



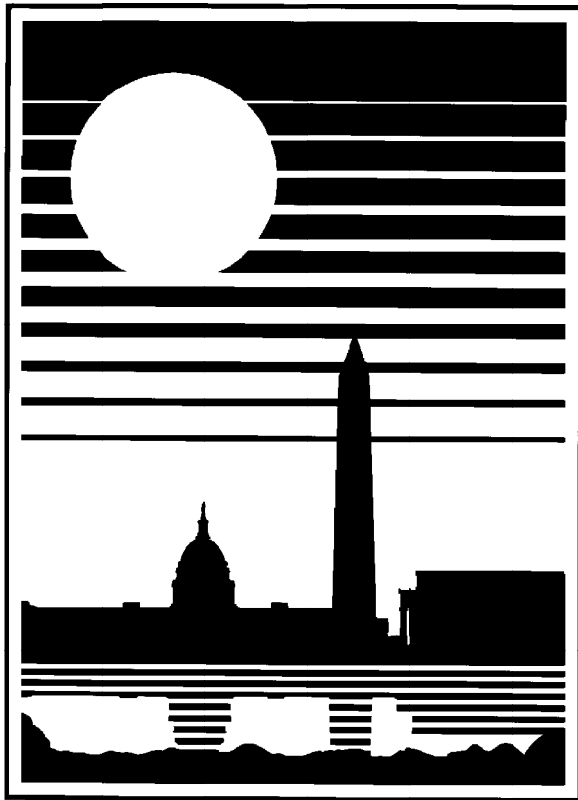
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Exemptions, Standard Deduction, and Filing Information

For use in preparing
1996 Returns



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Important Changes for 1996

Social security number for dependents. You must provide the social security number (SSN) of **any** person you claim as a dependent regardless of the dependent's age. However, a social security number is not required for 1996 for a child born during December of 1996.

If you do not list the dependent's SSN when required or if you list an incorrect SSN, the exemption may be disallowed.

Taxpayer identification number for aliens. If you, your spouse, or your dependent is a nonresident or resident alien who does not have — and is not eligible to get — a social security number, file Form W-7 with the IRS to apply for an individual taxpayer identification number (ITIN). You enter this number on your tax return wherever the SSN is requested, and you use it for tax purposes only. An ITIN does not entitle you to social security benefits or change your employment or immigration status under U.S. law.

Exemption amount. The amount you can deduct as an exemption has increased from \$2,500 in 1995 to \$2,550 in 1996.

Exemption phaseout. You will lose all or part of the benefit of your exemptions if your adjusted gross income goes above a certain level. In 1996, the income level ranges from \$88,475 (for married filing separately) to \$176,950 (for married filing jointly) depending upon your filing status. See *Phaseout of Exemptions*, later.

Standard deduction. The standard deduction for taxpayers who do not itemize deductions on Schedule A of Form 1040 is higher in 1996 than it was in 1995. The amount depends upon your filing status. The *1996 Standard Deduction Tables* are shown later as Tables 6, 7, and 8.

Itemized deductions. The amount you may deduct for itemized deductions is limited if your adjusted gross income is more than \$117,950 (\$58,975 if you are married filing separately). See *Who Should Itemize*, later.

Important Reminders

Election to claim child's unearned income on parent's return. You may be able to include your child's interest and dividend income on your tax return by using Form 8814, *Parents' Election To Report Child's Interest and Dividends*. If you choose to do this, your child will not file a return.

Change of address. If you change your mailing address, be sure to notify the IRS using Form 8822, *Change of Address*. Mail it to the Internal Revenue Service Center for your old address. (Addresses for the Service Centers are on the back of the form.)

Introduction

This publication discusses some tax laws that affect every person who may have to file a federal income tax return. It provides answers to some basic questions: who must file; who should file; what filing status to choose; how many exemptions to claim; and the amount of the standard deduction.

The first section of this publication explains **who must file** an income tax return. If you have little or no gross income, reading this section will help you decide if you need to file a return.

The second section is about **who should file** a return. Reading this section will help you decide if you should file, even if you are not required to file.

The third section helps you determine what **filing status** you can use. Filing status is important in determining your filing requirements, your standard deduction, and your tax rate. It also helps determine what credits you may be entitled to.

The fourth section discusses **exemptions**, which reduce your taxable income. The discussions include the **social security number requirement** for dependents, the rules for multiple support agreements, and the rules for divorced or separated parents.

The fifth section gives the rules and dollar amounts for the **standard deduction** — a benefit for taxpayers who do not itemize their deductions. This section also discusses the standard deduction for nonitemizing taxpayers who are blind or age 65 or older, and special rules for dependents. In addition, this section may help you decide which method — taking a standard deduction or itemizing deductions — is better for you.

The last section covers special rules for taxpayers who take care of **foster children or adults**. You may have to include certain payments in income but may have deductible expenses too.

The publication is for U.S. citizens and resident aliens only. If you are a resident alien for the entire year, you must follow the same tax rules that apply to U.S. citizens. The rules to determine if you are a resident or nonresident alien are discussed in Chapter 1 of Publication 519, *U.S. Tax Guide for Aliens*.

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

Useful Items

You may want to see:

Publication

- 54** Tax Guide for U.S. Citizens and Resident Aliens Abroad
- 519** U.S. Tax Guide for Aliens
- 520** Scholarships and Fellowships
- 533** Self-Employment Tax
- 555** Community Property
- 559** Survivors, Executors, and Administrators
- 596** Earned Income Credit
- 929** Tax Rules for Children and Dependents

Form (and Instructions)

- 1040X** Amended U.S. Individual Income Tax Return
- 2848** Power of Attorney and Declaration of Representative
- 4868** Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
- 8332** Release of Claim to Exemption for Child of Divorced or Separated Parents
- 8814** Parents' Election To Report Child's Interest and Dividends
- 8822** Change of Address
- Schedule SE (Form 1040)** Self-Employment Tax

Who Must File

If you are a U.S. citizen or resident, your filing requirement depends upon your gross income, your filing status, your age, and whether you can be claimed as a dependent. You must also file if one of the situations described under *Other Situations* applies.

Failure to file when required may result in penalties. **Willful failure to file** may result in criminal prosecution. The filing requirements apply even if you owe no tax.

For information on what form to use — Form 1040EZ, Form 1040A, or Form 1040 — see the instructions in your tax package.

Gross income. Gross income is all income you receive in the form of money, goods, property, and services that is not exempt from tax. If you are married and live with your spouse in a community property state, half of any income described by state law as community income may be considered yours. For a list of community property states, see *Community property states*, under *Separate Returns*, later.

Self-employed persons. If you are self-employed in a business that provides services (where products are not a factor), gross income is gross receipts from that business. If you are self-employed in a business involving manufacturing, merchandising, or mining, gross income is total sales from that business less cost of goods sold. To this figure you add any income from investments and from incidental or outside operations or sources.

You must file Form 1040 if you owe any self-employment tax. *Self-employment tax* is discussed later under *Other Situations*.

Marital status. Your marital status is determined as of the last day of your tax year, which is December 31 for most taxpayers. Your filing status generally depends upon whether you are single or married and whether you maintained a household for at least half the year for yourself and one other person. Filing status and dependents are discussed in detail later in this publication.

Age. Age is a factor in determining if you must file a return only if you are 65 or older at the end of your tax year. You are considered to be age 65 for 1996 if your 65th birthday is on or before January 1, 1997.

Filing Requirements for Most Taxpayers

You must file a return if your gross income for the year was at least the amount shown on the appropriate line in *Table 1*. Dependents should see *Dependents*, later.

Deceased Persons

You must file an income tax return for a decedent (a person who died) if:

- 1) You are the surviving spouse, executor, administrator, or legal representative, and
- 2) The decedent met the filing requirements at the time of his or her death.

For more information, see *Final Return for Decedent* in Publication 559, *Survivors, Executors, and Administrators*.

U.S. Citizens or Residents Living Abroad

You must include all income earned abroad as gross income to determine whether you must file. This is true even if you qualify for the foreign earned income exclusion. For more information on special tax rules that may apply to you, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*.

Sale of Residence

If you are 55 or older and sold a home during the year, part or all of your gain may not be subject to federal tax. However, you must include your entire gain as gross income to determine whether you must file.

Table 1. 1996 Filing Requirements Chart for Most Taxpayers

To use this chart, first find your filing status. Then, read across to find your age at the end of 1996. You must file a return if your **gross income**** was at least the amount shown in the last column.

| Filing Status | Age* | Gross Income** |
|---|----------------------------|----------------|
| Single | under 65 | \$6,550 |
| | 65 or older | \$7,550 |
| Head of household | under 65 | \$8,450 |
| | 65 or older | \$9,450 |
| Married, filing jointly*** | under 65 (both spouses) | \$11,800 |
| | 65 or older (one spouse) | \$12,600 |
| | 65 or older (both spouses) | \$13,400 |
| Married, filing separately | any age | \$2,550 |
| Qualifying widow(er) with dependent child | under 65 | \$9,250 |
| | 65 or older | \$10,050 |

* If you turned age 65 on January 1, 1997, you are considered to be age 65 at the end of 1996.
 ** **Gross income** means all income you received in the form of money, goods, property, and services that is not exempt from tax, including any gain on the sale of your home (even if you may exclude or postpone part or all of the gain). **Do not** include social security benefits unless you are married filing a separate return.
 *** If you didn't live with your spouse at the end of 1996 (or on the date your spouse died) and your gross income was at least \$2,550, you must file a return regardless of your age.

