybacks to 2000 that were not used in 2000 and were carried to years after 2000.

Example. John Farmington did not use farm income averaging for 1998, 1999, nor 2000. The taxable income before subtracting exemptions on his 2000 Form 1040, line 37, is a negative \$1,000. This amount includes an NOL deduction (NOLD) on his 2000 Form 1040, line 21, of \$2,300. The \$2,300 is the portion of the 1999 NOL that was remaining from 1998 to be carried to 2000. See the examples on pages J-2 and J-4. A deduction for exemptions of \$2,800 is shown on Form 1040, line 38, and line 39, taxable income, is limited to zero. John does not have an NOL for 2000. John subtracts

from the \$1,000 negative amount on Form 1040, line 37, the \$2,800 deduction for exemptions. The result is a negative \$3,800, John's 2000 taxable income, which he enters as a positive amount on line 1 of the 2000 worksheet.

John had a \$3,000 net capital loss deduction on Schedule D, line 18 (which was also entered on Form 1040, line 13), a \$7,000 loss on Schedule D, line 17, and a \$5,000 capital loss carryover to 2001 (his 2000 capital loss carryover to 2001 was \$5,000, not \$4,000, because the amount on his Form 1040, line 37, was a negative \$1,000). John adds the \$3,000 from Schedule D, line 18, and the \$5,000 carryover. He reduces the result by the \$7,000 loss on his Schedule D, line 17, and enters \$1,000 on line 2 of the worksheet.

John enters zero on line 3 of the worksheet because he does not have an NOL for 2000 and did not have an NOL carryover from 2000 available to carry to 2001 and later years. The NOLD for 2000 of \$2,300 was reduced to zero because it did not exceed his modified taxable income of \$4,300. Modified taxable income is figured by adding back the \$3,000 net capital loss deduction and the \$2,800 of exemptions to negative taxable income (figured without regard to the NOLD) of \$1,500. John enters \$1,000 on line 4 and \$2,800 on line 5. He enters \$2,800 as a negative amount on Schedule J, line 13. He enters \$6,000 on Schedule J, line 14, and \$3,200 on Schedule J, line 15. If he uses Schedule J to figure his tax for 2002, he will enter \$3,200 on his 2002 Schedule J as his 2000 taxable income for farm income averaging purposes.

2000 Taxable Income Worksheet—Line 13

Keep for Your Records

Complete this worksheet if the taxable income on your 2000 tax return is zero or less. See the instructions above before completing this worksheet.

1. Figure the taxable income from your 2000 tax return (or as previously adjusted) without limiting it to zero. If you had an NOL for 2000, **do not** include any NOL carryovers or carrybacks to 2000. Enter the result as a positive amount **1.** _____
2. If there is a loss on your 2000 Schedule D, line 18, add that loss (as a positive amount) and your 2000 capital loss carryover to 2001. Subtract from that sum the amount of the loss on your 2000 Schedule D, line 17, and enter the result **2.** _____
3. If you had an NOL for 2000, enter it as a positive amount. Otherwise, enter as a positive amount the portion, if any, of the NOL carryovers and carrybacks to 2000 that were not used in 2000 and were carried to years after 2000 **3.** _____
4. Add lines 2 and 3 **4.** _____
5. Subtract line 4 from line 1. Enter the result as a negative amount on Schedule J, line 13 **5.** _____

Line 16

If line 15 is zero or less, enter zero on line 16. Otherwise, figure the tax on the amount on line 15 using:

- The 2000 Tax Rate Schedules below,

• The 2000 Capital Gain Tax Worksheet below, or

• The Schedule D you filed for 2000 (but use the 2000 Tax Rate Schedules below instead of the 2000 Tax Table when figuring the tax on Schedule D, lines 33 and 53).

Lines 18, 19, and 20

If you filed your 1998, 1999, or 2000 tax return using TeleFile, enter your tax from your TeleFile Tax Record. If you amended your return or the IRS made changes to it, enter the corrected amount.

2000 Tax Rate Schedules—Line 16

Schedule X—Use if your 2000 filing status was Single				Schedule Y-2—Use if your 2000 filing status was Married filing separately			
If the amount on Schedule J, line 15, is:	But not over—	Enter on Schedule J, line 16	of the amount over—	If the amount on Schedule J, line 15, is:	But not over—	Enter on Schedule J, line 16	of the amount over—
\$0	\$26,250	15%	\$0	\$0	\$21,925	15%	\$0
26,250	63,550	\$3,937.50 + 28%	26,250	21,925	52,975	\$3,288.75 + 28%	21,925
63,550	132,600	14,381.50 + 31%	63,550	52,975	80,725	11,982.75 + 31%	52,975
132,600	288,350	35,787.00 + 36%	132,600	80,725	144,175	20,585.25 + 36%	80,725
288,350		91,857.00 + 39.6%	288,350	144,175		43,427.25 + 39.6%	144,175
Schedule Y-1—Use if your 2000 filing status was Married filing jointly or Qualifying widow(er)				Schedule Z—Use if your 2000 filing status was Head of household			
If the amount on Schedule J, line 15, is:	But not over—	Enter on Schedule J, line 16	of the amount over—	If the amount on Schedule J, line 15, is:	But not over—	Enter on Schedule J, line 16	of the amount over—
\$0	\$43,850	15%	\$0	\$0	\$35,150	15%	\$0
43,850	105,950	\$6,557.50 + 28%	43,850	35,150	90,800	\$5,272.50 + 28%	35,150
105,950	161,450	23,965.50 + 31%	105,950	90,800	147,050	20,854.50 + 31%	90,800
161,450	288,350	41,170.50 + 36%	161,450	147,050	288,350	38,292.00 + 36%	147,050
288,350		86,854.50 + 39.6%	288,350	288,350		89,160.00 + 39.6%	288,350

2000 Capital Gain Tax Worksheet—Line 16

Keep for Your Records

Use this worksheet to figure the tax on the amount on line 15 of Schedule J **only** if you entered capital gain distributions directly on line 13 of your 2000 Form 1040 (or line 10 of your 2000 Form 1040A) and checked the box on that line **and** you do not have to use Schedule D to figure your tax.

1. Enter the amount from Schedule J, line 15 1. _____
2. Enter the amount from your 2000 Form 1040, line 13 (or Form 1040A, line 10) 2. _____
3. Subtract line 2 from line 1. If zero or less, enter -0- 3. _____
4. Figure the tax on the amount on line 3. Use the 2000 Tax Rate Schedules above 4. _____
5. Enter the **smaller** of:

• The amount on line 1 above or	} 5. _____
• \$26,250 if single for 2000; \$43,850 if married filing jointly or qualifying widow(er); \$21,925 if married filing separately; or \$35,150 if head of household.		
6. Enter the amount from line 3 6. _____
7. Subtract line 6 from line 5. If zero or less, enter -0- and go to line 9 7. _____
8. Multiply line 7 by 10% (.10) 8. _____
9. Enter the **smaller** of line 1 or line 2 9. _____
10. Enter the amount, if any, from line 7 10. _____
11. Subtract line 10 from line 9. If zero or less, enter -0- and go to line 13 11. _____
12. Multiply line 11 by 20% (.20) 12. _____
13. Add lines 4, 8, and 12 13. _____
14. Figure the tax on the amount on line 1. Use the 2000 Tax Rate Schedules above 14. _____
15. **Tax.** Enter the **smaller** of line 13 or line 14 here and on Schedule J, line 16 15. _____

2001 Instructions for Schedule SE, Self-Employment Tax

Use Schedule SE (Form 1040) to figure the tax due on net earnings from self-employment. The Social Security Administration uses the information from Schedule SE to figure your benefits under the social security program. This tax applies no matter how old you are and even if you are already getting social security or Medicare benefits.

Additional Information. See **Pub. 533**.

General Instructions

A Change To Note

For 2001, the maximum amount of self-employment income subject to social security tax is \$80,400.

Who Must File Schedule SE

You must file Schedule SE if:

1. Your net earnings from self-employment (see page SE-2) from other than church employee income were \$400 or more or
2. You had church employee income of \$108.28 or more—see **Employees of Churches and Church Organizations** below.

Who Must Pay Self-Employment (SE) Tax?

Self-Employed Persons

You must pay SE tax if you had net earnings of \$400 or more as a self-employed person. If you are in business for yourself or you are a farmer, you are self-employed.

You must also pay SE tax on your share of certain partnership income and your guaranteed payments. See **Partnership Income or Loss** on page SE-2.

Employees of Churches and Church Organizations

If you had church employee income of \$108.28 or more, you must pay SE tax. **Church employee income** is wages you received as an employee (other than as a minister or member of a religious order) from a church or qualified church-controlled organization that has a certificate in effect electing an exemption from employer social security and Medicare taxes.

Ministers and Members of Religious Orders

In most cases, you must pay SE tax on salaries and other income for services you performed as a minister, a member of a

religious order who has not taken a vow of poverty, or a Christian Science practitioner. But if you filed **Form 4361** and received IRS approval, you will be exempt from paying SE tax on those net earnings. If you had no other income subject to SE tax, write “Exempt—Form 4361” on line 53 of Form 1040. However, if you had other earnings of \$400 or more subject to SE tax, see line A at the top of Long Schedule SE.

Revocation of Election. If you previously filed Form 4361 and received IRS approval, you can revoke that election to be exempt from SE tax. To do so, you must file **Form 2031** by the due date (including extensions) of your 2001 tax return. See Form 2031 for details.

Note. Once you file Form 2031 to elect social security coverage on your earnings as a minister you cannot revoke that election.

If you must pay SE tax, include this income on line 2 of either Short or Long Schedule SE. But do not report it on line 5a of Long Schedule SE; it is not considered church employee income. Also, include on line 2:

- The rental value of a home or an allowance for a home furnished to you (including payments for utilities) and
 - The value of meals and lodging provided to you, your spouse, and your dependents for your employer’s convenience.
- However, **do not** include on line 2:
- Retirement benefits you received from a church plan after retirement or
 - The rental value of a home or an allowance for a home furnished to you (including payments for utilities) after retirement.

If you were a duly ordained minister who was an employee of a church and you must pay SE tax, the unreimbursed business expenses that you incurred as a church employee are allowed only as an itemized deduction for income tax purposes. Subtract the allowable amount from your SE earnings when figuring your SE tax.

If you were a U.S. citizen or resident alien serving outside the United States as a minister or member of a religious order and you must pay SE tax, you may not reduce your net earnings by the foreign housing exclusion or deduction.

See **Pub. 517** for details.

Members of Certain Religious Sects

If you have conscientious objections to social security insurance because of your membership in and belief in the teachings of a religious sect recognized as being in existence at all times since December 31, 1950, and which has provided a reasonable level of living for its dependent members, you are exempt from SE tax if you received IRS approval by filing **Form 4029**. In this case, do not file Schedule SE. Instead, write “Exempt—Form 4029” on Form 1040, line 53. See **Pub. 517** for details.

U.S. Citizens Employed by Foreign Governments or International Organizations

You must pay SE tax on income you earned as a U.S. citizen employed by a foreign government (or, in certain cases, by a wholly owned instrumentality of a foreign government or an international organization under the International Organizations Immunities Act) for services performed in the United States, Puerto Rico, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), or the Virgin Islands. Report income from this employment on Schedule SE (Section A or B), line 2. If you performed services elsewhere as an employee of a foreign government or an international organization, those earnings are exempt from SE tax.

U.S. Citizens or Resident Aliens Living Outside the United States

If you are a self-employed U.S. citizen or resident alien living outside the United States, in most cases you must pay SE tax. You may not reduce your foreign earnings from self-employment by your foreign earned income exclusion.

Exception. The United States has social security agreements with many countries to eliminate dual taxes under two social security systems. Under these agreements, you must generally pay social security and Medicare taxes to only the country you live in.

The United States now has social security agreements with the following countries: Austria, Belgium, Canada, Chile, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, South Korea, Spain, Sweden, Switzerland, and the United Kingdom. Additional agreements are expected in the future. If you have questions about international social security agreements, you can:

- Visit the Social Security Administration (SSA) Web Site at www.ssa.gov/international,

- Call the SSA Office of International Programs at (410) 965-3548 or (410) 965-3554, or

- Write to Social Security Administration, Office of International Programs, P.O. Box 17741, Baltimore, MD 21235-7741.

More Than One Business

If you were a farmer and had at least one other business or you had two or more businesses, your net earnings from self-employment are the combined net earnings from all of your businesses. If you had a loss in one business, it reduces the income from another. Figure the combined SE tax on one Schedule SE.

Joint Returns

Show the name of the spouse with SE income on Schedule SE. If both spouses have SE income, each must file a separate Schedule SE. However, if one spouse qualifies to use Short Schedule SE and the other has to use Long Schedule SE, both can use the **same** form. One spouse should complete the front and the other the back.

Include the total profits or losses from all businesses on Form 1040, as appropriate. Enter the combined SE tax on Form 1040, line 53.

Community Income

In most cases, if any of the income from a business (including farming) is community income, all of the income from that business is SE earnings of the spouse who carried on the business. The facts in each case will determine which spouse carried on the business. If you and your spouse are partners in a partnership, see **Partnership Income or Loss** below.

If you and your spouse had community income and file separate returns, attach Schedule SE to the return of the spouse with the SE income. Also, attach Schedule(s) C, C-EZ, or F to the return of each spouse.

If you are the spouse who carried on the business, you must include on line 3, Schedule SE, the net profit or (loss) reported on the other spouse's Schedule C, C-EZ, or F (except income not included in net earnings from self-employment as explained on page SE-3). Enter on the dotted line to the left of line 3, Schedule SE, "Community Income Taxed to Spouse" and the amount of any net profit or (loss) allocated to your spouse as community income. Combine that amount with the total of lines 1 and 2 and enter the result on line 3.

If you are not the spouse who carried on the business and you had no other income subject to SE tax, enter "Exempt Community Income" on Form 1040, line 53; **do not** file Schedule SE. However, if you had other earnings subject to SE tax of \$400 or more, enter on the dotted line to the left of line 3, Schedule SE, "Exempt Community Income" and the amount of the net profit or (loss) from Schedule C, C-EZ, or F allocated to you as community income. If that amount is a net profit, subtract it from the total of lines 1 and 2, and enter the result on line 3. If that amount is a loss, treat it as a positive amount, add it to the total of lines 1 and 2, and enter the result on line 3.



Community income included on Schedule(s) C, C-EZ, or F must be divided for income tax purposes on the basis of the community property laws.

Fiscal Year Filers

If your tax year is a fiscal year, use the tax rate and earnings base that apply at the time the fiscal year begins. Do not prorate the tax or earnings base for a fiscal year that overlaps the date of a rate or earnings base change.

Specific Instructions

Read the chart on page 1 of Schedule SE to see if you can use **Section A**, Short Schedule SE, or if you must use **Section B**, Long Schedule SE. For either section, you need to know what to include as net earnings from self-employment. Read the following instructions to see what to include as net earnings and how to fill in lines 1 and 2 of either Short or Long Schedule SE. Enter all negative amounts in parentheses.

Net Earnings From Self-Employment

What Is Included in Net SE Earnings?

In most cases, net earnings include your net profit from a farm or nonfarm business. If you were a partner in a partnership, see the following instructions.

Partnership Income or Loss

If you were a general or limited partner in a partnership, include on line 1 or line 2, whichever applies, the amount from line 15a of Schedule K-1 (Form 1065) or the amount identified as net earnings from self-employment in box 9 of Schedule K-1 (Form 1065-B). General partners should reduce this amount before entering it on Schedule SE by any section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties. If you reduce the amount you enter on Schedule SE, attach an explanation.

If a partner died and the partnership continued, include in SE income the deceased's distributive share of the partnership's ordinary income or loss through the end of the month in which he or she died. See Internal Revenue Code section 1402(f).

If you were married and both you and your spouse were partners in a partnership, each of you must pay SE tax on your own share of the partnership income. Each of you must file a Schedule SE and report the partnership income or loss on **Schedule E** (Form 1040), Part II, for income tax purposes.

SE income belongs to the person who is the member of the partnership and cannot be treated as SE income by the nonmember spouse even in community property states.

Share Farming

You are considered self-employed if you produced crops or livestock on someone else's land for a share of the crops or livestock produced (or a share of the proceeds from the sale of them). This applies even if you paid another person (an agent) to do the actual work or management for you. Report your net earnings for income tax purposes on **Schedule F** (Form 1040) and for SE tax purposes on Schedule SE. See **Pub. 225** for details.

Other Income and Losses Included in Net Earnings From Self-Employment

- Rental income from a farm if, as landlord, you materially participated in the production or management of the production of farm products on this land. This income is

farm earnings. To determine whether you materially participated in farm management or production, do not consider the activities of any agent who acted for you. The material participation tests are explained in Pub. 225.

- Cash or a payment-in-kind from the Department of Agriculture for participating in a land diversion program.

- Payments for the use of rooms or other space when you also provided substantial services. Examples are hotel rooms, boarding houses, tourist camps or homes, parking lots, warehouses, and storage garages.

- Income from the retail sale of newspapers and magazines if you were age 18 or older and kept the profits.

- Amounts received by current or former self-employed insurance agents and salespersons that are:

1. Paid after retirement but figured as a percentage of commissions received from the paying company before retirement,

2. Renewal commissions, or

3. Deferred commissions paid after retirement for sales made before retirement.

However, certain termination payments received by former insurance salespersons are not included in net earnings from self-employment (as explained below under **Income and Losses Not Included in Net Earnings From Self-Employment**).

- Income of certain crew members of fishing vessels with crews of normally fewer than 10 people. See **Pub. 595** for details.

- Fees as a state or local government employee if you were paid only on a fee basis and the job was not covered under a Federal-state social security coverage agreement.

- Interest received in the course of any trade or business, such as interest on notes or accounts receivable.

- Fees and other payments received by you for services as a director of a corporation.

- Recapture amounts under sections 179 and 280F that you included in gross income because the business use of the property dropped to 50% or less. Do not include amounts you recaptured on the disposition of property. See **Form 4797**.

- Fees you received as a professional fiduciary. This may also apply to fees paid to you as a nonprofessional fiduciary if the fees relate to active participation in the operation of the estate's business, or the management of an estate that required extensive management activities over a long period of time.

- Gain or loss from section 1256 contracts or related property by an options or commodities dealer in the normal course of dealing in or trading section 1256 contracts.

Income and Losses Not Included in Net Earnings From Self-Employment

- Salaries, fees, etc., subject to social security or Medicare tax that you received for performing services as an employee, including services performed as a public official (except as a fee basis government employee as explained earlier under **Other Income and Losses Included in Net Earnings From Self-Employment**) or as an employee or employee representative under the railroad retirement system.

- Fees received for services performed as a notary public. If you had no other income subject to SE tax, enter "Exempt-Notary" on Form 1040, line 53. However, if you had other earnings of \$400 or more subject to SE tax, enter "Exempt-Notary" and the amount of your net profit as a notary public from Schedule C or Schedule C-EZ on the dotted line to the left of line 3, Schedule SE. Subtract that amount from the total of lines 1 and 2 and enter the result on line 3.

- Income you received as a retired partner under a written partnership plan that provides for lifelong periodic retirement payments if you had no other interest in the partnership and did not perform services for it during the year.

- Income from real estate rentals if you did not receive the income in the course of a trade or business as a real estate dealer. Report this income on Schedule E.

- Income from farm rentals (including rentals paid in crop shares) if, as landlord, you did not materially participate in the production or management of the production of farm products on the land. See Pub. 225 for details.

- Dividends on shares of stock and interest on bonds, notes, etc., if you did not receive the income in the course of your trade or business as a dealer in stocks or securities.

- Gain or loss from:

1. The sale or exchange of a capital asset;

2. The sale, exchange, involuntary conversion, or other disposition of property unless the property is stock in trade or other property that would be includible in inventory, or held primarily for sale to customers in the ordinary course of the business; or

3. Certain transactions in timber, coal, or domestic iron ore.

- Net operating losses from other years.

- Termination payments you received as a former insurance salesperson if **all** of the following conditions are met.

1. The payment was received from an insurance company because of services you performed as an insurance salesperson for the company.

2. The payment was received after termination of your agreement to perform services for the company.

3. You did not perform any services for the company after termination and before the end of the year in which you received the payment.

4. You entered into a covenant not to compete against the company for at least a 1-year period beginning on the date of termination.

5. The amount of the payment depended primarily on policies sold by or credited to your account during the last year of the agreement, or the extent to which those policies remain in force for some period after termination, or both.

6. The amount of the payment did not depend to any extent on length of service or overall earnings from services performed for the company (regardless of whether eligibility for the payment depended on length of service).

Statutory Employee Income

If you were required to check the box on line 1 of Schedule C or C-EZ because you were a statutory employee, **do not** include the net profit or (loss) from line 31 of that Schedule C (or the net profit from line 3 of Schedule C-EZ) on line 2 of Short or Long Schedule SE. But if you file Long Schedule SE, be sure to include statutory employee social security wages and tips from Form W-2 on line 8a.

Optional Methods

How Can the Optional Methods Help You?

Social Security Coverage. The optional methods may give you credit toward your social security coverage even though you have a loss or a small amount of income from self-employment.

Earned Income Credit. Using the optional methods may qualify you to claim the earned income credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than \$1,600. Figure the earned income credit with and without using the optional methods to see if the optional methods will benefit you.

Additional Child Tax Credit. Using the optional methods may qualify you to claim the additional child tax credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than \$1,600. Figure the additional child tax credit with and without using the optional methods to see if the optional methods will benefit you.

Child and Dependent Care Credit. The optional methods may also help you qualify for this credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than \$1,600. Figure this credit with and without using the optional methods to see if the optional methods will benefit you.

Note. Using the optional methods may give you the benefits described above but they may also increase your SE tax.

Farm Optional Method

You may use this method to figure your net earnings from farm self-employment if your gross farm income was \$2,400 or less or your net farm profits (defined below) were less than \$1,733. There is no limit on how many years you can use this method.

Under this method, you report on line 15, Part II, two-thirds of your gross farm income, up to \$1,600, as your net earnings. This method can increase or decrease your net SE farm earnings even if the farming business had a loss.

You may change the method after you file your return. That is, you can change from the regular to the optional method or from the optional to the regular method. To do this, file **Form 1040X**.

For a farm partnership, figure your share of gross income based on the partnership agreement. With guaranteed payments, your share of the partnership's gross income is your guaranteed payments plus your share of the gross income after it is reduced by all guaranteed payments made by the partnership. If you were a limited partner, include only guaranteed payments for services you actually rendered to or on behalf of the partnership.

Net farm profits is the total of the amounts from Schedule F (Form 1040), line 36, and Schedule K-1 (Form 1065), line 15a, from farm partnerships.

Nonfarm Optional Method

You may be able to use this method to figure your net earnings from nonfarm self-employment if your net nonfarm profits (defined below) were less than \$1,733 and also less than 72.189% of your gross nonfarm income. To use this method, you also must be regularly self-employed. You meet this requirement if your actual net earnings from self-employment were \$400 or more in 2 of the 3 years preceding the year you use the nonfarm method. The net earnings of \$400 or more could be from either farm or nonfarm earnings or both. The net earnings include your distributive share of partnership income or loss subject to SE tax. Use of the nonfarm optional method from nonfarm self-employment is limited to 5 years. The 5 years do not have to be consecutive.

Under this method, you report on line 17, Part II, two-thirds of your gross nonfarm income, up to \$1,600, as your net earnings. **But you may not report less than your actual net earnings** from nonfarm self-employment.

You may change the method after you file your return. That is, you can change from the regular to the optional method or from the optional to the regular method. To do so, file Form 1040X.

Figure your share of gross income from a nonfarm partnership in the same manner as a farm partnership. See **Farm Optional Method** on this page for details.

Net nonfarm profits is the total of the amounts from Schedule C (Form 1040), line 31 (or Schedule C-EZ (Form 1040), line 3), Schedule K-1 (Form 1065), line 15a (from other than farm partnerships), and Schedule K-1 (Form 1065-B), box 9.

Using Both Optional Methods

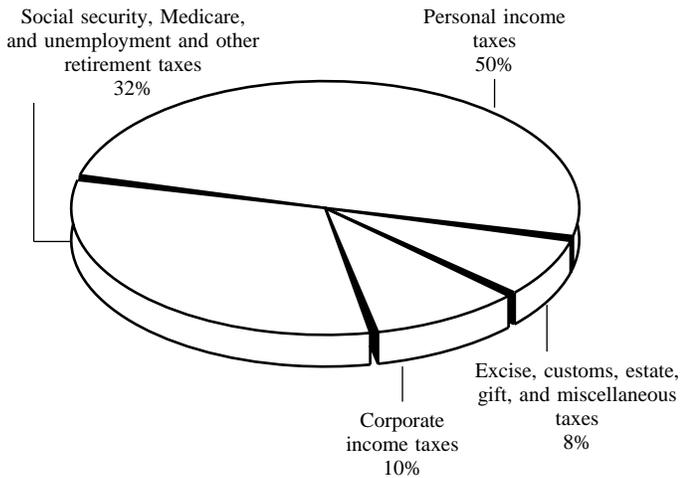
If you can use both methods, you may report less than your total actual net earnings from farm and nonfarm self-employment, but you **cannot** report less than your actual net earnings from nonfarm self-employment alone.

If you use both methods to figure net earnings, you **cannot** report more than \$1,600 of net SE earnings.

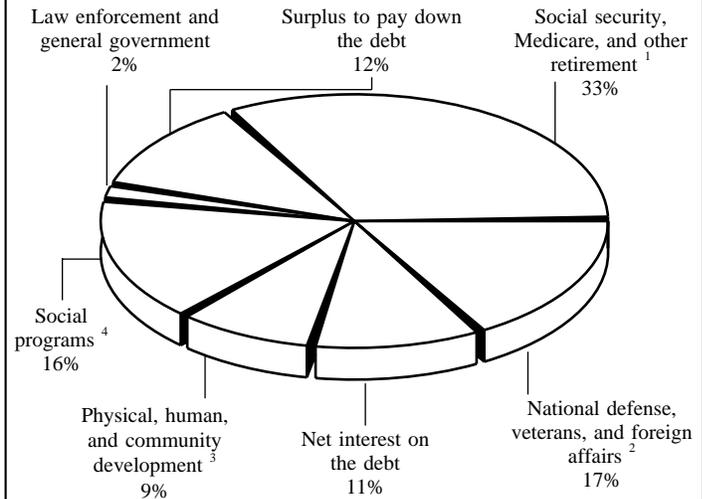
Major Categories of Federal Income and Outlays for Fiscal Year 2000

Income and Outlays. These pie charts show the relative sizes of the major categories of Federal income and outlays for fiscal year 2000.

Income



Outlays



On or before the first Monday in February of each year, the President is required by law to submit to the Congress a budget proposal for the fiscal year that begins the following October. The budget plan sets forth the President's proposed receipts, spending, and the surplus or deficit for the Federal Government. The plan includes recommendations for new legislation as well as recommendations to change, eliminate, and add programs. After receiving the President's proposal, the Congress reviews it and makes changes. It first passes a budget resolution setting its own targets for receipts, outlays, and the surplus or deficit. Next, individual spending and revenue bills that are consistent with the goals of the budget resolution are enacted.

In fiscal year 2000 (which began on October 1, 1999, and ended on September 30, 2000), Federal income was \$2,025 billion and outlays were \$1,789 billion, leaving a surplus of \$236 billion.

Footnotes for Certain Federal Outlays

1. Social security, Medicare, and other retirement: These programs provide income support for the retired and disabled and medical care for the elderly.

2. National defense, veterans, and foreign affairs: About 14% of outlays were to equip, modernize, and pay our armed forces and to fund other national defense activities; about 2% were for veterans benefits and services; and about 1% were for international activities, including military and economic assistance to foreign countries and the maintenance of U.S. embassies abroad.

3. Physical, human, and community development: These outlays were for agriculture; natural resources; environment; transportation; aid for elementary and secondary education and direct assistance to college students; job training; deposit insurance, commerce and housing credit, and community development; and space, energy, and general science programs.

4. Social programs: About 11% of total outlays were for Medicaid, food stamps, temporary assistance for needy families, supplemental security income, and related programs; and 5% for health research and public health programs, unemployment compensation, assisted housing, and social services.

Note. The percentages on this page exclude undistributed offsetting receipts, which were \$43 billion in fiscal year 2000. In the budget, these receipts are offset against spending in figuring the outlay totals shown above. These receipts are for the U.S. Government's share of its employee retirement programs, rents and royalties on the Outer Continental Shelf, and proceeds from the sale of assets.



Where Do You File?

If an envelope addressed to "Internal Revenue Service Center" came with this booklet, please use it. If you do not have one or if you moved during the year, mail your return to the Internal Revenue Service Center shown that applies to you.



Envelopes without enough postage will be returned to you by the post office. Your envelope may need additional postage if it contains more than five pages or is oversized (for example, it is over 1/4" thick). Also, include your complete return address.

IF you live in...	THEN use this address if you:	
	Are not enclosing a check or money order...	Are enclosing a check or money order...
Florida, Georgia, North Carolina, South Carolina, West Virginia	Internal Revenue Service Center Atlanta, GA 39901-0002	Internal Revenue Service Center Atlanta, GA 39901-0102
New Jersey, New York (<i>New York City and counties of Nassau, Rockland, Suffolk, and Westchester</i>)	Internal Revenue Service Center Holtsville, NY 00501-0002	Internal Revenue Service Center Holtsville, NY 00501-0102
New York (<i>all other counties</i>), Massachusetts, Michigan, Rhode Island	Internal Revenue Service Center Andover, MA 05501-0002	Internal Revenue Service Center Andover, MA 05501-0102
Illinois, Iowa, Kansas, Minnesota, Missouri, Oklahoma, Utah, Wisconsin	Internal Revenue Service Center Kansas City, MO 64999-0002	Internal Revenue Service Center Kansas City, MO 64999-0102
Connecticut, Delaware, District of Columbia, Indiana, Maine, Maryland, New Hampshire, Pennsylvania, Vermont	Internal Revenue Service Center Philadelphia, PA 19255-0002	Internal Revenue Service Center Philadelphia, PA 19255-0102
Ohio	Internal Revenue Service Center Cincinnati, OH 45999-0002	Internal Revenue Service Center Cincinnati, OH 45999-0102
Arizona, Colorado, Idaho, Montana, New Mexico, Texas, Wyoming	Internal Revenue Service Center Austin, TX 73301-0002	Internal Revenue Service Center Austin, TX 73301-0102
Nebraska, North Dakota, South Dakota, Washington	Internal Revenue Service Center Ogden, UT 84201-0002	Internal Revenue Service Center Ogden, UT 84201-0102
Alaska, California, Hawaii, Nevada, Oregon	Internal Revenue Service Center Fresno, CA 93888-0002	Internal Revenue Service Center Fresno, CA 93888-0102
Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Tennessee, Virginia	Internal Revenue Service Center Memphis, TN 37501-0002	Internal Revenue Service Center Memphis, TN 37501-0102
All APO and FPO addresses, American Samoa, nonpermanent residents of Guam or the Virgin Islands*, Puerto Rico (<i>or if excluding income under Internal Revenue Code section 933</i>), a foreign country: U.S. citizens and those filing Form 2555, 2555-EZ, or 4563	Internal Revenue Service Center Philadelphia, PA 19255-0215 USA	Internal Revenue Service Center Philadelphia, PA 19255-0215 USA

* Permanent residents of Guam should use: Department of Revenue and Taxation, Government of Guam, P.O. Box 23607, GMF, GU 96921; permanent residents of the Virgin Islands should use: V.I. Bureau of Internal Revenue, 9601 Estate Thomas, Charlotte Amalie, St. Thomas, VI 00802.

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(page 54)

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(page 6)
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(page 7)
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Finance Urges Rossotti to Crack Down on Internet Tax Scams

The Finance Committee has urged IRS Commissioner Charles O. Rossotti to crack down on Internet tax scams, according to the unofficial transcript of the April 5 panel hearing on tax "schemes, scams, and cons." ===== SUMMARY =====

The Finance Committee has urged IRS Commissioner Charles O. Rossotti to crack down on Internet tax scams, according to the unofficial transcript of the April 5 panel hearing on tax "schemes, scams, and cons."

"I'm worried by claims that the IRS is the dog that doesn't bark -- or perhaps bark enough -- about Internet tax fraud," Senate Finance Committee Chair Charles E. Grassley, R-Iowa, said. "The IRS must be active in this arena, catching these hucksters early before they have time to sell their wares." Senate Finance Committee ranking Democrat Max Baucus of Montana also warned that Internet tax scams cost taxpayers hundreds of billions each year -- witnesses set revenue loss at around \$300 billion a year -- and he urged Rossotti to aggressively pursue shutting them down. Rossotti, who called the proliferating Internet tax avoidance schemes "organized tax evasion," told the panel he was intrigued by some of the suggestions -- particularly, ensuring the IRS Web site is named in searches -- but he said education is not necessarily the problem, but rather investigation and follow-up work, both of which are costly.

Comments from witnesses indicate they agree that the Internet has become "fertile ground" for scams. "Our government's lack of enforcement is precisely the reason why pyramid and tax evasion scams are flourishing on the Internet today," said Aaron Bazar, who once was involved in an Internet pyramid tax avoidance scam. Certified financial planner J.J. MacNab told the panel she recently spent two hours surfing the Internet and hit 28 Web sites promoting tax avoidance schemes. Attorney Robert Sommers, who runs a Web site exposing tax fraud, suggested the IRS seize on what he considers the one weakness of the scams: the need for a taxpayer identification number. Denver attorney Joseph G. Hodges suggests the IRS establish an amnesty for victims of the scams to encourage them to talk about how they were duped.

===== FULL TEXT =====

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STATEMENT OF:

THE HONORABLE CHARLES E. GRASSLEY
A United States Senator from the State of Iowa

THE HONORABLE MAX BAUCUS
A United States Senator from the State of Montana

THE HONORABLE FRANK H. MURKOWSKI
A United States Senator from the State of Arkansas

A Panel Consisting of:

MR. AARON BAZAR

seller of tax scams for Institute for Global
Prosperity, now operates computer website,

<http://www.taxprophet.com/hot/Trust%20Scam%20Files/www.global-prosperity.com>, which alerts

taxpayers to the scam he

helped run

North Potomac, MD

MS. JJ MACNAB

tax scam watchdog

Certified Financial Planner

Chartered Life Underwriter

Insurance Analyst

operates website, <http://www.deathandtaxes.com/>

Bethesda, MD

MR. ROBERT SOMMERS

Attorney

operates computer website partially devoted to
exposing tax fraud, <http://www.taxprophet.com/>

San Francisco, CA

MR. JAY ADKISSON

Adkisson Financial, LLC

operates computer website, <http://www.quatloos.com/>,

whose purpose is exposing fraud

Irvine, CA

MR. JOSEPH G. HODGES, JR.