Residents of Puerto Rico

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

If you are a resident of Puerto Rico for the whole year, your U.S. gross income does not include income from sources within Puerto Rico. However, include in your U.S. gross income any income received for your services as an employee of the United States or any U.S. agency. If you receive income from Puerto Rican sources that is not subject to U.S. tax, you must make a special adjustment for your standard deduction to arrive at the income level for your requirement to file a U.S. income tax return.

For more information, see Publication 570, *Tax Guide for Individuals With Income From U.S. Possessions*.

Dependents

A person who can be claimed as a dependent by another taxpayer may have to file a return. This depends on whether the dependent has earned income, unearned income, or both. A dependent may also have to file if one of the situations described under *Other Situations* applies.

Earned income. This is salaries, wages, professional fees, and other amounts received as pay for work you actually perform. Earned income (only for purposes of filing requirements and the standard deduction) also includes any

part of a scholarship that you must include in your gross income. See Publication 520 for more information on taxable and nontaxable scholarships.

Unearned income. This is income such as interest, dividends, and capital gains. Trust distributions of interest, dividends, capital gains, and survivor annuities are considered unearned income also.

Election to claim child's unearned income on parents' return. You may be able to include your child's interest and dividend income on your tax return. If you choose to do this, your child is not required to file a return. However, **all** of the following conditions must be met.

- 1) Your child was under age 14 on January 1, 1997.
- 2) Your child had gross income only from interest and dividends (including Alaska Permanent Fund Dividends).
- 3) The interest and dividend income was less than \$6,500.
- 4) No estimated tax payment was made for 1996 and no 1995 overpayment was applied to 1996 under your child's name and social security number.
- 5) No federal income tax was withheld from your child's income under the backup withholding rules.
- 6) You are the parent whose return must be used when making the election to claim your child's unearned income.

For more information, see *Parent's Election To Report Child's Unearned Income* in Publication 929, and Form 8814.

Other Situations

Some persons must file a tax return even though their gross income is less than the amount shown earlier for their filing status. See *Table 3* for other situations when you must file.

If you are a U.S. citizen who lived in a U.S. possession or had income from a U.S. possession, different rules apply. Get Publication 570, *Tax Guide for Individuals With Income from U.S. Possessions*.

Self-employment tax. If you are self-employed, you must file a return and pay self-employment tax if you had net earnings from self-employment of \$400 or more. The \$400 net earnings figure applies to self-employed persons of any age. You must include your self-employment income in your gross income for income tax purposes even if your net self-employment income is less than \$400.

You are self-employed if you carry on a trade or business as a sole proprietor, are an independent contractor or a member of a partnership, or are otherwise in business for yourself. You can be self-employed even if the work you do is part time or in addition to your regular job.

Net earnings from self-employment generally is the net income (gross income minus deductible business expenses) from your business or profession. The self-employment tax you must pay is comparable to the social security and Medicare taxes withheld from an employee's wages.

If you are self-employed, report your self-employment tax on Schedule SE (Form 1040), *Self-Employment Tax*, and attach it to your Form 1040. See Publication 533 for more information.

Nonresident alien and dual-status alien. If you were a resident alien and a nonresident alien during the same tax year, you are a dual-status alien. Different rules apply for the part of the year you were a resident of the United States and the part of the year you were a nonresident alien. If you were a nonresident alien for any part of the year, see Publication 519.

Who Should File

Even if you do not meet any of the filing requirements discussed earlier, you **should** file a tax return if one of the following applies.

- 1) You had income tax withheld from your pay. By filing a return, you can get a refund even if another taxpayer can claim you as a dependent.
- 2) You qualify for the earned income credit. See Publication 596 for more information.

Table 2. 1996 Filing Requirements for Dependents

See **Exemptions for Dependents** to find out if someone can claim you as a dependent.

| | | |
|--|-------------|--|
| <p>If your parent (or someone else) can claim you as a dependent, use this chart to see if you must file a return.</p> <p>In this table, unearned income includes taxable interest and dividends. Earned income includes wages, tips, and taxable scholarship and fellowship grants.</p> <p>Caution: If your gross income was \$2,550 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 Gross Income Test under Dependency Tests.</p> | | |
| <p>Single dependents—Were you either age 65 or older or blind?</p> | | |
| <p><input type="checkbox"/> No. You must file a return if—</p> <p>Your unearned income was: _____</p> <p>\$1 or more</p> <p>\$0</p> | <p>AND</p> | <p>the total of that income plus your earned income was: _____</p> <p>over \$650</p> <p>over \$4,000</p> |
| <p><input type="checkbox"/> Yes. You must file a return if any of the following apply.</p> <ul style="list-style-type: none"> • Your earned income was over \$5,000 (\$6,000 if 65 or older and blind), • Your unearned income was over \$1,650 (\$2,650 if 65 or older and blind), • Your gross income was more than— <p>The larger of:</p> <p>\$650 or your earned income (up to \$4,000)</p> | <p>PLUS</p> | <p>This amount:</p> <p>\$1,000 (\$2,000 if 65 or older and blind)</p> |
| <p>Married dependents—Were you either age 65 or older or blind?</p> | | |
| <p><input type="checkbox"/> No. You must file a return if either of the following apply.</p> <ul style="list-style-type: none"> • Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions. • Your unearned income was: _____ \$1 or more \$0 | <p>AND</p> | <p>the total of that income plus your earned income was: _____</p> <p>over \$650</p> <p>over \$3,350</p> |
| <p><input type="checkbox"/> Yes. You must file a return if any of the following apply.</p> <ul style="list-style-type: none"> • Your earned income was over \$4,150 (\$4,950 if 65 or older and blind), • Your unearned income was over \$1,450 (\$2,250 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— <p>The larger of:</p> <p>\$650 or your earned income (up to \$3,350)</p> | <p>PLUS</p> | <p>This amount:</p> <p>\$800 (\$1,600 if 65 or older and blind)</p> |

Table 3. Other Situations When You Must File a 1996 Return

| |
|---|
| <p>If any of the four conditions listed below applied to you for 1996, you must file a return.</p> <ol style="list-style-type: none"> 1. You owe any special taxes, such as: <ul style="list-style-type: none"> • Social security and Medicare tax on tips you did not report to your employer. • Uncollected social security and Medicare or RRTA tax on tips you reported to your employer. • Uncollected social security and Medicare or RRTA tax on group-term life insurance. • Alternative minimum tax. • Tax on a qualified retirement plan, including an individual retirement arrangement (IRA). • Tax from recapture of investment credit, low-income housing credit, federal mortgage subsidy, or qualified electric vehicle credit. 2. You received any advance earned income credit (AEIC) payments from your employer. These payments should be shown in box 9 of your Form W-2. 3. You had net earnings from self-employment of at least \$400. 4. You had wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes. |
|---|

Filing Status

Your filing status is used in determining your filing requirements, standard deduction, and correct tax. It is also important in determining whether you are eligible to claim certain other deductions and credits. See *Standard Deduction* later for more information. Your correct tax is determined by using the Tax Rate Schedule or the column in the Tax Table that applies to your filing status.

There are five filing statuses:

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

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

If you file Form 1040 or Form 1040A, indicate your filing status by checking the appropriate box on lines 1 through 5.

Marital Status

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

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

Divorced persons. State law governs whether you are married, divorced, or legally separated under a decree of separate maintenance. If you are divorced under a final decree by the last day of the year, you are considered unmarried for the whole year. If you obtain a divorce in one year for the sole purpose of filing tax returns as unmarried individuals, and at the time of divorce you intended to and did remarry each other in the next tax year, you and your spouse must file as married individuals.

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

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

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

Considered married. You are considered married for the whole year if on the last day of your tax year you are either:

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

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

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

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

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

Single

Your filing status is **single** if you are unmarried or separated from your spouse by a divorce or separate maintenance decree, and you do not qualify for another filing status.

Your filing status may be single if you were widowed before January 1, 1996 and did not remarry in 1996. However, you might be able to use another filing status that will give you a lower tax. See *Head of Household* and *Qualifying Widow(er) With Dependent Child* to see if you qualify.

You may file Form 1040EZ (if you have no dependents and are under 65 and not blind), Form 1040A, or Form 1040. If you file Form 1040A or Form 1040, show your filing status as single by checking the box on line 1. Use the *Single* column of the Tax Table, or *Schedule X* of the Tax Rate Schedules, to figure your tax.

Married Filing Jointly

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

If you and your spouse decide to file a joint return, your tax may be lower than your combined tax for the other filing statuses. Also, your standard deduction (if you do not itemize deductions) may be higher, and you may qualify for tax benefits that do not apply to other filing statuses. You may file a joint return even if one of you had no income or deductions. If you and your spouse each have income, you may want to figure your tax both on a joint return and on separate returns (using the filing status of married filing separately). Choose the method that gives you the lower tax.

If you file as married filing jointly, you may use Form 1040EZ (if you have no dependents and are under 65 and not blind), Form 1040A, or Form 1040. If you file Form 1040A or Form 1040, show this filing status by checking the box on line 2. Use the *Married filing jointly* column of the Tax Table, or *Schedule Y-1* of the Tax Rate Schedules, to figure your tax.

Spouse died during the year. If your spouse died during the year, you are considered married for the whole year and may choose married filing jointly as your filing status.

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

Filing a Joint Return

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

Accounting period. Both of you must use the same accounting period, but you may use different accounting methods.

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

Innocent spouse exception. Under certain circumstances, you may not have to pay the tax, interest, and penalties on a joint return. You must establish that you did not know, and had no reason to know, that there was a substantial understatement of tax that resulted because your spouse:

- 1) Omitted a gross income item, or
- 2) Claimed a deduction, credit, or property basis in an amount for which there is no basis in fact or law.

The facts and circumstances must also indicate that it is unfair for you to pay the tax due. One consideration is whether you significantly

benefited from the substantial understatement of tax. Normal support received from your spouse is not a significant benefit. Another consideration may be whether you were later divorced or deserted by your spouse.

This exception applies only if your spouse's action resulted in an understatement of tax of more than \$500. In addition, if the tax understatement resulted from claiming a deduction, credit, or basis, the exception applies only if the additional tax, interest, and penalties are more than:

- 1) 10% of your adjusted gross income (AGI) for the preadjustment year, if your AGI was \$20,000 or less, or
- 2) 25% of your AGI for the preadjustment year, if your AGI was more than \$20,000.

Your preadjustment year is your most recent tax year ending before a deficiency notice was mailed. If you were married to a different person at the end of the preadjustment year, your AGI includes your new spouse's income, whether or not you filed a joint return for that year.

For purposes of this exception, community property rules do not apply to items of gross income (other than gross income from property).

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

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

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

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

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

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

Spouse in combat zone. If your spouse is unable to sign the return because he or she is

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

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

Nonresident alien or dual-status alien. A joint return generally cannot be made if either spouse is a nonresident alien at any time during the tax year. However, if at the end of the year one spouse was a nonresident alien or dual-status alien married to a U.S. citizen or resident, both spouses may choose to file a joint return. If you do file a joint return, you and your spouse are both treated as U.S. citizens or residents for the entire tax year. See *Nonresident Spouse Treated as a Resident* in Chapter 1 of Publication 519.

Married Filing Separately

You may choose *married filing separately* as your filing status if you are married. This method may benefit you if you want to be responsible only for your own tax or if this method results in less tax than a joint return. If you and your spouse do not agree to file a joint return, you may have to use this filing status.

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

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

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

or was the dependent of someone else, you may not claim an exemption for him or her on your separate return.

If you file as married filing separately, you may use Form 1040A or Form 1040. Select this filing status by checking the box on line 3 of either form. You must also write your spouse's social security number and full name in the spaces provided. Use the *Married filing separately* column of the Tax Table or *Schedule Y-2* of the Tax Rate Schedules to figure your tax.

Separate Returns

Special rules apply if you file a separate return.

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

If you file a separate return:

- 1) Your spouse should itemize deductions if you itemize deductions because he or she cannot claim the standard deduction.
- 2) You cannot take the credit for child and dependent care expenses in most instances.
- 3) You cannot take the earned income credit.
- 4) You cannot exclude any interest income from Series EE U.S. Savings Bonds that you used for higher education expenses.
- 5) You cannot take the credit for the elderly or the disabled unless you lived apart from your spouse for the entire year.
- 6) You may have to include in income more of your social security benefits (including any equivalent railroad retirement benefits) than you would on a joint return.

Individual retirement arrangements (IRAs).

You may not be able to deduct contributions to your individual retirement account if either you or your spouse was covered by an employer retirement plan, you and your spouse file separate returns, and you lived together during the year. See *Deductible Contributions* in Publication 590, *Individual Retirement Arrangements (IRAs)*.

Rental activity losses. If your rental of real estate is a passive activity, you may generally offset a loss of up to \$25,000 against your nonpassive income if you actively participate in the activity. However, married persons filing separate returns who lived together at any time during the year may not claim this offset. Married persons filing separate returns who lived apart at all times during the year are each allowed a \$12,500 maximum offset for passive real estate activities. See *Rental Activities* in Publication 925, *Passive Activity and At-Risk Rules*.

Joint Return After Separate Returns

You may change your filing status by filing an amended return using Form 1040X, *Amended U.S. Individual Income Tax Return*.

If you or your spouse (or each of you) file a separate return, you may change to a joint return any time within 3 years from the due date of the separate return or returns. This does not include any extensions. A separate return includes a return filed by you or your spouse claiming married filing separately, single, or head of household filing status. For tax years beginning on or before July 30, 1996, if the amount paid on your separate returns is less than the total tax shown on the joint return, you must pay the additional tax due on the joint return when you file it. For tax years beginning after July 30, 1996, you do not have to pay the additional tax as a condition to filing the joint return.

Separate Returns After Joint Return

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

Exception. A personal representative for a decedent may change from a joint return elected by the surviving spouse to a separate return for the decedent. The personal representative has one year from the due date of the return to make the change. See Publication 559 for more information on filing income tax returns for a decedent.

Head of Household

You may be able to file as **head of household** if you are unmarried or considered unmarried on the last day of the year. In addition, you must have paid more than half the cost of keeping up a home for you and a qualifying person for more than half the year.

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

If you file as head of household, you may use either Form 1040A or Form 1040. Indicate your choice of this filing status by checking the box on line 4 of either form. Use the *Head of a household* column of the Tax Table or *Schedule Z* of the Tax Rate Schedules, to figure your tax.

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

- 1) You file a separate return.
- 2) You paid more than half the cost of keeping up your home for the tax year.
- 3) Your spouse did not live in your home during the last 6 months of the tax year. Your spouse is considered to live with you if he

or she is temporarily absent due to special circumstances. See *Temporary absences*, later.

- 4) Your home was, for more than half the year, the main home of your child, stepchild, adopted child, or foster child whom you can claim as a dependent. (See *Home of qualifying person*, later.) However, you can still meet this test if you cannot claim your child as a dependent only because:
- You state in writing to the noncustodial parent that he or she may claim an exemption for the child, or
 - The noncustodial parent provides at least \$600 support for the dependent and claims an exemption for the dependent under a pre-1985 divorce or separation agreement.

The rules to claim an exemption for a dependent are explained later under *Exemptions for Dependents*.

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

Nonresident alien spouse. You are considered unmarried for head of household purposes if your spouse was a nonresident alien at any time during the year and you do not choose to treat your nonresident spouse as a resident alien. Your spouse is not considered your relative. You must have another qualifying relative and meet the other tests to be eligible to file as a head of household. However, you are considered married if you choose to treat your spouse as a resident alien. See *Nonresident Spouse Treated as a Resident* in Chapter 1 of Publication 519.

Qualifying Person

Each of the following individuals is considered a qualifying person.

- Your child, grandchild, stepchild, or adopted child who is:
 - Single. This child does not have to be your dependent. However, a foster child must be your dependent. See *Claiming an exemption*, later, under *Foster Child or Adult*.
 - Married. This child must qualify as your dependent. However, if your married child's other parent claims him or her as a dependent under the special rules for a *Noncustodial parent* discussed later under *Support Test for Divorced or Separated Parents*, the child does not have to be your dependent.

If the qualifying person is a child but not your dependent, enter that child's name in the space provided on line 4 of Form 1040 or Form 1040A.

- Any relative listed below whom you claim as a dependent.

| | |
|---------------|----------------------|
| Parent | Brother-in-law |
| Grandparent | Sister-in-law |
| Brother | Son-in-law |
| Sister | Daughter-in-law, or |
| Stepbrother | If related by blood: |
| Stepsister | Uncle |
| Stepmother | Aunt |
| Stepfather | Nephew |
| Mother-in-law | Niece |
| Father-in-law | |
| Half brother | |
| Half sister | |

You are related by blood to an uncle or aunt if he or she is the brother or sister of your mother or father.

You are related by blood to a nephew or niece if he or she is the child of your brother or sister.

Note. A dependent can qualify only one taxpayer to use the head of household filing status for any tax year.

Dependents. If the person you support is required to be your dependent, you do not qualify as a head of household if you can only claim the dependent under a multiple support agreement. See *Multiple Support Agreement*, discussed later.

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

Special rule for parent. You may be eligible to file as head of household even if your dependent parent does not live with you. You must pay more than half the cost of keeping up a home that was the main home for the **entire year** for your father or mother. You are keeping up a main home for your dependent father or mother if you pay more than half the cost of keeping your parent in a rest home or home for the elderly.

Temporary absences. You are considered to occupy the same household despite the temporary absence due to special circumstances of either yourself or the other person. Temporary absences due to special circumstances include those due to illness, education, business, vacation, and military service. It must be reasonable to assume that you or the other person will return to the household after the temporary absence, and you must continue to maintain a household in anticipation of the return.