Attorney-at-Law

Member American College of Trust and Estate Counsel

<http://www.actec.org/>

Denver, CO

A Panel Consisting of:

MR. CHARLES ROSSOTTI

Commissioner

Internal Revenue Service
Washington, DC

MR. HUGH G. STEVENSON
Associate Director for Planning and Information
Bureau of Consumer Protection
Federal Trade Commission
Washington, DC

MR. MICHAEL BROSTEK
Director
Tax Administration and Justice Issues
U.S. General Accounting Office
Washington, DC

OVERSIGHT OF THE INTERNAL REVENUE SERVICE
"TAXPAYER BEWARE: SCHEMES, SCAMS AND CONS"
THURSDAY, APRIL 5, 2001

U.S. Senate,
Committee on Finance,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:25 a.m., in room 215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Also present: Senators Murkowski and Baucus.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE

[1] The Chairman. Thank you all very much for your patience while the Senate casts the 2 votes of this task. Normally, it would be my practice to start the hearing and to have the hearing go on with Senator Baucus and myself alternating as chairs to keep the hearing going. [2] We are here today to talk about a growing problem, hundreds of thousands of Americans who are participating in or considering participating in tax scams. Tax scams are as old as our tax code. The Internet is giving them a thriving new life. The number of participants in these tax scams is growing like a weed. [3] The Internet, of course, is greatly helping that growth. The Internet gives these tax con artists the unprecedented ability to reach out to millions of households very cheaply and very easily. We will hear testimony today that tax scams are not limited by income or geography. [4] Through the Internet, the con artists are making their pitch to Americans of every income level and targeting individuals throughout our country. For example, my own State of Iowa reports that it has seen record levels of scams and abuse in

related areas of securities fraud. [5] This hearing will give the American people a better understanding of the snake oil that these hucksters are selling. We will hear about the old style scams, such as pure trusts, constitutional trusts, compensation for slave descendants, even setting up your own church. All of these are being put into new bottles and sold. [6] Let me be very clear that the focus of this hearing is solely on those tax schemes that are wholly outside the tax laws. This hearing is not about the gray areas of the tax law that have been referred to as corporate tax shelters. This is certainly a very important topic. And this as a very important topic is one that the committee will be reviewing and addressing later this year. [7] As important in educating the American people to be aware of these tax con artists is, of course, reviewing the IRS' response to Internet-based tax fraud. Some of the bad apples claim that they must be right because the IRS has not caught them. [8] I am worried, of course, about claims that the Internal Revenue Service is a dog that does not have a bark or perhaps not barking enough about this Internet tax fraud. So I think the agency must be active in this arena, catching these hucksters early before they have time to sell their wares because an ounce of prevention is worth a pound of cure, to be true here. [9] Of great concern are those promoters who are encouraging employers not to withhold income and payroll taxes for their employees. These employees are put in a terrible position, having to choose between the tax man and their jobs. And that is not right. And it should be the top enforcement priority of our Internal Revenue Service. [10] The agency should have active enforcement in this area. I think the agency can perform its critical enforcement duties while still giving the taxpayers protection that the constitutional laws allow. This is the same, if you stop to think of it, that police departments across the country are able to successfully perform their duties while balancing the needs to protect citizen's rights. [11] The IRS, tax experts, and we in Congress, all have a duty to ensure that taxpayers do not listen to the silent song of the tax con artist, and even better, that taxpayers do not even hear the song in the first place. [12] Now, to Senator Baucus.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

[13] Senator Baucus. Thank you very much, Mr. Chairman. Obviously, this hearing is very important. We have a problem. Eleven days from now on April 16th, most Americans would have filed their returns. All told, they will pay about \$1.1 trillion in income taxes at the very time we are debating the \$2 trillion budget. [14] We could have a larger tax cut, prescription drug benefits, pay down the debt more quickly, and pay for other priorities simply by cracking down on these 6-figure tax cheats, costing the government and the American people approximately \$200 million a year. [15] In return, honest, hardworking taxpayers have a right to expect many things in exchange for their compliance. One of the most basic is fairness. We all understand that people do not like to pay taxes. Nobody does. But they especially do not like paying someone else's taxes. And that is exactly what happens if our tax system allows folks to cheat on their taxes and get away with it. [16] Unfortunately, there is evidence that cheating is becoming increasingly common. I was struck awhile ago this month when I was walking through an airport on my back home to Montana. And I saw a copy of a Forbes magazine headline, "How to cheat on your taxes". I can tell you, that caught my eye. [Laughter]. [17] I mean, as a ranking member of the Finance Committee, I thought, hey, I had better learn about that. I better get that article and read it and see what is going on. And so I

did. [18] Now, there are articles and there are articles. And you have to take everything you read with a grain of salt. But I was stunned by this article. I have a hunch that it is at least on the mark in terms of being on the right track. I may not be totally accurate, but it is clearly on the right track. [19] The article tells about more and bigger tax shelters than before, Caribbean tax havens, use of sham trusts, websites that promote outright tax fraud, the steady growth in the garden variety under reporting. [20] It is a problem, a big problem. If it persists, the average taxpayer who is playing by the rules and paying his or her share, will feel like a chump. Support for our system based on a largely voluntary system of reporting will deteriorate if not collapse. [21] Today's hearing gives us a chance to get a better understanding of this problem and the most significant forms of tax evasion. Why are they growing so rapidly? Most importantly, what can we do about it? How do we stop it? [22] Nobody loves the IRS. We have to give it the tools to do the job. Otherwise, the vast majority of honest taxpayers who are grumbling, but paying their fair share, are paying higher taxes while someone is getting a free ride. [23] One last point, we have certainly have to be balanced here. You all recall that a few years ago, we were very concerned about an over zealous, sometimes abusive IRS. Hearings were held right here on that point. [24] Now, the pendulum has swung I think a bit too far in other direction. We are concerned that at least in some cases the IRS should be doing more than it now is. Of course, we should react, but we should not over react. We should figure out how to crack down on tax cheats and illegal shelters without posing unnecessary burdens on the average, hardworking, honest taxpayer. [25] I hope this hearing helps us to get this problem resolved. Thank you, Mr. Chairman. [26] The Chairman. I call on Senator Murkowski. **OPENING STATEMENT OF HON. FRANK H. MURKOWSKI, A U.S. SENATOR FROM ARKANSAS** [27] Senator Murkowski. Thank you very much, Mr. Chairman. I look forward to our expert witnesses. I think this is long overdue. And as a consequence, the realization that here we have in America an industry on the Internet whose sole goal is to rip off the American taxpayer. [28] I do not mean the people who pay their money to these scam artists on the phony ways to avoid paying taxes. But the people being ripped off to a large degree are honest Americans who will be struggling this weekend and probably next weekend to fill out their tax forms and pay their taxes. [29] Now, as a former banker, my observation is a little naive out there. But nevertheless, the realization is in the figures. By one estimate, sham trusts and other schemes are costing the treasury as much as \$300 billion a year. That is an astounding figure, Mr. Chairman. [30] And you know at this very moment on the Senate floor, what we are engaged in as a historic debate on whether we can return \$1.6 trillion of the surplus to honest, taxpaying Americans over the next 10 years. [31] If we could just rip out these tax scams, we could afford to return not \$1.6 trillion, but \$4.6 trillion back to honest American taxpayers over the 10 years. Just think about it, \$300 billion a year is what this is costing. [32] Now, what I do not understand is if there are hundreds of websites advertising and promoting these phony schemes to avoid paying taxes, why hasn't the IRS, why hasn't the FBI, why hasn't the Department of Justice established a specific strike force to shut down and prosecute the operators of these sites? [33] Now, here is a website that I picked up the other day. It claims that it can teach you how to legally eliminate the Form 1040 income tax and keep 100 percent of the money you earn. Think about that.

People are buying this evidently. Now, if this claim is true, then every American certainly would have figured it out. [34] But we know it is not true. Yet, the site continues to operate openly and blatantly. Why? Mr. Chairman, if a website advertised legal heroin, legal cocaine, is there any doubt that the FBI and the DEA would have thoroughly investigated and prosecuted the operators? [35] The basic question that I want answered is why hasn't law enforcement been more aggressive in prosecuting these scams? And what type of resources do we really need to aggressively crack down on these frauds? [36] I do not know who said it, Barnum and Bailey, you can fool some of the people some of the time, but not all of the people all of the time. [37] Senator Baucus. I think President Lincoln. [38] Senator Murkowski. Well, in the second round, it was Barnum. That is close enough. [39] This has turned into a circus obviously. Thank you, Mr. Chairman. [40] The Chairman. We thank you, Senator Murkowski. [41] Our first panel here is going to discuss these Internet connections. And they are going to do it from the standpoint of some of them as participants, some of them as combatants. [42] We have Aaron Bazar, computer engineer, North Potomac, Maryland involved with the Institute of Global Prosperity, in a tax scam, lost \$8,000, now operates a website that alerts consumers to the Global Prosperity scam. [43] JJ MacNab, Ms. MacNab is an insurance analyst and certified financial planner, a fervent tax scam watchdog who monitors the Internet for newly formed trust scams. [44] Then, Robert Sommers, an attorney in San Francisco, specializing in tax law, operating website <http://www.taxprophet.com/hot/Trust%20Scam%20Files/www.taxprophet.com>, and writes a biweekly tax column in the San Francisco Examiner. [45] Then, Jay Adkisson of Irvine California, an asset protection attorney and investment advisor, also started <http://www.taxprophet.com/hot/Trust%20Scam%20Files/www.quatloos.com>. [46] Is that how you pronounce that? [47] Mr. Adkisson. Yes. [48] The Chairman. A website devoted to warning consumers about various tax and financial fraud. [49] Finally, our panel has Joseph G. Hodges, Jr., attorney and sole practitioner from Denver, speaking on his behalf today, a member of the American Bar Association, Real Property Probate Trust Section, the American College of Trust and Estate Counsel. Like other witnesses, Mr. Hodges seeks to educate consumers of trust scam artists. [50] We will go in the order in which I introduced you. [51] So Mr. Bazar. [52] And then, we will have questions after everybody has testified. Also, let me state an administrative matter. If you have longer statements than your 5-minute presentation, those statements will be included in the record without your asking permission. If you have supplemental material that is not too great of an extent, it will be included as well. Otherwise, if it is larger, it will be received for our files. [53] And the red light, it does not mean that you have to stop right at the red light, but try to at that point summarize very quickly to make your last couple of points. [54] Mr. Bazar. STATEMENT OF AARON BAZAR, NORTH POTOMAC, MD [55] Mr. Bazar. Thank you, Mr. Chairman. Good morning, Senators. Thank you for inviting me to speak today. It is an honor to be here. Last year, I lost approximately \$8,000 in 4 month's time in a pyramid scam propagated over the Internet. [56] It all started when I received an unsolicited, bulk e-mail message for a business opportunity. The e-mail said that I could make thousands of dollars and learn how to legally eliminate taxes. Four months later and not a penny richer, I discovered that this business had cease and desist orders in many States. [57] I was already disenchanted with

the group because I felt that what they were teaching was not quite right. In addition, nobody I knew was actually making the money, except the person who initially brought us into the pyramid. [58] So I asked for a refund. When that did not work, I tried to get the authorities involved to put a stop to this fraud. Finally, after that did not work, I started my own website to warn the public. [59] The site has received tens of thousands of visitors over the past year. And I am positive that the site has helped many people from getting scammed, a job that the IRS, FBI, and FTC, as well as the State attorney generals are all failing miserably at. [60] Our government's lack of enforcement is precisely the reason why pyramid attacks and evasion scams are flourishing on the Internet today. [61] When I first joined the institute of Global Prosperity, I had never even heard of the freedom movement. And I knew very little about very little about tax protesters. I was just in it for the money. [62] It seemed like such a good idea at the time. I mean, who would not want to work from home, make thousands of dollars a week, and learn how to legally stop paying taxes just like the wealthy elite of our country. [63] One reason these groups are so successful is that they prey on those who already distrust the government. These people are all too willing to believe the misinformation on the Internet and in the teachings of these groups. However, if they are like me and have no anti-government inclinations, then the con men do their best to reeducate you. [64] They drill ideas into new recruits like the government spies on us, we are tracked by our Social Security numbers. They will say things like the 16th amendment was never ratified. So taxes are illegal. [65] They will explain to you how paying taxes is voluntary because the IRS tells us so right in the tax code. So you can just choose not to pay. Or that the Federal Reserve is run by the ultra wealthy and they illegally create money. [66] The majority of citizens in the country know that the tax system is completely unfair and benefits the wealthy. When somebody tells you that you can just leave the system by using special, get out of tax free forms in lieu of a 1040, it sounds too good to be true. [67] When you are then shown in your 1040 instructions exactly where it says that filing taxes is voluntary, you start to wonder. And then, finally, when you see many other people who have stopped paying taxes completely using these documents, you are sold. [68] Senators, I have never heard of the IRS stopping any of the thousands of people who are using these methods to evade paying taxes. And believe me, I have looked. If Americans are really obligated to pay federal income taxes, why does the IRS allow these people to continue to selling these products? And why are they not prosecuting those who are using them? [69] The IRS encourages the tax protestor movement by their lack of enforcement. I have a better chance of being audited because I sent in a 1040 and pay my taxes honestly. Those who do not follow the 1040 seem to be getting away with it. [70] Let me get back to the Internet. Most scams on the web today employ the use of unsolicited bulk e-mail, otherwise known as "spam" to recruit people and their products. In my opinion, spam is truly the root of all evil on the Internet. [71] No legitimate company uses spam to advertise, only pyramid schemes, pornography sites, stock market scams, and other illegitimate businesses use spam. Spam cost consumers billions of dollars a year based on recent studies. [72] I know that there are already bills in Congress that are addressing the spam issue. And I hope it becomes illegal to send out these unsolicited, commercial e-mail. It will save the country billions of dollars paid by consumers and it will help prevent these pyramid and ponzi schemes from spreading as fast as

they are. [73] If you have any doubts about how far reaching the problem is, I suggest that you check your private e-mail accounts. The chances are good that you will have e-mail with lines like "make \$2,000 to \$5,000 per week from home or eliminate credit card debt or legally reduce your taxes". [74] These are e-mails sent out by IGP and other groups like them. If you have not received e-mails like these, then you soon enough. It is only a matter of time. My website has many samples of the spam that IGP sends out. And if you are interested, it is www.global-prosperity.com. [75] If somebody wants to steal from people, the Internet is the place to do it. The chances of getting caught, in my opinion, are virtually nil. IGP has been stealing from people for 5 years now without any repercussions. They ignore cease and desist orders because they know they can get away with it. [76] After I was scammed, I dutifully reported Jeff Seigal, the IGP agent, who ripped me off. I reported him as well as other IGP leadership to my State attorney general, the State attorney general of New Mexico, the GBI, the FTC, and anybody else who might listen. [77] I also contacted the Massachusetts attorney general's office because IGP's drop box was located there. And I also contacted the attorney generals in Washington State and Oregon. Nothing happened. [78] When I spoke to the various attorney generals' offices, they told me things like they had no money, it was the other States' problem, or it is the FBI's jurisdiction because IGP crosses State lines or it was a securities issue. [79] At least, the Maryland attorney general's office was honest with me. The officer there said that nothing was going to be done. [80] The Chairman. I imagine it is a tough spot. [81] Mr. Bazar. Yes. I will finish up. I am about done, Mr. Chairman. [82] The Chairman. Please, go ahead. [83] Mr. Bazar. I guess my point is that the Internet is a great place to be a criminal because you will not get caught. If you are a tax protestor, there has never been a better forum to get your message out and make money too. [84] I think I can stop there. [85] The Chairman. Thank you, Mr. Bazar. [The prepared statement of Mr. Bazar appears [here](#) on the Senate Finance Committee website.] [86] The Chairman. Ms. MacNab. STATEMENT OF JJ MACNAB, CERTIFIED FINANCIAL PLANNER, CHARTERED LIFE UNDERWRITER, INSURANCE ANALYST, BETHESDA, MD [87] Ms. MacNab. Good morning, Mr. Chairman and members of the committee. Roughly, two and a half years ago, I received a telephone call from a charity, a client of mine. They had just seen a presentation about something called a pure trust and wanted to know whether this remarkable sounding strategy might be beneficial for their donors. [88] The promoters guaranteed that anyone who placed their business and personal assets in this plan would never pay taxes again. From the charity's point of view, this meant that their donors would have much more after-tax income to donate to charity. [89] I started to research the pure trust. And I turned to the Internet for information. I found literally hundreds of websites promoting this concept. And after considerable digging, I finally located the notice from the IRS that they had issued in 1997, warning taxpayers that this particular planning tool was a sham that offered no tax benefits whatsoever. [90] Over the past 2 and a half years, I have continued to keep a close eye on this industry. And from what I have seen, there are 2 main types of tax cheaters out there. There are those that cheat in small ways. I will refer to them as detailed cheaters. And then, there are those that cheat by trying to reduce their income and estate and capital gains taxes as close to zero as they possibly can. And I will refer to them as big picture cheaters. [91] Detailed cheaters might include someone

who over inflates their home office deduction or who exaggerates the value of an automobile given to charity. [92] The second group, the big picture cheaters generally fall into 3 distinct categories. There are tax protestors--they have been around for years--sham trusts and offshore ventures. And the Internet has proven to be very fertile ground for the big picture cheaters. [93] Prior to the Internet, only the very wealthy were offered complicated schemes to reduce taxes. And then, they were usually charged exorbitant fees in the process. [94] Now, anyone with a modem and a computer can play the games that were once limited to the wealthy. The problem is these mass market people do not have the sophisticated advisors to tell them which schemes work and which schemes do not. [95] The growth rate for the online tax evasion industry is phenomenal. And unfortunately, right now, there are no dampening effects on this growth. To the average consumer, the IRS is practically invisible. And when you hear stories about friends and neighbors and e-mail correspondents who have gotten away with tax evasion for years and in some cases decades, the risk of audit begins to feel negligible. [96] In the past couple of weeks, there has been a lot of talk about the IRS using matching software to compare income from various sources with tax returns. To me, it would appear that such mathematical research is hunting for detailed cheaters only. [97] As long as the big picture cheaters are effectively paying zero in taxes, all this time and money spent on small tax discrepancies is relatively fruitless. Right now, the online tax evasion industry is still relatively small. Most taxpayers out there are honest and ethical. And they use common sense to determine whether the advice they are receiving is good or whether it is a scam. [98] But the online tax fraud is growing so quickly, it is almost impossible to keep track of it. Now is the time to put a stop to it while it is still comparatively small. But stopping this industry in their tracks does not appear to be a goal right now of the IRS. [99] The promoters are not to find. As an exercise, I put aside 2 hours of uninterrupted time to see what kinds of things I could find by browsing on the Internet. To summarize, in 2 hours, I looked at 28 websites promoting questionable tax products and information. [100] I found multilevel marketing schemes offering everything from anti-snoring devices to constitutional products side by side. They guaranteed to remove all your assets and income from any future taxes. [101] I found a church selling church charters for \$300 so that you can "free your church, yourself, your business from undue tax burden". I found numerous forms of offshore trusts, offshore international business companies, and offshore private banks. [102] And perhaps, the most disturbing item was the website from a group whose founders were investigated by the criminal investigation division and who were arrested this last February. This would actually be Mr. Bazar's ex-group. And despite the arrest, more than a month ago, the websites and therefore their businesses are still up and running. [103] And this brings me to my main point. While the IRS' stated mission may be to better serve their customer, the taxpayer, it would seem to me that the customer would be best served if the IRS stopped these promoters as quickly as possible. Their undercover investigations often take more than 2 years to complete. During this time, the promoters are bringing in potentially thousands of new marks. [104] And as I said earlier, the promoters are not difficult to find. They are not hiding what they are doing. Almost every website I found in my 2-hour search included the name, address, and phone number for the promoter. All but one was located in the United States. [105] And they do not just exist on the Internet. They are in in-

flight magazines, on radio talk shows. They take out full-page ads in USA Today and the Washington Times. There is actually an example on a chart on the side here. This ran I believe three times in major publications. [106] They are practically begging the IRS to review their products. And unfortunately, the IRS' silence is being interpreted as permission to continue. [107] Thank you very much. [108] The Chairman. Thank you, Ms. MacNab. [The prepared statement of Ms. MacNab appears [here](#) on the Senate Finance Committee website.] [109] The Chairman. Now, Mr. Sommers. STATEMENT OF ROBERT SOMMERS, ATTORNEY, SAN FRANCISCO, CA [110] Mr. Sommers. Yes. My name is Robert Sommers. I am a tax attorney from San Francisco. Good morning, Mr. Chairman and members of the committee. I have a website called the tax prophet. And as part of my website, I run the tax and trust scam bulletin board. I do this for one reason. It is to warn consumers about tax fraud, especially trust scams. [111] To illustrate the problem, I have a little experiment for everyone in this room. The next time you are on a cross-country flight or an international flight, check out the ads for offshore banking services in the in-flight magazine. [112] When you do that, you will come to one conclusion. There is a global industry with just one mission: separating Uncle Sam from his tax dollars. Take that industry now and migrate it to the web. And what you have is a global industry with an instant reach of every U.S. taxpayer who has access to a computer. [113] Mr. Chairman, I am of the old style here with the tax scams. My focus is on the tax scam artists and something called a pure trust which is neither. My focus is on how they work and how to stop them. [114] The pure trust, in my opinion, is the foundation for all tax scams regardless of their complexity. The pure trust has been unchanged essentially for over 4 decades. The people who promote them, these trust scam artists, are the masters of form over substance. [115] Think of the pure trust as a magical black box. Taxable income pours up at the top. You pour it in. And magically, tax-free income flows from the bottom. [116] There is really 2 essential elements to the pure trust. One is a persuasive sales pitch which has remained unchanged since 1958. And the other is reams of worthless paper and documents calculated to trick the buyer into thinking they are doing something real. [117] There are 2 purposes for the pure trust. The first one is to hide the true ownership in income from all creditors, but especially the IRS. And then, the second purpose is, if discovered, these pure trusts have the ability to obstruct and stonewall. [118] And their promoters promote this to say, look, we can stonewall the IRS and the courts. Essentially, what they are doing is throwing sand into the bureaucratic machinery of not only the IRS, but also the courts, especially the tax court. [119] I would like to demonstrate how the pure trust works while we set that up. Let me just tell you the impact of the Internet. It has 4 consequences. What the Internet has really done is created what I call high-tech snake oil. [120] Let me go through what the 4 consequences are of the Internet. And then, I will get to the chart. By having the Internet, what we have is the snake oil salesman now has a worldwide reach, number one. They have expanded their marketplace throughout the globe. And this is becoming a problem not only in the U.S., but other taxpaying societies, Australia, Canada, parts of Europe. [121] By having so many websites out on the Internet saying the same thing, it reinforces the legitimacy of the argument. The trust scam promoter can now look someone straight in the eye and say, look, there are 60, 80, 200 websites out there saying the same thing. This is right. [122] The Internet has allowed the use of e-mail.

Spamming is a critical part of this. In other words, they can send out their get-rich-quick schemes to drive traffic to their website. [123] The Internet also allows these people to study tax fraud. What they have is they have an Internet community there where they can look and see what other people are doing and so they can fine tune their scams to always stay one step ahead of the IRS. [124] Just a quick example. The IRS for years was known not to audit trusts. That is how the pure trust operator knew that the IRS audited 1 out of 10,000 trusts or so. But then, IRS came out saying that they were going to crack down on trusts. [125] So what the pure trust people said was, well, if they are going to track down on trust, we will start calling these foreign trusts in which no tax returns are filed and no income is reported. The goal there, of course, is to fly beneath the IRS radar and to always stay one step ahead. [126] Let me just demonstrate just a typical 3 trusts, pure trusts scam. I have 3 trusts. I have trust 1 is a business trust. Trust 2 is what I call a siphon trust. And trust 3 is the residence trust. [127] Let us assume that a business has \$1,000 of income and \$200 of expenses. So it would have \$800 of taxable income. Well, the trust promoter forms a business trust. And now, the money flows into trust 1. [128] What happens though is that out of \$800, they will pay \$50, that is really step 3, flowing into this residence trust, but \$750 will go to what is called the siphon trust. The siphon trust will contain lots of phony deductions, inflated inventory. They may be charging outrageous rates for leases and things. [129] So out of the \$750 that goes into that trust, only \$150 leaves that trust. What happens now is I have \$200 in my residence trust. [130] Well, this is the fun one. What happens is that the person setting up the trust is told, well, the trust needs a headquarters. Well, why do we not make it your residence? [131] So they start depreciating the residence. Oh, you need a caretaker allowance. So what we will do is pay your medical bills, your food bills, your travel bills, your kid's education, all of that. So at the end, by the time we are finished, maybe \$50 will flow out to the taxpayer's Form 1040. [132] In this example, \$800 of income has disappeared down to \$50. That is your pure trust scam in a nutshell. The idea of flowing money around was to eliminate self-employment taxes up at the top there because they will want to avoid those too. [133] Let me just summarize very quickly. IRS needs to be committed against combating tax fraud. I have 3 concrete suggestions, all of which I think can be instituted without much cost. They need to have a strike force to search down these websites and shut them down. They also need to that with spam. They need to crack down on span. [134] Two, they need to fight propaganda with information. They need to develop their own separate website to educate the public regarding these scams and to have what we call a one-stop web portal for tax fraud information. [135] In other words, everyone in the country needs to go to just one cite and they will find all the information necessary whether it is reporters, whether it is taxpayers, whether it is professionals. [136] And then, finally, they need a PR blitz. They need to get down and dirty with these people and do advertisements, do public service announcements, put article in industry magazines, maybe even show up at trade shows and have a trade show booth. They need to do interviews and talk show appearances. [137] In conclusion, as our last presidential election showed, the presidential candidates go where the voters are. They were on Oprah. They were on Larry King. They know where the voters are. In essence, the IRS has to go where the taxpayers are as well. [138] Thank you. [139] The Chairman. Thank you, Mr. Sommers. [The prepared

statement of Mr. Sommers appears [here](#) on the Senate Finance Committee website.] [140] The Chairman. Now, Mr. Adkisson. STATEMENT OF JAY ADKISSON, ADKISSON FINANCIAL, LLC, IRVINE, CA [141] Mr. Adkisson. Thank you, Mr. Chairman and members of the committee. Our Nation is plagued by a growing industry of fraud. This is an industry with a significant and increasingly sophisticated infrastructure that has as its purpose to cheat many thousands of Americans annually out of many billions of dollars. [142] This results in not only a total loss of the victim's savings, thus creating an additional burden on the social safety net, but also in disruption of the family unit and eventual disenfranchisement. [143] Tax frauds are the rising star of the scam industry and increasingly pervasive. The sale of materials purporting to magically free U.S. citizens of taxation is seemingly at an all time high. [144] Recent high-profile prosecutions by the Internal Revenue Service have done little to stem the ever growing tide of tax protesting or the proliferation of abusive trust schemes. [145] A large, talented, and increasingly sophisticated workforce of multilevel marketers and telemarketers is increasingly making the transition from quasi-legitimate products to the much more lucrative tax fraud business which they capably market on a mass basis. [146] Tax frauds, like so many other frauds often take advantage of offshore tax savings as a safe and unregulated base of operations to conceal their identities from prosecutors and to hide their ill-gotten gains. [147] The scam industry is inventing new and more sophisticated scams daily, many of which prey on the paranoid belief systems of Americans who are already disenfranchised, thus creating a negative cycle which feeds upon itself. [148] Financial frauds are also pervasive and include prime bank scams, advance fee fraud, and business opportunities scams. These scams cause not only direct economic harm and divert scarce law enforcement resources, but also stifle legitimate investments and risk-taking. [149] Efforts of private groups, such as mine, to warn the public about scams are very valuable. Yet, such sites as ours are outnumbered on a scale of 1,000 to 1 or better by the websites of scam artists who often attack our few private websites and attempt to get them shutdown by denial of service attacks known as "joe jobs", a form of cyber terrorism. [150] These attacks are made not only by the scam artists directly, but also by the myriad of businesses that richly profit by providing technical support and like services to scam artists. The latter services are the backbone of the industry of scams and provide an invaluable infrastructure of support services, including cheap and anonymous web posting, conference calling, spamming services, and the like. [151] These services are richly compensated by the scam artists who often have no other overhead and though committing no crimes themselves are economically vested in the success of the scam artists committing their crimes. [152] The Internet has made the industry of scams more efficient by allowing scam artists to pitch their schemes to the masses while still concealing their identities from investigators. The Internet allows scam artists to engage in campaigns of disinformation and deceit both to deter past victims from reporting their crimes to the authorities and prepare future victims for the next scam. [153] A full combat against the industry of scams can be joined. Enforcement difficulties and jurisdictional disputes, federal versus State and federal agency versus federal agency must be resolved. [154] Another factor is an Internal Revenue code that is indecipherable to all but highly trained tax professionals, also a culture of noncompliance fold by 9 and 10-figure corporate tax shelters based on

ridiculous but often technically correct interpretations of the code. [155] Policymakers must consider giving law enforcement greater authority and resources to deal with schemes at their inception, to grab the seed packet of the scam before it blossoms into a garden of defrauded victims. Likewise, those breeding grounds for scam artists, including the owners of Internet bulletin boards who profit by banner advertising, should be made responsible for their conduct to defraud victims. [156] The Internal Revenue code should be simplified at least as it relates to the direct taxation of individuals. And the culture of noncompliance must be eradicated. [157] That concludes my statement. Thank you. [158] The Chairman. Thank you, Mr. Adkisson. [The prepared statement of Mr. Adkisson appears [here](#) on the Senate Finance Committee website.] [159] The Chairman. Now, Mr. Hodges. STATEMENT OF JOSEPH G. HODGES, JR., ATTORNEY-AT-LAW, MEMBER AMERICAN COLLEGE OF TRUST AND ESTATE COUNSEL, DENVER, CO [160] Mr. Hodges. Thank you, Mr. Chairman. I have to be sure that I disclaim any attempt here today to talk on behalf on either the American Bar Association's Real Property Section or the American College of Trust and Estate Counsel. My remarks are purely personal. [161] The Chairman. Thank you. [162] Mr. Hodges. I have been in private practice since 1968. And during that period of time, I have specialized primarily in estate planning and charitable gift planning. [163] And back in the early 1980s, I also became very involved in the use of the Internet by practicing attorneys, particularly attorneys in my area of the profession. And as a consequence of that, I have had hands-on involvement with several websites, including the one that the real property probate and trust law section has on the ABA's main site and the site that the American College has. [164] As a consequence of that, I have also had occasion to visit many of the sites that the other people here today have spoken about. And I have shared many war stories, if I can say it that way, with JJ MacNab over the last 3 or 4 years about many of these sites. And yet, today was the first time that I have ever met JJ in person. This has all been conducted by electronic mail. [165] What I think this all shows is that the impact the Internet has today on the proliferation of these tax schemes, scams, and rip-offs is phenomenal. And it is a totally unregulated industry, one that is very difficult to stop unless you have the right enforcement mechanisms in place through the IRS and the various government investigative agencies to put the people who perpetuate these scams in jail. [166] It is not that the John Q. Public are the ones that are the victims here, except for the fact that they lose the money. They are the ones that pay the huge fees, \$10,000, \$15,000 for a package of paper that is virtually worthless. And if we do not beef up the enforcement in this regard, I am afraid that tax noncompliance will become the byword of the day. [167] Interestingly, at least in my profession, the American Bar Association's law practice management section did a study back in March of 2000 called "Lawyers Serving Society Through Technology". And this particular study was a commission that was set up by the president of the ABA. [168] I outline in my written submission some of the highlights of that report. And I thought I would just mention a couple of them here today, one of which is that there is a distinct possibility that a large segment of the legal profession, mostly solos in small firms, and I myself am a solo practitioner now, could be displaced by competitors providing legal solutions under the category of "legal information services", as opposed to the traditional "legal services" which is what lawyers do. [169] Perfect examples of this can be

found on sites, such as the Nolo Press website where self help is the byword of the day. And people can find all kinds of books and materials there that allow them not only to enter these schemes and scams, but to virtually do every kind of basic legal service that they need without the assistance of proper professionals whether they be lawyers, accountants, financial planners, or whatever. [170] The report goes on to indicate that legal services seem to be commoditized today and that consumers now have a price choice that is moving away from the traditional hourly rate structure that lawyers are used to and is approaching what they like to call either an option or value-added flat fee approaches, such as prepaid legal plans or websites that offer lawyers direct contacts with the public in terms of being able to search out lawyers and what services they offer. [171] The report also notes that the ethical framework of legal services by the Internet is currently virtually not there. Now, there must be I think 4 or 5 commissions now in the ABA that have been set up in the last year to tackle that whole issue. [172] Perhaps, most importantly for lawyers, the report indicates that we are going to face increasing competition from other professionals, including accountants and MDPs which are multiple disciplinary practice firms, many of whom are not subject to the same ethical rules, while the unauthorized practice of law statutes in most States are virtually not enforced. And in some States like Arizona, they do not even exist anymore. [173] So anyone who wants to get into the business of providing financial products to people and particularly to our elderly citizens is free to do so. And yet, they have no formal training to function properly in that business. [174] I have also pointed out in my written statement a variety of the living trust scams and schemes that are out there not only in terms of books, but in terms of presentations and seminars that are conducted, and how these have proliferated in trust kits and all kinds of things that are just virtually useless and people pay horrendous sums for. [175] Most importantly though, I think that my 2 organizations that I belong to have finally come around to the fact that they too need to play a role in educating the public. And they are moving in this direction with deliberate speed at this point in time. [176] The American Bar section that I am in will be meeting here in Washington in 3 weeks to approve the first phase of its public information part of its website. And the American College, although they have been a little slow in the development of that kind of material, does in fact have their practice committee working actively in this area. [177] And to their credit, they funded a major production for PBS called Inside the Law. The particular show that they did, it was an hour-long production that was released in May of 2000 called Death and Taxes, an Inside the Law special. [178] And as of our meeting 3 weeks ago, I learned that the foundation has just funded a second video production with PBS in the same Inside the Law series. And this one will target the scams and things that the elderly people have been subjected to. [179] In addition, interestingly, the California Bar has a wonderful videotape that they did on scams that the elderly are subjected. And I wanted to make sure that the committee was aware of that. They use money that was obtained from a settlement of the prosecution of one of these scam artists to produce the video. So there is a way to spend the dollars wisely. [180] So at least from my perspective as a lawyer, I think the bar associations and our related organizations do have a proactive role to play. And we welcome that role and look forward to doing it. [The prepared statement of Mr. Hodges appears [here](#) on the Senate Finance Committee website.] [181] The

Chairman. We thank all of you for your testimony. We will take 5-minute turns now. [182] Other than what Mr. Sommers told us, he gave us three ideas that the IRS could do, like a strike force to quickly shut down, an information front to educate people, and a PR blitz which would be buying advertising against the tax scammers, what more could the IRS be doing to stop these tax frauds? [183] And I guess an extension of that, what should the IRS be doing to communicate to the public tax professionals and the press about these scams? [184] Now, I do not think Mr. Sommers needs to answer that. Maybe, all of you do not need to answer, but those of you that have ideas. Mr. Hodges touched on this a little bit with what the bar is doing, but I am thinking in terms of the IRS. [185] Yes, go ahead if you want to, Mr. Sommers. [186] Mr. Sommers. Well, yes, my presentation really dealt with the web-base, shutting down websites and web-based scams. But what about trust scams that are in operation now? What can they do now to attack these? [187] Well, every one of these scams has a weakness. They need a bank account. They need a taxpayer identification number. [188] IRS needs to get control of how they issue these taxpayer identification numbers. They need to make sure that these trustees who often de-tax themselves so that they do not have a Social Security number file with Social Security numbers. [189] They need to actually have a special unit to go over what trust tax identification numbers are being filed so that they can track those trusts and see if tax returns are being paid. [190] Also, the other escape these people use is they always open up bank accounts that pay no interest because they do not want 1099 forms from the bank going to the IRS. It seems to me that for trust bank accounts, 1099s should be issued regardless of there is interest being paid or not. [191] In short, the IRS really should follow kind of the "know your customer rules" that apply in the money laundering sense. They should know whether they are creating sham trusts or not or at least be able to track them through the taxpayer identification numbers because that is the entre. That is the ticket into the system. Once they are into the system, they disappear. But they need that access. [192] The Chairman. Anybody else? [193] Mr. Hodges. [194] Mr. Hodges. I just would suggest that a definite possibility that our section of the American Bar Association get together with the Internal Revenue Service with highly trained professionals and explore perhaps in 3 weeks when we are here for a 4 to 5-day meeting some of the ways that legally at least that we could do this and assist the IRS from our perspective. [195] I think that would be a very worthwhile meeting. And I would be more than happy to suggest that to our section leaders. [196] The Chairman. Maybe, Mr. Rossotti could also respond to that in the next panel. [197] Ms. MacNab, I think that you wanted to respond. [198] Ms. MacNab. In particular, they need to go where the promoters go. They need to beef up their own website. [199] When I called the criminal investigations division about 2 years ago and asked about pure trusts, I was told that there is a .25 million of these plans already in existence. This to me seems to be a crisis. [200] They do have a criminal investigation website. But when you run a search on pure trust in any of the Internet search engines, the IRS website does not pop up. It is not one of your options. I am sure the computer person here could tell you better. [201] There are ways to make sure that your website comes to the top of the list. The IRS should be using the same techniques, metatags in particular, to make sure that their website is seen. [202] If you go through 10 or 15 pages of different websites, all of which say pure trust works, before you get to the IRS

website, how many taxpayers are going to have that kind of patience? So they need to make sure that their website gets seen by consumers. [203] They also produced a wonderful brochure last year on what is a sham trust, what is an abusive trust, what are the warning signs. It was a wonderful brochure. It had lots of information. I do not know of a single taxpayer that has seen it. [204] The Chairman. All right. Did you want to respond, Mr. Bazar? [205] Mr. Bazar. One comment or suggestion is that the IRS in their website have an aim more towards people who do not have a law degree. I mean, simplify it a little bit. [206] The Chairman. All right. That is very good advice for any government agency. [Laughter]. [207] Mr. Bazar. I mean, there are a few standard arguments that all the tax protestors, for example, filing your 1040 is voluntary. I mean, all you have to have is a website that says, you must file a 1040. I mean, very simple things like that, I think that would help greatly. [208] The Chairman. All right. This will probably have to be my last question on this first round. To any of you, what roadblocks does the IRS face in going after these tax scams, particularly those on the Internet? [209] Ms. MacNab. I will take this one. I think the biggest roadblock is going to be how easy it is to move money around on the Internet, especially on the offshore. You can move hundreds of thousands of dollars using virtual money right now. And it is totally untraceable. [210] To give you an example, the con artists are smart. The IRS recently subpoenaed I believe it was American Express and Master card records to find out who had money offshore and was trying to bring it back on by spending using a debit or a Visa card or a Master card. [211] The promoters have pivoted from that. And now, they issue numbered credit cards. Your name does not appear anywhere on it. It does not appear anywhere in your account statements. How does the IRS know whose card that is? [212] I think the biggest impediment is going to be getting offshore. It is too easy these days to move money. I have an example in my written testimony about how you can go online and in a period of about 5 minutes, you can sign up for a numbered Swiss bank account with a minimum investment of \$200. [213] Another website which I actually have copies of, the front page of the website in the testimony offers, I think it is, upwards of 60 offshore tax shelters on their website. All you do is point, click, choose which ones you want to buy, put them in your shopping cart, and check out, just like you are buying books at barnesandnoble.com. [214] It is very easy. This particular website is located in Cypress. It is easy, but it should not be impossible for the IRS to track these people down. [215] The Chairman. Anybody else before we go to Senator Baucus? [No response]. [216] The Chairman. Senator Baucus. [217] Senator Baucus. Thank you, Mr. Chairman. And maybe, you want to work for the IRS. [Laughter]. I mean, you have passion. You want to stop this stuff. [218] Ms. MacNab. We do want to stop this stuff. [219] Senator Baucus. And we all do. And I appreciate the intensity of your testimony and how much this bothers you as a good, red-blooded American citizen. I deeply appreciate it. And I know Americans watching will feel the same way. [220] Why has the IRS not done more, or other appropriate agencies? I mean, you said, it is a wonderful brochure. Nobody has seen it. You have made several telephone calls. Nothing seems to happen. [221] Why? What is your best guess? Is this because this is all so new, because it is all so newly complicated? Is it because we need all a whole new sort of paradigm of thinking, a whole new set of laws in this Internet age, that we are not there yet? I am curious. What is the problem? [222] Mr. Hodges. From the legal side, I

think you have made a good point. This is a very difficult kind of business to control. The Internet is a free wheeling environment. And it is worldwide. [223] And we can pass all the laws in the world, in the United States saying you cannot have sites with this, that, or the other material. And that will not do it because people just move offshore and broadcast it back to the United States. [224] But you can put I think enough legal sanctions in the law for fraudulent and misrepresentation activities. And those are real. Those are consumer laws. They are in every State in the Nation. [225] The hard part though is when you have a case like this and you go to your State attorney general. And so you get the answer that was alluded to earlier, that is either, we do not have the resources or the time or whatever. [226] And unless the thing is so egregious that they cannot avoid it, no prosecutions ever occur and no investigation is ever made. And these things just grow and grow and grow. [227] And if you do shut them down in one State, then they pick up their stacks and move next door to the next State and start up all over again. They change their name usually so that the identity is not easy to see. [228] But I think the service is finally after many years of basic no action, began to enforce the most egregious cases. But as JJ alluded to earlier, it takes at least 2 years to complete those investigations before the prosecution starts. [229] And in one particular case that I am familiar with where the fellow had committed the scams in the United States. It was a pyramid scheme. It made millions of dollars. He took the money down to The Bahamas islands and then was finally through the courts held in contempt and put in jail. He went through six months of jail, got out. And he is probably down in the islands again, enjoying his money. [230] And the court basically told him that he had to tell his trustee to repatriate the money to the United States. And he did not even bother to even to try. And he did not have to. If he was willing to sit in jail for six months, that was his punishment, if you will, for entering a foreign trust scam like this. [231] And they count on that frustration. They count on the inability of the IRS or any other treasury agency to chase that money down and get it back once it gets out of the country. [232] Senator Baucus. Mr. Sommers. [233] Mr. Sommers. Senator Baucus, it does require a new paradigm. Again, from my perspective, I come at this from the consumer fraud standpoint. It needs to be stopped now. People are being ripped off, paying for these. [234] IRS, they may not know about it until a tax return is filed 12, 18 months after the scam has even happened and they audit. And so in some ways, it is telescoping this upfront. The Federal Trade Commission knows how to do this. [235] In my perspective, what these people are doing is no different than selling phony diet pills, phony stock investment, or anything else. It happens to deal with tax. [236] But it is a consumer fraud issue that they can make lots of money on and get out of town before the ramifications are felt because, again, the IRS looks at it from a revenue standpoint. They need tax returns to audit. They need things to see. [237] Senator Baucus. But with the addition of the Internet, it makes is almost infinitely more difficult from an enforcement point of view. [238] Mr. Sommers. Well, once they get in the system, I think it makes it very difficult. I think the problem is that maybe IRS has waited for these to filter through the system and then make a big bust somewhere, get the records, and prosecute lots of people. [239] Well, by that time, we think it is too late because these guys know how to fly under their radar. And they have to get them on the front end. [240] One observation I would like to make here though, I just cannot resist. We are talking about \$300

billion of taxes. And all of us seem to be sole practitioners that are on the combatting side. JJ and I are doing this pro bono. Our websites are all pro bono. We do not make a nickel off of it.

[241] So we have a \$300 billion a year loss in taxes being fought by, we have maybe, 5 solo practitioners up here who do not make a dime, but we are the ones out on the front line trying to combat these. So it seems like we are a little over matched here. [242] Ms. MacNab. We need help. [243] Senator Baucus. Yes. It is not fair probably to make this next comment because we have not yet heard from the next panel. But I am just going to tell you, listening to the five of you, I have the impression that this is virtually unchecked, these things of kinds, whether the pure trusts or the offshore trusts or what not. This is virtually unchecked. I mean, is that an exaggeration? [244] Mr. Hodges. No. I think that is an accurate assessment, but I think it also shows the power of education here could be so significant. And it is the ability of the public to understand going in that these are truly scams. [245] And how do we get that information to them? I think we try every method we can through organizations, through the IRS websites, through the IRS criminal investigation website, and brainstorm all of the public information as we can do it. [246] We have in Colorado, our attorney general, Gail Norton who is now the Secretary of Energy, produced this little, back-to-back pamphlet. It is called "Consumer Alert: Living Trust Scams". [247] This was all we could get out of her department when we were trying to just go after the typical, living trust false statements. But this little pamphlet has done more in Colorado to combat this kind of thing than anything else that has ever been produced out of the State bar or the AG's office there. So it can be done. And it is not expensive. [248] Senator Baucus. Go ahead. [249] Mr. Sommers. I just wanted to point. There really is some excellent work being done in this area by the government. It is in pockets. I point to Sacramento where I appeared at a trial of one of these trust scam artists. [250] And Ben Wagner who is the U.S. attorney there did a great job, secured a huge conviction, just did it again with a lady named Dorothy Henderson who just got 11 years in prison. And he is dedicated. He understands how this works. And the agents up there understand how this works. [251] They have some excellent people that the IRS could be taping for my suggested strike force who understand this, who want to go after it, and know how to go after it. Unfortunately, these are criminal trials though. So maybe, part of the Internet is being unchecked, but there is some excellent work being done out there. [252] Senator Baucus. Could you expand on your strike force idea? What would the strike be, do, etcetera? [253] Mr. Sommers. Sure. I am envisioning no more than maybe 10 people, but it is a cohesive unit that can make decisions now. They need to make decisions within hours and days, not months or years. [254] I envision having 2 computer programmers searching the Internet daily for new tax scams, for tax scams and things, for spam, for e-mail spam. I expect them to do that in the morning. And at mid- day, they have a meeting with somebody in that room who could make a decision. [255] If the decision is made that that site should be shut down, letters of cease and desist go out immediately. And there is attorneys as part of that strike force ready to go to court in 1 or 2 days if that site does not come down. [256] I also think that that site should then be listed as suspect sites on the IRS website I talked about so that the public could be alerted as well. I also think anything dealing with that site, any injunctions, anything else needs to be right on that website as well so that these people have a matter of hours after they have been exposed and

they are out of business or at least the public knows about it. [257] And that is in a nutshell my idea. I think when you look at it, it will not cost anything. I mean, you have to understand, these people get into the system and they clog it up. They get the IRS agents, the examiners. They sit there and they frustrate them. [258] And then, they go to collections. And collections, they try to do offers and compromise it for \$1 and say, gee. They do not tell them that their assets are in one of these trusts. So you have the whole IRS machinery having to deal with these. [259] The Chairman. Before you answer that question, the FTC does something similar to that in the areas of their jurisdiction. [260] Ms. MacNab. If I can give you an example, 2 and a half years ago, I turned over all the pure trusts materials on the website to a CID agent. The website is still up and running. [261] A few months ago, I ran across another fraud on the Internet. It was not tax fraud. It was a sale. And I turned over the materials to the Federal Trade Commission. I went onto their website. I filled out the online form. I sent in all the materials that I had collected. I got a call within a week. Two weeks later, they had written testimony for me to sign. Within a month of that, I got a phone call saying, thank you very much. My testimony was most effective. They had shut down the promoter. [262] Senator Baucus. Mr. Sommers, in your strike force, you had rattled off a list of very seemingly effective actions that the government could take. Is that available under current law? Can the government do that under current law? [263] Mr. Sommers. I guess you would look at the FTC model. I do not understand how the Federal Trade Commission can fight consumer fraud the way they do. I understand they are so aggressive, they put up phony websites. And then, when people click on them, they say, can you not tell this is a fraud? [Laughter]. [264] And so I do not know if it needs to be moved to the FTC or not because, again, my perspective is that it is a consumer fraud issue. Whether or not the IRS wants to not collect the tax dollars, I mean, that is a concern obviously to you and to others. But my perspective is the poor person being swindled. [265] Senator Baucus. Have any sites been shut down very quickly? [266] Mr. Sommers. No. [267] The Chairman. It might be appropriate for me to ask at this point that there are concerns about 1st amendment rights and the fact that the Internet operates overseas, that this would handcuff the IRS. Do any of you have views on that? [268] Ms. MacNab. My understanding is that the FTC has been successful with some overseas websites. Perhaps, the IRS can work with them or learn from them. [269] The Chairman. What about any other 1st amendment issues here that come? [270] Ms. MacNab. I will leave that to the attorneys. [271] Mr. Sommers. Well, again, I would like to fight the 1st amendment with the 1st amendment and have a website of information that people can find. I see that there should be no problem whatsoever with that. [272] To the extent that they are advocating illegal activity, there should not be a 1st amendment right. And again, I look at what the FTC is doing. And what is the difference? [273] The Chairman. But you are not saying that there is a 1st amendment right to do a sham trust? [274] Mr. Sommers. Unfortunately, I think that is what I am saying, yes. [275] The Chairman. There is a 1st amendment right? [276] Mr. Sommers. No, there is not a 1st amendment right to do a sham trust, no. [277] What I am saying is that this is no different than selling, as I said, phony diet pills, phony stock, whatever. This is consumer fraud. There is no 1st amendment right to go out and commit consumer fraud in any form. This just happens to be consumer fraud dealing with taxes versus any other kind of scam,

a pyramid scheme or anything else in my view. [278] Mr. Hodges. I will second that. I think there is -- no, it is just an easy answer. There is no protection in the constitution for not only fraud, but egregious misrepresentation when it comes to the consumer. [279] And what is interesting is when we built the website for the American College about 5 or 6 years ago, we put a little part of our public side of that site. There is a quite an extensive private side. And ever since that site went up, there is one piece of material, one page on that site called "Do I Need a Will?" It is an American Bar Association pamphlet. And it has been consistently week after week after week since that site opened the most hit page on the site. [280] What that tells me, because we do not really advertise the existence of the site, is that the public is smart enough to find good information and to decipher the good from the bad if you just give it to them to read. And that is what I would like to see the American Bar do with its website, tell the truth and help people find the right professional help. [281] Mr. Bazar. Can I respond? [282] Senator Baucus. Yes, go ahead. [283] Mr. Bazar. I just have one comment. The FBI and the Justice Department set up a website called the IFCC. It is called the Internet Fraud Complaint Center. This is where consumers can go to make complaints about online fraud. [284] My experience though with them was I sent in my complaints, the information. And what they did was they just sent it back to the State attorney generals and actually my local police, of all people. And it seems that this, the IFCC was set up to deal with complaints on the Internet. However, they do not really -- from my impression, they do not have any sort of meat behind. They are just sort of a clearinghouse. [285] Senator Baucus. Getting at the question I was going to ask, namely, how often have you tried to persuade the IRS or FTC or any other agency to do something about all this? Have you talked to them, contacted them personally? Have you called up Commissioner Rossotti and said, hey, Chuck, we have to do something about this? [286] I am just curious as to what efforts you have made in dealing with the IRS. [287] Mr. Bazar. I have called a few. [288] Senator Baucus. You have called a few. [289] Mr. Bazar. I called as I mentioned in the speech. But I have called attorney generals. I have called the IRS. I have written to the FTC, the FBI. [290] Senator Baucus. All right. [291] Mr. Bazar. I mean, I have done it all. And maybe, they have an investigation going on so they do not want to come out and do something. [292] Senator Baucus. Yes. [293] Mr. Bazar. But my impression is that nothing is being done. [294] Senator Baucus. Ms. MacNab. [295] Ms. MacNab. I contacted the criminal investigations division. All they said was give us what you have and we will take care of it. [296] Senator Baucus. Do you have any idea whether anything was done? [297] Ms. MacNab. The website is still running. [298] Mr. Sommers. My experience is a little more passive. When people send me e-mails saying somebody is cheating out there, what should I do, I just refer them to the CID website. [299] Unfortunately, for some reason, you cannot e-mail the CID, the criminal investigations division. They want you to call them on a toll-free number. And I do not understand what that is about. People want to sort of communicate through e-mail and send them information. [300] You commented on how passionate we are. You should see some of the e-mail that we have received from these folks. And then, you would know what we are up against. [301] Mr. Adkisson. If I could address that, Senator? [302] Senator Baucus. Yes. [303] Mr. Adkisson. It seems that enforcement effectiveness and what they are doing varies by region. In the

California region that Mr. Sommers and I are at, for instance, they have asked us to come and speak to IRS agents. And they have gotten publicity on some of the things they have done. In that region, they seem to have done very well. [304] In other regions, it does not seem that there is much activity going on. The agents that I have spoken with, it seems that this is a problem that they feel that the Internal Revenue Service is not really asked for, that although this involves an issue of taxation, that it is really a consumer fraud issue. [305] And although they feel that they have some responsibility over it, it is really not within their learning curve or the learning curve of their agents as to how to deal with this. It really is a very unique problem. [306] The Chairman. We have concentrated on 2 or 3 people involved in this, the tax scammer, the IRS, but there is a taxpayer. None of you have touched very much on the taxpayer and the impact upon the person that has been caught in this web. [307] And maybe, it is not fair to say that everybody has been caught because there is probably some of them that went into it with an open eye that maybe this really was playing the tax lottery in the sense of getting by without paying your taxes. [308] Any comments on kind of the innocent person that gets hit by this, maybe that went into it really feeling that they say this is legal, so why should I not be doing it? [309] Ms. MacNab. Most of the taxpayers out there truly believe that what they are doing works. They do not think they are cheating. They do not think they are evading. They think, hey, this is the way it is. This is the law. And I am doing the right thing. [310] It is heartbreaking when you talk to some of these clients. And, for example, in the Institute of Global Prosperity arrests, they had a big show on it on CBS. When they were made public, people started coming out of the woodwork. [311] They are afraid. They do not know how to deal with this. They have somehow cheated the system. And they are going to get caught. And they do not know what to do. Do they hide and hope that the IRS does not catch them? What do they do? [312] I mean, I would love to see some kind of, if not amnesty program, but then direct education program. Let these people know that you screwed up. All right. Let us fix it. Let us bring you back into the system. We are not going to bite your heads off. We are not going to put you in jail if what you did was unintentional. How about we get you back in the system and get your back taxes and interest due? And if you work with us on this, we will waive penalties. [313] Come up with something to be friendly about bringing these people back in. There is an awful lot of them. [314] Senator Baucus. So what you are saying is that most of the taxpayers then were gullible in the first place? [315] Ms. MacNab. Yes. Many of the promoters are also gullible. [316] The Chairman. Some of these innocent, gullible taxpayers I presume have gone to jail for fraud, have they, or at least they have a big penalty? [317] Ms. MacNab. The IRS seems to be going after the very, very big ones, the big fish. And I guess they are hoping that sends a message to the little ones. [318] I have no idea how many people have gone through the system and not gone to jail. I know there have been a significant number of arrests, I think 164 in the last couple of years. [319] The Chairman. My point was about the individual taxpayers. Is that what you are responding to? [320] Ms. MacNab. Right. Right now, they are going after promoters. [321] The Chairman. Yes. [322] Ms. MacNab. I do not know how many individual taxpayers have gone through the system yet. I do not think it is priority for the IRS right now. I can only say that from an outsider's point of view. But I think they are assuming that they are going to bring in these big guys. And then,

they will go after the little ones. [323] Senator Baucus. Well, does that not make some sense, I mean, just off the top of my head? [324] Ms. MacNab. Sure. [325] Senator Baucus. Because after all, there is no criminal intent I would guess. [326] Ms. MacNab. Well, why not go after the big ones and shut them down quickly? [327] Senator Baucus. Right. It is the promoters we are after I would guess. [328] Ms. MacNab. In the multilevel marketing schemes, it is difficult. You have the top promoters who probably have a pretty good idea of what they are doing. They recruit, say, a dozen people. They recruit a dozen people. They recruit a dozen people. [329] The people that are in that middle area that are now recruiting underlings truly believe what they are doing, it works. Maybe, the top level people knew that was a scam. The second, third, fourth, fifth, sixth, 1,200 levels do not necessarily know it. [330] The Chairman. These are not the people that say that income taxes are not unconstitutional. [331] Ms. MacNab. Sure. [332] The Chairman. These are people -- well, that is what you are talking about as opposed to people that are saying, you do not have pay all your taxes. This is how you can avoid some tax. [333] Ms. MacNab. It is both. [334] The Chairman. Both. [335] Senator Baucus. And that is why I think this massive publicity to educate people would help a little bit. [336] Ms. MacNab. Very much. [337] Senator Baucus. It would theoretically reduce some of the gullibility. [338] Mr. Sommers. You want to shine that light on the problem. We need a path for remedial treatment. And the IRS has to say, look, if you follow this path, you do these, you amend your returns for so many years, you do whatever you have to do to get back into the system. [339] Right now, there is no path. When people come to us, we say, well, maybe the best we can do is get you a theft deduction for the fee you paid the promoter if you file your taxes voluntarily. [340] The problem is compounded when there is money overseas and there is money laundering implications and other things that professionals try to help them get their money back into the system to pay taxes. [341] What we really need is a clear path to say, all right, we are going to shut these guys down, but everyone who wants to come forward and clean up their taxes, this is exactly how you do it and this is what we will expect of you so there is a clear direction. [342] The Chairman. Let me touch on one thing that we have not discussed yet. And maybe, I referred to it in my opening comments. And maybe, it is not as big of a problem that we think it is. [343] But we have a new situation where employers are saying that they are not going to withhold their employee's income and payroll taxes. And obviously, that is unacceptable. But the problem is we have employees choosing between their jobs and their tax man. [344] What is the panel's thoughts on this matter? Is it a problem? Is it growing? And what about the IRS's response? [345] Mr. Hodges. If I may say so, I would take as an example the notice 9724 that the IRS put out back in 1997 on sham trusts. For a long time, all these sites were out there. Our clients would come and say, what do you think about this pure trust scheme or whatever? [346] And we could talk until we were blue in the face. And these organizations tell them, do not believe what your tax lawyer tells you because they are going to try to talk you out of this. And they do not know what they are talking about. [347] This notice did more for my clients to convince them that the IRS knew about these things and the truth than anything else. Why not do a similar notice tomorrow in this area of the withholding? These kinds of things from the service are very effective. [348] The Chairman. Ms. MacNab. [349] Ms. MacNab. Your question actually is

very good. This is very fairly new industry. If we can nip it in the bud, you can stop this from blossoming like the pure trust schemes. These people, they are not hiding, as I showed earlier, the USA Today, the full-page ad. [350] They have concerns that they truly believe they have a right to address them. They have asked on numerous opportunities for the IRS to review their materials and tell them they were wrong. Let the IRS do that. If they are trying so hard to get attention, give it to them. [351] The Chairman. You have another? [352] Ms. MacNab. And this was a full-page ad in which they show 3 IRS agents who have endorsed their program, 3 ex-IRS agents. [353] The Chairman. One last thing, you may get questions in writing from either of us, but also more importantly because of the bill on the floor, a lot of the members could not come. They are at other committee hearings. [354] So if you do, and some of you who have not dealt with the congressional process of a written response, make sure that my staff or Senator Baucus' staff would help you through that process. We would like to have answers in a couple of weeks if we could. Thank you all very much. [355] Senator Baucus. If I might, Mr. Chairman, on this very important subject? [356] The Chairman. Yes. [357] Senator Baucus. Did anyone want to say something that has not been asked yet? Or did someone say something so outrageous that it deserves a response? [Laughter]. Here is your chance. [358] Mr. Bazar. I just want to comment. You are talking about the average taxpayers getting arrested. And I think that is a big problem. While the IRS probably has limited resources to go out and try to get the promoters, it is still the, hey, my neighbor has not been paying taxes for 3 years, it must be okay. The IRS is not doing anything about it. [359] And these people who are starting into it, getting into it mainly over the past few years, they are many, many examples for them to see, for people to talk to that are not paying their taxes and are getting away with it. [360] And I think maybe there should be some, at least a few arrests. You can put them on the website. People can see, hey, you really cannot do this. I am not a lawyer. I do not know the details of the law. As far as I can tell, there are no examples of people getting arrested. [361] The Chairman. Well, maybe, there has been more than one Iowan, but I can only think of one Iowan that for the last 20 years has been bothering me about the income tax being unconstitutional. Now, I suppose there is a lot. [362] Senator Baucus. There are a lot in my State, Mr. Chairman. [Laughter]. [363] Mr. Hodges. I think also, Mr. Chairman, it would be very important in this whole process as the public becomes more aware if people are caught in these schemes as taxpayers, they need to be treated gently. And, yes, it is a slap on the hand, but let them file the returns and pay the taxes they should have paid, but do not throw them in jail. The people you need to go after are the promoters. [364] And I think if you have an amnesty program, as was suggested earlier, you might finally find these people coming out of the closet, if you will, and being willing to testify as to how they have been duped. But most of my clients that I know that get into these things are so embarrassed, they do not even want their neighbors to know that they were suckers. [365] The Chairman. Would that be a general amnesty program? Or would you direct it towards people that we assume are out there involved in these tax scams? [366] Mr. Hodges. I would take the narrower approach first and see how well it works. And maybe, you might want to broaden it. There is probably a lot of tax avoidance things that people do because their neighbors do it. And therefore, they think it is legal. And why not? [367] You look at these websites. They

will convince you that this is perfectly legitimate and that the IRS has blessed it. And it is as false as false can be. [368] Senator Baucus. Just one question, Mr. Chairman. The laws, again, are our current laws adequate? Or do we need new laws? [369] Mr. Hodges. I would not say the current laws are adequate. It is the enforcement of those laws that is important. I do not think we need another whole proliferation of laws. And we have excellent agencies like the service and the FTC who have the powers to do this. They just need to find the resources to pay attention to it. [370] Senator Baucus. Mr. Sommers. [371] Mr. Sommers. Yes. I would agree with that. I think the IRS does have the right to go in and get injunctions. They have started to use that on some of these things. It is too bad it takes so long to build the evidence, maybe as they get used to going in and filing for injunctions. [372] Again, if we had that strike force concept, you really would want those people to be able to go to court with not a lot of red tape. [373] Ms. MacNab. As a non-lawyer, if I can add, there are also certain details that can be done. For example, under current law, you have to disclose whether or not you have any interest, either beneficiary or ownership interest, in foreign trusts. [374] The promoters say, all right, we are not going to call them trusts anymore. We are going to call them special interest partnerships where they set up foundations offshore. Now, you do not have to disclose it because it is not a trust. [375] The IRS has to pay attention to such things and adjust as needed. [376] Senator Baucus. What about resources? I mean, we often hear the IRS does not have adequate resources to go after a lot of this. [377] And I will even step into another old territory. I talked to some accountants who were telling me that the qualify of agents at the IRS is probably to what it could and should be. And it probably is because of pay. Whereas, the bright people are on the outside. [378] And this is hard thing to say, but you hear it. Maybe, there are others in the IRS are maybe not quite as swift as some others. And I know that is a gross, broad statement. But is there any truth to either of those claims that you sometimes hear?

[379] Mr. Adkisson. I would like to answer that. The IRS is trained. And their agents are trained to do a very specific thing which is to review tax returns, check deductions, things like that. [380] This is fraud. Although it is tax fraud, it is really fraud, fraud. And to take people that are trained to do more accounting and tax return sort of work and to send them out, chasing people that are hardened, usually have very long criminal records or hardened scam artists in my opinion, is asking the IRS to do something that it is just tasked for. And I think that has been a very significant problem. [381] Senator Baucus. Thank you. [382] Mr. Hodges. I would just add as a supplement in terms of resources. Follow the example in California where they went after this group. They got a judgement against them. And they took the money from that settlement and have done very positive things with it. [383] Maybe, that is the way you can finance a lot of this investigation. It is a little bit after the fact, but it is better than nothing. [384] Mr. Sommers. I think the problem with resources I have is you cannot calculate the amount of money being wasted now through the audit system, the collection system, and all the IRS personnel when these guys get into the woodwork. [385] I mean, they are dedicated to just grinding that machinery to a halt. And that has to cost enormous sums of money. Every document needs to be subpoenaed. You need to go to court all the time. They are selling stonewalling the IRS. And they will get away with it because the IRS will give up. [386] And also, just the educational aspects of trying to train all these agents

to find it. That is why if you treat it as a narrow specialty and attack it from Washington, it just seems to make a lot more sense to me. And I think you would save. It will not cost money. It will save money. [387] Senator Baucus. Thank you. [388] The Chairman. Thank you all very much. Senator Baucus and I appreciate this grassroots information we get from people that are specializing in it. And more importantly, thank you for your altruism of trying to help the innocent taxpayer. Thank you all very much. [389] And I will call the second panel now. First, we have Charles Rossotti, Commissioner of the Internal Revenue Service. Next, Hugh Stevenson, Associate Director for Planning and Information, Bureau of Consumer Protection, the Federal Trade Commission. And then, Michael Brostek, Director of Tax Administration and Justice Issues at the U.S. General Accounting Office. [390] And we will start with the Honorable Charles Rossotti. STATEMENT OF CHARLES ROSSOTTI, COMMISSIONER, INTERNAL REVENUE SERVICE, WASHINGTON, DC [391] Mr. Rossotti. Thank you, Mr. Chairman and Senator Baucus. I appreciate the opportunity to be here. And I especially am pleased that you decided to hold this hearing on this very important topic. I think of this as what I call organized tax evasion. [392] I think it is very essential for the majority of taxpayers who are honest and pay what they owe under the law, that they have confidence that their neighbors and competitors are playing by the same rules. And I think that is what this is all about. [393] As the earlier panel noted, today, in a wide range of guises, there are individuals and organized groups attempting to mislead or entice taxpayers into believing that there is a way out of paying taxes. [394] Some of these groups use the Internet to promote or advertise their schemes. And these range from complex and prepared packages of documentation involving trusts and offshore bank accounts to more simple, but false arguments claiming that businesses do not have to pay their employment and withholding taxes. [395] So far this year, the IRS has issued 2 nationwide alerts warning taxpayers not to fall victim to a number of these scams. And some of the things that were mentioned in these alerts include such items as tax credits or refunds related to reparations for slavery to illegal ways to "un-tax yourself". [396] One of the schemes that I think that you just noted, Mr. Chairman, that has received a considerable amount of publicity recently is aimed at telling employers that they do not have to withhold federal income tax or employment taxes from the wages paid to their employees. We have made some publicity efforts around this topic. And taxpayers, I will just note, can get more information about this particular bogus scheme by simply going onto our website at <http://www.taxprophet.com/hot/Trust%20Scam%20Files/www.irs.gov>. [397] In terms of practical impact, and they were some numbers thrown out earlier about revenue loss, but I think in terms of practical impact, major impact, the most important of these various tax schemes are those that try to sell packages to upper income taxpayers which claim to permit income taxes to be reduced or eliminated. [398] And essentially, these packages use a flurry of paper work involving domestic and offshore trusts and foreign bank accounts in most cases to appear to move income into tax-free countries or legal vehicles, while still allowing the taxpayers to maintain effective control over their funds. [399] And we have a chart that we are going to put up here that just shows you. I am not going to run through it. It was another one of your witnesses that showed something similar. [400] But it shows the kind of flurry of paper work involving various entities and offshore bank accounts in most cases that are used to

give the appearance that this money is being put in such way that will not be taxable. And yet, the taxpayers actually maintain control of it. [401] For these particular kinds of schemes, most of the people that buy into them are upper income taxpayers, professionals and business persons with at least 6-figure incomes. [402] The promoters run a wide gamut from bankers, to convicted con men that are just going into their latest con, to crooked return preparers, to actually Americans living overseas who make a living selling services in connection with these schemes. [403] The IRS first became aware of the emerging magnitude of this particular problem in 1996 by an individual named John Mathison who was an owner of a bank in the Grand Cayman Islands. He began cooperating with federal authorities in providing extensive financial information on hundreds of individual who appeared to be engaging in ongoing tax fraud. [404] In April, 1997, as was noted by an earlier witness, the IRS issued an official notice publicly cautioning taxpayers to be wary of trust arrangements that were promising benefits that are not allowable under the tax laws. [405] Although we have no really accurate measure of the size of this problem, we do have enough information to know that it is a major problem. One respected expert on offshore tax havens and money laundering, Mr. Jack Blum, has made estimates that there are \$3 trillion of assets in tax haven banks and that the annual revenue loss to the Treasury is at least \$70 billion a year. [406] As another indicator, on October 27, 2000, as part of our enforcement efforts, we went to U.S. District Court in the Southern District of Maryland and got authorization for the IRS to examine banking records of tens of thousands of U.S. persons who had offshore accounts in the Caribbean, most of whom had not disclosed these accounts to us as required on their tax returns. [407] With our new organization and our strategic plan in place, we are now able to be much more effective in combating this threat with a coordinated strategy that involves a full range of tools ranging from public education--it is very important letting the taxpayers know and warning taxpayers--to on the other end both civil and criminal enforcement against both promoters and participants in these schemes. [408] In terms of public education, just to summarize some recent activities, we have issued a number of press releases and alerts to the public and to practitioners who can use them as legitimate practitioners in educating their clients. These include the "The Too Good to be True" trust brochure. [409] We also constantly post educational material on our website which is now receiving over 2 billion hits per year. It is a very popular website. And we are now flagging and noting, as is noted here on some of the charts that are up to your right, highlighting some of these schemes. [410] In terms of going where the taxpayers are, we also recently opened up a specialized part of our website for small business and self-employed taxpayers. And this provides one-stop information for them to assist them in complying with the particular obligations that they have. [411] But we are also using this since it is a draw for these kinds of taxpayers to include warnings and examples of what to be wary of. And this is shown on the first page of that on the chart in front of you. [412] Another important new initiative to identify these particular kinds of schemes is our new K1 matching program. Beginning in 2002, we will begin processing matching K1s reporting over \$700 million of income and also importantly reported losses on trusts and pass-throughs. This will help us to find problem cases and, of course, to follow up on audits when necessary. [413] We have also developed in the last year some specialized training program for our agents on these trust-

related topics and begun active investigations, especially focused on promoters. We are currently auditing 17 promoters and 161 different abusive schemes for not only investigation, but possible injunctive action. [414] Earlier this year, we received one permanent injunction against some promoters. This was granted by the court. And also, a \$1.25 million penalty was assessed in this case. Another 2 injunction requests are currently pending before district court. [415] On the criminal side, the IRS investigations unit has already obtained 117 convictions of individuals on illegal trusts and has another 135 open investigations involving about 65 promoters. [416] And most recently, on February 28, 2001, our criminal investigation unit conducted the largest and most extensive enforcement action in the history of the IRS, including 3 dozen search warrants, involving suspected promoters of fraudulent trust schemes. [417] I also want to note for the benefit of those taxpayers and potential promoters who might be listening to this that the penalties for engaging in these activities for promoters and also investors can be very stiff. Civil fraud can include a penalty of up to 75 percent of the underpayment of tax that is attributed to the fraud in addition to the taxes owed. [418] And for those who really promote these schemes, the penalties can be quite lengthy. We recently had 1 prison sentence of 11 years imposed against an individual that was promoting these schemes. [419] So Mr. Chairman, in conclusion, I want to assure you that we are very much aware of this problem. We have identified it as a key time in our plan to combat basically all these forms of what I call organized tax evasion. [420] We are definitely focused on this from both the point of view of public education and enforcement. I will say that the whole idea of public education as a key tool for the IRS is not one in the past was given as much attention as we feel it needed to be. [421] If you have read any of the things that I have said and we put in our plan, this is a key area of expansion for us. In listening to the earlier witnesses, I think we already got some ideas even from this hearing of some things that we can do more effectively on this front. And we will certainly use that to help us improve what we are doing. [422] I also want to note, as you noted in your opening, Mr. Chairman, that we are focused on both effectiveness and fairness. These are the twin watch words. [423] We do not want to fall into the traps that perhaps could be fallen into where we get so focused on just action without making sure we respect the rights of taxpayers that are required by law. We are not going to forget about that part of it either. [424] So we are basically aiming at using all the tools at our disposal to warn the public to try to prevent these problems and to use our enforcement tools effectively in a focused way for those that are actually promoting these kinds of schemes. [425] Thank you, Mr. Chairman. [426] The Chairman. Thank you, Mr. Rossotti. [The prepared statement of Mr. Rossotti is unavailable at this time.] [427] The Chairman. Now, to Mr. Stevenson. STATEMENT OF HUGH G. STEVENSON, ASSOCIATE DIRECTOR FOR PLANNING AND INFORMATION, BUREAU OF CONSUMER PROTECTION, FEDERAL TRADE COMMISSION, WASHINGTON, DC [428] Mr. Stevenson. Thank you, Mr. Chairman. And we very much appreciate this opportunity to talk about the FTC's approach to consumer fraud on the Internet. The commission has submitted written testimony. I would be glad to answer questions about that. And I also would just like to hit the highlights here. [429] As we have heard already, what the Internet provides hucksters is this instantaneous, global reach, and the ability to inflict large scale consumer damage very quickly. [430] And to

respond effectively as law enforcers and especially one of the smaller law enforcement agencies, what we need to do is to be able to move at a quick-step pace and to be able, as we have heard from some of the earlier comments, to work across borders in what is a global marketplace. [431] To do this, at the FTC, we have developed a systematic approach that involves both teamwork and technology. And let me highlight 4 components of that. One is a system to handle consumer complaints. A second is a system or strategy to monitor the marketplace for the claims being made. A third is strategy for aggressive and cooperative enforcement. And finally, there is the strategy for consumer education. [432] On consumer complaints, what we did first was get organized about handling the information that consumers were giving us about consumer fraud. We set up a consumer response center. In the first couple of weeks, we handled a couple of hundred calls. We are now up to about 50,000 consumer contacts of various sorts every month. [433] We set up a toll-free line. We set up and developed a computer system to handle the evidence that consumers were giving us about the frauds they were experiencing. We set up a web page for filing complaints right online. [434] And then, what we have done is once we get the information that we have, we combine that with the complaints that other folks collect. And in this, we have a number of partners, the Postal Inspection Service, the Better Business Bureau, the National Consumers League, a project in Canada called Project Phone Busters, Social Security's IG's office. [435] We combine all of those complaints in a project we call Consumer Sentinel. And then, what we do is we work that data. Internally, we have staff doing preliminary investigative reports and trends analysis. We have attorneys and investigators ready to do what we call rapid response cases. [436] And we have a couple of examples. One example in our paper is a verity case, an example of what this permits us to do when we use this systematic approach. What happened there is got a spike of about 600 complaints that just came in all in a bunch. The data analysts spotted it. The attorneys and investigators started working the case, getting declarations. And we were in court within a week or two. [437] And not all of our examples are that dramatic. But I think what we have seen quieter ways is an improvement in the speed at which we can respond which is one of the key elements in dealing with the Internet pace of fraud. [438] That case involved, I should say, people were visiting particular websites and unbeknownst to them got their modem connections switched and as a result found that they had a long distance charge for a call to Madagascar which is sort of an illustration of the international component of this too. [439] Externally what we have done with this consumer sentinel system is to share the information out to the other consumer cops on the beat, so to speak, to support the cases that they are bringing. And we have 300 organizations in the United States and Canada and now Australia that have signed up for this data sharing project, including the IRS CID folks, data available through a restricted access law enforcement website. [440] We had built on this technology to include identity theft complaint information. We have a project with the Department of Defense called Soldier Sentinel to collect information in that way as well. [441] Now, the second component of our systematic approach is to use the technology and teamwork to monitor the market claims. We have done surf days, I think someone refereed to earlier. I think we have done 26 of these and now with domestic and foreign agencies. [442] What we are doing is we are looking for particular kinds of suspect claims in a systematic way.