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

Example. You are unmarried. Your mother lived in an apartment by herself. She died on September 2. The cost of the upkeep of her apartment for the year until her death was \$6,000. You paid \$4,000 and your brother paid \$2,000. Your brother made no other payments towards your mother's support. Your mother had no income. Since you paid more than half

of the cost of keeping up the apartment for your mother from January 1 until her death, and she qualifies as your dependent, you may file as a head of household.

Keeping Up a Home

You are keeping up a home only if you pay more than half of the cost of its upkeep. You may determine whether you paid more than half of the cost of keeping up a home by using the *Cost of Maintaining a Household* worksheet, later.

Costs you include. Include such costs as rent, mortgage interest, taxes, insurance on the home, repairs, utilities, and food eaten in the home.

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

State AFDC (Aid to Families with Dependent Children). State AFDC payments you use to keep up your home do not count as amounts you paid. They are amounts paid by others that you must apply against the total cost of keeping up your home to figure if you paid more than half.

Cost of Maintaining a Household

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

If you paid more than half the total cost, you meet the requirement of maintaining a household.

Qualifying Widow(er) With Dependent Child

If your spouse died in 1996, you may use married filing jointly as your filing status for 1996 if you would otherwise qualify. The year of death is the last year for which you can file jointly with your deceased spouse. See *Married Filing Jointly*, earlier.

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

be able to use this filing status for 1996 and 1997. The rules for filing as a qualifying widow(er) with dependent child are explained in more detail later.

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

If you file as a qualifying widow(er) with dependent child, you may use either Form 1040A or Form 1040. Indicate your filing status by checking the box on line 5 of either form. Write the year your spouse died in the space provided on line 5. Use the *Married filing jointly* column of the Tax Table or *Schedule Y-1* of the Tax Rate Schedules to figure your tax.

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

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

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

Example. John Reed's wife died in 1994. John has not remarried. He has continued during 1995 and 1996 to keep up a home for himself and his dependent child. For 1994 he was entitled to file a joint return for himself and his deceased wife. For 1995 and 1996 he may file as a qualifying widower with a dependent child. After 1996 he can file as head of household if he qualifies.

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

Exemptions

Exemptions reduce your taxable income. Generally, you can deduct \$2,550 for each exemption you claim in 1996. If you are entitled to two exemptions for 1996, you would deduct \$5,100 ($\$2,550 \times 2$). But you may lose the benefit of part or all of your exemptions if you

have a high taxable income. See *Phaseout of Exemptions*, later.

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

You usually may claim exemptions for yourself, your spouse, and each person you can claim as a dependent. If you are entitled to claim an exemption for a dependent (such as your child), that dependent cannot claim a personal exemption on his or her own tax return.

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

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

Form 1040A filers. If you file Form 1040A, complete lines 6a through 6d. Follow the Form 1040A instructions. The total number of exemptions you can claim is the total in the box on line 6d. Also complete line 21 by multiplying the number in the box on line 6d by \$2,550.

Form 1040 filers. If you file Form 1040, complete lines 6a through 6d. Follow the Form 1040 instructions. On line 36, multiply the total exemptions shown in the box on line 6d by \$2,550 and enter the result. If your adjusted gross income is \$88,475 or more, see *Phaseout of Exemptions*, later.

U.S. citizen or resident. If you are a U.S. citizen or resident, or a resident of Canada or Mexico, you may qualify for any of the exemptions discussed here.

Nonresident aliens. Generally, if you are a nonresident alien (other than a resident of Canada or Mexico, or certain residents of India, Japan, or Korea), you may qualify for only one personal exemption for yourself. You may not claim exemptions for a spouse or dependents.

These restrictions do not apply if you are a nonresident alien married to a citizen or resident of the United States and have chosen to be treated as a resident of the United States.

For information on exemptions if you are a nonresident alien, see Chapter 5 in Publication 519.

Dual-status taxpayers. If you have been both a nonresident alien and a resident alien in the same tax year, you should get Publication 519 for information on determining your exemptions.

Personal Exemptions

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

Your Own Exemption

You may take one exemption for yourself unless you can be claimed as a dependent by another taxpayer.

Single persons. If another taxpayer is entitled to claim you as a dependent, you may not take an exemption for yourself. This is true even if the other taxpayer does not actually claim your exemption.

Married persons. If you file a joint return, you can take your own exemption. If you file a separate return, you may take your own exemption only if another taxpayer is not entitled to claim you as a dependent.

Your Spouse's Exemption

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

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

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

Death of spouse. If your spouse died during the year, you can generally claim your spouse's exemption under the rules just explained in *Joint return* and *Separate return*.

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

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

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

Exemptions for Dependents

You are allowed one exemption for each person you can claim as a dependent. This is called a dependency exemption.

A person is your dependent if **all five** of the dependency tests, discussed later, are met. You may take an exemption for your dependent even if your dependent files a return. But that dependent cannot claim his or her personal exemption if you are entitled to do so. However, see *Joint Return Test*, later.

Child born alive. If your child was born alive during the year, and the dependency tests are met, you can take the full exemption. This is true even if the child lived only for a moment.

Whether your child was born alive depends on state or local law. There must be proof of a live birth shown by an official document, such as a birth certificate. You may not claim an exemption for a stillborn child.

Death of dependent. If your dependent died during the year and otherwise qualified as your dependent, you can take his or her exemption.

Example. Your dependent mother died on January 15. You can take a full exemption for her on your return.

Housekeepers, maids, or servants. If these people work for you, you cannot claim them as dependents.

Dependency Tests

The following five tests must be met for you to claim a dependency exemption for a person:

1. Member of Household or Relationship Test
2. Citizenship Test
3. Joint Return Test
4. Gross Income Test
5. Support Test

1. Member of Household or Relationship Test

To meet this test, a person must live with you for the entire year as a member of your household or be related to you. If at any time during the year the person was your spouse, you cannot claim that person as a dependent. See *Personal Exemptions*, earlier.

Temporary absences. You are considered to occupy the same household despite the temporary absence due to special circumstances of either yourself or the other person. Temporary absences due to special circumstances include those due to illness, education, business, vacation, and military service.

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

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

Test not met. A person does not meet the member of household test if at any time during your tax year the relationship between you and that person violates local law.

Relatives not living with you. A person related to you in any of the following ways does not have to live with you for the entire year as a member of your household to meet this test.

Your child, grandchild, great grandchild, etc. (a legally adopted child is considered your child)

Your stepchild

Your brother, sister, half brother, half sister, stepbrother, or stepsister

Your parent, grandparent, or other direct ancestor, but not foster parent

Your stepfather or stepmother

A brother or sister of your father or mother

A son or daughter of your brother or sister

Your father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law

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

Adoption. Before legal adoption, a child is considered to be your child if he or she was placed with you for adoption by an authorized agency. Also, the child must have been a member of your household. If the child was not placed with you by an authorized agency, the child will meet this test only if he or she was a member of your household for your entire tax year.

Foster individual. A foster child or adult must live with you as a member of your household for the entire year to qualify as your dependent. For this test, a foster child is one who is in your care that you care for as your own child. It does not matter how the child became a member of the household.

Cousin. Your cousin will meet this test only if he or she lives with you as a member of your household for the entire year. A cousin is a descendant of a brother or sister of your father or mother and does not qualify under the relationship test.

Joint return. If you file a joint return, you do not need to show that a dependent is related to both you and your spouse. You also do not need to show that a dependent is related to the spouse who provides support.

For example, your spouse's uncle who receives more than half of his support from you may be your dependent, even though he does not live with you. However, if you and your spouse file *separate returns*, your spouse's uncle can be your dependent only if he is a member of your household and lives with you for your entire tax year.

2. Citizenship Test

To meet the citizenship test, a person must be a U.S. citizen or resident, or a resident of Canada or Mexico, for some part of the calendar year in which your tax year begins.

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

If you were a U.S. citizen when your child was born, the child may be a U.S. citizen although the other parent was a nonresident alien and the child was born in a foreign country. If so, and the other dependency tests are met, the child is your dependent and you may take the exemption. It does not matter if the child lives abroad with the nonresident alien parent.

If you are a U.S. citizen who has legally adopted a child who is not a U.S. citizen or resident, and the other dependency tests are met, the child is your dependent and you may take the exemption if your home is the child's main home and the child is a member of your household for your entire tax year.

Foreign students' place of residence. Foreign students brought to this country under a qualified international education exchange program and placed in American homes for a temporary period generally are not U.S. residents and do not meet the citizenship test. They may not be claimed as dependents. However, if you provided a home for a foreign student, you may be able to take a charitable contribution deduction. See *Expenses Paid for Student Living With You* in Publication 526, *Charitable Contributions*.

3. Joint Return Test

Even if the other dependency tests are met, you are generally not allowed an exemption for your dependent if he or she files a joint return.

Example. You supported your daughter for the entire year while her husband was in the Armed Forces. The couple files a joint return. Even though all the other tests are met, you may not take an exemption for your daughter.