Then, we follow up with e-mail warnings. And then, we follow up after that with possible law enforcement action. [443] We set up an Internet lab so that we can see the consumer's eye view of the market and also so we can turn what we are seeing into evidence so we can use in court. We have done Internet training in the United States and abroad. We trained 800 people from various agencies. I know that IRS folks have participated in a number of those trainings. [444] On the enforcement front, the FTC has brought approximately 170 cases involving Internet fraud of some sort against more than 500 defendants and recovered and redressed more than \$50 million, and a lot of that involving pyramid schemes which are one of the things that has proliferated in the new medium. [445] We have also used the web for consumer education. We have set up I think what we call the teaser sites where the websites are mimicking come of the suspect claims that we are seeing out there on the web. And it leads the consumer into the consumer education that they need to get in that scenario. [446] Finally, I would mention that we are also working on the international front. What we have seen that an increasing number of cases we are bringing has some international component, money offshore, defends offshore, some international participation in some way. [447] And what we have done to address that is efforts on the litigation front. And I know we have consulted with the S folks on some of their experiences in offshore asset issues. [448] We have also worked on cooperation. We have done bilateral cooperation agreements with our counterpart agencies in Canada, Australia, the U.K. We are working on a multilateral coordination as well through various venues, including what we call the international market provision network in attempt to address this part of the problem. [449] So that is our start on enforcement for the Internet age. I would be glad to answer any questions. Thank you. [450] The Chairman. Thank you. [The prepared statement of Mr. Stevenson appears [here](#) on the Senate Finance Committee website.] [451] The Chairman. Now, Mr. Brostek. STATEMENT OF MICHAEL BROSTEK, DIRECTOR, TAX ADMINISTRATION AND JUSTICE ISSUES, U.S. GENERAL ACCOUNTING OFFICE, WASHINGTON, DC [452] Mr. Brostek. Chairman Grassley and Senator Baucus, I am pleased to be here to join the committee as you address a number of issues related to the role of IRS in enforcing the tax laws. As requested, I will discuss 2 topics, the relationship between IRS' audits of taxpayers and other programs they use to ensure that tax returns are filed and they are filed accurately and how IRS is managing the increased workload in 2 of its programs, offers and compromise and innocent spouse claims. [453] IRS' audit rate has declined substantially in the past few years. And this has received a lot of public coverage which raises a question of whether those declines in the audit rate are in some sense encouraging more noncompliance. The fiscal year 2000 audit rate was about .5 percent. And that was more than 70 percent below the 1995 rate and 45 percent below the rate for 1999. [454] Audits, however, are not the only tool that IRS uses to enforce the law. And as the table on the easel shows--and it is table 1 on page 4 of the testimony, it would show up better there--IRS performed about 238,000 field audits, face-to-face audits last year and about 380,000 audits through the mail, for a total of around 618,000. However, there were in contrast over 8.3 million total contacts with taxpayers and under the other major programs that IRS has to enforce the law. [455] Also, as the first line of the table shows, 100 percent of taxpayers' returns are actually screened by IRS in some sense to identify those that should be followed up

on. [456] Although these statistics demonstrate IRS' presence in enforcing the code and ensuring that taxpayers file accurate returns, it is much broader than is reflected just in the audit rate. The other programs that are here cannot actually substitute for audits. [457] These programs are reliant on information reported to the IRS by the taxpayers themselves and by third parties, such as employers, banks, and other financial institutions. Consequently, audits remain the primary tool for IRS to use in ensuring the accuracy of returns filed by taxpayers whose income or other characteristics are not subject to computerized checking. [458] In part because audits are such an important tool, the decline in the rate raises this legitimate concern about possible adverse effects on the compliance levels in our system. Unfortunately, neither IRS nor anyone else knows the effect of these declining rates on voluntary compliance because we have not had a measurement of voluntary compliance since 1988. [459] Such a measure is key not only to determining whether compliance is declining, but in determining where it may be declining, such as in the areas we are talking about today, as well as how IRS may be able to address those declines. [460] For example, in its earlier studies of voluntary compliance, IRS reports that that information was useful in better targeting its audit and enforcement efforts in identifying areas in which forms and instructions might be changed and even cases where statutes might need to be changed or clarified. [461] Two programs that are using resources that are devoted to audits in collection activities are the innocent spouse and the offers and compromise programs. Both of these programs have experienced a very large increase in their workload since the passage of the IRS Restructuring and Reform Act in 1998. [462] A significant part of IRS' response to that increase has been to shift staff to these programs from its other auditing and tax collection functions. These shifts are cited by IRS as part of the reason for the decline in the audit rate and in such things as liens and levies use. [463] In addition to shifting staff, however, IRS has taken a number of steps to deal with the workload that has arisen in these programs. Regarding innocent spouse claims, IRS is essentially processing many of those claims and has implemented a new case processing system that standardizes the questions that are asked of taxpayers and the documentation that is maintained for that case. [464] In addition, for innocent spouse, the workload seems to have become fairly stabilized. And therefore, IRS may have an opportunity to begin working down the caseload in this area and to freed-up staff could be shifted back into auditing activities. [465] The offer and compromise program is far less along in gaining control over its workload. The offer workload has increased by 83 percent in the past 3 years. And IRS is just beginning to take steps, such as centralizing case processing into centers. [466] If IRS is successful in improving its handling of the cases in these 2 programs, it may be able to redirect some of its resources to the kinds of things that are being talked about today to better enforce the law. However, given how recently these changes have occurred in the programs, it is not clear at this time whether IRS will be successful in working down those case inventories. [467] That concludes my statement. I will be happy to answer questions. [The prepared statement of Mr. Brostek is unavailable at this time.] [468] The Chairman. Well, we thank all of you. Before I start with questions, we have a person who was appointed by President Clinton to the IRS oversight board in the audience. And I want to thank Mr. Steve Nichols for attending this hearing and for his good work on the IRS oversight. [469] Would you stand, Mr. Nichols, so

you can be recognized? Thank you very much. I appreciate that. [470] Mr. Rossotti, we have heard some very strong testimony. The IRS, of course, is kind of caught in the middle in some respects. It enforces the law, but the IRS also has to protect honest citizens from tax scam artists. [471] And no words are more true than where the employers are being told that they are not going to have to withhold taxes. We have heard today some of the things that the IRS is doing. And I should commend the IRS for those efforts and for the fine work of many dedicated IRS employees. And so rhetorically, I am going to ask, is that enough? [472] But then, let me go on to ask the real question. Does the IRS need to be out there sooner and faster? Should the IRS be actively finding scam artists as quickly as possible before the scam artists in a sense find and fleece the honest taxpayer of thousands of dollars? [473] Mr. Rossotti. Yes, Mr. Chairman. I think that the answer to that is certainly, yes, we need to be aggressive and faster on the draw in a lot of things that we do. [474] But I think that specifically with the Internet and some of the scams that proliferate, I think some of your earlier witnesses mentioned this and came up with some good suggestions on how we could improve that. I think the first step here is to be active ourselves on informing the public, warning the public, and using a channel, such as our website and other channels to do that. [475] On the employment tax schemes that you mentioned that have begun to get a lot of publicity, we have been doing that. I mean, this is a notice that we just put out specifically on employment tax schemes. And there has been a number of TV programs this week, a TV program that I was on that was specifically on this subject. [476] And so I think using those public education vehicles more aggressively is one of the things that we can do better. And it is one of the major strategies that we have. It was not a high priority at the IRS historically. [477] And in the last year, the last 2 years, we have added some more resources to it. I think even though it takes a little more resources, it is the most efficient thing we can do, warn the public. [478] I think one good thing about the American taxpayer is that they do have common sense. They are pretty smart most of the time. When they see something that is too good to be true, with a little help from us, they will figure it out. So that is step 1. [479] Then, on the other side, of course, we do have to use our enforcement powers to find the promoters especially who promote these things. And I think it is important to note that with respect to the Internet, there are some aspects about taxes that we have to remember. And that is that taxes are a political subject, as well as an item that could be thought of in the same context as a consumer issue. [480] In other words, there are many people around the Internet that have strong opinions about taxes. They are allowed to express those opinions. They are even allowed to say that they think the tax system is unconstitutional [481] Congress recognized that point as a matter of fact explicitly in the restructuring act with section 3707 which made it illegal for us to designate anyone as a tax protestor. So we do not even use that term anymore. [482] So people are allowed to protest. I mean, Congress has recognized that. If all they do is advise people or claim their opinions, no matter how wrong they might be, they are allowed to do that. [483] Where our authority comes in and where we are focusing is when they go beyond just expressing an opinion and trying to actually sell something to a taxpayer. And there are sections of the code that give us the authority even to get an injunction if somebody goes out beyond putting something out and making an opinion and goes and tries to actually, for

example, help assist someone in preparing a return or sells a product that is aimed at enticing people into an illegal kind of a scheme. [484] And that is what we call our promoters. And we have most of our efforts, a lot of our efforts on both the civil side and the criminal side directed towards finding those promoters. It really is more going after the promoters on the website because anyone can come up and shut down one website and put up another website. That does not take anything very much. [485] But we can actually go after promoters and either get an injunction against the promoters in some cases or put them in jail which is what we are actually doing in a number of these cases. I mentioned statistics, 117 I believe I said that have gone to jail. Then, we have a more permanent effect we think. [486] So what we are trying to do is to be more effective, much more effective on the public education side. There are certainly things we can do to improve our website, although it already gets 2 billion hits. In fact, a few of your witnesses came up with some ideas that we were writing down. We are going to follow up on, on that score. [487] But that is one half. And then, the other half is really going after the promoters and using all the tools that are at disposal to do what we can to shut them down. [488] The Chairman. Is it possible that the IRS could adopt some of the successful strategies that agencies, such as the FTC and the FDC have had in quickly shutting down Internet websites? [489] Mr. Rossotti. I think that we have recently begun to consult with these agencies to find out more about these. And I think Mr. Stevenson had some comments here about how effective he has been with getting consumer complaints in. [490] We have an ability to complaints. We have a hotline, but it is a telephone line right now. And we could certainly enhance that to take that kind of information over the website. [491] The precise authority to actually shut down schemes may be somewhat different in the tax area than it is in other consumer areas. But I think there is some very worthwhile things that we can do, like consulting with our colleagues here and finding out more about their techniques. [492] The Chairman. Well, let me ask you, do you need more authority or you do not know yet? [493] Mr. Rossotti. Well, I do not think we know yet. I think we need to -- we do have authority to shut down through the tax shelter regulations and the injunctive authority. And we have used it, as I mentioned. And we got about 17 more of those that we are looking at. [494] I am not sure if there is anything more that we would need to do to cover specifically websites. We need to work on that a little more before I can say. [495] The Chairman. Two suggestions and then I will go to Senator Baucus. Number one, I think it was Mr. Sommers or maybe it was not him, but one of the witnessed. And I think he referred to it this way, you spend a lot of time going through hour after hour stuff on the website to find the information. If it were possible, and I think the implication was that it is possible, for the IRS to make sure that their information pops up first. Is that something that can be done? Or is that something that is costly? [496] Mr. Rossotti. That is one suggestion that I think we need to look into and see if we can do something with that. [497] The Chairman. All right. [498] Mr. Rossotti. I think there is good potential there. [499] The Chairman. Yes. And then, what about the other offer from the 2 lawyers that were on the first panel that they and maybe some other people would sit down from a legal standpoint and work with you as a practitioner or people that are in this area? And they referred to an opportunity to do that maybe in a couple of months when they were going to be in town for some professional meeting. [500] Mr. Rossotti. And also, another good

suggestion. We also work closely with the bar association on many things, as well as other practitioner groups. By the way, 55 percent of the taxpayers in this country do have their returns prepared by a preparer and even over 80 percent for those in the upper income brackets.

[501] So that is one of the really important strengths of the tax system in this country. And to the extent that we can work with those preparer groups more effectively on this particular issue, that is definitely a positive thing. And I did hear that suggestion. And we will take them up on that.

[502] The Chairman. Senator Baucus. [503] Senator Baucus. Thank you, Mr.

Chairman. [504] Earlier, you mention, Commissioner, about K1s and other important techniques to try to get a match and so forth. But is it not true, at least according to the earlier panel, that a lot of these people are not going to get caught with K1s? That is just pretty garden variety stuff, K1, compared with the sophistication of what a lot of these people are doing.

[505] Mr. Rossotti. There is no question. But if you end up with one of these trust schemes like this for at least many of the people, especially the upper income people, they do file a 1040.

And what they do is they through these various flurry of paper work come up with something that offsets the income or moves the income. [506] And they may file in fact a K1 if they actually have a trust. And so that gives us a clue. I mean, it is not going to enable us to do anything directly, but it may help us and we think it will help us to identify some of the cases that we can then follow up on more specifically. It is just one technique. It is not a solution.

[507] Senator Baucus. I understand. [508] Mr. Rossotti. But it is a technique to potentially find --

[509] Senator Baucus. I understand. How many people do you think are out there in the category of promoters or maybe sub-promoters who are essentially perpetrating these schemes and basically ripping off the American legitimate honest taxpayer? How many do you think there are, just a rough guess? [510] Mr. Rossotti. I really do not know. I do not know how many promoters there are. I mean, I will say though that we think that -- and some of them

are informal networks of promoters. [511] Senator Baucus. Well, you can give me a definition if you want. Just what is your sense of the magnitude of the problem? [512] Mr. Rossotti. In terms of the number of promoters, I really do not think I can give you a reliable estimate.

[513] Senator Baucus. I am not going to hold you to it, just a guess. [514] Mr. Rossotti. Yes.

[515] Senator Baucus. Are you talking about 10? [516] Mr. Rossotti. Oh, no. [517] Senator

Baucus. Are we talking about 1,000? [518] Mr. Rossotti. There are definitely hundreds if not thousands of serious promoters. All right. There is a lot more than that that are fringe elements

if I can call them that that are just -- [519] Senator Baucus. Let us just take the 1,000. [520]

Mr. Rossotti. Yes. [521] Senator Baucus. All right. What are you doing about those 1,000?

[522] Mr. Rossotti. Well, that is where we are putting most of our investigative resources on.

[523] Senator Baucus. How many of those 1,000 have you actually arrested? [524] Mr.

Rossotti. Well, we had, let me see, 117 convictions over the last few years. And we have 135 investigations. [525] Senator Baucus. All right. Over how many years? [526] Mr. Rossotti.

This is over about the last 2 and a half years since we have been really -- [527] Senator

Baucus. Those 117 were for what? [528] Mr. Rossotti. These were illegal trust schemes. They were mostly promoters touting illegal trust schemes. We have 135 open investigations right

now. [529] Senator Baucus. I do not mean to give you a hard time, but do you think

nevertheless that it is still a significant problem or not? [530] Mr. Rossotti. It is absolutely a

significant problem. And I think that one of the issues that is murky, I mean, as I say, we do not have a good handle on how significant it is. But I think part of it is identifying the people. And then, the other is actually doing something about it. [531] Senator Baucus. Do you have a plan as to when you think you will have a handle on this and get it under control? I mean, is it 1-year plan? Is it a 5-year plan? You must have some kind of a plan so there is a beginning and an ending to try to get a hold of this thing, do you not? [532] Mr. Rossotti. Well, I think when you say a plan with an ending, that is where I would be -- [533] Senator Baucus. With benchmarks. [534] Mr. Rossotti. Yes. [535] Senator Baucus. I mean, first, you want to get a plan to figure out how many characters are out there. [536] Mr. Rossotti. Right. [537] Senator Baucus. And then, by what date you are going to begin to get so many brought to justice so that you get that number down and so that the fraud, the amount of dollars that the American taxpayer is defrauded is down to an acceptable level. [538] Mr. Rossotti. Yes. [539] Senator Baucus. But you have to have some plan, do you not? [540] Mr. Rossotti. We definitely have a plan to attack this, but I think where I might have to be a little more cautious is saying that there is an end point. Many of these kinds of schemes, as I think one of your earlier witnesses stated, has been going on for years. I mean, they come up and go. [541] I mean, as long as there is a tax system, as long as there is a complex tax system, there is going to be different varieties. I do not think we will ever get to "end point". I think we will be perhaps more or less effective at shutting down some of these. [542] Senator Baucus. There are estimates between \$70 and \$300 billion a year. What is an acceptable level for you? [543] Mr. Rossotti. Well, I do not think there is anything that is acceptable. [544] Senator Baucus. Well, I will be honest with you, Commissioner. In listening to you, it kind of sounds like, well, you know, there is a problem. We will deal with it. There is always going to be a problem. It sounds to me like there is always going to be \$70 to \$300 billion in listening to you. [545] Mr. Rossotti. Well -- [546] Senator Baucus. All right. How are we going to get a hold of this thing? [547] Mr. Rossotti. All I can really do to respond to you is to say that what we have done is we have identified this as one of the key priority areas for our whole enforcement program, this area of illegal trust and these illegal schemes. [548] We are putting resources into it to learn more about the magnitude of it and shut people down as fast as we can go and also warn the public about it. Those are the 3 things. [549] Senator Baucus. All right. [550] Mr. Rossotti. As we learn more about it, I think we will be able to be more responsive to your question about how we can get this down. I just do not want to make unrealistic promises. [551] Senator Baucus. I understand. But I am a little concerned when I hear, for instance, like, well, gee, that is a good idea. That is a good suggestion the FTC gave. Or that is a good suggestion that the earlier panel made. [552] My thought is, well, why have you not thought of that beforehand? These are pretty basic suggestions that they had here today. It just sounds like, to be honest, we are a little behind here. [553] Mr. Rossotti. Well, what I would say is that we started on this program, as I noted, in a serious way probably almost 3 years ago. We put the first notices out. We had these things up on our website. We have had these convictions of these promoters. We have had just recently the largest law enforcement action in the history of the IRS. [554] So I do not think that we have been failing to be aggressive about it. But I would also have to acknowledge that we can learn more. We can do better. [555] Senator

Baucus. But this hearing is being televised. There is probably millions of people watching. What can you tell them to ensure them that they cannot get away with this stuff? [556] Mr. Rossotti. Well, I think that the one point that I think is very important to get across as far as the general public is concerned is notwithstanding the fact that there are these proliferations, I mean we have heard all this testimony, is it is still not a good bet for the average taxpayer. [557] And notwithstanding whatever problems we may have and the speed with which we may get certain cases which is always going to be somewhat limited, it still is not a good deal for the average taxpayer to take a chance on thinking that they are going to get away with one of these things. [558] As the other witness said, there are many different vehicles that we find to find or identify problems. Sometimes, it may take a little while, but we often get around to them. And the penalties are very, very stiff. I mean, the down side for this for both taxpayers and especially promoters is pretty serious in terms of civil fines, as well as criminal penalties. [559] So I have often said, if you want to gamble, you are better off to go to the casinos and take your chances there than taking your chances in one of these schemes. [560] Senator Baucus. Is it for IRS to enforce the problem? Or is it more FTC? I mean, it sounds like, according to the earlier testimony, it is kind of mixed here. Maybe, things got to fall through the cracks. I do not know. And one witness thought that the IRS is not really geared very well towards enforcement against these kinds of problems or the agents are just trained to do certain things a little bit different. [561] Mr. Rossotti. Well, I think I would disagree with that. I think we have different kinds of agents. They are trained to do different things. In terms of finding these promoters in these deliberate schemes, we do have a criminal investigation division which is trained precisely to find these kinds of folks and put them in jail. And that is what we have been doing. [562] We are focusing more of their attention on these kinds of schemes. So I think they are very effective as a matter of fact. They are really pretty well recognized throughout the Federal Government in finding people who propose financially frauds. [563] Where historically I think the attention of the IRS has been less significant has been on the public education side. That has not been as heavy a priority as it should be. [564] And we have taken some significant steps to upgrade that, to improve that. The web is one of the positive vehicles for a website, 2 billion hits here, that we can use. [565] Senator Baucus. Of the 2 billion, how many of those 2 billion were aimed at your fraud subsection? [566] Mr. Rossotti. I do not have that number. I would think that we could try to get that for you. [567] Senator Baucus. And one of the earlier witnesses suggested that she searched the web a couple, 3 times a day. Do you do that? [568] Mr. Rossotti. Well, I think the problem that we have is that just searching the web and finding schemes in identifying the problem is a relatively small percentage of our problem. Our problem is much more. We have a lot of information from a lot of sources on where these schemes are. [569] I do not think that is our bottleneck. I think our bottleneck, if you want to call it that, is reacting and doing the investigative work to actually find enough evidence to deal with the schemes. So we could certainly do more. [570] And we have done a significant amount of monitoring every day. We do a significant amount of monitoring. We could do more of it. But I have to honestly say that I do not think that is where our bottleneck is. I do not think that is our limiting factor, the identification. [571] Senator Baucus. I am sorry. The bottleneck, you think is where? [572] Mr. Rossotti. It is the

investigative and follow-up. That is the time consuming part. [573] Senator Baucus. Do I have to turn it over here? [574] The Chairman. Go ahead. [575] Senator Baucus. Why is that a bottleneck? What could be done to widen the neck of the bottle? [576] Mr. Rossotti. Well, I think that the point is that when we find -- just finding somebody who is making some claims over the Internet is not something that we can do anything about. We do not have any -- I mean, people can put up things on the website. They can do that no matter how much we disagree with it. [577] We have to get to the point where we find that they are actually following through with tangible action, such as helping people prepare returns or actually selling information. Most of the time -- sometimes, they are doing that directly over the web. But oftentimes, they are doing that, they are just advertising on the web. [578] Senator Baucus. Let me just read -- we have a copy of a site here. I cannot mention the name. But it is pretty stunning, the claims here. It is not just saying, hey, we will lower your taxes. [579] It says, "We offer complete eradication of probate, gift, estate tax, inheritance, transfer taxes, reduction to near zero rates of federal income taxes and State income taxes regardless of the country of origin, complete escape from Social Security taxes, capital gain taxes, Medicaid taxes, escape VAT, escape the ravages of loss", etcetera. "In our entire history, we have never had a member suffer losses tax wise, legal wise, otherwise, money wise, or otherwise as a consequence for using our techniques. Privacy policy, WE HAVE NEVER PROVIDED THE CLIENT MEMBER INFORMATION TO ANYONE AND WE NEVER WILL." [580] Now, that is going to raise a red flag. [581] Mr. Rossotti. Yes. [582] Senator Baucus. Now, that is the kind of site, hey, we are going to go and track those guys down. [583] Mr. Rossotti. Yes. [584] Senator Baucus. What do you do when you see a site like this? [585] Mr. Rossotti. Well, I think again I have to go back to the basic point though. I mean, anyone is entitled under the law to make any kind of false claim, unless we can establish that they have actually sold something to somebody that caused them to file false tax returns. [586] There is a significant amount of fact gathering and investigation that is required before you can go to court which is what you would have to do and convince a judge to give you an injunction. We cannot simply go in and say, we think these people are misleading the public and therefore we are going to shut them down. There is many websites that mislead the public, but we do not go in and shut them down. [587] Senator Baucus. If you would see this in your search, what would you do when you see this site? [588] The Chairman. We would like to have if the same question was asked to you about an issue, a website that was not a tax area. Now, there may be a law that -- I hope there is not a law that applies to this information of taxes versus a non-tax area. [589] But how would you respond to that, the very same question that Mr. Rossotti got? [590] Mr. Stevenson. What we have done in some of these surf days where we are looking possibly suspect claims in a particular areas -- [591] Senator Baucus. How many -- [592] Mr. Stevenson. I think we have done 26. And we have done these in cooperation with various agencies depending on the topic and whether their jurisdiction covers it on various issues, credit repair, get rich quick, multilevel marketing and the like. [593] And what we have done in general terms is we have surfed with partners, looked at using sort of the certain terms that may come up in those kinds of sites, identify the sites that seem to be problematic, and then depending on the subject again, send them a warning notice or even a message telling them

about the relevant law and saying that you may need to determine whether this is in compliance with that law. [594] And what we have done after that is gone back and checked to see, well, what happens to those sites. And we find that a certain percentage of them then go down either because they the people who may just not have appreciated what they are getting into or the notice may have been enough. [595] And then, we go back after that with an eye to what cases might be brought out of those. And different subject matters do pose obviously different challenges here, but that is sort of our general approach that we use. [596] Senator Baucus. All right. [597] The Chairman. Let me follow up then with Mr. Rossotti. We have an example up here. This is Anderson Arc and the Institute of Global Prosperity. Let us give you the benefit of the doubt, those who walk up to the line and do not cross the line. But here, we have somebody that is -- are they in jail? They have been raided I suppose, but they are still operating. [598] Well, let us put it this way, the website is still up. Are you saying you cannot do anything? [599] Mr. Rossotti. No. We can go in. And we can go in. And we have on occasion gone in and requested the court to give us an injunction to shut down a promotion scheme which could include their website. But obviously, going into to court to get an injunction requires investigation. It requires evidence gathering. [600] There is also a question of whether the first thing you want to do is to go in. There is some definite tradeoffs between getting an injunction and prosecuting the people for actually criminal activities. So there is that issue that needs to be considered. [601] So I think what one of your earlier witnesses pointed out is that if you really want to go after somebody that is a serious promoter, there is a period of 1 to 2 years potentially of investigation and then bringing the case to the U.S. attorney and to court. [602] And during that period of time, they may continue to do certain things that we do not like. That is true of any criminal activity. So it is really not just as simple as us knowing that there is a website and then just making a decision that we want to shut it down. We cannot have the authority to do that. [603] The Chairman. Well, I do not think that Mr. Stevenson said that in every instance they can do that. [604] Mr. Rossotti. Yes. [605] The Chairman. But making inquiries have had the impact, let us put this way, a chilling impact. [606] Mr. Rossotti. Yes. [607] The Chairman. And maybe, the IRS without violating laws or the constitution, raising questions might have that same chilling impact. [608] Mr. Rossotti. Perhaps. [609] The Chairman. I do not know if that makes me sound like I am suggesting a police state because do not interpret it that way. [610] Mr. Rossotti. Yes. [611] The Chairman. But the extent to which you are really asking, inquiries and somebody is afraid to answer those inquiries because they might be exposing themselves as somebody violating the law, it seems to me to be if you are just asking for information, and as my staff just said, that is what the FTC does. [612] Well, let us move on. I have a couple more questions that I want to ask orally, but for Mr. Rossotti, I will have some questions in writing. [The questions appear in the appendix.] [613] The Chairman. And then, now for you orally, in the 1998 act, the IRS was required to prepare a report on noncompliance, particularly willful noncompliance of taxpayers. [614] As I understand the requirement for the report was included in the statute at your request. Where is the report? And when could we expect to see it? [615] Mr. Rossotti. I have to honestly say that, first, it is true that I was one of the people that suggested putting that in. We worked on preparing that report. And it was supposed to be done jointly with the

Treasury. [616] At the time that we were getting the draft finished, the Treasury of the previous administration was basically -- the election was occurring. And there was a change in administration. And that basically just put it into limbo very honestly. The new administration obviously is just getting cranked up. So in all honesty, that is what happened. [617] The Chairman. All right. [618] Mr. Rossotti. It got caught during that period. And I think it is a very important report. We have the limitations in terms of data because I think as your GAO witness noticed, we have very, very old data in terms of measuring compliance. So the effectiveness of what we can say in this report is limited by that. [619] But we do have to work with Treasury now, with the new Treasury Department in order to get that report done. [620] The Chairman. And has there at least been a step taken in that direction? [621] Mr. Rossotti. There has been. We worked on some drafts. And we have -- [622] The Chairman. I mean with the new administration. [623] Mr. Rossotti. With the new administration, frankly, they have been focused on the tax bill. [624] The Chairman. All right. [625] Mr. Rossotti. We have not really gotten -- they do not even have their whole staff in place yet. So I think it would not be fair to them to really focus on this. [626] The Chairman. Yes. [627] Mr. Rossotti. I think we have to wait until they get their staff in place a little bit more. [628] The Chairman. It might be possible that people that would be more of the professional staff would be involved in it. [629] Mr. Rossotti. Right. [630] The Chairman. Maybe, you could make some inquiry with them. [631] Mr. Rossotti. Sure. [632] The Chairman. And then, it could move at that level. [633] Mr. Rossotti. Yes, sir. We will. I agree that that is something that we should do. And we will. [634] The Chairman. All right. Now, I want to refer to the Webster report and ask of Mr. Rossotti, it revealed that criminal investigation had been drifting away from its primary mission of investigating tax code violations into a broader array of financial offenses that had not very obvious direct connection with tax compliance. [635] And I know some of these were probably meant to be well intentioned in the areas of narcotic trafficking and stuff like that. But the investigations did not bring in the revenue that was anticipated. [636] Further, tax-related statutes were used in only a very limited number of these narcotics cases that criminal investigation participated. So one question. What steps are you taking to ensure that your manpower resources are being utilized in a manner that does not detract from the primary goal of tax compliance? [637] Mr. Rossotti. Well, that is true. That is the principal finding of the Webster commission. And we have really taken that very seriously. That has been a major priority for our whole criminal investigation operation. [638] And a part of that, as was recommended by Webster, was to reorganize the whole criminal investigation function and reestablish that their mission was primarily tax compliance. We have a new leadership team in criminal investigation that is completely dedicated to that. And we have developed a strategic plan that develops cooperation between them and our civil functions, focused on these keys. [639] And as a matter of fact, illegal trusts is one of their number one priorities. As was noted, we just did the biggest criminal investigation action in the history of that organization. And it was focused specifically on this area. [640] So we have moved that organization very aggressively in that direction. I will say that because of the length of time that it takes to actually get cases out, you will not see the statistics showing that immediately. It takes a bit of time because there is an inventory of cases. And they have to

work their way through the system. [641] The other thing that we have done though is try to reestablish a better and more effective relationship between the civil side of the IRS and the criminal side. This had gotten very, very distant because of the points that you made. [642] It used to be that most of the cases that got into the criminal investigation chain came as referrals from the civil side of the IRS. That had been going down for decades. And it had gotten to the point where there was very, very low level of referrals. [643] We have taken some steps, although again it takes time for this to play out, to provide better support, better training within our civil side so that when there are cases that are identified that have criminal potential that those are in fact referred. That really should be our best source. And it had gotten very, very weak over the years. [644] So those are the 2 principal things that we have done. [645] The Chairman. if I may, again, going back to one of the suggestions on the first panel. And I am assuming in past discussions of amnesty, if I recall, there is a philosophical objection within IRS to any amnesty. And I do not think the Federal Government has ever had one. Is that right?