Exception. The joint return test does not apply if a joint return is filed by the dependent and his or her spouse merely as a claim for refund and no tax liability would exist for either spouse on the basis of separate returns.

Example. Your son and his wife each had less than \$2,000 of wages and no unearned income. Neither is required to file a tax return. Taxes were taken out of their pay, so they filed a joint return to get a refund. You are allowed exemptions for your son and daughter-in-law if the other dependency tests are met.

4. Gross Income Test

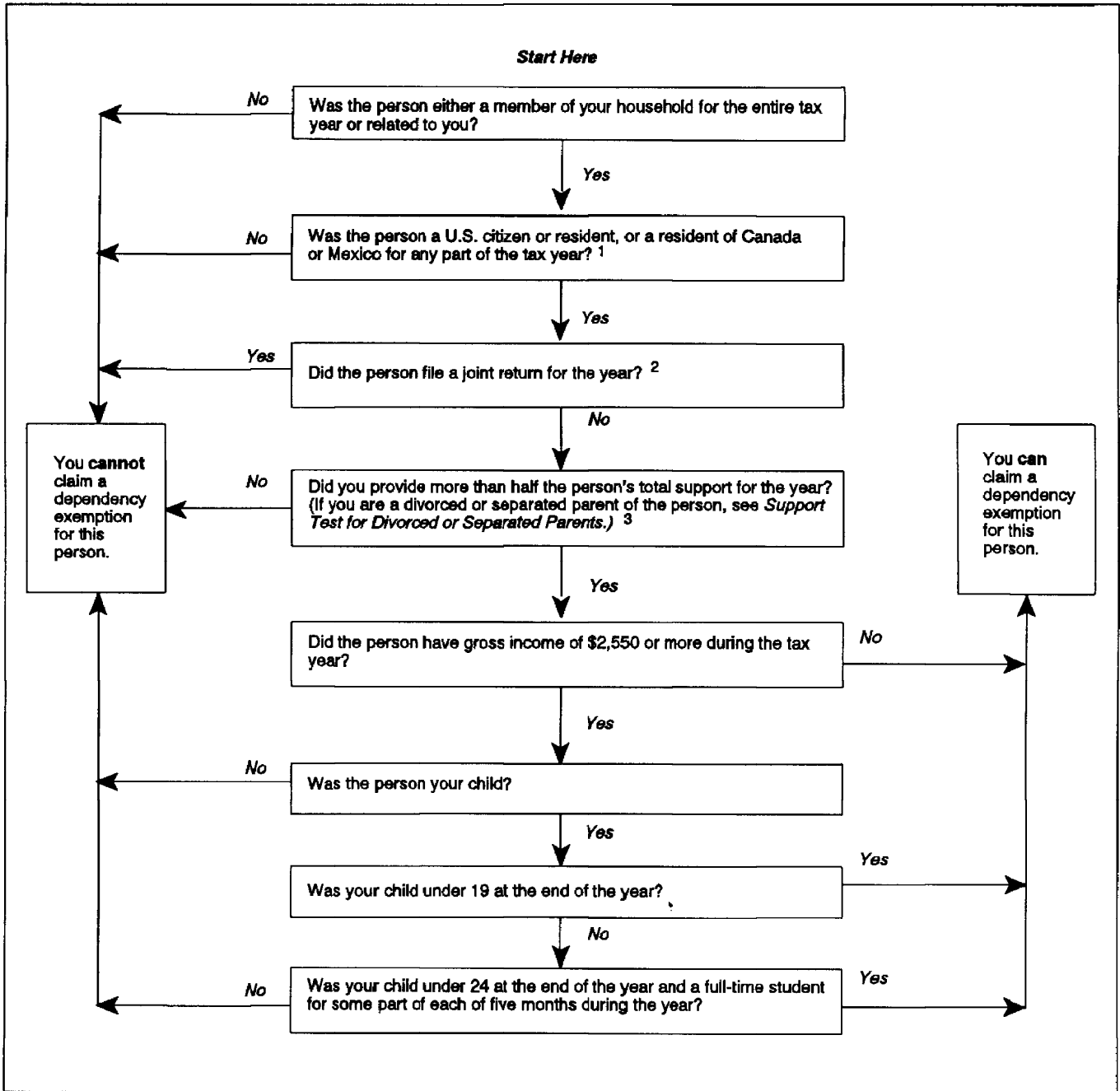
Generally, you may not take an exemption for a dependent if that person had gross income of \$2,550 or more for the year. This test does not apply if the person is your child and is either under age 19, or a student under age 24, as discussed later.

If you file on a fiscal year basis, the gross income test applies to the calendar year in which your fiscal year begins.

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

In a manufacturing, merchandising, or mining business, gross income is the total net

Figure A. Can You Claim a Dependency Exemption?



¹ If the person was your legally adopted child and lived in your home as a member of your household for the entire tax year, answer "yes" to this question.
² If neither the person nor the person's spouse is required to file a return but they file a joint return to claim a refund of tax withheld, you may answer "no" to this question.
³ Answer "yes" to this question if you meet the multiple support requirements under *Multiple Support Agreement*.

sales minus the cost of goods sold, plus any miscellaneous income from the business.

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

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

Gross income also includes all unemployment compensation and certain scholarship and fellowship grants. Scholarships received by degree candidates that are used for tuition, fees, supplies, books, and equipment required for particular courses are not included in gross income. For more information, see Publication 520.

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

For this gross income test, gross income does not include income received by a permanently and totally disabled individual at a sheltered workshop. The availability of medical care must be the main reason the individual is at the workshop. Also, the income must come solely from activities at the workshop that are incident to this medical care. A sheltered workshop is a school operated by certain tax-exempt organizations, or by a state, a U.S. possession, a political subdivision of a state or possession, the United States, or the District of Columbia, that provides special instruction or training designed to alleviate the disability of the individual.

Child defined. For purposes of the gross income test, your child is your son, stepson, daughter, stepdaughter, a legally adopted child, or a child who was placed with you by an authorized placement agency for your legal adoption. A foster child who was a member of your household for your entire tax year is also considered your child. See *Foster Child or Adult*, later.

Child under age 19. If your child is under 19 at the end of the year, the gross income test does not apply. Your child may have any amount of income and still be your dependent, if the other dependency tests are met.

Example. Marie Grey, 18, earned \$2,700. Her father provided more than half her support. He can claim her as a dependent because the gross income test does not apply and the other dependency tests were met.

Student under age 24. If your child is a student, the gross income test does not apply if the child is under age 24 at the end of the calendar year. The other dependency tests must still be met.

Student defined. To qualify as a student, your child must be, during some part of each of 5 calendar months during the calendar year (not necessarily consecutive):

- 1) A full-time student at a school that has a regular teaching staff, course of study, and regularly enrolled body of students in attendance, or

- 2) A student taking a full-time, on-farm training course given by a school described in (1) above or a state, county, or local government.

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

School defined. The term "school" includes elementary schools, junior and senior high schools, colleges, universities, and technical, trade, and mechanical schools. It does **not** include on-the-job training courses, correspondence schools, and night schools.

Example. James Clay, 22, attends college as a full-time student. During the summer, James earned \$2,700. If the other dependency tests are met, his parents can take the exemption for James as a dependent.

Vocational high school students. People who work on "co-op" jobs in private industry as a part of the school's prescribed course of classroom and practical training are considered full-time students.

Night school. Your child is not a full-time student while attending school only at night. However, full-time attendance at a school may include some attendance at night as part of a full-time course of study.

5. Support Test

You must provide more than half of a person's total support during the calendar year to meet the support test. You figure whether you have provided more than half by comparing the amount you contributed to the person's support with the entire amount of support the person received from all sources. This amount includes the person's own funds used for support. You may not include in your contribution any part of your child's support that is paid for by the child with the child's own wages, even if you pay the wages. See *Total Support and Table 4*, later.

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

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

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

Cost determines support. The total cost, not the period of time you provide the support, determines whether you provide more than half of the support.

Year support is provided. The year you provide the support is the year you pay for it, even if you do so with borrowed money that you repay in a later year.

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

Armed Forces dependency allotments.

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

Example. You are in the Armed Forces. You authorize an allotment for your widowed mother that she uses to support herself and your sister. If the allotment provides more than half of their support, you may take an exemption for each of them, even though you authorize the allotment only for your mother.

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

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

Example 1. You provide \$2,000 toward your mother's support during the year. She has taxable income of \$600, nontaxable social security benefit payments of \$1,800, and tax-exempt interest of \$200. She uses all these for her support. You cannot claim your mother as a dependent because the \$2,000 you provide is not more than half of her total support of \$4,600.

Example 2. Your daughter takes out a student loan of \$2,500 and uses it to pay her college tuition. She is personally responsible for the loan. You provide \$2,000 toward her total support. You may not claim your daughter as a dependent because you provide less than half of her support.