[646] Mr. Rossotti. Not that I am aware of. [647] The Chairman. All right. Now, they were suggesting that in a very narrow area of this to hopefully invite these people out. Is that also philosophically opposed by the IRS? [648] And I do not just blame you for the philosophical objection. [649] Mr. Rossotti. Yes. [650] The Chairman. That is kind of maybe a culture disease that it has. And I am not convinced that amnesty is always the right thing, but some States have used it effectively. [651] Mr. Rossotti. Yes. I think that we would be a long way to actually going to the route of an actual amnesty. I think, first of all, that would be a Treasury policy issue that we would have to consult with. [652] The Chairman. All right. [653] Mr. Rossotti. I myself would have to say I would have a lot of reservations about really an amnesty. I think that one thing that is true is that if somebody comes in voluntarily that has engaged in a tax avoidance scheme and does it completely on their own, we can work with them oftentimes to avoid any criminal penalties. [654] But if we identify it, then we are very reluctant to give people in effect what could be viewed as a free pass for everybody else. So we have to be very careful here about the signals that we send to taxpayers about the ability to try it out. And then, if you get caught, you can sort of get out of it in some way. [655] The Chairman. Well, I assume you would put a time limit on it. [656] Mr. Rossotti. Yes. [657] The Chairman. I mean, you would be in amnesty forever. You would say, in the next six months if you report, you will get the benefit of amnesty. [658] Let me follow up on my last question. And this is unrelated somewhat to what we are talking about. And this is just kind of to get an update on the innocent spouse and the offer and compromise and installment agreements. [659] These 3 programs serve a very important purpose of getting taxpayers back into the tax system, having the government recover some or all of the money that is owed, allowing these people to get on with their lives without the constant worry and strain of that the IRS will be calling. [660] And I do not think that we here in Washington appreciate that these people probably have enormous heartaches and anxiety over their unpaid taxes. The 3 programs were meant to give people a fresh start. [661] Unfortunately, we have heard that these programs have been bogged down with people having to wait very long periods of time to reach an agreement or get a resolution of their problem. [662] So where are we with these 3 programs? Is there a problem? Do you see the problem getting better or worse? And finally, is there anything that

we in Congress need to do to help the service solve these problems? [663] Mr. Rossotti. Thank you very much. They are. With respect to installment agreements, I think that those are probably the most successful and widely available. [664] The Chairman. Yes. [665] Mr. Rossotti. I do not have numbers, but I can get them for you in terms of the increase in installment agreements. And we have made steps to make them easily available at least at the lower end of the debt scale so that people can really have a right to an installment agreement almost automatically for certain kinds of debt. I think that part I would say is going the fastest or the best and is I think working reasonably well. [666] With respect to the other two, they are complicated, as the GAO witness noted. We have gotten a tremendous upsurge in business in volume in these areas since the passage of the Restructuring Act. [667] With respect to innocent spouse, I think there is a very big difference between where we are today, in my opinion, in the innocent spouse program versus the offer and compromise program. I think we have made very significant progress in the innocent spouse program. [668] I wrote a letter after the joint hearing last year to Chairman Archer and laid out, because he asked me to, where we were going to be on that. And I indicated that I thought that by the end of this fiscal year, we would get our -- really, the important thing from the taxpayer's standpoint is getting an answer, getting what we call a determination. [669] And we said that we would get down to we thought about 40,000 in inventory by the end of this fiscal year that had not gotten an answer yet. There is a minimum number that you could ever get to because there is a certain amount of time that it takes to process. [670] We said that we would try to get down. We have already gotten to that level. And I think we may get down even further by the end of this fiscal year. [671] We have taken some significant steps at both automation, centralization, training, and other things. And I will not say that we have that one completely under control. We still need to reduce the lag time some, but we are well on our path there. [672] I cannot say the same with respect to the offer and compromise program. That has been a very difficult program. And it has consumed a very large quantity of resources of our collection staff. And we still have too large an inventory of claims of offer and compromise requests that are in the pipeline. And they are taking too long. [673] We have some very aggressive steps that we are taking on that score. Probably the most important of which we hope to have really in place to a significant step by the end of this fiscal year is to set up 2 centralized sites with specialized resources to process most of those offers on a much more expedited basis. [674] And more than that, we do have a team that is headed by I think a very outstanding individual on our team who is studying not only the processing of these claims, but really how we go about evaluating them. And I think we do not have the answers to that task force yet. [675] But we want to look at how much time we are spending and how much of the taxpayer's time we are spending versus how much we really need to spend to evaluate these. And we may have some discussions I think with you and your staff as we get down a few months down the road because we really need to take another look at that. [676] I cannot say that any of us are satisfied with how that particular part of our program is operating. So we need to do better there, both processing wise and in terms of thinking how we actually do them. [677] And I think that is essentially a quick summary of where we stand on both of them. [678] The Chairman. All right. That is my last question. [679] But perhaps, since the General

Accounting Office has been observing this to some extent, I ought to ask your comment so we would have that in the record. [680] Mr. Brostek. Well, a couple of things I would concur with Mr. Rossotti's assessment on the innocent spouse and the offers and compromise program. Between the two of those, the innocent spouse program does seem to be much closer under control. [681] The incoming workload seems to have stabilized. It is not rising rampantly any longer. And they have taken a number of steps. They do seem to be starting to process those cases more rapidly. Their centralization in the innocent spouse program has been underway and seems to be working. [682] The offer and compromise program, the workload is still increasing very rapidly. And the steps to try to centralize this processing and get more specialization in the staff is just getting underway now. So there is less optimism in terms of having that under control. [683] One thing I had mentioned in terms of the general topic here, the tools I was alluding to over here do have some potential to help out with the kind of situations that we are talking about today in that they can help identify taxpayers whose tax returns change dramatically from year to year and it might be involved in these kind of situations. [684] And to the extent that the auditors then can investigate those situations, it may provide some deterrent effect in terms of if their neighbor sees that they have actually been audited by the IRS and the approach that they have taken to eliminate their taxes is not working any longer, that would certainly spread among their neighbors. And it also provides potential opportunity for the referrals to the criminal division that Mr. Rossotti spoke about. [685] The Chairman. Thank you. I am going to close by saying that I think this hearing is very educational, both for us, more importantly the taxpayer, maybe from the standpoint of suggestions that have come to the IRS from the first panel and from the practice of the FTC, very educational maybe even for the IRS. [686] I think that we have heard many good ideas then and good commitments from your agency, Mr. Rossotti, or from you, Mr. Rossotti. And I thank you for that. [687] I think we shed light on a very new and very serious problem. Senator Baucus and I will work together to oversee the IRS' response to this problem of Internet tax fraud and to ensure that IRS is finding these hucksters quickly and stopping them even faster. [688] And obviously, we have a responsibility to listen to Mr. Rossotti from a couple of standpoints, resources and from the standpoint of the law. [689] You might have even other things to suggest. Mr. Rossotti, we thank you for your cooperation for this hearing, for your future cooperation. [690] And thanks to the entire panel for your participation. [691] Our hearing is adjourned. [Whereupon, at 12:52 p.m., the hearing was concluded.]

United States v. Doe, 465 U.S. 605, 104 S.Ct. 1237 (1984)

Supreme Court of the United States

UNITED STATES, Petitioner

v.

John DOE.

No. 82-786.

Decided Feb. 28, 1984.

Owner of sole proprietorships upon whom subpoenas had been served demanding production of certain business records filed motion seeking to quash subpoenas. The United States District Court for the District of New Jersey, H. Lee Sarokin, J., 541 F.Supp. 1, granted motion, and an appeal was taken by the United States. The Court of Appeals, for the Third Circuit, 680 F.2d 327, affirmed. Certiorari was granted. The Supreme Court, Justice Powell, held that: (1) contents of business records were not privileged, but (2) act of producing records was privileged and could not be compelled without a statutory grant of use immunity.

Affirmed in part, reversed in part, and remanded.

Syllabus (FN*)

During a federal grand jury investigation of corruption in the awarding of county and municipal contracts, subpoenas were served on respondent owner of sole proprietorships demanding production of certain business records of several of his companies. Respondent then filed a motion in Federal District Court seeking to quash the subpoenas. The District Court granted the motion (except as to records required by law to be kept or disclosed to a public agency), finding that the act of producing the records would involve testimonial self-incrimination. The Court of Appeals affirmed, holding that the records were privileged, that the act of producing them also would have "communicative aspects of its own" in that the turning over of the records to the grand jury would admit their existence, possession, and authenticity, and that hence respondent was entitled to assert his Fifth Amendment privilege against compelled self-incrimination rather than produce the records. The court further held that in view of the Government's failure to make a formal request for use immunity under 18 U.S.C. §§ 6002 and 6003, it was proper to reject the Government's attempt to compel delivery of the records.

Held:

1. The contents of the subpoenaed records in question are not privileged under the Fifth Amendment. That Amendment only protects the person asserting the privilege from compelled self-incrimination. *Fisher v. United States*, 425 U.S. 391, 396, 96 S.Ct. 1569, 1573, 48 L.Ed.2d 39. Where the preparation of business records is voluntary, no compulsion is present. Here, respondent does not claim that he prepared the records involuntarily or that the subpoenas would force him to restate, repeat, or affirm the truth of the records' contents. The fact that the records are in his possession is irrelevant to the determination of whether the creation of the records was compelled. Pp. 1241 - 1242.

2. The act of producing the documents at issue in this case is privileged. Pp. 1242 - 1243.

3. The act of producing the subpoenaed documents cannot be compelled without a statutory grant of use immunity pursuant to 18 U.S.C. §§ 6002 and 6003. This Court will not extend the jurisdiction of courts to include prospective grants of use immunity under a doctrine of constructive use immunity (as the Government urges), in the absence of the formal request that the statute requires. Pp. 1243 - 1244.

680 F.2d 327 (3d Cir.1982), affirmed in part, reversed in part, and remanded.

Justice POWELL delivered the opinion of the Court.

This case presents the issue whether, and to what extent, the Fifth Amendment privilege against compelled self-incrimination applies to the business records of a sole proprietorship.

I

Respondent is the owner of several sole proprietorships. In late 1980, a grand jury, during the course of an investigation of corruption in the awarding of county and municipal contracts, served five subpoenas on respondent. The first two demanded the production of the telephone records of several of respondent's companies and all records pertaining to four bank accounts of respondent and his companies. The subpoenas were limited to the period between January 1, 1977 and the dates of the subpoenas. The third subpoena demanded the production of a list of virtually all the business records of one of respondent's companies for the period between January 1, 1976, and the date of the subpoena. (FN1) The fourth subpoena sought production of a similar list of business records belonging to another company. (FN2) The final subpoena demanded production of all bank statements and cancelled checks of two of respondent's companies that had accounts at a bank in the Grand Cayman Islands.

II

Respondent filed a motion in federal district court seeking to quash the subpoenas. The District Court for the District of New Jersey granted his motion except with respect to those documents and records required by law to be kept or disclosed to a public agency. (FN3) In reaching its decision, the District Court noted that the Government had conceded that the materials sought in the subpoena were or might be incriminating. The court stated that, therefore, "the relevant inquiry is ... whether the act of producing the documents has communicative aspects which warrant Fifth Amendment protection." 541 F.Supp. 1, 3 (1981) (emphasis in original). The court found that the act of production would compel respondent to "admit that the records exist, that they are in his possession, and that they are authentic." *Ibid.* While not ruling out the possibility that the Government could devise a way to ensure that the act of turning over the documents would not incriminate respondent, the court held that the Government had not made such a showing.

The Court of Appeals for the Third Circuit affirmed. It first addressed the question whether the Fifth Amendment ever applies to the records of a sole proprietorship. After noting that an individual may not assert the Fifth Amendment privilege on behalf of a corporation, partnership, or other collective entity (FN4) under the holding of *Bellis v. United States*, 417 U.S. 85, 94 S.Ct. 2179, 40 L.Ed.2d 678 (1974), the Court of Appeals reasoned that the owner of a sole proprietorship acts in a personal rather than a representative capacity. As a result, the court held that respondent's claim of the privilege was not foreclosed by the reasoning of *Bellis*. 680 F.2d 327, 331 (1982).

The Court of Appeals next considered whether the documents at issue in this case are privileged. The court noted that this Court held in *Fisher v. United States*, 425 U.S. 391, 96 S.Ct. 1569, 48 L.Ed.2d 39 (1976), that the contents of business records ordinarily are not privileged because they are created voluntarily and without compulsion. The Court of Appeals nevertheless found that respondent's business records were privileged under either of two analyses. First, the court reasoned that, notwithstanding the holdings in *Bellis* and *Fisher*, the business records of a sole proprietorship are no different from the individual owner's personal records. Noting that Third Circuit cases had held that private papers, although created voluntarily, are protected by the Fifth Amendment, (FN5) the court accorded the same protection to respondent's business papers. (FN6) Second, it held that respondent's act of producing the subpoenaed records would have "communicative aspects of its own." 680 F.2d, at 335. The turning over of the subpoenaed documents to the grand jury would admit their existence and authenticity. Accordingly, respondent was entitled to assert his Fifth Amendment privilege rather than produce the subpoenaed documents.

The Government contended that the court should enforce the subpoenas because of the

Government's offer not to use respondent's act of production against respondent in any way. The Court of Appeals noted that no formal request for use immunity under 18 U.S.C. §§ 6002 and 6003 had been made. In light of this failure, the court held that the District Court did not err in rejecting the Government's attempt to compel delivery of the subpoenaed records.

We granted certiorari to resolve the apparent conflict between the Court of Appeals holding and the reasoning underlying this Court's holding in *Fisher*. We now affirm in part, reverse in part, and remand for further proceedings.

III

A

The Court in *Fisher* expressly declined to reach the question whether the Fifth Amendment privilege protects the contents of an individual's tax records in his possession. (FN7) The rationale underlying our holding in that case is, however, persuasive here. As we noted in *Fisher*, the Fifth Amendment protects the person asserting the privilege only from compelled self-incrimination. 425 U.S., at 396, 96 S.Ct., at 1573. Where the preparation of business records is voluntary, no compulsion is present. (FN8) A subpoena that demands production of documents "does not compel oral testimony; nor would it ordinarily compel the taxpayer to restate, repeat, or affirm the truth of the contents of the documents sought." *Id.*, at 409, 96 S.Ct., at 1580. Applying this reasoning in *Fisher*, we stated:

"[T]he Fifth Amendment would not be violated by the fact alone that the papers on their face might incriminate the taxpayer, for the privilege protects a person only against being incriminated by his own compelled testimonial communications. *Schmerber v. California* [384 U.S. 757, 86 S.Ct. 1826, 16 L. Ed.2d 908 (1966)], *supra*; *United States v. Wade* [388 U.S. 218, 87 S.Ct. 1926, 18 L.Ed.2d 1149 (1967)], *supra*; and *Gilbert v. California* [388 U.S. 263, 87 S.Ct. 1951, 18 L.Ed.2d 1178 (1967)], *supra*. The accountant's workpapers are not the taxpayer's. They were not prepared by the taxpayer, and they contain no testimonial declarations by him. Furthermore, as far as this record demonstrates, the preparation of all of the papers sought in these cases was wholly voluntary, and they cannot be said to contain compelled testimonial evidence, either of the taxpayers or of anyone else. The taxpayer cannot avoid compliance with the subpoena merely by asserting that the item of evidence which he is required to produce contains incriminating writing, whether his own or that of someone else." *Id.*, at 409-410, 96 S.Ct., at 1580-81.

This reasoning applies with equal force here. Respondent does not contend that he prepared the documents involuntarily (FN9) or that the subpoena would force him to restate, repeat, or affirm the truth of their contents. The fact that the records are in respondent's possession is irrelevant to the determination of whether the creation of the records was compelled. We therefore hold that the contents of those records are not privileged. (FN10)

B

Although the contents of a document may not be privileged, the act of producing the document may be. *Id.*, at 410, 96 S.Ct., at 1581. A government subpoena compels the holder of the document to perform an act that may have testimonial aspects and an incriminating effect. As we noted in *Fisher*:

"Compliance with the subpoena tacitly concedes the existence of the papers demanded and their possession or control by the taxpayer. It also would indicate the taxpayer's belief that the papers are those described in the subpoena. *Curcio v. United States*, 354 U.S. 118, 125 [77 S.Ct. 1145, 1150, 1 L.Ed.2d 1225] (1957). The elements of compulsion are clearly present, but the more difficult issues are whether the tacit averments of the taxpayer are both 'testimonial' and 'incriminating' for purposes of applying the Fifth Amendment. These questions perhaps do not lend themselves to categorical answers; their resolution may instead depend on the facts and circumstances of particular cases or classes thereof." *Id.*, at 410, 96 S.Ct., at 1581.

In *Fisher*, the Court explored the effect that the act of production would have on the taxpayer and determined that the act of production would have only minimal testimonial value and would not operate to incriminate the taxpayer. Unlike the Court in *Fisher*, we have the explicit finding of the District Court that the act of producing the documents would involve testimonial self-incrimination. (FN11) The Court of Appeals agreed. (FN12) The District Court's finding essentially rests on its determination of factual issues. See *United States v. Nixon*, 418 U.S. 683, 702, 94 S.Ct. 3090, 3104, 41 L.Ed.2d 1039 (1974). Therefore, we will not overturn that finding unless it has no support in the record. *Ibid.* Traditionally, we also have been reluctant to disturb findings of fact in which two courts below have concurred. *Rogers v. Lodge*, 458 U.S. 613, 623 102 S.Ct. 3272, 3278-79, 73 L.Ed.2d 1012 (1982). We therefore decline to overturn the finding of the District Court in this regard, where, as here, it has been affirmed by the Court of Appeals. (FN13)

IV

The Government, as it concedes, could have compelled respondent to produce the

documents listed in the subpoena. Sections 6002 and 6003 of Title 18 provide for the granting of use immunity with respect to the potentially incriminating evidence. (FN14) The Court upheld the constitutionality of the use immunity statute in *Kastigar v. United States*, 406 U.S. 441, 92 S.Ct. 1653, 32 L.Ed.2d 212 (1972).

The Government did state several times before the District Court that it would not use respondent's act of production against him in any way. But counsel for the Government never made a statutory request to the District Court to grant respondent use immunity. (FN15) We are urged to adopt a doctrine of constructive use immunity. Under this doctrine, the courts would impose a requirement on the Government not to use the incriminatory aspects of the act of production against the person claiming the privilege even though the statutory procedures have not been followed.

We decline to extend the jurisdiction of courts to include prospective grants of use immunity in the absence of the formal request that the statute requires. (FN16) As we stated in *Pillsbury Co. v. Conboy*, 459 U.S. 248, 103 S.Ct. 608, 74 L.Ed.2d 430 (1983), in passing the use immunity statute, "Congress gave certain officials in the Department of Justice exclusive authority to grant immunities." *Id.*, at ----, 103 S.Ct., at 612-613. "Congress foresaw the courts as playing only a minor role in the immunizing process: ..." *Id.*, at ----, n. 11, 103 S.Ct., at 613, n. 11. The decision to seek use immunity necessarily involves a balancing of the Government's interest in obtaining information against the risk that immunity will frustrate the Government's attempts to prosecute the subject of the investigation. See *United States v. Mandujano*, 425 U.S. 564, 575, 96 S.Ct. 1768, 1776. 48 L.Ed.2d 212 (1976) (plurality op.). Congress expressly left this decision exclusively to the Justice Department. If, on remand, the appropriate official concludes that it is desirable to compel respondent to produce his business records, the statutory procedure for requesting use immunity will be available. (FN17)

V

We conclude that the Court of Appeals erred in holding that the contents of the subpoenaed documents were privileged under the Fifth Amendment. The act of producing the documents at issue in this case is privileged and cannot be compelled without a statutory grant of use immunity pursuant to 18 U.S.C. §§ 6002 and 6003. The judgment of the Court of Appeals is, therefore, affirmed in part, reversed in part, (FN18) and the case is remanded to the District Court for further proceedings in accordance with this decision.

It is so ordered.

Affirmed in part, reversed in part, and remanded.

Justice O'CONNOR, concurring.

I concur in both the result and reasoning of Justice Powell's opinion for the Court. I write separately, however, just to make explicit what is implicit in the analysis of that opinion: that the Fifth Amendment provides absolutely no protection for the contents of private papers of any kind. The notion that the Fifth Amendment protects the privacy of papers originated in *Boyd v. United States*, 116 U.S. 616, 630, 6 S.Ct. 524, 532, 29 L.Ed. 746 (1886), but our decision in *Fisher v. United States*, 425 U.S. 391, 96 S.Ct. 1569, 48 L. Ed.2d 39 (1976), sounded the death-knell for *Boyd*. "Several of *Boyd's* express or implicit declarations [had] not stood the test of time[,]" *id.*, at 407, 96 S.Ct., at 1579, and its privacy of papers concept "had long been a rule searching for a rationale" *Id.*, at 409, 96 S.Ct., at 1580. Today's decision puts a long-overdue end to that fruitless search.

Justice MARSHALL, with whom Justice BRENNAN joins, concurring in part and dissenting in part.

I concur in the Court's affirmance of the Court of Appeals' ruling that the act of producing the documents could not be compelled without an explicit grant of use immunity pursuant to 18 U.S.C. §§ 6002 and 6003. I dissent, however, with respect to that part of the Court's opinion reversing the Court of Appeals. The basis for the reversal is the majority's disagreement with the Court of Appeals' discussion of whether the Fifth Amendment protected the contents of the documents respondent sought to withhold from disclosure. Inasmuch as the Court of Appeals' judgment did not rest upon the disposition of this issue, this Court errs by reaching out to decide it. As Justice STEVENS rightly insists, "[t]his Court ... reviews judgments, not statements in opinions." *Post*, at 1246 (citing *Black v. Cutter Laboratories*, 351 U.S. 292, 297, 76 S.Ct. 824, 827, 100 L.Ed. 1188 (1955)).

Contrary to what Justice O'CONNOR contends, *ante*, at 1245, I do not view the Court's opinion in this case as having reconsidered whether the Fifth Amendment provides protection for the contents of "private papers of any kind." This case presented nothing remotely close to the question that Justice O'CONNOR eagerly poses and answers. First, as noted above, the issue whether the Fifth Amendment protects the contents of the documents was obviated by the Court of Appeals' rulings relating to the act of production and statutory use immunity. Second, the documents at stake here are business records (FN1) which implicate a lesser degree of concern for privacy interests than, for example, personal diaries. (FN2)

Were it true that the Court's opinion stands for the proposition that "the Fifth Amendment provides absolutely no protection for the contents of private papers of any kind," *ante*, at 1245, I would assuredly dissent. I continue to believe that under the Fifth Amendment

"there are certain documents no person ought to be compelled to produce at the Government's request." *Fisher v. United States*, 425 U.S. 391, 431-432, 96 S.Ct. 1569, 1590-91, 48 L.Ed.2d 39 (Justice MARSHALL, concurring).

Justice STEVENS, concurring in part and dissenting in part.

"This Court ... reviews judgments, not statements in opinions." *Black v. Cutter Laboratories*, 351 U.S. 292, 297, 76 S.Ct. 824, 827, 100 L.Ed. 1188 (1956). (FN1) When both the District Court and the Court of Appeals correctly apply the law, and correctly dispose of the issue before them, I think it is poor appellate practice for this Court to reverse.

The question in this case is whether, without tendering statutory immunity, the Government can compel the sole proprietor of a business to produce incriminating records pursuant to a grand jury subpoena. Except for the records that are required by law to be kept or to be disclosed to public agencies, the District Court held that production could not be required. The basis for that decision turned, not on any suggestion that the contents of the documents were privileged, but rather on the significance of the act of producing them. As the District Court explained:

"[T]he relevant inquiry is not whether the subpoenaed documents on their face reveal incriminating communications, but whether the act of producing the documents has communicative aspects which warrant Fifth Amendment protection. *Fisher v. United States*, 425 U.S. 391, 96 S.Ct. 1569, 48 L.Ed.2d 39 (1976). In yielding to the command of the subpoena, Mr. [Doe] may be required to make any one of several communications. The mere act of producing the documents may be considered 'a communication of testimonial significance as an admission that the subpoenaed records exist and that they are authentic.' *In Re Grand Jury Empanelled (Colucci)*, 597 F.2d 851, 862 (3d Cir.1979); *Andresen v. Maryland*, 427 U.S. 463, 475, 96 S.Ct. 2737, 2746, 49 L.Ed.2d 627 (1976) ("the Fifth Amendment may protect an individual from complying with a subpoena for the production of his personal records in his possession because the very act of production may constitute a compulsory authentication of incriminating information."). In addition, the act of production may indicate a belief that the papers produced are those described in the subpoena. *Fisher*, 425 U.S., at 410, 96 S.Ct., at 1581.

With few exceptions, enforcement of the subpoenas would compel Mr. [Doe] to admit that the records exist, that they are in his possession, and that they are authentic. These communications, if made under compulsion of a court decree, would violate Mr. [Doe's] Fifth Amendment rights." *In re Grand Jury Empanelled March 19, 1980*, 541 F.Supp. 1, 3

(D.N.J.1981). (FN2)

The Court of Appeals agreed with the District Court's reasoning and affirmed. It explained:

"To be sure, the documents requested here, like those sought in Fisher, were voluntarily prepared, and therefore 'cannot be said to contain compelled testimonial evidence' in and of themselves. See Fisher, supra, 425 U.S. at 409-10 [96 S.Ct., at 1580-81]. But the Supreme Court in Fisher went to great lengths to demonstrate that, in certain situations, the very act of producing subpoenaed records might amount to an incriminating declaration. See id. at 410-13 [96 S.Ct., at 1580-82]; see also id. at 430-34 [96 S.Ct., at 1590-92] (MARSHALL, J., concurring in the judgment). And such a situation, we believe, is present in the dispute at bar."

.....

* * *

"The record contains no explanation by the United States as to how documents of this sort could be authenticated without the appellee's explicit or implicit participation. As the district court observed in this connection,

'the government can give no assurances that the act of turning over the documents will not constitute incriminating admissions against [the appellee] either before the grand jury or at a subsequent trial, if he is indicted. The government argues that the existence, possession and authenticity of the documents can be proved without [the appellee's] testimonial communication, but it cannot satisfy this court as to how that representation can be implemented to protect [the appellee] in subsequent proceedings.'

"Appendix at 98 (footnote omitted). Under these circumstances, we are unable to say, as did the Court in Fisher, that responding to the subpoenas 'would not appear to represent a substantial threat of self-incrimination.' 425 U.S. at 413 [96 S.Ct., at 1582].

"Accordingly, we hold, therefore, that enforcement of these subpoenas would result in a compelled testimonial communication, an outcome neither compatible with the fifth amendment nor consonant with Fisher." In re Grand Jury Empanelled March 19, 1980, 680 F.2d 327, 334, 335-336 (3d Cir.1982).

In addition, the Court of Appeals noted that the Government had had an opportunity to obtain the documents by providing the respondent with statutory immunity, but had declined to do so. It wrote:

"Finally, the United States argues that the district court erred in not compelling

the appellee to produce the subpoenaed documents subject to 'the functional equivalent of use immunity with respect to the act of production.' Under this arrangement, presumably the appellee would turn over the requested records to the Government, which in turn would be obligated not to use the appellee's act of production against him in any way.

"We are unpersuaded by the Government's proposition. As the appellee stresses, although the Government, on a number of occasions, suggested to the district court that there were means by which the appellee's act of production could be immunized, no procedure ever was agreed upon and no formal immunization offer under 18 U.S.C. § 6002 or § 6003 was advanced. Given this failure on the part of the Government to identify with particularity the immunity proposal it envisioned, we cannot say that the district court erred in rejecting this approach, especially in view of the court's finding that 'the government can give no assurances that the act of turning over the documents will not constitute incriminating admissions against [the appellee] either before the grand jury or at a subsequent trial.' Appendix at 98; see *United States v. Garcia*, 544 F.2d 681, 685 n. 4 (3d Cir.1976)." 680 F.2d, at 337.

This Court's opinion is entirely consistent with both the reasoning of the Court of Appeals and its disposition of the case. This Court agrees that the subpoena directed to respondent should have been quashed--which is all that the judgment we review today contains. Accordingly, the Court of Appeals' judgment should be affirmed.

To the extent that the Court purports to reverse the judgment of the Court of Appeals, I respectfully dissent.

Footnotes:

(FN*) The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Lumber Co.*, 200 U.S. 321, 337, 26 S.Ct. 282, 287, 50 L.Ed. 499.

(FN1.) The categories of records sought by the third subpoena were: 1) general ledgers; 2) general journals; 3) cash disbursement journals; 4) petty cash books and vouchers; 5) purchase journals; 6) vouchers; 7) paid bills; 8) invoices; 9) cash receipts journal; 10) billings; 11) bank statements; 12) cancelled checks and check stubs; 13) payroll records; 14) contracts and copies of contracts, including all retainer agreements; 15) financial statements; 16) bank deposit tickets; 17) retained copies of partnership income tax returns; 18) retained copies of payroll tax returns; 19) accounts payable ledger; 20)

accounts receivable ledger; 21) telephone company statement of calls and telegrams, and all telephone toll slips; 22) records of all escrow, trust, or fiduciary accounts maintained on behalf of clients; 23) safe deposit box records; 24) records of all purchases and sales of all stocks and bonds; 25) names and home addresses of all partners, associates, and employees; 26) W-2 forms of each partner, associate, and employee; 27) workpapers; and 28) copies of tax returns.

(FN2.) The only documents requested in the fourth subpoena that were not requested in the third were the company's stock transfer book, any corporate minutes, the corporate charter, all correspondence and memoranda, and all bids, bid bonds, and contracts. The request for "corporate" minutes and the "corporate" charter is puzzling because the company named in the subpoena was an unincorporated sole proprietorship.

(FN3.) The District Court mentioned tax returns and W-2 statements as examples of documents falling within this category. Respondent has not challenged this aspect of the District Court's opinion. We therefore understand that this case concerns only business documents and records not required by law to be kept or disclosed to a public agency. We also note that our opinion addresses only the Fifth Amendment implications of the subpoenas. The subpoenas were drawn in the broadest possible terms. It may be that the breadth of the subpoenas is subject to attack on other grounds that are not before us.

(FN4.) Bellis defined a "collective entity" as "an organization which is recognized as an independent entity apart from its individual members." 417 U.S., at 92, 94 S.Ct., at 2185.

(FN5.) See *In re Grand Jury Proceedings (Johanson)*, 632 F.2d 1033 (CA3 1980); *ICC v. Gould*, 629 F.2d 847 (CA3 1980), cert. denied, 449 U.S. 1077, 101 S.Ct. 856, 66 L.Ed.2d 800 (1981).

(FN6.) Justice STEVENS apparently reads the Court of Appeals's decision as merely affirming the District Court's finding that the act of producing the subpoenaed records was privileged. In support of this hypothesis, he quotes extensively from that portion of the Court of Appeals's opinion that addresses the act of production issue. The quoted passage, however, begins after the court has discussed whether the records themselves are privileged. After noting that Fisher could be read to deprive the contents of a sole proprietorship's records of Fifth Amendment protection, the court noted that other Third Circuit cases--principally *ICC v. Gould*, 629 F.2d 847 (1980), cert. denied, 449 U.S. 1077, 101 S.Ct. 856, 66 L.Ed.2d 800 (1981)--had refused to adopt that interpretation. The court stated: "Gould, then, stands for the proposition that an individual's business papers, as well as his personal records, cannot be subpoenaed by a grand jury." 680 F.2d, at 334 (footnote omitted). The court went on to hold, in the alternative, that the act of production is

privileged as well. We note in passing that both parties share our interpretation of the Court of Appeals's opinion. Brief of Petitioner, at 5; Brief of Respondent, at 3-4.

(FN7.) In *Fisher*, the Court stated: "Whether the Fifth Amendment would shield the taxpayer from producing his own tax records in his possession is a question not involved here; for the papers demanded here are not his 'private papers,' ..." 425 U.S., at 414, 96 S. Ct., at 1582. We note that in some respects the documents sought in *Fisher* were more "personal" than those at issue here. The *Fisher* documents were accountant's workpapers in the possession of the taxpayers' lawyers. The workpapers related to the taxpayers' individual personal returns. To that extent, the documents were personal, even though in the possession of a third party. In contrast, each of the documents sought here pertained to respondent's businesses.

(FN8.) Respondent's principal argument is that the Fifth Amendment should be read as creating a "zone of privacy which protects an individual and his personal records from compelled production." This argument derives from language in *Boyd v. United States*, 116 U.S. 616, 630, 6 S.Ct. 524, 532, 29 L.Ed. 746 (1886). This Court addressed substantially the same argument in *Fisher*:

"Within the limits imposed by the language of the Fifth Amendment, which we necessarily observe, the privilege truly serves privacy interests; but the Court has never on any ground, personal privacy included, applied the Fifth Amendment to prevent the otherwise proper acquisition or use of evidence which, in the Court's view, did not involve compelled testimonial self-incrimination of some sort." 425 U.S., at 399, 96 S.Ct., at 1575.

In *Andresen v. Maryland*, 427 U.S. 463, 96 S.Ct. 2737, 49 L.Ed.2d 627 (1976), the petitioner also relied on *Boyd*. In rejecting his argument, we observed that "the continued validity of the broad statements contained in some of the Court's earlier cases [has] been discredited by later opinions." *Id.*, at 472, 96 S.Ct., at 2744. See also *United States v. Nobles*, 422 U.S. 225, 233, n. 7, 95 S.Ct. 2160, 2167, n. 7, 45 L.Ed.2d 141 (1975).

(FN9.) The Court of Appeals recognized the absence of compulsion in the compilation of the records sought in this case and those sought in *Fisher*. "To be sure, the documents requested here, like those sought in *Fisher*, were voluntarily prepared, and therefore 'cannot be said to contain compelled testimonial evidence' in and of themselves." 680 F.2d, at 334. The Court of Appeals nevertheless gave our holding in *Fisher* an unduly restrictive reading and found it not to control the outcome in this case.

(FN10.) Accord *In re Grand Jury Proceedings*, 626 F.2d 1051, 1055 (CA1 1980) ("The line of cases culminating in *Fisher* have stripped the content of business records of any Fifth

Amendment protection"). While not directly on point, *Andresen v. Maryland*, 427 U.S. 463, 96 S.Ct. 2737, 49 L.Ed.2d 627 (1976), is consistent with our holding. In *Andresen*, investigators from a bi-county fraud unit obtained warrants to search the petitioner's office. During the search, the investigators seized several incriminating business records relating to the petitioner's practice as a sole practitioner of real estate law. The petitioner sought suppression of the documents on Fourth and Fifth Amendment grounds. The petitioner based his Fifth Amendment argument on "dicta in a number of cases which imply, or state, that the search for and seizure of a person's private papers violate the privilege against self-incrimination." *Id.*, at 471, 96 S.Ct., at 2744. The Court dismissed this argument and found the documents not to be privileged because the petitioner "had voluntarily committed to writing" any incriminating statements contained therein. *Id.*, at 473, 96 S.Ct., at 2745. Although *Andresen* involved a search warrant rather than a subpoena, the underlying principle is the same in this context. If the party asserting the Fifth Amendment privilege has voluntarily compiled the document, no compulsion is present and the contents of the document are not privileged.

(FN11.) The District Court stated:

"With few exceptions, enforcement of the subpoenas would compel [respondent] to admit that the records exist, that they are in his possession, and that they are authentic. These communications, if made under compulsion of a court decree, would violate [respondent's] Fifth Amendment rights.... The government argues that the existence, possession and authenticity of the documents can be proved without [respondent's] testimonial communication, but it cannot satisfy this court as to how that representation can be implemented to protect the witness in subsequent proceedings." 541 F.Supp., at 3.

(FN12.) The Court of Appeals stated:

"In the matter sub judice, however, we find nothing in the record that would indicate that the United States knows, as a certainty, that each of the myriad documents demanded by the five subpoenas in fact is in the appellee's possession or subject to his control. The most plausible inference to be drawn from the broad-sweeping subpoenas is that the Government, unable to prove that the subpoenaed documents exist--or that the appellee even is somehow connected to the business entities under investigation--is attempting to compensate for its lack of knowledge by requiring the appellee to become, in effect, the primary informant against himself." 680 F.2d, at 335.

(FN13.) The Government concedes that the act of producing the subpoenaed documents might have had some testimonial aspects, but it argues that any incrimination would be so trivial that the Fifth Amendment is not implicated. The Government finds support for this

argument in *Marchetti v. United States*, 390 U.S. 39, 88 S.Ct. 697, 19 L.Ed.2d 889 (1968). In *Marchetti*, the Court stated that a party who wishes to claim the Fifth Amendment privilege must be "confronted by substantial and 'real,' and not merely trifling or imaginary, hazards of incrimination." *Id.*, at 53, 88 S.Ct., at 705; see *United States v. Apfelbaum*, 445 U.S. 115, 128, 100 S.Ct. 948, 956, 63 L.Ed.2d 250 (1980). On the basis of the findings made in this case we think it clear that the risk of incrimination was "substantial and real" and not "trifling or imaginary." Respondent did not concede in the District Court that the records listed in the subpoena actually existed or were in his possession. Respondent argued that by producing the records, he would tacitly admit their existence and his possession. Respondent also pointed out that if the Government obtained the documents from another source, it would have to authenticate them before they would be admissible at trial. See Fed.R.Evid. 901. By producing the documents, respondent would relieve the Government of the need for authentication. These allegations were sufficient to establish a valid claim of the privilege against self-incrimination. This is not to say that the Government was foreclosed from rebutting respondent's claim by producing evidence that possession, existence, and authentication were a "foregone conclusion." *Fisher*, 425 U.S. at 411, 96 S.Ct., at 1581. In this case, however, the Government failed to make such a showing.

(FN14.) Section 6002 provides:

"Whenever a witness refuses, on the basis of his privilege against self-incrimination, to testify or provide other information in a proceeding before or ancillary to--

(1) a court or grand jury of the United States,

(2) an agency of the United States, or

(3) either House of Congress, a joint committee of the two Houses, or a committee or a subcommittee of either House,

and the person presiding over the proceeding communicates to the witness an order issued under this part, the witness may not refuse to comply with the order on the basis of his privilege against self-incrimination; but no testimony or other information compelled under the order (or any information directly or indirectly derived from such testimony or other information) may be used against the witness in any criminal case, except a prosecution for perjury, giving a false statement, or otherwise failing to comply with the order."

Section 6003 provides:

"(a) In the case of any individual who has been or may be called to testify or provide other information at any proceeding before or ancillary to a court of the United States or a grand jury of the United States, the United States district court for the judicial district in which the proceeding is or may be held shall issue, in accordance with subsection (b) of this section, upon the request of the United States attorney for such district, an order requiring such individual to give testimony or provide other information which he refuses to give or provide on the basis of his privilege against self-incrimination, such order to become effective as provided in section 6002 of this part.

(b) A United States attorney may, with the approval of the Attorney General, the Deputy Attorney General, or any designated Assistant Attorney General, request an order under subsection (a) of this section when in his judgment--

(1) the testimony or other information from such individual may be necessary to the public interest; and

(2) such individual has refused or is likely to refuse to testify or provide other information on the basis of his privilege against self-incrimination."

(FN15.) Despite repeated questioning at oral argument, counsel for the Government gave no plausible explanation for the failure to request official use immunity rather than promising that the act of producing the documents would not be used against respondent.

(FN16.) Of course, courts generally suppress compelled, incriminating testimony that results from a violation of a witness's Fifth Amendment rights. See *United States v. Mandujano*, 425 U.S. 564, 576, 96 S.Ct. 1768, 1776, 48 L.Ed.2d 212 (1976); *United States v. Blue*, 384 U.S. 251, 255, 86 S.Ct. 1416, 1419, 16 L.Ed.2d 510 (1966). The difference between that situation and the Government's theory of constructive use immunity is that in the latter it is the grant of judicially enforceable use immunity that compels the witness to testify. In the former situation, exclusion of the witness' testimony is used to deter the government from future violations of witnesses' Fifth Amendment rights.

(FN17.) Respondent argues that any grant of use immunity must cover the contents of the documents as well as the act of production. We find this contention unfounded. To satisfy the requirements of the Fifth Amendment, a grant of immunity need be only as broad as the privilege against self-incrimination. *Murphy v. Waterfront Commission*, 378 U.S. 52, 107, 84 S.Ct. 1594, 1618, 12 L.Ed.2d 678 (1964) (WHITE, J., concurring); see *Pillsbury Co.*, supra, at ----, n. 8, 103 S.Ct., at 612, n. 8; *United States v. Calandra*, 414 U.S. 338 at 346, 94 S.Ct. 613 at 619, 38 L.Ed.2d 561 (1974). As discussed above, the privilege in this case

extends only to the act of production. Therefore, any grant of use immunity need only protect respondent from the self-incrimination that might accompany the act of producing his business records.

(FN18.) Justice STEVENS states that we should affirm the Court of Appeals decision as a whole because our reasoning is entirely consistent with that of the courts below. See *infra*, at 1248. As we stated above, see note 6, *supra*, we read the opinion of the Court of Appeals as holding that the contents of the subpoenaed records were privileged. It is that aspect of the court's opinion that we reverse today. Were we to adopt Justice STEVENS's suggestion, respondent could argue on remand that any grant of use immunity must cover the contents of the records because the records themselves are privileged under the holding of the Court of Appeals. To avoid that result, we must reverse the opinion below insofar as it held that the contents of the subpoenaed records are privileged.

(FN1.) As the majority notes, "each of the documents sought here pertained to respondent's businesses." *Ante*, at 1241.

(FN2.) See *Couch v. United States*, 409 U.S. 322, 350, 93 S.Ct. 611, 626, 34 L.Ed.2d 548 (1972) (Justice MARSHALL, dissenting) ("Diaries and personal letters that record only their author's personal thoughts lie at the heart of our sense of privacy. In contrast, I see no bar in the ... Fifth Amendment to the seizure of a letter from one conspirator to another directing the recipient to take steps that further the conspiracy. Business records ... lie between those cases.")

(FN1.) More particularly, we review the judgment that the Court of Appeals entered in this case, not the judgment that it may have entered in some other case, see *ante* at 1240, n. 6, or some isolated statement in its opinion commenting on the holding in some other case.

(FN2.) Similarly, during oral argument in the District Court, Judge Sarokin stated: "If you can resolve it to my satisfaction I have no hesitancy in saying, yes, I will direct the turn-over, but only on the condition that the act of turn-over will not be utilized against the target." *Joint App.* 35.

United States v. Heise, 709 F.2d 449 (6th Cir. 1983)

United States Court of Appeals,

Sixth Circuit.

UNITED STATES of America, Plaintiff-Appellee,

v.

Steven T. HEISE, Defendant-Appellant.

No. 81-3080.

Decided June 17, 1983.

Before ENGEL, Circuit Judge, and WEICK and PHILLIPS, Senior Circuit Judges.

PER CURIAM.

This is a tax protester case. Appellant Steven Heise was convicted of willful failure to file income tax returns in violation of 26 U.S.C. § 7203. On appeal he seeks reversal by claiming, *inter alia*, that his failure to file proper returns constituted a valid exercise of his fifth amendment privilege against compulsory self-incrimination. We affirm the conviction.

During the years 1976 and 1977, appellant worked as a security guard for Temple University and received wages of approximately \$9,000 in 1976 and \$7,000 in 1977. Although he had filed complete and proper tax returns for previous years, Heise did not do so for tax years 1976 and 1977. Instead, as part of a tax protest movement, he submitted 1040 forms for both years with no financial information on which to compute his tax liability. Rather, on each line of the form Heise cited his refusal to supply the necessary information on the basis of numerous constitutional grounds--primarily the fifth amendment.

On November 7, 1979, appellant was charged with one count of willful failure to file an income tax return for the year 1976, in violation of § 7203, by Information filed in the Eastern District of Pennsylvania. Heise was charged with a second violation under § 7203, for tax year 1977 by Information filed on January 4, 1980, in the Northern District of Ohio. The two charges were consolidated for trial in the Northern District of Ohio.

On November 21, 1980, appellant was convicted by a jury of both charges. Senior District Judge William K. Thomas sentenced Heise to 20 days in jail on the first count and two years probation on the second count. The sentence was stayed pending appeal.

The gravamen of this appeal is Heise's argument that he is protected by the fifth amendment from disclosing the information requested and may not be subjected to prosecution for the exercise of that right.

The Supreme Court has held that the fifth amendment privilege against compulsory self-incrimination, if

validly exercised, is a defense to a § 7203 prosecution. *Garner v. United States*, 424 U.S. 648, 662, 96 S.Ct. 1178, 1186, 47 L.Ed.2d 370 (1976). The court also has held that the privilege does not justify an outright refusal to file an income tax return. *United States v. Sullivan*, 274 U.S. 259, 263, 47 S.Ct. 607, 71 L.Ed. 1037 (1927). In the present case, Heise asserted the privilege in response to each specific question; however, he did so on such a wholesale basis as to deny the Internal Revenue Service any information with respect to his income for the years 1976 and 1977.

This Circuit has held that a tax return which contains no information from which tax liability can be calculated does not constitute a tax return within the meaning of the Internal Revenue Code. See *United States v. Mundt*, 666 F.2d 1029 (6th Cir.1981); *United States v. Evanko*, 604 F.2d 21, 23 (6th Cir.1979), cert. denied, 444 U.S. 1024, 100 S.Ct. 685, 62 L.Ed.2d 657 (1980), citing *United States v. Jordan*, 508 F.2d 750, 752 (7th Cir.), cert. denied, 423 U.S. 842, 96 S.Ct. 76, 46 L.Ed.2d 62 (1975); *United States v. Daly*, 481 F.2d 28, 29 (8th Cir.), cert. denied, 414 U.S. 1064, 94 S.Ct. 571, 38 L.Ed.2d 469 (1973). Other circuits also have held that the failure to provide any information in a tax return is tantamount to failure to file any return at all. See, e.g., *United States v. Pilcher*, 672 F.2d 875, 877 (11th Cir.), cert. denied, 459 U.S. 973, 103 S.Ct. 306, 74 L.Ed.2d 286 (1982); *Beatty v. Commissioner of Internal Revenue*, 667 F.2d 501, 502 (5th Cir.1982); *United States v. Booher*, 641 F.2d 218, 219 (5th Cir.1981); *United States v. Edelson*, 604 F.2d 232, 234 (3rd Cir.1979); *United States v. Brown*, 600 F.2d 248, 251 (10th Cir.), cert. denied, 444 U.S. 917, 100 S.Ct. 233, 62 L.Ed.2d 172 (1979); *United States v. Pryor*, 574 F.2d 440, 442 (8th Cir.1978). Therefore, Heise's failure to provide the proper financial data on his tax returns amounted to a total failure to file a return. This cannot be justified under the fifth amendment.

Appellant also argues that he exercised his fifth amendment privilege in good faith and, therefore, cannot be prosecuted under § 7203 for willful failure to file a return. This claim is without merit. In *United States v. Bishop*, 412 U.S. 346, 360, 93 S.Ct. 2008, 2017, 36 L.Ed.2d 941 (1973), the Supreme Court ruled that the term "willfully" merely connotes "bad faith" or a voluntary, intentional violation of a known legal duty. This court has held that the willfulness requirement of § 7203 is satisfied if there is a deliberate intent not to file returns that the taxpayer knows ought to be filed. *Evanko, supra*, 604 F.2d at 23, citing *United States v. Greenlee*, 517 F.2d 899, 904 (3rd Cir.), cert. denied, 423 U.S. 985, 96 S.Ct. 391, 46 L.Ed.2d 301 (1975). The record discloses clearly that Heise was a tax protestor who attempted to frustrate the tax laws by use of the fifth amendment. The finding that appellant failed to assert the privilege in good faith was not clearly erroneous.

Appellant also argues that it was error for the district court to permit the Government to admit into evidence prior tax returns to demonstrate Heise's knowledge of the duty to file a proper tax return. This claim is without merit.

Rule 404(b) of the Federal Rules of Evidence provides that evidence of other acts may be admissible to prove one's knowledge. In similar cases, when a person has filed the so-called "fifth amendment" tax return, the courts have permitted the Government to introduce prior tax returns to demonstrate the taxpayer's knowledge of the duty to file a proper tax return. See, e.g., *United States v. Moore*, 627 F.2d 830, 832, 101 S.Ct. 1360, 67 L.Ed.2d 342 (7th Cir.1980) (in a § 7203 prosecution it is acceptable to use earlier returns to show willfulness), cert. denied, 450 U.S. 916 (1981), citing *United States v. Stout*, 601 F.2d 325, 329 (7th Cir.), cert. denied, 444 U.S. 979, 100 S.Ct. 481, 62 L.Ed.2d 406 (1979); *United States v. Thiel*, 619 F.2d 778, 781 (8th Cir.) (there is no abuse of discretion in admitting taxpayer's income tax filings either for the years preceding or following the years upon which the conviction is based), cert. denied, 449 U.S. 856, 101 S.Ct. 152, 66 L.Ed.2d 70 (1980), quoting *United States v. Luttrell*, 612 F.2d 396, 397 (8th Cir.1980). Cf. *United*

States v. Nuth, 605 F.2d 229, 234-35 (6th Cir.1979) (in prosecution for fraud in connection with preparation and filing of four gift tax returns, trial judge did not err in admitting defendant's tax returns for eight year period to demonstrate defendant's sophistication in preparing complex tax returns).

All other contentions made by appellant have been considered and are without merit. Accordingly, the conviction is affirmed.

Garner v. United States, 424 U.S. 648, 96 S.Ct. 1178 (1976)

Supreme Court of the United States

Roy D. GARNER, Petitioner,

v.

UNITED STATES.

No. 74-100.

Argued Nov. 4, 1975.

Decided March 23, 1976.

Syllabus [FN*]

FN* The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.*, 200 U.S. 321, 337, 26 S.Ct. 282, 287, 50 L.Ed. 499, 505.

Petitioner's income tax returns, in which he revealed himself to be a gambler, were introduced in evidence, over his Fifth Amendment objection, as proof of the federal gambling conspiracy offense with which he was charged. Held: Petitioner's privilege against compulsory self-incrimination was not violated. Since petitioner made incriminating disclosures on his tax returns instead of claiming the privilege, as he had the right to do, his disclosures were not compelled incriminations. Here, where there is no factor depriving petitioner of the free choice to refuse to answer, the general rule applies that if a witness does not claim the privilege his disclosures will not be considered as having been "compelled" within the meaning of the Fifth Amendment. *United States v. Sullivan*, 274 U.S. 259, 47 S.Ct. 607, 71 L.Ed. 1037. *Miranda v. Arizona*, 384 U.S. 436, 86 S.Ct. 1602, 16 L.Ed.2d 694; *Mackey v. United States*, 401 U.S. 667, 91 S.Ct. 1160, 28 L.Ed.2d 404; *Garrity v. New Jersey*, 385 U.S. 493, 87 S.Ct. 616, 17 L.Ed.2d 562, distinguished. Pp. 1180-1188.

501 F.2d 228, affirmed.

Mr. Justice POWELL delivered the opinion of the Court.

This case involves a nontax criminal prosecution in which the Government introduced petitioner's income tax returns to prove the offense against him. The question is whether the introduction of this evidence, over petitioner's Fifth Amendment objection, violated the privilege against compulsory self-incrimination when petitioner made the incriminating disclosures on his returns instead of then claiming the privilege.

I

Petitioner, Roy Garner, was indicted for a conspiracy involving the use of interstate transportation and

communication facilities to "fix" sporting contests, to transmit bets and information assisting in the placing of bets, and to distribute the resultant illegal proceeds. 18 U.S.C. §§ 371, 224, 1084, 1952. [FN1] The Government's case was that conspirators bet on horse races either having fixed them or while in possession of other information unavailable to the general public. Garner's role in this scheme was the furnishing of inside information. The case against him included the testimony of other conspirators and telephone toll records that showed calls from Garner to other conspirators before various bets were placed.

The Government also introduced, over Garner's Fifth Amendment objection, the Form 1040 income tax returns that Garner had filed for 1965, 1966, and 1967. In the 1965 return Garner had reported his occupation as "professional gambler," and in each return he reported substantial income from "gambling" or "wagering." The prosecution relied on Garner's familiarity with "the business of wagering and gambling," as reflected in his turns, to help rebut his claim that his relationships with other conspirators were innocent ones.

The jury returned a guilty verdict. Garner appealed to the Court of Appeals for the Ninth Circuit, contending that the privilege against compulsory self-incrimination entitled him to exclude the tax returns despite his failure to claim the privilege on the returns instead of making disclosures. Sitting en banc the Court of Appeals held that Garner's failure to assert the privilege on his returns defeated his Fifth Amendment claim. 501 F.2d 236. [FN2] We agree.

II

In *United States v. Sullivan*, 274 U.S. 259, 47 S.Ct. 607, 71 L.Ed. 1037 (1927), the Court held that the privilege against compulsory self-incrimination is not a defense to prosecution for failing to file a return at all. But the Court indicated that the privilege could be claimed against specific disclosures sought on a return, saying:

"If the form of return provided called for answers that the defendant was privileged from making he could have raised the objection in the return, but could not on that account refuse to make any return at all." *Id.*, at 263, 47 S.Ct., at 607, 71 L.Ed., at 1039. [FN3]

We have no occasion in this case to decide what types of information are so neutral that the privilege could rarely, if ever, be asserted to prevent their disclosure. See also *California v. Byers*, 402 U.S. 424, 91 S.Ct. 1535, 29 L.Ed.2d 9 (1971). Further, the claims of privilege we consider here are only those justified by a fear of self-incrimination other than under the tax laws. Finally, nothing we say here questions the continuing validity of *Sullivan*'s holding that returns must be filed.

Had Garner invoked the privilege against compulsory self-incrimination on his tax returns in lieu of supplying the information used against him, the Internal Revenue Service could have proceeded in either or both of two ways. First, the Service could have sought to have Garner criminally prosecuted under § 7203 of the Internal Revenue Code of 1954 (Code), 26 U.S.C. § 7203, which proscribes, among other things, the willful failure to make a return. [FN4] Second, the Service could have sought to complete Garner's returns administratively "from (its) own knowledge and from such information as (it could) obtain through testimony or otherwise." 26 U.S.C. § 6020(b)(1). Section 7602(2) of the Code authorizes the Service in such circumstances to summon the taxpayer to appear and to produce records or give testimony. 26 U.S.C. § 7602 (2). [FN5] If Garner had persisted in his claim when summoned, the Service could have sued for enforcement in district court, subjecting Garner to the threat of the court's contempt power. 26 U.S.C. § 7604. [FN6]

Given Sullivan, it cannot fairly be said that taxpayers are "volunteers" when they file their tax returns. The Government compels the filing of a return much as it compels, for example, the appearance of a "witness" [FN7] before a grand jury. The availability to the Service of § 7203 prosecutions and the summons procedure also induces taxpayers to disclose unprivileged information on their returns. The question, however, is whether the Government can be said to have compelled Garner to incriminate himself with regard to specific disclosures made on his return when he could have claimed the Fifth Amendment privilege instead.

III

We start from the fundamental proposition:

"(A) witness protected by the privilege may rightfully refuse to answer unless and until he is protected at least against the use of his compelled answers and evidence derived therefrom in any subsequent criminal case in which he is a defendant. *Kastigar v. United States*, 406 U.S. 441, 92 S.Ct. 1653, 32 L.Ed.2d 212 (1972). Absent such protection, if he is nevertheless compelled to answer, his answers are inadmissible against him in a later criminal prosecution. *Bram v. United States*, (168 U.S. 532, 18 S.Ct. 183, 42 L.Ed. 568 (1897)); *Boyd v. United States*, (116 U.S. 616, 6 S.Ct. 524, 29 L.Ed. 746 (1886))." *Lefkowitz v. Turley*, 414 U.S. 70, 78, 94 S.Ct. 316, 322, 38 L.Ed.2d 274, 282 (1973).

See *Murphy v. Waterfront Comm'n*, 378 U.S. 52, 57 n. 6, 84 S.Ct. 1594, 1598, 12 L.Ed.2d 678, 682 (1964).

Because the privilege protects against the use of compelled statements as well as guarantees the right to remain silent absent immunity, the inquiry in a Fifth Amendment case is not ended when an incriminating statement is made in lieu of a claim of privilege. Nor, however, is failure to claim the privilege irrelevant.

The Court has held that an individual under compulsion to make disclosures as a witness who revealed information instead of claiming the privilege lost the benefit of the privilege. *United States v. Kordel*, 397 U.S. 1, 7-10, 90 S.Ct. 763, 766-769, 25 L.Ed.2d 1, 7-9 (1970). Although *Kordel* appears to be the only square holding to this effect, the Court frequently has recognized the principle in dictum. *Maness v. Meyers*, 419 U.S. 449, 466, 95 S.Ct. 584, 42 L.Ed.2d 574, 587 (1975); *Rogers v. United States*, 340 U.S. 67, 370-371, 71 S.Ct. 438, 440-441, 95 L.Ed. 344, 347-348 (1951); *Smith v. United States*, 337 U.S. 137, 150, 69 S.Ct. 1000, 1007, 93 L.Ed. 1264, 1273 (1949); *United States v. Monia*, 317 U.S. 424, 427, 63 S.Ct. 409, 410, 87 L.Ed. 376, 379 (1943); *United States ex rel. Vajtauer v. Commissioner of Immigration*, 273 U.S. 103, 112-113, 47 S.Ct. 302, 306, 71 L.Ed. 560, 565-566 (1927). [FN8] These decisions stand for the proposition that, in the ordinary case, if a witness under compulsion to testify makes disclosures instead of claiming the privilege, the government has not "compelled" him to incriminate himself. [FN9]

"The Amendment speaks of compulsion. It does not preclude a witness from testifying voluntarily in matters which may incriminate him. If, therefore, he desires the protection of the privilege, he must claim it or he will not be considered to have been 'compelled' within the meaning of the Amendment." *United States v. Monia, supra*, 317 U.S., at 427, 63 S.Ct. at 410, 87 L.Ed. at 380 (footnote omitted).

In their insistence upon a claim of privilege, *Kordel* and the older witness cases reflect an appropriate

accommodation of the Fifth Amendment privilege and the generally applicable principle that governments have the right to everyone's testimony. *Mason v. United States*, 244 U.S. 362, 364- 365, 37 S.Ct. 621, 622, 61 L.Ed. 1198, 1199 (1917); see, E. g., *Branzburg v. Hayes*, 408 U.S. 665, 688, 92 S.Ct. 2646, 2660, 33 L.Ed.2d 626, 643 (1972); *Kastigar v. United States*, supra, 406 U.S. 441, 443-445, 92 S.Ct. 1653, 1655-1656, 32 L. Ed.2d 212, 215-217 (1972). Despite its cherished position, the Fifth Amendment addresses only a relatively narrow scope of inquiries. Unless the government seeks testimony that will subject its giver to criminal liability, the constitutional right to remain silent absent immunity does not arise. An individual therefore properly may be compelled to give testimony, for example, in a noncriminal investigation of himself. See, E. g., *Gardner v. Broderick*, 392 U.S. 273, 278, 88 S.Ct. 1913, 1916, 20 L.Ed.2d 1082, 1086 (1968). Unless a witness objects, a government ordinarily may assume that its compulsory processes are not eliciting testimony that he deems to be incriminating. Only the witness knows whether the apparently innocent disclosure sought may incriminate him, and the burden appropriately lies with him to make a timely assertion of the privilege. If, instead, he discloses the information sought, any incriminations properly are viewed as not compelled.

In addition, the rule that a witness must claim the privilege is consistent with the fundamental purpose of the Fifth Amendment the preservation of an adversary system of criminal justice. See *Tehan v. United States ex rel. Shott*, 382 U.S. 406, 415, 86 S.Ct. 459, 464, 15 L.Ed.2d 453, 459 (1966). That system is undermined when a government deliberately seeks to avoid the burdens of independent investigation by compelling self-incriminating disclosures. In areas where a government cannot be sd to be compelling such information, however, there is no such circumvention of the constitutionally mandated policy of adversary criminal proceedings. Cf. *Counselman v. Hitchcock*, 142 U.S. 547, 562-565, 12 S.Ct. 195, 198-199, 35 L.Ed. 1110, 1113- 1115 (1892); *California v. Byers*, 402 U.S. 424, 456-458, 91 S.Ct. 1535, 1552-1553, 29 L.Ed.2d 9, 33-35 (1971) (Harlan, J., concurring in judgment).

IV

The information revealed in the preparation and filing of an income tax return is, for purposes of Fifth Amendment analysis, the testimony of a "witness," as that term is used herein. Since Garner disclosed information on his returns instead of objecting, his Fifth Amendment claim would be defeated by an application of the general requirement that witnesses must claim the privilege. Garner, however, resists the application of that requirement, arguing that incriminating disclosures made in lieu of objection are "compelled" in the tax- return context. He relies specifically on three situations in which incriminatory disclosures have been considered compelled despite a failure to claim the privilege. [FN10] But in each of these narrowly defined situations, some factor not present here made inappropriate the general rule that the privilege must be claimed. In each situation the relevant factor was held to deny the individual a "free choice to admit, to deny, or to refuse to answer." *Lisenba v. California*, 314 U.S. 219, 241, 62 S.Ct. 280, 292, 86 L. Ed. 166, 182 (1941). For the reasons stated below, we conclude that no such factor deprived Garner of that free choice.

A

Garner relies first on cases dealing with coerced confessions, E. g., *Miranda v. Arizona*, 384 U.S. 436, 86 S. Ct. 1602, 16 L.Ed.2d 694 (1966), where the Court has required the exclusion of incriminating statements unless there has been a knowing and intelligent waiver of the privilege regardless of whether the privilege has been claimed. *Id.*, at 467-469, 475- 477, 86 S.Ct. at 1624-1625, 1628-1629, 16 L.Ed.2d at 719-721, 724-725. Garner notes that it has not been shown that his failure to claim the privilege was such a waiver.

It is evident that these cases have little to do with disclosures on a tax return. The coerced-confession cases present the entirely different situation of custodial interrogation. See *Id.*, at 467, 86 S.Ct. at 1624, 16 L.Ed.2d at 719. It is presumed that without proper safeguards the circumstances of custodial interrogation deny an individual the ability freely to choose to remain silent. See *Ibid.* At the same time, the inquiring government is acutely aware of the potentially incriminatory nature of the disclosures sought. Thus, any pressures inherent in custodial interrogation are compulsions to incriminate, not merely compulsions to make unprivileged disclosures. Because of the danger that custodial interrogation posed to the adversary system favored by the privilege, the Court in *Miranda* was impelled to adopt the extraordinary safeguard of excluding statements made without a knowing and intelligent waiver of the privilege. *Id.*, at 467, 475-476, 86 S.Ct., at 1624, 1628-1629, 16 L.Ed.2d at 719, 724-725; see *Michigan v. Mosley*, 423 U.S. 96, 97, 96 S.Ct. 321, 324, 46 L.Ed.2d 313, 319 (1975); *Schneckloth v. Bustamonte*, 412 U.S. 218, 246-247, 93 S.Ct. 2041, 2057-2058, 36 L.Ed.2d 854, 873-874 (1973). Nothing in this case suggests the need for a similar presumption that a taxpayer makes disclosures on his return rather than claims the privilege because his will is overborne. In fact, a taxpayer, who can complete his return at leisure and with legal assistance, is even less subject to the psychological pressures at issue in *Miranda* than a witness who has been called to testify in judicial proceedings. Cf. *United States v. Kordel*, 397 U.S., at 9-10, 90 S.Ct., at 768-769, 25 L.Ed.2d, at 8-10; *Miranda*, supra, 384 U.S., at 461, 86 S.Ct. at 1620, 16 L.Ed.2d at 716.

B

Garner relies next on *Mackey v. United States*, 401 U.S. 667, 91 S.Ct. 1160, 28 L.Ed.2d 404 (1971), the relevance of which can be understood only in light of *Marchetti v. United States*, 390 U.S. 39, 88 S.Ct. 697, 19 L.Ed.2d 889 (1968), and *Grosso v. United States*, 390 U.S. 62, 88 S.Ct. 709, 19 L.Ed.2d 906 (1968). In the latter cases the Court considered whether the Fifth Amendment was a defense in prosecutions for failure to file the returns required of gamblers in connection with the federal occupational and excise taxes on gambling. The Court found that any disclosures made in connection with the payment of those taxes tended to incriminate because of the pervasive criminal regulation of gambling activities. *Marchetti*, supra, 390 U.S., at 48-49, 88 S.Ct. at 702-703, 19 L.Ed.2d at 897-898; *Grosso*, supra, 390 U.S., at 66-67, 88 S.Ct. at 712-713, 19 L.Ed.2d at 911-912. Since submitting a claim of privilege in lieu of the returns also would incriminate, the Court held that the privilege could be exercised by simply failing to file. [FN11]

In *Mackey*, the disclosures required in connection with the gambling excise tax had been made before *Marchetti* and *Grosso* were decided. *Mackey*'s returns were introduced in a criminal prosecution for income tax evasion. Although a majority of the Court considered the disclosures on the returns to have been compelled incriminations, 401 U.S., at 672, 91 S.Ct., at 1163, 28 L.Ed.2d, at 408 (plurality opinion); *Id.*, at 704-705, 91 S.Ct. 1165-1166, 28 L.Ed.2d 427-428 (Brennan, J., concurring in judgment); *Id.*, at 713, 91 S.Ct. 1170, 28 L.Ed.2d 432 (Douglas, J., dissenting), *Mackey* was not immunized against their use because *Marchetti* and *Grosso* were held nonretroactive. 401 U.S., at 674-675, 91 S.Ct., at 1164-1165, 28 L.Ed.2d, at 409-410 (plurality opinion); *Id.*, at 700-701, 91 S.Ct. 1184, 28 L.Ed.2d 425-426 (Harlan, J., concurring in judgment). [FN12] *Garner* assumes that if *Mackey* had made his disclosures after *Marchetti* and *Grosso*, they could not have been used against him. He then concludes that since *Mackey* would have been privileged to file no returns at all, *Mackey* stands for the proposition that an objection at trial always suffices to preserve the privilege even if disclosures have been made previously.

Assuming that *Garner* otherwise reads *Mackey* correctly, [FN13] we do not think that case should be applied in this context. The basis for the holdings in *Marchetti* and *Grosso* was that the occupational and excise taxes on gambling required disclosures only of gamblers, the great majority of whom were likely to incriminate

themselves by responding. *Marchetti, supra*, 390 U.S., at 48-49, 57, 88 S.Ct. at 702-703, 707, 19 L.Ed.2d at 897-898, 902; *Grosso, supra*, 390 U.S., at 66-68, 88 S.Ct., at 712-714, 19 L.Ed.2d at 911- 912. Therefore, as in the coerced-confession cases, any compulsion to disclose was likely to compel self-incrimination. [FN14] *Garner* is differently situated. Although he disclosed himself to be a gambler, federal income tax returns are not directed at those " 'inherently suspect of criminal activities.' " *Marchetti, supra*, 390 U.S. at 52, 88 S.Ct., at 704, 19 L.Ed.2d, at 900. As noted in *Albertson v. SACB*, 382 U.S. 70, 79, 86 S.Ct. 194, 199, 15 L.Ed.2d 165, 172 (1965), "the questions in (an) income tax return (are) neutral on their face and directed at the public at large." The great majority of persons who file income tax returns do not incriminate themselves by disclosing their occupation. The requirement that such returns be completed and filed simply does not involve the compulsion to incriminate considered in *Mackey*. [FN15]

C

Garner's final argument relies on *Garrity v. New Jersey*, 385 U.S. 493, 87 S.Ct. 616, 17 L.Ed.2d 562 (1967). There policemen summoned during an investigation of police corruption were informed that they could claim the privilege but that they would be discharged for doing so. The disclosures they made were introduced against them in subsequent criminal prosecutions. The Court held that the penalty of discharge for reliance on the privilege foreclosed a free choice to remain silent, and therefore had the effect of compelling the incriminating testimony given by the policemen. *Garner* notes that a taxpayer who claims the privilege on his return faces the possibility of a criminal prosecution under § 7203 for failure to make a return. He argues that the possibility of prosecution, like the threat of discharge in *Garrity*, compels a taxpayer to make incriminating disclosures rather than claim the privilege. This contention is not entirely without force, but we find it unpersuasive.