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

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

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

Home for the aged. If you make a lump-sum advance payment to a home for the aged to

Table 4. Worksheet for Determining Support

| | |
|--|--|
| Income | |
| 1) Did the person you supported receive any income, such as wages, interest, dividends, pensions, rents, social security, or welfare? (If yes, complete lines 2, 3, 4, and 5) | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 2) Total income received | \$ |
| 3) Amount of income used for support | \$ |
| 4) Amount of income used for other purposes | \$ |
| 5) Amount of income saved | \$ |
| (The total of lines 3, 4, and 5 should equal line 2) | |
| Expenses for Entire Household (where the person you supported lived) | |
| 6) Lodging (Complete item a or b) | |
| a) Rent paid | \$ |
| b) If not rented, show fair rental value of home. If the person you supported owned the home, include this amount in line 20. | \$ |
| 7) Food | \$ |
| 8) Utilities (heat, light, water, etc. not included in line 6a or 6b) | \$ |
| 9) Repairs (not included in line 6a or 6b) | \$ |
| 10) Other. Do not include expenses of maintaining home, such as mortgage interest, real estate taxes, and insurance. | \$ |
| 11) Total household expenses (Add lines 6 through 10) | \$ |
| 12) Total number of persons who lived in household | |
| Expenses for the Person You Supported | |
| 13) Each person's part of household expenses (line 11 divided by line 12) | \$ |
| 14) Clothing | \$ |
| 15) Education | \$ |
| 16) Medical, dental | \$ |
| 17) Travel, recreation | \$ |
| 18) Other (specify) | |
| | \$ |
| 19) Total cost of support for the year (Add lines 13 through 18) | \$ |
| 20) Amount the person provided for own support (line 3, plus line 6b if the person you supported owned the home) | \$ |
| 21) Amount others provided for the person's support. Include amounts provided by state, local, and other welfare societies or agencies. Do not include any amounts included on line 2. | \$ |
| 22) Amount you provided for the person's support (line 19 minus lines 20 and 21) | \$ |
| 23) 50% of line 19 | \$ |
| If line 22 is more than line 23, you meet the support test for the person. If the person meets the other dependency tests, you may claim an exemption for that person. If line 23 is more than line 22, you may still be able to claim an exemption for that person under a multiple support agreement. See <i>Multiple Support Agreement</i> later in this publication. | |

take care of your relative for life and the payment is based on that person's life expectancy, the amount of your support each year is the lump-sum payment divided by the relative's life expectancy. Your support also includes any other amounts that you provided during the year.

Total Support

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

Generally, the amount of an item of support is the amount of the expense incurred in providing that item. Expenses that are not directly related to any one member of a household, such as the cost of food for the household, must be divided among the members of the household. For lodging, the amount of support is the fair rental value of the lodging.

Example 1. Grace Brown, mother of Mary Miller, lives with Frank and Mary Miller and their two children. Grace gets a fully taxable pension of \$1,500, which she spends for clothing and recreation. Grace has no other income. Frank and Mary's total food expense for the household is \$5,000. They pay Grace's medical and drug expenses of \$300. The fair rental value of the lodging provided for Grace is \$960 a year, based on the cost of similar rooming facilities. Figure Grace's total support as follows:

| | |
|--------------------------------------|----------------|
| Fair rental value of lodging | \$ 960 |
| Clothing and recreation | 1,500 |
| Medical expenses | 300 |
| Share of food (1/5 of \$5,000) | 1,000 |
| Total support | <u>\$3,760</u> |

Because the support Frank and Mary provide (\$960 lodging + \$300 medical expenses + \$1,000 food = \$2,260) is more than half of Grace's \$3,760 total support, and Grace meets the other dependency tests, they can claim her as a dependent by entering the necessary information on their return.

Example 2. Your parents live with you, your spouse, and your two children in a house you own. The fair rental value of your parents' share of the lodging is \$2,000 a year, which includes furnishings and utilities. Your father receives a nontaxable pension of \$4,200, which he spends equally between your mother and himself for items of support such as clothing, transportation, and recreation. Your total food expense for the household is \$6,000. Your heat and utility bills amount to \$1,200. Your mother has hospital and medical expenses of \$600, which you pay during the year. Figure your parents' total support as follows:

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

You must figure the dependency status of each parent separately. You provide \$2,000 (\$1,000 lodging, \$1,000 food) of your father's total support of \$4,100 — less than half. You provide \$2,600 to your mother (\$1,000 lodging, \$1,000 food, \$600 medical) — more than half of her total support of \$4,700. You may claim your mother as a dependent, but not your father. Heat and utility costs are included in the fair rental value of the lodging, so these are not considered separately.

Lodging defined. Lodging is the fair rental value of the room, apartment, or house in which the person lives. It includes a reasonable allowance for the use of furniture and appliances, and for heat and other utilities.

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

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

Example. Your parents live rent free in a house you own. It has a fair rental value of \$5,400 a year furnished, which includes a fair rental value of \$3,600 for the house and \$1,800 for the furniture. This does not include heat and utilities. The house is completely furnished with furniture belonging to your parents. You pay \$600 for their utility bills. Utilities are not usually included in rent for houses in the area where your parents live. Therefore, you consider the total fair rental value of the lodging to be \$6,000 (\$3,600 fair rental value of the unfurnished house, \$1,800 allowance for the furnishings provided by your parents, and \$600 cost of utilities) of which you are considered to provide \$4,200 (\$3,600 + \$600).

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

If you help to keep up the home by paying interest on the mortgage, real estate taxes, fire insurance premiums, ordinary repairs, or other items directly related to the home, or

give someone cash to pay those expenses, reduce the total fair rental value of the home by those amounts in figuring that person's own contribution.

Example. You provide \$6,000 cash for your father's support during the year. He lives in his own home, which has a fair rental value of \$6,600 a year. He uses \$800 of the money you give him to pay his real estate taxes. Your father's contribution for his own lodging is \$5,800 (\$6,600 – \$800 for taxes).

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

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

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

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

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

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

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

Example 4. Your 17-year-old son, using personal funds, buys a car for \$4,500. You provide all the rest of your son's support — \$4,000. Since the car is bought and owned by your son, the car's fair market value (\$4,500) must be included in his support. The \$4,000 support you provide is less than half of his total support of \$8,500. You cannot claim your son as a dependent.

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

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

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

Example. During the year, your son receives \$2,200 from the government under the GI Bill. He uses this amount for his education. You provide the rest of his support — \$2,000. Because GI benefits are included in total support, your son is not your dependent.

Other support items. Other items may be considered as support depending on the facts in each case. For example, if you pay someone to provide child care or disabled dependent care, you may include these payments as support, even if you claim a credit for them. For information on the credit, see Publication 503, *Child and Dependent Care Expenses*.

Do Not Include in Total Support

The following items are not included in total support:

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

Multiple Support Agreement

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

When this happens, you may agree that any one of you who individually provides more than 10% of the person's support, but **only one**, may claim an exemption for that person. Each of the others must sign a written statement agreeing not to claim the exemption for that year. The statements must be filed with the income tax return of the person who claims the exemption. **Form 2120, Multiple Support Declaration**, is used for this purpose.

Example 1. You, your sister, and your two brothers provide the entire support of your mother for the year. You provide 45%, your sister 35%, and your two brothers each provide 10%. Either you or your sister may claim an exemption for your mother. The other must sign a Form 2120 or a written statement agreeing not to take an exemption for her. Because neither brother provides more than 10% of the support, neither can take the exemption. Your brothers do not have to sign a Form 2120 or the written statement.

Example 2. You and your brother each provide 20% of your mother's support for the

year. The remaining 60% of her support is provided equally by two persons who are not related to her. She does not live with them. Because more than half of her support is provided by persons who cannot claim her as a dependent, no one may take the exemption.

Example 3. Your father lives with you and receives 25% of his support from social security, 40% from you, 24% from his brother, and 11% from a friend. Either you or your uncle may take the exemption for your father. A Form 2120 or a written statement from the one not taking the exemption must be attached to the return of the one who takes the exemption.

Support Test for Divorced or Separated Parents

The support test for a child of divorced or separated parents is based on special rules that apply only if:

- 1) The parents are divorced or legally separated under a decree of divorce or separate maintenance, or separated under a written separation agreement, or lived apart at all times during the last 6 months of the calendar year,
- 2) One or both parents provide more than half of the child's total support for the calendar year, and
- 3) One or both parents have custody of the child for more than half of the calendar year.

"Child" is defined earlier under *Gross Income Test*.

This discussion does not apply if the support of the child is determined under a multiple support agreement, discussed earlier.

Custodial parent. The parent who has custody of the child for the greater part of the year (the custodial parent) is generally treated as the parent who provides more than half of the child's support. It does not matter whether the custodial parent actually provided more than half of the support. The noncustodial parent is the parent who has custody of the child for the shorter part of the year or who does not have custody at all.

Custody. Custody is usually determined by the terms of the most recent decree of divorce or separate maintenance, or a later custody decree. If there is no decree, use the written separation agreement. If neither a decree nor agreement establishes custody, then the parent who has the physical custody of the child for the greater part of the year is considered to have custody of the child. This also applies if the validity of a decree or agreement awarding custody is uncertain because of legal proceedings pending on the last day of the calendar year.

If the parents are divorced or separated during the year and had joint custody of the child before the separation, the parent who has custody for the greater part of the rest of the year is considered to have custody of the child for the tax year.