The policemen in *Garrity* were threatened with punishment for a concededly valid exercise of the privilege, but one in *Garner's* situation is at no such disadvantage. **A § 7203 conviction cannot be based on a valid exercise of the privilege.** This is implicit in the dictum of *United States v. Sullivan*, 274 U.S. 259, 47 S.Ct. 607, 71 L.Ed. 1037 (1927), that the privilege may be claimed on a return. [FN16] Furthermore, the Court has held that an individual summoned by the Service to provide documents or testimony can rely on the privilege to defend against a § 7203 prosecution for failure to "supply any information." See *United States v. Murdock*, 290 U.S. 389, 54 S.Ct. 223, 78 L.Ed. 381 (1933) (*Murdock II*); *United States v. Murdock*, 284 U.S. 141, 52 S.Ct. 63, 76 L.Ed. 210 (1931) (*Murdock I*), disapproved on other grounds, *Murphy v. Waterfront Comm'n*, 378 U.S. 52, 84 S.Ct. 1594, 12 L.Ed.2d 678 (1964). [FN17] The Fifth Amendment itself guarantees the taxpayer's insulation against liability imposed on the basis of a valid and timely claim of privilege, a protection broadened by § 7203's statutory standard of "willfulness." [FN18]

Since a valid claim of privilege cannot be the basis for a § 7203 conviction, *Garner* can prevail only if the possibility that a claim made on the return will be tested in a criminal prosecution suffices in itself to deny him freedom to claim the privilege. He argues that it does so, noting that because of the threat of prosecution under § 7203 a taxpayer contemplating a claim of privilege on his return faces a more difficult choice than does a witness contemplating a claim of privilege in a judicial proceeding. If the latter claims the protection of the Fifth Amendment, he receives a judicial ruling at that time on the validity of his claim, and he has an opportunity to reconsider it before being held in contempt for refusal to answer. Cf. *Maness v. Meyers*, 419 U.S., at 460-461, 95 S.Ct., at 592-593, 42 L.Ed.2d, at 584-585. A § 7203 prosecution, however, may be brought without a preliminary judicial ruling on a claim of privilege that would allow the taxpayer to reconsider. [FN19]

In essence, Garner contends that the Fifth Amendment guarantee requires such a preliminary-ruling procedure for testing the validity of an asserted privilege. It may be that such a procedure would serve the best interests of the Government as well as of the taxpayer, cf. *Emspak v. United States*, 349 U.S. 190, 213-214, 75 S.Ct. 687, 709-710, 99 L.Ed. 997, 1013-1014 (1955) (Harlan, J., dissenting), but we certainly cannot say that the Constitution requires it. The Court previously has considered Fifth Amendment claims in the context of a criminal prosecution where the defendant did not have the benefit of a preliminary judicial ruling on a claim of privilege. It has never intimated that such a procedure is other than permissible. Indeed, the Court has given some measure of endorsement to it. In *Murdock I*, supra, an individual was prosecuted under predecessors of § 7203 for refusing to make disclosures after being summoned by the Bureau of Internal Revenue. [FN20] In this Court he contended, apparently on statutory grounds, that there could be no prosecution without a prior judicial enforcement suit to allow presentation of his claim of privilege to a court for a preliminary ruling. The Court said:

"While undoubtedly the right of a witness to refuse to answer lest he incriminate himself may be tested in proceedings to compel answer, there is no support for the contention that there must be such a determination of that question before prosecution for the willful failure so denounced." 284 U.S., at 148, 52 S.Ct., at 64, 76 L.Ed., at 213.

See also *Quinn v. United States*, 349 U.S. 155, 167-170, 75 S.Ct. 668, 675- 677, 99 L.Ed. 964, 974-976 (1955); *Emspak v. United States*, supra, 349 U.S., at 213-214, 75 S.Ct., at 709-710, 99 L.Ed., at 1013-1014 (Harlan, J., dissenting).

We are satisfied that *Murdock I* states the constitutional standard. What is at issue here is principally a matter of timing and procedure. As long as a valid and timely claim of privilege is available as a defense to a taxpayer prosecuted for failure to make a return, the taxpayer has not been denied a free choice to remain silent merely because of the absence of a preliminary judicial ruling on his claim. We therefore do not agree that Garner was deterred from claiming the privilege in the sense that was true of the policemen in *Garrity*.

V

In summary, we conclude that since Garner made disclosures instead of claiming the privilege on his tax returns his disclosures were not compelled incriminations. [FN21] He therefore was foreclosed from invoking the privilege when such information was later introduced as evidence against him in a criminal prosecution.

The judgment is

Affirmed.

Judgment affirmed.

Mr. Justice STEVENS took no part in the consideration or decision of this case.

Mr. Justice MARSHALL, with whom Mr. Justice BRENNAN joins, concurring in the judgment.

I agree with the Court that petitioner, having made incriminating disclosures on his income tax returns rather

than having claimed the privilege against self-incrimination, cannot thereafter assert the privilege to bar the introduction of his returns in a criminal prosecution. I disagree, however, with the Court's rationale, which is far broader than is either necessary or appropriate to dispose of this case.

This case ultimately turns on a simple question whether the possibility of being prosecuted under 26 U.S.C. § 7203 for failure to make a return compels a taxpayer to make an incriminating disclosure rather than claim the privilege against self-incrimination on his return. In discussing this question, the Court notes that only a "willful" failure to make a return is punishable under § 7203, and that "a defendant could not properly be convicted for an erroneous claim of privilege asserted in good faith." Ante, at 1187, n. 18. Since a good-faith erroneous assertion of the privilege does not expose a taxpayer to criminal liability, I would hold that the threat of prosecution does not compel incriminating disclosures in violation of the Fifth Amendment. The protection accorded a good-faith assertion of the privilege effectively preserves the taxpayer's freedom to choose between making incriminating disclosures and claiming his Fifth Amendment privilege, and I would affirm the judgment of the Court of Appeals for that reason.

Not content to rest its decision on that ground, the Court decides that even if a good-faith erroneous assertion of the privilege could form the basis for criminal liability, the threat of prosecution does not amount to compulsion. It is constitutionally sufficient, according to the Court, that a *valid* claim of privilege is a defense to a § 7203 prosecution. Ante, at 1186-1188. In so holding, the Court answers a question that by its own admission is not presented by the facts of this case. And, contrary to the implication contained in the Court's opinion, the question is one of first impression in this Court.

Citing *United States v. Murdock*, 284 U.S. 141, 52 S.Ct. 63, 76 L.Ed. 210 (1931) (*Murdock I*), the Court observes that a taxpayer who claims the privilege on his return can be convicted of a § 7203 violation without having been given a preliminary ruling on the validity of his claim and a "second chance" to complete his return after his claim is rejected. The Court then leaps to the conclusion that the Fifth Amendment is satisfied as long as a valid claim of privilege is a defense to a § 7203 prosecution.

I accept the proposition that a preliminary ruling is not a prerequisite to a § 7203 prosecution. But cf. *Quinn v. United States*, 349 U.S. 155, 165-170, 75 S.Ct. 668, 674-677, 99 L.Ed. 964, 973-976 (1955). But it does not follow, and *Murdock I* does not hold, that the absence of a preliminary ruling is of no import in considering whether a defense of good-faith assertion of the privilege is constitutionally required. [FN*] It is one thing to deny a good-faith defense to a witness who is given a prompt ruling on the validity of his claim of privilege and an opportunity to reconsider his refusal to testify before subjecting himself to possible punishment for contempt. See, E. g., *Maness v. Meyers*, 419 U.S. 449, 460-461, 95 S.Ct. 584, 592-593, 42 L. Ed.2d 574, 584-585 (1975). It would be quite another to deny a good-faith defense to someone like petitioner, who may be denied a ruling on the validity of his claim of privilege until his criminal prosecution, when it is too late to reconsider. If, contrary to the undisputed fact, a taxpayer had no assurance of either a preliminary ruling or a defense of good-faith assertion of the privilege, he could claim the privilege only at the risk that an erroneous assessment of the law of self-incrimination would subject him to criminal liability. In that event, I would consider the taxpayer to have been denied the free choice to claim the privilege, and would view any incriminating disclosures on his tax return as "compelled" within the meaning of the Fifth Amendment. Only because a good-faith erroneous claim of privilege entitles a taxpayer to acquittal under § 7203 can I conclude that petitioner's disclosures are admissible against him.

Footnotes:

FN1. Garner was also indicted for aiding and abetting the violation of 18 U.S.C. § 1084, the substantive offense involving transmission of bets and betting information. The trial judge acquitted him on this count at the close of the Government's case.

FN2. The panel of the Court of Appeals that originally heard the case had accepted Garner's contention and reversed, one judge dissenting. 501 F.2d 228. The en banc court affirmed the conviction by a 7-to-5 vote.

FN3. In Sullivan, Mr. Justice Holmes, writing for the Court, said: "It would be an extreme if not an extravagant application of the Fifth Amendment to say that it authorized a man to refuse to state the amount of his income because it had been made in crime. But if the defendant desired to test that or any other point he should have tested it in the return so that it could be passed upon." 274 U.S., at 263-264, 47 S.Ct., at 607-608, 71 L.Ed., at 1040.

FN4. Title 26 U.S.C. § 7203 reads in full:

"Any person required under this title to pay any estimated tax or tax, or required by this title or by regulations made under authority thereof to make a return (other than a return required under authority of section 6015), keep any records, or supply any information, who willfully fails to pay such estimated tax or tax, make such return, keep such records, or supply such information, at the time or times required by law or regulations, shall, in addition to other penalties provided by law, be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than \$10,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution."

FN5. Title 26 U.S.C. § 7602 reads in part:

"For the purpose of ascertaining the correctness of any return, making a return where none has been made, determining the liability of any person for any internal revenue tax . . . , or collecting any such liability, the Secretary or his delegate is authorized

"(2) To summon the person liable for tax or required to perform the act, or any officer or employee of such person, or any person having possession, custody, or care of books of account containing entries relating to the business of the person liable for tax or required to perform the act, or any other person the Secretary or his delegate may deem proper, to appear before the Secretary or his delegate at a time and place named in the summons and to produce such books, papers, records, or other data, and to give such testimony, under oath, as may be relevant or material to such inquiry"

FN6. Title 18 U.S.C. § 6004 would appear to authorize the Service, as an alternative to an enforcement suit, to order a summoned taxpayer to make disclosures in exchange for immunity. We are informed, however, that it has not been the Service's practice to utilize § 6004. Brief for United States 19, and n. 11.

FN7. The term "witness" is used herein to identify one who, at the time disclosures are sought from him, is not a defendant in a criminal proceeding. The more frequent situations in which a witness' disclosures are compelled, subject to Fifth Amendment rights, include testimony before a grand jury, in a civil or criminal case or proceeding, or before a legislative or administrative body possessing subpoena power.

FN8. The Court also has held, analogously, that a witness loses the privilege by failing to claim it promptly

even though the information being sought remains undisclosed when the privilege is claimed. *United States v. Murdock*, 284 U.S. 141, 148, 52 S.Ct. 63, 64, 76 L.Ed. 210, 212 (1931), disapproved on other grounds, *Murphy v. Waterfront Comm'n*, 378 U.S. 52, 84 S.Ct. 1594, 12 L.Ed.2d 678 (1964); see *Rogers v. United States*, 340 U.S., at 371, 71 S.Ct., at 440, 95 L.Ed., at 348.

FN9. This conclusion has not always been couched in the language used here. Some cases have indicated that a nonclaiming witness has "waived" the privilege, see, E. g., *United States ex rel. Vajtauer v. Commissioner of Immigration*, 273 U.S. 103, 113, 47 S.Ct. 302, 306, 71 L.Ed. 560, 566 (1927). Others have indicated that such a witness testifies "voluntarily," see, E. g., *Rogers v. United States*, supra, 340 U.S., at 371, 71 S.Ct., at 440, 95 L.Ed., at 348. Neither usage seems analytically sound. The cases do not apply a "waiver" standard as that term was used in *Johnson v. Zerbst*, 304 U.S. 458, 58 S.Ct. 1019, 82 L.Ed. 1461 (1938), and we recently have made clear that an individual may lose the benefit of the privilege without making a knowing and intelligent waiver. See *Schneckloth v. Bustamonte*, 412 U.S. 218, 222-227, 235-240, 246-247, 93 S.Ct. 2041, 2045-2047, 2051-2054, 2057-2058, 36 L.Ed.2d 854, 859-862, 867-870, 873-874 (1973). Moreover, it seems desirable to reserve the term "waiver" in these cases for the process by which one affirmatively renounces the protection of the privilege, see, E. g., *Smith v. United States*, 337 U.S. 137, 150, 69 S.Ct. 1000, 1007, 93 L. Ed. 1264, 1273 (1949). The concept of "voluntariness" is related to the concept of "compulsion." But it may promote clarity to use the latter term in cases where disclosures are required in the face of a claim of privilege, while reserving "voluntariness" for the concerns discussed in Part IV, *Infra*, at 1183-1188, where we consider whether some factor prevents a taxpayer desiring to claim the privilege from doing so.

FN10. These arguments were in fact advanced in the dissent from the en banc decision below, which Garner adopted as his brief on the self-incrimination issue. Brief for Petitioner 8. Garner's brief itself principally advances two other claims of error. The facts underlying these claims were not presented in the petition for certiorari, see this Court's Rule 23(1)(e), which alone would have merited a denial of a petition not containing the self-incrimination claim. Rule 23(4). Further, these contentions were not deemed of sufficient merit to warrant discussion below. In these circumstances we consider it inappropriate to reach them.

FN11. As we have noted, the privilege is an exception to the general principle that the Government has the right to everyone's testimony. A corollary to that principle is that the claim of privilege ordinarily must be presented to a "tribunal" for evaluation at the time disclosures are initially sought. See *Albertson v. SACB*, 382 U.S. 70, 78-79, 86 S.Ct. 194, 198-199, 15 L.Ed.2d 165, (1965); *United States ex rel. Vajtauer v. Commissioner of Immigration*, 273 U.S., at 113, 47 S.Ct., at 306, 71 L.Ed., at 566; *Mason v. United States*, 244 U.S. 362, 364-365, 37 S.Ct. 621, 622, 61 L.Ed. 1198, 1199-1200 (1917). This early evaluation of claims allows the Government to compel evidence if the claim is invalid or if immunity is granted and therefore assures that the Government obtains all the information to which it is entitled. In the gambling tax cases, however, making a claim of privilege when the disclosures were requested, I. e., when the returns were due, would have identified the claimant as a gambler. The Court therefore forgave the usual requirement that the claim of privilege be presented for evaluation in favor of a "claim" by silence. See *Marchetti*, supra, 390 U.S., at 50, 88 S.Ct., at 703, 19 L.Ed.2d at 898. Nonetheless, it was recognized that one who "claimed" the privilege by refusing to file could be required subsequently to justify his claim of privilege. See *Id.*, at 61, 88 S.Ct., at 709, 19 L.Ed.2d at 905. If a particular gambler would not have incriminated himself by filing the tax returns, the privilege would not justify a failure to file.

FN12. Mr. Justice BRENNAN, joined by Mr. Justice MARSHALL, concurred in the judgment on the ground that the compelled disclosure of the amount of Mackey's gambling income could be used in a prosecution for income tax evasion. See 401 U.S., at 702, 91 S.Ct., at 1185, 28 L.Ed.2d, at 426.

FN13. It does not follow necessarily that a taxpayer would be immunized against use of disclosures made on gambling tax returns when the Fifth Amendment would have justified a failure to file at all. If Marchetti and Grosso had been held retroactive, immunization might have been appropriate in Mackey's case. But at the time Mackey filed there was in fact no privilege not to file. Not only had Marchetti and Grosso not yet been decided, but *United States v. Kahriger*, 345 U.S. 22, 73 S.Ct. 510, 97 L.Ed. 754 (1953), and *Lewis v. United States*, 348 U.S. 419, 75 S.Ct. 415, 99 L.Ed. 475 (1955), previously had held that the privilege was not a defense to prosecution for failure to file the occupational tax returns. Mackey therefore was compelled to file his returns, thereby necessarily identifying himself as a gambler and thus risking self-incrimination. Accordingly, there were two related reasons to view the disclosures made in Mackey as compelled incriminations. The first was the inherently incriminating nature of the information demanded by the Government. See *Supra*, at 1184. The second was the gambler's inability to claim the privilege by refusing to file at the time Mackey's disclosures were required. Cf. *Mackey*, *supra*, 401 U.S., at 704, 91 S.Ct., at 1165, 28 L.Ed.2d, at 427 (Brennan, J., concurring in judgment); *Leary v. United States*, 395 U.S. 6, 27-28, 89 S.Ct. 1532, 1543-1544, 23 L.Ed.2d 57, 76-77 (1969); *Grosso*, *supra*, 390 U.S., at 70-71, 88 S.Ct. at 714-715, 19 L. Ed.2d at 913-914. In the case of gambling tax returns filed after Marchetti and Grosso, the second factor would not be present.

FN14. Marchetti and Grosso, of course, removed the threat of a criminal conviction when one validly claims the privilege by failing to file gambling tax returns. We do not pause here to consider whether there may be circumstances that would deprive a gambler of the free choice to claim the privilege by failing to file such returns, and therefore allow him to exclude a completed gambling tax return by claiming the privilege at trial. Cf. n. 13, *Supra*.

FN15. Garner contends that whatever the case may be with regard to taxpayers in general, a gambler who might be incriminated by revealing his occupation cannot claim the privilege on the return effectively. This contention stems from the fact that certain specialized tax calculations are required only of gamblers. See § 165(d) of the Code, 26 U.S.C. § 165(d); *Recent Cases*, 86 Harv.L.Rev. 914, 916 n. 13 (1973). Garner argues that the process of claiming the privilege with respect to these calculations will reveal a gambler's occupation. We need not address this contention, since Garner found it unnecessary to make any such special calculations. 501 F.2d, at 237 n. 3.

FN16. Garner contends that *California v. Byers*, 402 U.S. 424, 91 S.Ct. 1535, 29 L.Ed.2d 9 (1971), cast doubt on Sullivan's dictum. The Court held in *Byers* that the privilege against compulsory self-incrimination was not violated by a statute requiring motorists involved in automobile accidents to stop and identify themselves. Garner argues that *Byers* suggests that governments always can compel answers to neutral regulatory inquiries in a self-reporting scheme and that the protection of the Fifth Amendment should be afforded in such cases solely through use immunity.

We cannot agree that *Byers* undercut Sullivan's dictum. Although there was not a majority of the Court for any rationale for the *Byers* holding, the Court addressed there only the basic requirement that one's name and address be disclosed. The opinions upholding the requirement suggested that the privilege might be claimed appropriately against other questions. 402 U.S., at 434 n. 6, 91 S.Ct., at 1541, 29 L.Ed.2d, at 21 (plurality opinion); *Id.*, at 457-458, 91 S.Ct., 1552-1553, 29 L.Ed.2d 34-35 (Harlan, J., concurring in judgment). *Byers* is thus analogous to Sullivan, holding only that requiring certain basic disclosures fundamental to a neutral reporting scheme does not violate the privilege.

FN17. The *Murdock* cases involved predecessor statutes to § 7203, but they were identical to it in all material

respects. See Internal Revenue Act of 1926, § 1265, 44 Stat. 850-851; Internal Revenue Act of 1928, § 146 (a), 45 Stat. 835.

FN18. Because § 7203 proscribes "willful" failures to make returns, a taxpayer is not at peril for every erroneous claim of privilege. The Government recognizes that a defendant could not properly be convicted for an erroneous claim of privilege asserted in good faith. This concession simply reflects our holding in *Murdock II*. There *Murdock's* claim of privilege was considered unjustified (because of the holding in *Murdock I* disapproved in *Murphy v. Waterfront Comm'n*). But the Court recognized that "good faith" in its assertion would entitle *Murdock* to acquittal. "(T)he Government, . . . we think correctly, assumed that it carried the burden of showing more than a mere voluntary failure to supply information, with intent, in good faith, to exercise a privilege granted the witness by the Constitution." 290 U.S. at 397, 54 S.Ct., at 226, 78 L. Ed. at 386.

See *United States v. Bishop*, 412 U.S. 346, 93 S.Ct. 2008, 36 L.Ed.2d 941 (1973). In this respect, the protection for the taxpayer in a § 7203 prosecution is broader than that for a witness who risks contempt to challenge a judicial order to disclose. In the latter case, a mere erroneous refusal to disclose warrants a sanction. See *Maness v. Meyers*, 419 U.S. 449, 460-461, 95 S.Ct. 584, 592-593, 42 L.Ed.2d 574, 584-585 (1975).

FN19. The Government advised us at oral argument that a claim of privilege would stimulate rulings by the Service. It is doubtful, therefore, that a claimant would find himself prosecuted with no prior indication that the Service considered his claim invalid. The claimant, however, would not have a judicial assessment of his claim.

FN21. No language in this opinion is to be read as allowing a taxpayer desiring the protection of the privilege to make disclosures concurrently with a claim of privilege and thereby to immunize himself against the use of such disclosures. If a taxpayer desires the protection of the privilege, he must claim it instead of making disclosures. Any other rule would deprive the Government of its choice between compelling the evidence from the claimant in exchange for immunity and avoiding the burdens of immunization by obtaining the evidence elsewhere. See *Mackey v. United States*, 401 U.S., at 711-713, 91 S.Ct., at 1169-1171, 28 L.Ed.2d, at 431-433 (Brennan, J., concurring in judgment).

FN* Indeed, as the Court notes, *Ante*, at 1187, n. 18, the Court held that *Murdock* was entitled to acquittal if his assertion of the privilege was in good faith. *United States v. Murdock*, 290 U.S. 389, 54 S.Ct. 223, 78 L. Ed. 381 (1933) (*Murdock II*).

NOTICE: Although citation of unpublished opinions remains unfavored, unpublished opinions may now be cited if the opinion has persuasive value on a material issue, and a copy is attached to the citing document or, if cited in oral argument, copies are furnished to the Court and all parties. See General Order of November 29, 1993, suspending 10th Cir. Rule 36.3 until December 31, 1995, or further order.

NOTE: THIS OPINION WILL NOT BE PUBLISHED IN A PRINTED VOLUME. THE DECISION WILL APPEAR IN TABLES PUBLISHED PERIODICALLY.

William T. CONKLIN, Plaintiff-Appellant,
v.
UNITED STATES of America, Defendant-Appellee.

No. 94-1213.

United States Court of Appeals, Tenth Circuit.

Sept. 16, 1994.

Before LOGAN, McWILLIAMS and BARRETT,
Circuit Judges.

ORDER AND JUDGMENT [FN1]

*1 After examining the briefs and the appellate record, this panel has determined unanimously that oral argument would not materially assist the determination of this appeal. See Fed. R.App. P. 34(a); Tenth Cir. R. 34.1.9. The cause is therefore ordered submitted without oral argument.

William T. Conklin (Conklin), a self-described "known tax protestor like Jesus Christ, Thomas Jefferson, Benjamin Franklin and George Washington," (R., Vol. II, Tab 42 at 1), appeals from an Order and Memorandum of Decision dismissing his complaint and granting summary judgment in favor of the United States. (Internal Revenue Service (IRS)).

In February or March, 1988, Conklin sent the IRS a Form 1040, individual income tax return. The return was accompanied by several Form W-2s relating to wage income, a Form 5948 relating to

retirement account information, and several Form 1099s relating to other income. The Form 1040 however, "was bereft of information, except for a pre-printed label with plaintiff's name and address." (R., Vol. II, Tab 42 at 2).

Several letters were submitted with the Form 1040. Within the letters, Conklin explained the lack of information on the Form 1040 by noting that he had previously given power of attorney to the IRS's district counsel to sign his returns "if they can be signed without waiving my constitutional rights." Id. at 3. Plaintiff also requested that "the IRS complete and sign his 1987 return." Id. Thereafter, the IRS notified Conklin that it could not accept the Form 1040 because it did not contain information required by law.

In response, Conklin mailed the IRS a second Form 1040 which contained wage data and a claim for the standard deduction. The form indicated that Conklin owed, and had previously paid, \$200.00 in income taxes. Conklin however, did not sign the Form 1040. Rather, he again referred to the power of attorney included with his 1986 return and implied that the IRS should sign the form for him.

Thereafter, the IRS assessed a \$500.00 penalty against Conklin pursuant to 26 U.S.C. 6702 for filing a frivolous tax return. Conklin promptly paid \$75.00 of the penalty as allowed by 26 U.S.C. 6703(c) and demanded a refund. When the IRS refused to refund, Conklin filed this action. Both parties moved for summary judgment.

In granting the IRS's motion for summary judgment, the court found: Conklin's argument that his refusal to sign his 1987 Form 1040 was proper on the grounds that his signature would violate his Fifth Amendment rights was rejected in *Betz v. United States*, 753 F.2d 834, 835 (10th Cir.1985) ("It is well settled that the Fifth Amendment general objection [to filing a proper tax return] is not a valid claim of the constitutional privilege."); Conklin's contention that his classification by the IRS as an illegal tax protestor justifies invocation of his Fifth Amendment privilege "misunderstands the nature of the ... privilege [which] protects against compelled testimonial communications [and] Plaintiff has wholly failed to persuade me that truthful completion of the IRS Form 1040 or any

related forms would tend to incriminate him." (R., Vol. II at p. 6).

*2 On appeal, Conklin posits the following issues: "Whether an individual who has been classified as an illegal tax protestor has a valid concern about waiving his fifth amendment rights when he signs a federal income tax return"; "Whether an individual who has been advised by several attorneys that he will waive his fifth amendment rights on a federal tax return should be penalized when he relied in good faith on the advice of counsel." The government responds that the district court correctly held that Conklin was liable for the \$500.00 frivolous return penalty imposed under 6702. Further, the government urges that we should impose sanctions against Conklin for bringing this frivolous appeal. We agree.

We affirm for substantially the reasons set forth in the district court's Order and Memorandum of Decision dated May 2, 1994.

Moreover, "[i]n light of plaintiff's legally frivolous arguments, the award of attorney's fees and double costs [are] justified." Betz, 753 F.2d at 835. See also: Charczuk v. Commissioner of Internal Revenue, 771 F.2d 471, 474-76 (10th Cir.1985); Martinez v. Internal Revenue Service, 744 F.2d 71, 73 (10th Cir.1984).

Accordingly, attorney fees and double costs are hereby imposed against Conklin for the taking of a legally frivolous appeal. The matter is REMANDED to the district court to make the appropriate determinations.

The mandate shall issue forthwith.

FN1. This order and judgment is not binding precedent, except under the doctrines of law of the case, res judicata, and collateral estoppel. The court generally disfavors the citation of orders and judgments; nevertheless, an order and judgment may be cited under the terms and conditions of the court's General Order filed November 29, 1993. 151 F.R.D. 470.

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United States v. Sullivan, 274 U.S. 259, 47 S.Ct. 607 (1927)

Supreme Court of the United States

UNITED STATES

v.

SULLIVAN.

No. 851.

Decided May 16, 1927.

Mr. Justice HOLMES delivered the opinion of the Court.

The defendant in error was convicted of willfully refusing to make a return of his net income as required by the Revenue Act of 1921, Act Nov. 23, 1921, c. 136, §§ 223(a), 253 (42 Stat. 227, 250, 268 (Comp. St. §§ 6336 1/8 kk, 6336 1/8 v)). The judgment was reversed by the Circuit Court of Appeals. *Sullivan v. United States*, 15 F.(2d) 809. A writ of certiorari was granted by this Court.

We may take it that the defendant had sufficient gross income to require a return under the statute unless he was exonerated by the fact that the whole or a large part of it was derived from business in violation of the National Prohibition Act (Comp. St. § 10138 1/4 et seq.). The Circuit Court of Appeals held that gains from illicit traffic in liquor were subject to the income tax, but that the Fifth Amendment to the Constitution protected the defendant from the requirement of a return.

The Court below was right in holding that the defendant's gains were subject to the tax. By section 213(a), being Comp. St. § 6336 1/8 ff, gross income includes 'gains, profits, and income derived from * * * the transaction of any business carried on for gain or profit, or gains or profits and income derived from any source whatever.' These words are also those of the earlier Act of October 3, 1913, c. 16, section II, B (38 Stat. 114, 167), except that the word 'lawful' is omitted before 'business' in the passage just quoted. By section 600 (42 Stat. 285 (Comp. St. § 5986e)), and by another Act approved on the same day Congress applied other tax laws to this forbidden traffic. Act Nov. 23, 1921, c. 134, § 5 (42 Stat. 222, 223 (Comp. St. §§ 10138 4/5 c-10138 1/5 e)). *United States v. One Ford Coupe*, 272 U. S. 321, 327, 47 S. Ct. 154, 47 A. L. R. 1025; [FN1] *United States v. Stafoff*, 260 U. S. 477, 480, 43 S. Ct. 197, 67 L. Ed. 358. We see no reason to doubt the interpretation of the Act, or any reason why the fact that a business is unlawful should exempt it from paying the taxes that if lawful it would have to pay.

As the defendant's income was taxed, the statute of course required a return. See *United States v. Sischo*, 262 U. S. 165, 43 S. Ct. 511, 67 L. Ed. 925. In the decision that this was contrary to the Constitution we are of opinion that the protection of the Fifth Amendment was pressed too far. **If the form of return provided called for answers that the defendant was privileged from making he could have raised the objection in the return, but could not on that account refuse to make any return at all.** We are not called on to decide what, if anything, he might have withheld. Most of the items warranted no complaint. It would be an extreme if not an extravagant application of the Fifth Amendment to say that it authorized a man to refuse to state the

amount of his income because it had been made in crime. But if the defendant desired to test that or any other point he should have tested it in the return so that it could be passed upon. He could not draw a conjurer's circle around the whole matter by his own declaration that to write any word upon the government blank would bring him into danger of the law. *Mason v. United States*, 244 U. S. 362, 37 S. Ct. 621, 61 L. Ed. 1198; *United States ex rel. Vajtauer v. Commissioner of Immigration* (January 3, 1927) 273 U. S. 103, 47 S. Ct. 302, 71 L. Ed. 560. In this case the defendant did not even make a declaration, he simply abstained from making a return. See further the decision of the Privy Council, *Minister of Finance v. Smith* (1927) A. C. 193.

It is urged that if a return were made the defendant would be entitled to deduct illegal expenses such as bribery. This by no means follows but it will be time enough to consider the question when a taxpayer has the temerity to raise it.

Judgment reversed.

Footnotes:

FN1 71 L. Ed. 279.

United States v. Waldeck, 909 F.2d 555 (1st Cir. 1990)

United States Court of Appeals,

First Circuit.

UNITED STATES, Appellee,

v.

Kenneth W. WALDECK, Defendant, Appellant.

No. 89-2152.

Decided July 12, 1990.

Before SELYA and SOUTER, Circuit Judges, and BOWNES, Senior Circuit Judge.

BOWNES, Senior Circuit Judge.

Defendant was tried under 26 U.S.C. § 7201 on five counts for willfully attempting to evade and defeat the income tax due and owing for the taxable years 1982, 1983, 1984, 1985 and 1986. Defendant did not testify and presented no evidence. This appeal followed his jury conviction on all counts.

The issues raised on appeal are built around defendant's basic contention that neither the government nor the court distinguished properly the offense of evading the assessment of taxes from the offense of evading the payment of taxes. A statement of the trial evidence, which is not in dispute, is a necessary prelude to a discussion of the issues.

I. THE EVIDENCE

Defendant worked as an engineer for three different employers for the taxable years 1982 through 1986; the taxable year in each instance is the same as the calendar year. In each year, defendant received gross income from his employer in excess of the amount required to file an income tax return. For the years 1982, 1983, 1985 and 1986 defendant filed a 1040 "fifth amendment" return which contained only his name, signature, a figure for federal income tax withheld, asterisks at the numbered lines in lieu of any information and the following statement: "This means specific exception is made under the Fifth Amendment, U.S. Constitution." No return at all was filed for 1984. Defendant had filed proper and timely returns for the years 1976 through 1980.

On July 15, 1981, defendant filed an Employee's Withholding Allowance Certificate (W-4) with his employer claiming single status and 30 allowances. He had filed two prior W-4s claiming single status with one and then two allowances. On March 15, 1982, defendant's attorney, William D. Morris, wrote to defendant's employer stating that because of the employer-employee relationship, the employer should not release any information about the defendant's employment to any government agency, particularly the IRS, and that the

employer should ignore any requests for information unless there was a subpoena, in which event the employer was to notify defendant. [FN1] On May 2, 1982, defendant wrote to the secretary of the employer's legal division and requested that the lawyer's letter be attached to his W-4 and a copy put in his personnel file.

On March 25, 1982, the IRS asked defendant his reason for claiming 30 allowances. His reply letter stated in effect that the W-4 was accurate, that the IRS could not change it and that his constitutional rights were being violated. The IRS then directed the employer to withhold taxes from defendant on the basis of single status and one allowance. The employer complied.

Defendant went to work for a different employer on June 4, 1984. He immediately filed a W-4 claiming single status and 14 allowances. He switched jobs again on October 21, 1985; this time his W-4 claimed 13 allowances.

Defendant had filed a fifth amendment return for 1981. On September 24, 1982, the IRS wrote him stating the 1040 form he filed did not comply with the Revenue Code and enclosed two income tax returns for filing properly. Defendant responded on December 9, 1982 stating in effect that he knew he had not filed a valid tax return for 1981 and that he was not going to do so. He also referred to excerpts from various United States Supreme Court decisions and asked questions about their scope and application. On April 15, 1983, defendant wrote again to the IRS informing it that he did not pay taxes for 1981, that he filed only a fifth amendment tax return for that year, that he was filing a similar return for 1982 and that he was not going to pay taxes for 1982. The IRS responded by assessing a \$500 penalty against defendant under 26 U.S.C. § 6702 for filing a frivolous return (a fifth amendment return) for 1982. Defendant promptly paid 15 percent of the penalty and brought suit in the United States District Court of New Hampshire challenging the penalty under 26 U.S.C. § 6703. The district court on June 7, 1984 issued summary judgment for the government. **This did not deter the defendant from filing fifth amendment returns for 1985 and 1986. The government's successful criminal prosecution of defendant followed.**

II. THE ISSUES

A. *The Indictment*

Defendant argues that the indictment should have been dismissed because it was duplicitous and unconstitutionally vague and ambiguous. Except for place of residence and the year, each of the five counts in the indictment are identical. We reproduce Count II.

COUNT II

That during the calendar year 1983, the defendant,

KENNETH WILLIAM WALDECK,

a resident of Exeter, New Hampshire, had and received substantial taxable income; that upon said taxable income there was owing to the United States of America a substantial income tax; that well-knowing and believing the foregoing facts, KENNETH WILLIAM WALDECK, in the District of New Hampshire, did willfully attempt to evade and defeat the said income tax due and owing by him to the United States of America for said calendar year by failing to

timely file an income tax return on or before April 15, 1984, as required by law, to any proper officer of the Internal Revenue Service, by failing to pay to the Internal Revenue Service said income tax, and by taking affirmative steps to conceal from all proper officers of the United States of America his true and correct income and tax liability.

In violation of Title 26, United States Code, Section 7201.

The crux of the duplicity claim is that the indictment could be read to mean that defendant was charged with both willfully attempting to evade and defeat the assessment of tax *and* the payment of tax. The defendant's basis for distinguishing between the offense of evasion of assessment of tax and the offense of evasion of payment of tax rests on a pronouncement by the United States Supreme Court as to the scope of 26 U.S.C. § 7201.

The pertinent part of § 7201 provides: "Any person who willfully attempts in any manner to evade or defeat any tax imposed by this title or the payment thereof shall, in addition to other penalties provided by law, be guilty of a felony...." In *Sansone v. United States*, 380 U.S. 343, 85 S.Ct. 1004, 13 L.Ed.2d 882 (1965), the Court held that "the elements of § 7201 are willfulness; the existence of a tax deficiency; and an affirmative act constituting an evasion or attempted evasion of the tax." *Id.* at 351, 85 S.Ct. at 1010 (citations omitted). One of the defenses considered by the Court in *Sansone* was that an intent to report and pay the tax in the future constitutes a defense to § 7201. In rejecting this defense the Court stated:

No defense to a § 7201 evasion charge is made out by showing that the defendant willfully and fraudulently understated his tax liability for the year involved but intended to report the income and pay the tax at some later time. As this Court has recognized, § 7201 includes the offense of willfully attempting to evade or defeat the assessment of a tax as well as the offense of willfully attempting to evade or defeat the payment of a tax.

Id. at 354, 85 S.Ct. at 1011 (emphasis added).

To our knowledge, only two courts of appeals have addressed the issue of whether an indictment alleging violation of § 7201 by stating that defendant did "willfully attempt to evade and defeat the income tax due and owing" has alleged the two separate crimes of evasion of assessment of tax and evasion of payment of tax and therefore is duplicitous. The issue was first addressed by the Fifth Circuit in *United States v. Masat*, 896 F.2d 88 (5th Cir.1990). In finding that the indictment was not duplicitous, the court held:

The charge in the indictment directly tracked the wording of § 7201. The "two crimes" of which Masat contends he was charged come from one statute, indeed, from one sentence. In truth, there is one crime, the evasion of taxes, and it is of no moment that both assessment and payment might have been evaded. There was no plain error requiring reversal, for the indictment was not duplicitous.

Id. at 91. We must note that no reference at all is made to *Sansone*.

In an even more recent case, *United States v. Dunkel*, 900 F.2d 105 (7th Cir.1990), the Seventh Circuit came to the same conclusion. It did not completely ignore *Sansone*, but it did not let it stand in the way of its holding:

Dunkel insists that the charges under § 7201 are duplicitous because that statute creates two crimes: evading the assessment of taxes (as by fooling the IRS about your income) and evading the payment of taxes (as by secreting assets after taxes have been assessed). To charge both in one count, Dunkel maintains, is to confuse both the defendant and the jury. Not so. Section 7201 creates only one crime: tax evasion. Section 7201 makes it a crime to "attempt in any manner to evade or defeat any tax imposed by this title or the payment thereof". Just as you can rob a bank in a dozen ways (blow the door off the vault, tunnel from next door and empty the till in the dead of night, stick up the teller, scoop money out of the cash drawer during business hours when no one is looking, and so on), so you can evade taxes in multiple ways.

Sometimes it is convenient to say that different methods are different "crimes", as the Supreme Court once said about § 7201. *Sansone v. United States*, 380 U.S. 343, 354, 85 S.Ct. 1004, 1011, 13 L.Ed.2d 882 (1965); see also, *United States v. Dack*, 747 F.2d 1172, 1174 (7th Cir.1984). Whether § 7201 creates multiple offenses in the sense that one who evades his taxes for a single year both by creative bookkeeping and by transferring assets (as the jury could conclude Dunkel did) could be given cumulative punishment is a different matter entirely. If Dunkel were right, he could be punished twice, so long as the government took care to charge the events of a single year in two counts. We need not decide whether Congress has authorized this. It is enough to say that nothing in the text or history of § 7201 requires an indictment to treat § 7201 as if it were two sections of the United States Code.

Id. at 107.

We are not so bold as to either ignore or shunt *Sansone* aside, especially since we have no reason to do so. Although the indictment could have been clearer by specifying that the crime charged was attempting to evade and defeat the assessment of taxes for the years charged, we do not think it was fatally duplicitous. In each count, defendant was charged with attempting "to evade and defeat the said income tax due and owing ... by failing to timely file an income tax return [for the year charged] ... by failing to pay to the Internal Revenue Service said income tax and by taking affirmative steps to conceal from all proper officers of the United States of America his tax and correct income and tax liability." We acknowledge that the phrase "failing to pay to the Internal Revenue Service said income tax" could be construed as an evasion-of-payment charge but it was overborne by the other clear and unequivocal evasion-of-assessment charges.

Moreover, it was clear at the start of the trial that the government was proceeding on an evasion-of-assessment theory; it had so stated at a pretrial conference the day before the trial started. That the defendant understood the crime charged is evidenced by the following statement by defense counsel in his opening:

The indictment in this case is a five-count indictment charging tax evasion for 1982, 1983, 1984, 1985 and 1986, and *Ken is charged with evading assessment of his taxes*. Now, I'm not going to try and give you an instruction or explain what assessment is at this point. What I'm going to ask you to do is listen to the witness [sic] on the witness stand when they explain what assessment is. *He is not charged with evading payment of his taxes. He is charged with evading assessment*, and that's very important. I want you to think about that as the case goes along.

(Emphasis added).

We hold that the indictment was not duplicitous and that defendant understood the crime charged was evasion of assessment of taxes.

Defendant's contention that the indictment is unconstitutionally vague and ambiguous deserves but short shrift. What we said in *United States v. Fusaro*, 708 F.2d 17 (1st Cir.), *cert. denied*, 464 U.S. 1007, 104 S.Ct. 524, 78 L.Ed.2d 708 (1983), applies with full force here:

The indictment is sufficient if the offense is described with sufficient clarity to show a violation of law, and enables the accused to know the nature and cause of the accusation against him and to plead an acquittal or conviction in bar of future prosecution for the same offense. *Hamling v. United States*, 418 U.S. 87, 117, 94 S.Ct. 2887, 2907, 41 L.Ed.2d 590 (1974). The relevant counts track with specificity the statutory language and satisfy the *Hamling* test.

Id. at 23; *see also United States v. Hogan*, 861 F.2d 312, 314-15 (1st Cir.1988).

We reject defendant's contention that the indictment should have been dismissed. For the same reasons, we also reject defendant's contention that the prosecution and the district court constructively amended the indictment.

B. Sufficiency of the Evidence

Defendant asserts that the district court's denial of his motion for judgment of acquittal was error. Our standard of review is firmly established:

In reviewing a Rule 29 motion the court must consider the evidence as a whole taken in the light most favorable to the Government, together with all legitimate inferences to be drawn therefrom to determine whether a rational trier of fact could have found guilt beyond a reasonable doubt. *United States v. Patterson*, 644 F.2d 890, 893 (1st Cir.1981). The Government may prove its case entirely by circumstantial evidence and need not exclude every reasonable hypothesis of innocence, provided the record as a whole supports a conclusion of guilt beyond a reasonable doubt. *United States v. Gabriner*, 571 F.2d 48, 50 (1st Cir.1978). Furthermore, if the evidence can be construed in various reasonable alternatives, the jury is entitled to freely choose from among them. *United States v. Klein*, 522 F.2d 296, 302 (1st Cir.1975).

United States v. Smith, 680 F.2d 255, 259 (1st Cir.1982), *cert. denied*, 459 U.S. 1110, 103 S.Ct. 738, 74 L.Ed.2d 960 (1983); *see also United States v. Bucci*, 839 F.2d 825, 827 (1st Cir.), *cert. denied*, 488 U.S. 844, 109 S.Ct. 117, 102 L.Ed.2d 91 (1988); *United States v. Rivera Rodriguez*, 808 F.2d 886, 890 (1st Cir.1986); *United States v. Rothrock*, 806 F.2d 318, 320 (1st Cir.1986).

In order to convict, the government had to prove "a willful and positive attempt to evade [assessment of] tax in any manner or to defeat it by any means...." *Spies v. United States*, 317 U.S. 492, 499, 63 S.Ct. 364, 368, 87 L.Ed. 418 (1943). The question is whether the government's evidence, which consisted mainly of

defendant's fifth amendment returns, which supplied no tax information at all, and the false W-4s (Employee Withholding Allowance Certificates) filed by defendant with his employers, was sufficient for a conviction.

Defendant argues that neither the fifth amendment returns nor the false W-4s prove willful attempt to evade assessment of tax. As to the returns, he contends that since they were, in effect, a nullity and not used by the government for assessment of his tax, they were not evidence of an attempt to evade the assessment of his tax liability. His contention on the W-4s is that they relate to evasion of payment of tax, not evasion of assessment of tax. Both assertions are bootless.

The question is not whether the government relied on the returns and the W-4s in assessing defendant's tax but whether their filing by defendant is evidence of a *willful attempt* to evade and defeat the assessment of his tax. We think they are and the case law confirms our conclusion.

1. The W-4s

A W-4, as with a 1040, is signed under the penalties of perjury. It states: "Under the penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate, or if claiming exemption from withholding, that I am entitled to claim the exempt status." The purpose of the form is stated on it:

Purpose.--The law requires that you complete Form W-4 so that your employer can withhold Federal income tax from your pay. Your Form W-4 remains in effect until you change it or, if you entered "EXEMPT" on line 6b above, until February 15 of next year. By correctly completing this form, you can fit the amount of tax withheld from the wages to your tax liability.

Courts have uniformly held that the filing of false W-4s constitutes evidence of a willful attempt to evade taxes in violation of 26 U.S.C. § 7201.

In *United States v. Connor*, 898 F.2d 942 (3d Cir.1990), the court held that defendant's "purposeful failure to file an accurate W-4 form could be viewed by the jury as an affirmative willful act to support the violation of 26 U.S.C. § 7201 comparable to the affirmative acts of evasion outlined in *Spies v. United States*, 317 U.S. at 499, 63 S.Ct. at 368." *Id.* at 945.

We confronted a somewhat similar issue in *United States v. Johnson*, 893 F.2d 451 (1st Cir.1990). In *Johnson*, the question was whether

evidence that Johnson submitted a W-4 form in 1987 claiming more allowances than he was entitled to and did not file an income tax return for 1987, was relevant to show Johnson's willfulness and absence of mistake in filing the Schedule C forms containing false information during the years 1982- 86 [the years charged in indictment].

Id. at 453. We held:

It could seem obvious from Johnson's filing of blatantly false W-4 exemption claims in 1987, and his failure to file any tax return at all for that year, that he had a willful intent to avoid

paying taxes then. The jury could reasonably infer from this that the improper filings in the years immediately previous were likewise infected by a tax evasion purpose.

Id. *A fortiori*, the filing of false W-4s and returns giving none of the required information for the years charged in the indictment would be even stronger evidence of willfulness. [FN2]

In *United States v. Felak*, 831 F.2d 794, 798 (8th Cir.1987), the court held that claiming exemptions that were not justified was evidence from which tax evasion under § 7201 could be found.

Relying on *Spies v. United States*, 317 U.S. at 497, 63 S.Ct. at 367, the Seventh Circuit had no difficulty finding that "filing a false and fraudulent tax withholding certificate, although a misdemeanor offense, constitutes valid and sufficient evidence of willful commission." *United States v. Copeland*, 786 F.2d 768, 770 (7th Cir.1985).

Although these courts have not specified whether the particular tax offense as to which the false W-4s constitute evidence is evasion of assessment or evasion of payment, and indeed have not even mentioned this distinction, we conclude that false W-4s may be used as evidence of either evasion of assessment of tax or evasion of payment of tax or both.

2. The Fifth Amendment Returns

The filing of fifth amendment returns, or to be accurate "no information" returns, cuts across the grain of the entire purpose and philosophy of our tax system, which depends in large part upon information furnished by the putative taxpayer. See *Spies v. United States*, 317 U.S. at 495, 63 S.Ct. at 366. In *United States v. DeClue*, 899 F.2d 1465, 1471 (6th Cir.1990), part of the evidence leading to defendant's conviction for tax evasion was filing a return which contained no financial information and on which there was typed "object: self-incrimination." The statement by the court in *United States v. Afflerbach*, 547 F.2d 522, 524 (10th Cir.1976), *cert. denied*, 429 U.S. 1098, 97 S.Ct. 1118, 51 L.Ed.2d 546 (1977), covers the situation before us.

There was evidence introduced that the defendant knew he had taxable income during the year in question, and that he intentionally filed a purported return which did not contain enough information upon which a tax could be computed. The proof showed an intentional act to evade the law, and the affirmative act of filing the type of return he did.

We recognize that neither *DeClue* nor *Afflerbach* specified whether the type of tax offense being upheld was one of evasion of assessment or evasion of payment. Rather, they describe the offense generically as one of tax evasion. As with the false W-4s, however, we conclude that the fifth amendment returns constitute probative evidence of evasion of assessment of tax.

C. The Jury Instructions

Defendant argues that the district court improperly instructed the jury as to the elements of the crime charged and therefore denied defendant his fifth amendment right to a fair trial. He asserts that the instructions constructively amended the indictment by instructing on two crimes: evasion of payment of tax and evasion of assessment of tax. He further argues that the jury instructions were vague and ambiguous.

As defendant seems to concede, see page 24 of appellant's brief, none of the objections to the instructions raised on appeal were specifically made as required under Fed.R.Crim.P. 30, and we therefore review only for plain error. *United States v. Campbell*, 874 F.2d 838, 841 (1st Cir.1989); *United States v. Bay State Ambulance and Hosp. Rental Service*, 874 F.2d 20, 33 (1st Cir.1989); *United States v. Griffin*, 818 F.2d 97, 99-100 (1st Cir.), *cert. denied*, 484 U.S. 844, 108 S.Ct. 137, 98 L.Ed.2d 94 (1987).

We have reviewed the instructions carefully and find no error, plain or otherwise.

AFFIRMED.

Footnotes:

FN1. The letter stated in pertinent part.

This letter has been prepared as an opinion relating to Employer-Employee contractual relationships. In my considered legal opinion such contractual relationships are personal and private. No person or agency, private or governmental, has any business whatsoever inquiring into such a relationship without prior, written consent, from my client.

I therefore request of you, as my client's employer, that you *do not* reveal any information whatsoever regarding this relationship to anyone at all without prior written consent from my client.

This request includes any request or demand made by any governmental agencies, and particularly, a demand or request from the Internal Revenue Service.

I could phrase this letter as a demand, not a request. However, I suggest mutual cooperation in this matter may be much more productive.

I find no requirement in the law that obligates your company to respond to any IRS demands *unless* a proper and lawful subpoena is properly and lawfully served on your firm. In that event I do demand that you notify my client of such a subpoena *prior* to divulging any information regarding employment terms. This demand includes *all* records maintained by you relating to my client.

FN2. No comment is necessary on defendant's failure to file any return for 1984.



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TITLE 26 > Subtitle D > CHAPTER 35 > Subchapter A > § 4401

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§ 4401. Imposition of tax

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(a) Wagers**(1) State authorized wagers**

There shall be imposed on any wager authorized under the law of the State in which accepted an excise tax equal to 0.25 percent of the amount of such wager.

(2) Unauthorized wagers

There shall be imposed on any wager not described in paragraph (1) an excise tax equal to 2 percent of the amount of such wager.

(b) Amount of wager

In determining the amount of any wager for the purposes of this subchapter, all charges incident to the placing of such wager shall be included; except that if the taxpayer establishes, in accordance with regulations prescribed by the Secretary, that an amount equal to the tax imposed by this subchapter has been collected as a separate charge from the person placing such wager, the amount so collected shall be excluded.

(c) Persons liable for tax

Each person who is engaged in the business of accepting wagers shall be liable for and shall pay the tax under this subchapter on all wagers placed with him. Each person who conducts any wagering pool or lottery shall be liable for and shall pay the tax under this subchapter on all wagers placed in such pool or lottery. Any person required to register under section 4412 who receives wagers for or on behalf of another person without having registered under section 4412 the name and place of residence of such other person shall be liable for and shall pay the tax under this subchapter on all such

wagers received by him.



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Monthly Tax on Wagering
(Section 4401 of the Internal Revenue Code)

Please print in ALL CAPITAL LETTERS. Leave a blank box between words.

Name [grid] Employer identification number (EIN) [grid]

Address (number, street, room or suite no.) [grid]

City, state, and ZIP code (Foreign addresses, include province and postal code as appropriate.) [grid]

Foreign country, if applicable. Do not abbreviate. [grid] Daytime telephone number (optional) [grid]

FOR IRS USE ONLY
T
FF
FP
I
T

Month (MM) and year (YYYY) [grid] Check here if: [] Address change [] Final return

1 Gross amount of wagers accepted during month (not including laid-off wagers)
2 Gross amount of laid-off wagers accepted during month (see instructions)
3 Add lines 1 and 2

4a Tax on wagers authorized under the law of the state in which accepted. Enter the amount of these wagers from line 3; multiply by the amount shown and enter the result [grid] X .0025 = [grid]

b Tax on wagers other than wagers described on line 4a. Enter the amount of these wagers from line 3; multiply by the amount shown and enter the result [grid] X .02 = [grid]

c Tax on wagers. Add lines 4a and 4b
5 Credits. No credit is allowed unless supported by evidence. (see instructions)
6 Balance due. Subtract line 5 from line 4c.

File this return and your payment with the IRS as shown under Where to file on page 2. Make your check or money order payable to the "United States Treasury". Write your name, address, EIN, and "Form 730" on it.

Sign Here
Under penalties of perjury, I declare that I have examined this return and any accompanying certificates and statements, and, to the best of my knowledge and belief, they are true, correct, and complete.
Signature
Date

Instructions
Section references are to the Internal Revenue Code.
Unresolved tax problems. The Taxpayer Advocate's office may assign a personal advocate to taxpayers who have been unable to resolve their problems with the IRS. You can write to the Taxpayer Advocate at the IRS office that last contacted you or call a toll-free assistance number, 1-877-777-4778. Persons who have access to TTY/TDD equipment may call 1-800-829-4059 to ask for help from the Taxpayer Advocate. This office cannot change the law or technical decisions, but it can help clear up problems that resulted from previous contacts.
Who must file. You must file Form 730 and pay the tax on wagers under section 4401(a) if you:
• Are in the business of accepting wagers,
• Conduct a wagering pool or lottery, or
• Are required to be registered and you receive wagers for or on behalf of another person but do not register that person's name and address.
Use Form 11-C, Occupational Tax and Registration Return for Wagering, to register.
What is taxed. The tax applies only to wagers accepted in the United States or placed by a person who is in the United States with a person who is a U.S. citizen or resident.
Taxable wagers include those placed:
• On a sports event or contest with a person engaged in the business of accepting wagers on a sports event or contest.
• In a wagering pool on a sports event or contest if the pool is conducted for profit.

● In a lottery conducted for profit, including the numbers game, policy, punch boards, and similar types of wagering.

What is not taxed. The tax is **not** imposed on the following five items:

- Parimutuel wagering, including horse racing, dog racing, and jai alai, when it is licensed under state law.
- Coin-operated devices, such as pinball machines.
- Sweepstakes, wagering pools, or lotteries that are conducted by an agency of a state, if the wager is placed with the state agency or its authorized agents or employees.
- Games of the type in which all persons placing wagers in the game are present when wagers are placed, winners are determined, and prizes or other property are distributed.
- Drawings conducted by an organization exempt from tax under sections 501 and 521, as long as the net proceeds of the drawing do not benefit a private shareholder or individual.

When to file. File Form 730 for each month by the last day of the following month. The IRS will not send you a notice that a return is due. File a return whether or not you have taxable wagers to report. If you have none to report, write "0" (zero) in the last box of the dollar amount column. If you stop accepting wagers, check the final return box above line 1.

Where to file. Mail your return to the **Internal Revenue Service, Cincinnati, OH 45999-0100**. You may also hand carry your return to the district director's office for the district in which you live or where your principal place of business is located, or to any permanent post of duty within your Internal Revenue district.

Completing Form 730. Enter in the boxes provided your name, address, employer identification number (EIN), and the month (MM) and year (YYYY) for which this form is filed.

- Use a black ink pen. The machines used to read this form may not be able to read other colored ink or pencil.
- Print in ALL CAPITAL LETTERS. Begin printing in the first box on the left. Leave a blank box between each name and word. If there are not enough boxes, print as many letters as there are boxes. Use hyphens for compound names; use one box for each hyphen.

Completing lines 1 through 6. Enter dollar amounts as follows:

- You do not have to use all the boxes for a column entry; do not use zeros or dashes to fill empty boxes. Do not use commas or dollar signs.
- You may enter the amount in whole dollars. If you do round, leave the boxes for the cents amounts blank. You can drop amounts that are less than 50 cents, and increase amounts that are 50 cents or more to the next whole dollar. If you do round, do so for all amounts. But if you have to add two or more amounts to figure the amount to enter on a line, include cents when adding and only round off the total.

Line 1. Enter the gross amount of wagers accepted during the month. Gross wagers are the total of those wagers that are authorized and those wagers that are not authorized by the state in which they are accepted. Include all charges connected with placing the wager. If you can prove that the person placing the wager has paid a separate charge equal to the tax, do not include that amount in the amount of the wager. **Do not** include laid-off wagers in this amount.

Line 2. Enter the gross amount of any laid-off wagers you accepted from someone else during the month. Gross laid-off wagers are the total of those laid-off wagers that are authorized and those that are not authorized by the state in which they are accepted. See Regulations section 44.6419-2 for a model certificate.

Lines 4a and 4b. Enter the applicable amount from line 3 in the boxes to the left. Multiply the amount by the rate shown and enter the tax in the boxes to the right. The rate of tax depends on whether the wager is authorized by the laws of the state in which the wager was accepted. The lower rate applies to wagers that are authorized by state law.

Line 5. You may be able to claim a credit for the amount of any overpayment of tax or for the amount of tax imposed with respect to a wager that you laid off.

Credit for an overpayment of tax. You may claim a credit for any overpayment of tax. The claim must be filed within 3 years from the time the Form 730 reporting the tax was filed or 2 years from the time the tax was paid, whichever is later. No credit is allowed unless a statement including the following information is attached.

- The facts involving the overpayment.
- An explanation of the reason for claiming a credit.
- The date of payment and the amount of the tax.
- Whether any previous claim covering the amount involved, or any part, has been filed.
- A statement that you:
 1. Have not collected (whether as a separate charge or otherwise) the amount of the tax from the person who placed the wager on which the tax was imposed, or
 2. Have repaid the amount of the tax to the person who placed the wager, or
 3. Have the written consent of the person who placed the wager to the allowance of the credit. The consent must be attached to the return.
- If the overpayment relates to a laid-off wager accepted by you, one of the above three statements must be attached for both the person who placed the laid-off wager with you and the person who placed the original wager.

Credit for wagers laid off by you. If you accept a wager and lay off all or a part of that wager with a person who is liable for tax, then:

- If you have not paid the tax, a credit may be claimed on the Form 730 for the month during which the wager was accepted in the amount of the tax due for the laid-off wager.
- If you have paid the tax, a credit may be allowed for the tax paid on the laid-off amount. The claim must be filed within 3 years from the time the return reporting the tax was filed or 2 years from the time the tax was paid, whichever is later.

Interest will not be allowed on a credit for the tax imposed on a wager that you lay off.

No credit is allowed unless the following information is attached to the return for each laid-off wager.

- The certificate described in Regulations section 44.6419-2(d).
- A statement that includes:
 1. The reason for the credit,
 2. The month in which the tax was paid,
 3. The date of payment, and
 4. Whether any previous claim covering all or part of the amount involved has been filed.

Recordkeeping. Keep copies of your tax returns, records, and accounts of all transactions to show that the correct tax has been paid. Keep records to support all adjustments claimed and all exemptions at least 4 years from the latest of the following dates: when the tax became due, when you paid the tax, when you claimed an adjustment, or when you filed a claim for refund.

Always keep your records available for IRS inspection.

Penalties. Avoid penalties and interest by filing returns and paying taxes when due. The law provides penalties for filing a return late; paying taxes late; willfully failing to collect and pay tax, or file a return; negligence; and fraud. These penalties are in addition to the interest charge on late payments. The penalty for filing a return late will not be imposed if you can show that the failure to file a timely return is due to reasonable cause.

Disclosure of information on wagering taxes. Except for administering or enforcing Internal Revenue taxes, neither the Treasury Department nor any of its employees may disclose documents, records, or information obtained through them that a taxpayer supplies in connection with wagering taxes. Also, certain documents related to wagering taxes and information obtained through them that relates to wagering taxes may not be used against the taxpayer in any nontax criminal proceeding. See section 4424 for more details.

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. Section 4401 of the Internal Revenue Code imposes a tax on wagering. The form is used to determine the amount of the tax. Section 6109 requires you to provide your taxpayer identification number (SSN or EIN). Failure to provide this information in a timely manner, or providing false information, may subject you to penalties. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and to cities, states, and the District of Columbia for use in the administration of their taxes.

You are not required to provide the information requested on a form unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 5 hr., 30 min.; **Learning about the law or the form**, 53 min.; **Preparing, copying, assembling, and sending the form to the IRS**, 1 hr., 1 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send this form to this address. Instead, see **Where to file** on this page.





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§ 4424. Disclosure of wagering tax information

*How Current is This?***(a) General rule**

Except as otherwise provided in this section, neither the Secretary nor any other officer or employee of the Treasury Department may divulge or make known in any manner whatever to any person—

- (1) any original, copy, or abstract of any return, payment, or registration made pursuant to this chapter,
- (2) any record required for making any such return, payment, or registration, which the Secretary is permitted by the taxpayer to examine or which is produced pursuant to section 7602, or
- (3) any information come at by the exploitation of any such return, payment, registration, or record.

(b) Permissible disclosure

A disclosure otherwise prohibited by subsection (a) may be made in connection with the administration or civil or criminal enforcement of any tax imposed by this title. However, any document or information so disclosed may not be—

- (1) divulged or made known in any manner whatever by any officer or employee of the United States to any person except in connection with the administration or civil or criminal enforcement of this title, nor
- (2) used, directly or indirectly, in any criminal prosecution for any offense occurring before the date of enactment of this section.

(c) Use of documents possessed by taxpayer

Except in connection with the administration or civil or criminal enforcement

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of any tax imposed by this title—

- (1) any stamp denoting payment of the special tax under this chapter,
- (2) any original, copy, or abstract possessed by a taxpayer of any return, payment, or registration made by such taxpayer pursuant to this chapter, and
- (3) any information come at by the exploitation of any such document,

shall not be used against such taxpayer in any criminal proceeding.

(d) Inspection by committees of Congress

Section 6103 (f) shall apply with respect to any return, payment, or registration made pursuant to this chapter.

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Subj: death and taxes

Date: Tuesday, May 4, 1999 8:49:47 AM

From: rschue@juno.com

To: jzavaletta@usa.net, mwoodhouse@aol.com, bradleyw@star-nets.net, edweaver1@compuserve.com, joelv@cc.org, BobRaymond@aol.com, ear@radiks.net, kerry@umich.edu, wilhelm7@ix.netcom.com, crwnrts@datasync.com, biat@juno.com, isa4031@prodigy.net, cebingel@uswest.net, RGBernhoft@aol.com, fgetzman@mail.neonramp.com, lorialberti@hotmail.com, gen42@neonramp.com, Jim.Onkka@firstdatacorp.com, jbayer@sscgs.net

compiled by John MacIntyre from Southwest Airlines Spirit magazine, page 154 (1999.4, DFW Airport, Texas, phone 817 967 1804).

1789: Year in which Benjamin Franklin bragged in a letter to Jean-Baptiste Leroy, "Our Constitution is in actual operation; everything appears to promise it will last; but nothing in this world is certain but death and taxes."

1672: Year in which the first tax upon the American colonies was imposed by the British Parliament without the colonies' consent. It was a duty on sugar, tobacco, ginger, coconuts, indigo, logwood fustic, wool, and cotton.

126 million: Number of personal income tax returns expected to be received by the IRS in 1999 (for the 1998 tax year).

1862: Year in which the first federal income tax was imposed, a temporary three-percent tax on incomes exceeding \$600.

\$825 billion: Gross amount of personal income tax collected in 1997.

\$336 million: Total value of the personal tax levy placed upon seventy percent of the estate of Howard Hughes, making it the highest recorded personal tax levy in the world.

50.7: Percentage of all taxes collected accounted for by personal income tax.

12.6: Percentage accounted for by corporate taxes.

9,471: Number of pages in the Internal Revenue Code.

1,291: Number of pages in the Bible.

5 million: Of Russia's 150 million citizens, the number who file tax returns.

26: Number of Russian tax collectors who were killed in 1996.

41: Number who had their houses burned to the ground.

6: Number kidnapped.

2.83: Number of hours americans spent working each day to pay taxes in 1998.

2: Number of minutes by which this time has increased since 1997.

May 10: Tax Freedom Day in 1998 (date to which Americans will have to work to pay off their total annual tax bill), according to the Tax Foundation.

April 3: Tax Freedom Day in 1950.

1.28: Percentage of personal income tax returns filed that are subject to review by the IRS.

2.67: Percentage of corporate tax returns that are subject to review by the IRS.

5,335: Total number of 1997 tax returns audited that resulted in criminal investigations of tax filers.

88: Percentage of those charged with tax crimes who were convicted.

42: Percentage of Americans who believe they get their money's worth from federal income taxes, according to a survey by Maritz Marketing

Research.

56: Percentage of Americans who believe they get their money's worth from state income taxes.

60: Percentage of Americans who feel they get their money's worth from property taxes.

32.3: Percentage of all federal individual income tax collected that comes from the top one percent of income earners (incomes above \$229,230).

50.8: Percentage of all federal individual income tax collected that is accounted for by the top five percent of income earners (incomes over \$101,202).

United States v. Weisman, 111 F.2d 260 (2nd Cir. 1940)

Circuit Court of Appeals, Second Circuit.

UNITED STATES

v.

WEISMAN.

No. 278.

April 22, 1940

Before L. HAND, CHASE, and CLARK, Circuit Judges.

L. HAND, Circuit Judge.

The defendant appeals from a sentence of six months following a conviction by the district judge for refusing to answer two questions, put to him by a grand jury on January 26, 1940. The questions were: first, whether he had ever received any cables at Murray's Restaurant, Sixth Avenue, New York; second, whether he knew anyone who visited, lived in, or stayed at, Shanghai in the years 1934 to 1939. The defendant had already been before the grand jury a number of times in December, 1939, and January, 1940, and had answered a few questions, but in the main had claimed his privilege against crimination. On January 22, he had denied that he had received any cables at Murray's Restaurant in 1934, but had immediately asked to retract the answer, and had thereupon asserted his privilege. Similarly on the 24th he had at first denied that he knew anyone who had visited Shanghai in 1934, but had immediately asked to retract; as to 1939 he also denied knowing anyone, but that denial he let stand. These answers the prosecution urges as an abandonment of the privilege; but we agree with the defendant that they were slips, and not really intended as an abandonment. The defendant's attorney, who was of course not with him before the grand jury, had instructed him to claim his privilege, and nothing had happened to change that purpose which he had claimed again and again. We shall, therefore, dispose of the appeal on the assumption that the privilege, whatever it was, remained.

The two questions were on their face innocent, and it lay upon the defendant to show that answers to them might criminate him. *United States v. Burr* (In re Willie), Fed. Cas. Sec. No. 14,692e; *State v. Thaden*, 43 Minn. 253, 255, 45 N.W. 447; *Regina v. Boyes*, 1 B.& S. 311, 321; *United States v. Zwillman*, 2 Cir., 108 F.2d 802. Whether he had the burden of proof upon that issue we need not decide, for we think in any case he proved his excuse. Obviously a witness may not be compelled to do more than show that the answer is likely to be dangerous to him, else he will be forced to disclose those very facts which the privilege protects. **Logically, indeed, he is boxed in a paradox, for he must prove the criminatory character of what it is his privilege to suppress just because it is criminatory. The only practicable solution is to be content with the door's being set a little ajar, and while at times this no doubt partially destroys the privilege, and at times it permits the suppression of competent evidence, nothing better is available.** All this has been long understood, but it is not so clear to what facts the privilege extends. Does it protect more than those which 'tend' to prove a crime? Does it also cover those which can only be clues to the discovery of other facts which in turn so 'tend'? The doctrine of *Counselman v. Hitchcock*, 142 U.S. 547, 12 S.Ct. 195, 35 L.Ed. 1110, goes

as far as the second; though we need not say how far it has been affected by later decisions. *Mason v. United States*, 244 U.S. 362, 37 S.Ct. 621, 61 L.Ed. 1198. All crimes are composed of definite elements, and nobody supposes that the privilege is confined to answers which directly admit one of these; it covers also such as logically, though mediately, lead to any of them; such as are rungs of the rational ladder by which they may be reached. A witness would, for example, be privileged from answering whether he left his home with a burglar's jimmy in his pocket, though that is no part of the crime of burglary. This, as we shall try to show, is as far as we need go here.

The defendant offered in evidence an indictment found in the year 1937 by the grand jury of the Southern District of New York against thirty persons (not including himself), charging a conspiracy to import narcotic drugs from Shanghai, payment to be made either by messenger, or by cable, direct to China; cables also being sent from New York to advise the shippers that the drugs had arrived, upon which 'arrangements would * * * be made, likewise in code, by cable for the transmission of the next shipment.' This indictment the judge ruled out, but it was clearly competent, and we shall dispose of the appeal as though he had admitted it. The defendant's examination was part of an investigation afoot about the importation of narcotics, in the course of which the prosecution had secured possession of three cables from Shanghai, to which the question almost certainly referred. These were addressed to one, 'L. C. Spiegel, 1247 Sixth Avenue' (Murray's Restaurant) and were in code; they were all dated in March, 1937, and were apparently among those mentioned in the indictment. An article had appeared in a New York newspaper, declaring that the federal district attorney would soon indict, as a dealer in narcotics, 'the owner of a big advertising agency', who had been the 'one-time partner of a big gangster', and who had been 'in hiding for a month'. The defendant was in fact the head of an advertising agency, and it had been rumored that at one time he had been the accomplice of a 'gangster'. He had in fact gone to Florida under circumstances which suggest that he was trying to hide; and the prosecution had questioned his family about his business between 1934 and 1939, and had secured the books of his business.

With this background it is easy to see that the danger from an answer to the first question was real. If the defendant had in fact received the three cables at Murray's Restaurant, there was reason to suppose either that, in spite of his denial, he was the Spiegel to whom they were addressed, or that he was acting on Spiegel's behalf. The indictment was in turn evidence that some such cables had been used in executing the conspiracy, and there was an antecedent probability that the prosecution's cables were among these. Further, the defendant was plainly justified in supposing that he was the object of pursuit by the district attorney; and, while the irresponsible gossip of a newspaper is a weak reed, there is always the possibility that it may for once be right. It directly pointed to the defendant, and it would certainly have disturbed any but the most hardy.

The case for the privilege against answering the second question was not so strong; yet strong enough in our judgment. The defendant might of course have known people living in Shanghai, or visiting there, without being implicated in the conspiracy of which Shanghai was the focus. But we are to take the question in its setting, including the other question and the information of which we may reasonably infer the prosecution had possession. *United States v. Zwillman*, supra, 108 F.2d 802. The persons in Shanghai with whom the owner of a New York Advertising business would be likely to be acquainted, were not many, and among them would be the senders, or sender, of any cables received at Murray's Restaurant. Those were in code, and, as we have already said, were presumptively among the cables by which the conspiracy had been carried out. Again we are to remember that the defendant had been the object of much more than casual interest by the prosecution. These things made it perilous for him to answer; if he had acknowledged such acquaintances, it would probably have directly connected him with the principals in the conspiracy.

Mason v. United States, *supra*, 244 U.S. 362, 37 S.Ct. 621, 61 L.Ed. 1198, certainly does make against our conclusion, at least as to the second question. The Alaska statute there in question made it a crime to take part in a game of cards played for money; and the questions were merely whether the defendants had seen a game of cards being played, from which of course it did not follow that it was being played for money, or that they had taken a hand in it, if it had been. Yet it is also true that an affirmative answer would have been an admission of one of the three elements of which their guilt would be composed: (1) a game of cards; (2) a money stake; (3) the witness a hand in the game. Nevertheless, we think that the decision did not necessarily go further than to hold that not even answers which directly 'tend' to prove the crime are inevitably protected; that there must be some reason to fear that the disclosure will put the witness in pressing danger. Indeed, perhaps in the end we should say no more than that the chase must not get too hot; or the scent, too fresh. In any event we are satisfied that if the privilege is to be of any value, a situation like that at bar must fall within it.

Judgment reversed; defendant discharged.