Example 1. Under the terms of your divorce, you have custody of your child for 10

months of the year. Your former spouse has custody for the other 2 months. You and your former spouse provide the child's total support. You are considered to have provided more than half of the support of the child. However, see *Noncustodial parent*, later.

Example 2. You and your former spouse provided your child's total support for 1996. You had custody of your child under your 1992 divorce decree, but on August 31, 1996, a new custody decree granted custody to your former spouse. Because you had custody for the greater part of the year, you are considered to have provided more than half of your child's support.

Noncustodial parent. The noncustodial parent will be treated as providing more than half of the child's support if:

- 1) The custodial parent signs a written declaration that he or she will not claim the exemption for the child, and the noncustodial parent attaches this written declaration to his or her return,
- 2) A decree or agreement went into effect after 1984 and states the noncustodial parent can claim the child as a dependent without regard to any condition, such as payment of support, or
- 3) A decree or agreement executed before 1985 provides that the noncustodial parent is entitled to the exemption, and he or she provides at least \$600 for the child's support during the year, unless the pre-1985 decree or agreement is modified after 1984 to specify that this provision will not apply.

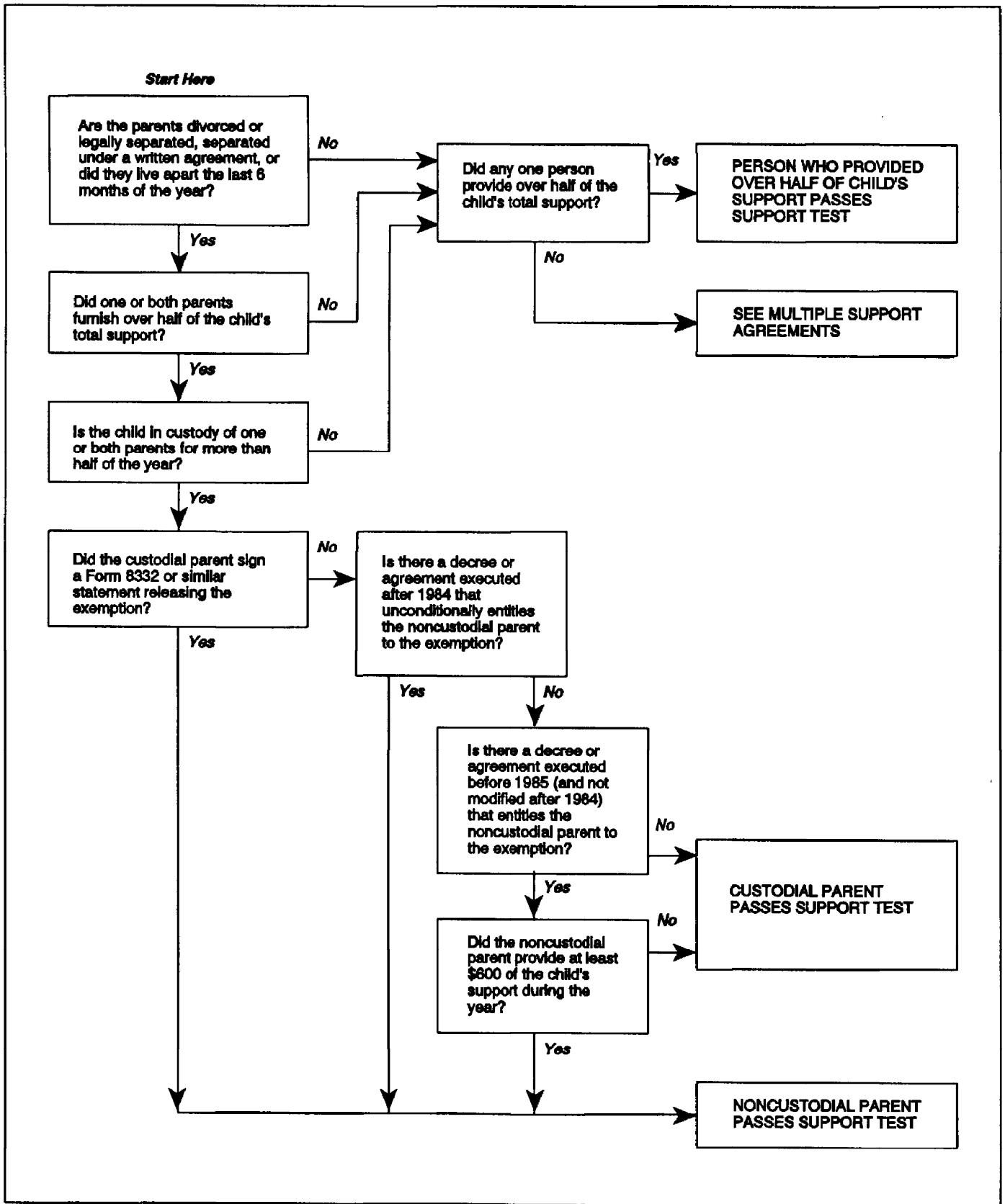
Example. Under the terms of your 1982 divorce decree, your former spouse has custody of your child. The decree specifically states that you are entitled to the exemption. You provide at least \$600 in child support during the calendar year. You are considered to have provided more than half of the child's support.

Written declaration. The custodial parent should use **Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents**, or a similar statement, to make the written declaration to release the exemption to the noncustodial parent. The noncustodial parent must attach the form or statement to his or her tax return.

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

Children who didn't live with you. You must attach Form 8332 or a similar statement to your return. If your divorce decree or separation agreement went into effect after 1984 and it unconditionally states that you can claim the child as your dependent, you may attach a

Figure B. Support Test for Children of Divorced or Separated Parents



copy of the following pages from the decree or agreement instead:

- 1) Cover page (write the other parent's social security number on this page),
- 2) The page that states you can claim the child as your dependent, and
- 3) Signature page with the other parent's signature and the date of the agreement.

Child support. All child support payments actually received from the noncustodial parent are considered used for the support of the child.

Example. The noncustodial parent provides \$1,200 for the child's support. This amount is considered as support provided by the noncustodial parent even if the \$1,200 was actually spent on things other than support.

Back child support. Even if you owed child support for an earlier year, your payments are considered support for the year paid, up to the amount of your required child support for that year. If the support payments are more than the amount required for this year, any payment for an earlier year is not support provided by the noncustodial parent for either the earlier year or for this year. It is to repay the custodial parent for amounts paid for the support of the children in an earlier year.

Example. Under your divorce decree, you must pay \$400 a month to your former spouse for the support of your two children. Last year you paid \$4,000 instead of \$4,800 (\$400 × 12 months) due for the year. This year, if you pay the full amount, the entire \$4,800 is considered support that you provided. If you also pay any part of the \$800 you owe from last year, that amount is not included as support provided by you in either year.

Third-party support. Support provided by a third party for a divorced or separated parent is not included as support provided by that parent. However, see *Remarried parent*, below.

Example. You are divorced. During the entire year you and your child live with your mother in a house she owns. The fair rental value of the lodging provided by your mother for your child is \$1,000. The home provided by your mother is not included in the amount of support you provide.

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

Example. You have two children from a former marriage who live with you. You have remarried and are living in a home owned by your present spouse. The fair rental value of the home provided to the children by your present spouse is treated as provided by you.

Home jointly owned. If you and your former spouse have the right to use and live in the home, each of you is considered to provide half of your child's lodging. However, if the divorce decree gives only you the right to use and live in the home, you are considered to provide your child's entire lodging. It does not

matter if the legal title to the home remains in the names of both parents.

Phaseout of Exemptions

The amount you can claim as a deduction for exemptions is phased out once your adjusted gross income (AGI) goes above a certain level for your filing status. These levels are as follows:

| Filing Status | AGI Level Which Reduces Exemption Amount |
|---------------------------|--|
| Married filing separately | \$ 88,475 |
| Single | 117,950 |
| Head of household | 147,450 |
| Married filing jointly | 176,950 |
| Qualifying widow(er) | 176,950 |


You must reduce the dollar amount of your exemptions by 2% for each \$2,500, or part of \$2,500, (\$1,250 if you are married filing separately), that your AGI exceeds the amount shown above for your filing status. If your AGI exceeds the amount shown earlier by more than \$122,500 (\$61,250 if married filing separately), the amount of your deduction for exemptions is reduced to zero.

If your AGI exceeds the level for your filing status, use *Table 5* to figure the amount of your deduction for exemptions.

Social Security Numbers for Dependents

You must list the social security number (SSN) of **any** person you claim as a dependent (except a child born during December of 1996) in column (2) of line 6c of your Form 1040 or Form 1040A. If your dependent was born in December of 1996 and does not have an SSN, enter "12/96" in column (2).

You do not need an SSN for a child who was born in 1996 and died in 1996. Write "Died" in column (2) of line 6c of your Form 1040 or Form 1040A.

 **Caution:** If you do not list the dependent's SSN when required or if you list an incorrect SSN, the exemption may be disallowed.

Note. If your dependent does not have and is not eligible to get an SSN, you must list the individual taxpayer identification number (ITIN) instead of an SSN. See *Taxpayer identification numbers for aliens*, later.

No social security number. If a person whom you expect to claim as a dependent on your return does not have an SSN, either you or that person should apply for an SSN as soon as possible by filing Form SS-5, *Application for a*

Table 5. Deduction for Exemptions Worksheet

1. Is the amount on Form 1040, line 32, more than the amount shown on line 4 below for your filing status?
 - No.** Stop. Multiply \$2,550 by the total number of exemptions claimed on Form 1040, line 6d, and enter the result on line 36.
 - Yes.** Complete the worksheet below to figure your deduction for exemptions.
2. Multiply \$2,550 by the total number of exemptions claimed on Form 1040, line 6d 2. _____
3. Enter the amount from Form 1040, line 32 3. _____
4. Enter the amount shown below for your filing status:
 - Married filing separately, enter \$88,475
 - Single, enter \$117,950
 - Head of household, enter \$147,450
 - Married filing jointly or Qualifying widow(er), enter \$176,950
 } 4. _____
5. Subtract line 4 from line 3. If zero or less, **stop here**; enter the amount from line 2 above on Form 1040 line 36 5. _____

Note: If line 5 is more than \$122,500 (more than \$61,250 if married filing separately), **stop here**; you **cannot** take a deduction for exemptions. Enter - 0- on Form 1040, line 36.
6. Divide line 5 by \$2,500 (\$1,250 if married filing separately). If the result is not a whole number, round it **UP** to the next higher whole number 6. _____
7. Multiply line 6 by 2% (.02), and enter the result as a decimal amount 7. _____
8. Multiply line 2 by line 7 8. _____
9. **Deduction for exemptions.** Subtract line 8 from line 2. Enter the result here and on Form 1040, line 36 9. _____

Social Security Card, with the Social Security Administration (SSA). Information about applying for an SSN and Form SS-5 is available at your local SSA office.

It usually takes about 2 weeks to get an SSN. If you do not have a required SSN by the April 15 filing date, you can file Form 4868 for an extension of time to file.

Taxpayer identification numbers for aliens. If your dependent is a resident or nonresident alien who does not have and is not eligible to get an SSN, the IRS will issue your dependent an individual taxpayer identification number (ITIN) instead of an SSN. Write the number in column (2) of line 6c of your Form 1040 or Form 1040A. To apply for an ITIN, use Form W-7, *Application for IRS Individual Taxpayer Identification Number*.

It usually takes about 30 days to get an ITIN.

Dependents living in Mexico or Canada. If you claim a dependent who lives in Mexico, enter "MX" instead of a number in column (4) of line 6c of your Form 1040 or Form 1040A. If you claim a dependent who lives in Canada, enter "CN" instead of a number in column (4) of line 6c of your Form 1040 or Form 1040A.

Standard Deduction

Most taxpayers have a choice of either taking a standard deduction or itemizing their deductions. The standard deduction is a dollar amount that reduces the amount of income on which you are taxed. It is a benefit that reduces the need for many taxpayers to itemize actual deductions, such as medical expenses, charitable contributions, or taxes, on Schedule A of Form 1040. The benefit is higher for taxpayers who are 65 or older or blind. If you have a choice, you should use the method that gives you the lower tax.

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

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

- 1) You are married and filing a separate return, and your spouse itemizes deductions,
- 2) You are filing a tax return for a short tax year on account of a change in your annual accounting period, or
- 3) You are a nonresident or dual-status alien during the year. You are considered a dual-status alien if you were both a nonresident and resident alien during the year.

If you are a nonresident alien who is married to a U.S. citizen or resident at the end of the year, you can choose to be treated as a U.S. resident. (See Publication 519.) You may take the standard deduction.



If you can be claimed as a dependent on another person's return (such as your parents' return), your standard deduction may be limited. See Standard Deduction for Dependents, later in this section.

Standard deduction amount. The standard deduction amounts for most taxpayers are shown in *Table 6*.

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

Higher standard deduction for age (65 or older). If you do not itemize deductions, you are entitled to a higher standard deduction if you are age 65 or older at the end of the year. You are considered 65 on the day before your 65th birthday. Therefore, you may take a higher standard deduction for 1996 if your 65th birthday was on or before January 1, 1997.

Use *Table 7* to figure the standard deduction amount.

Higher standard deduction for blindness. If you are blind on the last day of the year and you do not itemize deductions, you are entitled to a higher standard deduction. Use *Table 7*. You qualify for this benefit if you are totally or partly blind.

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

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

- 1) You cannot see better than 20/200 in the better eye with glasses or contact lenses, or
- 2) Your field of vision is not more than 20 degrees.

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

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

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

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

You may not claim the higher standard deduction for an individual other than yourself and your spouse.

Example 1. Larry, 46, and Donna, 43, are filing a joint return for 1996. Neither is blind. They decide not to itemize their deductions. They use *Table 6*. Their standard deduction is \$6,700.

Example 2. Assume the same facts as in Example 1, except that Larry is blind at the end of 1996. Larry and Donna use *Table 7*. Their standard deduction is \$7,500.

Example 3. Bill and Terry are filing a joint return for 1996. Both are over age 65. Neither is blind. If they do not itemize deductions, they use *Table 7*. Their standard deduction is \$8,300.

How to report. After you find your standard deduction amount, enter it on line 19 of Form 1040A or line 34 of Form 1040. If you use Form 1040EZ, combine your standard deduction with your personal exemption(s) and check the appropriate box on line 5. If the total of your standard deduction and personal exemptions is more than \$6,550 (\$11,800 if married filing a joint return), you must file Form 1040A or Form 1040.

Standard Deduction for Dependents

The standard deduction for an individual who can be claimed as a dependent on another person's tax return is generally limited to the greater of (a) \$650, or (b) the individual's earned income for the year (but not more than the regular standard deduction amount, generally \$4,000).

However, if you are a dependent who is 65 or older or blind, your standard deduction may be higher.

If you are a dependent, use *Table 8* to determine your standard deduction.

Earned income defined. Earned income is salaries, wages, tips, professional fees and other amounts received as pay for work you actually perform.

For purposes of the standard deduction, earned income also includes any part of a **scholarship or fellowship grant** that you must include in your gross income. See Publication 520 for more information on what qualifies as a scholarship or fellowship grant.

Where to report your standard deduction. After you find your standard deduction amount, enter it on line 19 of Form 1040A or line 34 of Form 1040. If you use Form 1040EZ, figure your standard deduction on the back of the form and check the "Yes" box on line 5. If your standard deduction is more than \$4,000 (\$6,700 if married filing a joint return), you must file Form 1040A or Form 1040.

Example 1. Michael, who is single, is claimed as a dependent on his parents' 1996 tax return. He has interest income of \$780 and wages of \$150. He has no itemized deductions. Michael uses *Table 8* to find his standard deduction. It is \$650 because the greater of \$650 and his earned income (\$150) is \$650.

1996 Standard Deduction Tables

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

Table 6. Standard Deduction Chart for Most People*

| If Your Filing Status is: | Your Standard Deduction Is: |
|--|-----------------------------|
| Single | \$4,000 |
| Married filing joint return or Qualifying widow(er) with dependent child | 6,700 |
| Married filing separate return | 3,350 |
| Head of household | 5,900 |

* DO NOT use this chart if you were 65 or older or blind, OR if someone can claim you (or your spouse if married filing jointly) as a dependent.

Table 7. Standard Deduction Chart for People Age 65 or Older or Blind*

| Check the correct number of boxes below. Then go to the chart. | | |
|--|--------------------------------------|--------------------------------|
| You | 65 or older <input type="checkbox"/> | Blind <input type="checkbox"/> |
| Your spouse, if claiming spouse's exemption | 65 or older <input type="checkbox"/> | Blind <input type="checkbox"/> |
| Total number of boxes you checked <input type="checkbox"/> | | |
| If Your Filing Status is: | And the Number in the Box Above is: | Your Standard Deduction is: |
| Single | 1 | \$5,000 |
| | 2 | 6,000 |
| Married filing joint return or Qualifying widow(er) with dependent child | 1 | 7,500 |
| | 2 | 8,300 |
| | 3 | 9,100 |
| | 4 | 9,900 |
| Married filing separate return | 1 | 4,150 |
| | 2 | 4,950 |
| | 3 | 5,750 |
| | 4 | 6,550 |
| Head of household | 1 | 6,900 |
| | 2 | 7,900 |

* If someone can claim you (or your spouse if married filing jointly) as a dependent, use Table 8, instead.

Example 2. Joe, a 22-year-old full-time college student, is claimed as a dependent on his parents' 1996 tax return. Joe is married and files a separate return. His wife does not itemize deductions on her separate return.

Joe has \$1,500 in interest income and wages of \$3,600. He has no itemized deductions. Joe finds his standard deduction by using Table 8. He enters his earned income, \$3,600, on line 1. On line 3 he enters \$3,600, the larger of his earned income and \$650. Since Joe is married filing a separate return, he enters \$3,350 on line 4. On line 5a he enters \$3,350 as his standard deduction because it is smaller than \$3,600, his earned income.

Example 3. Amy, who is single, is claimed as a dependent on her parents' 1996 tax return. She is 18 years old and blind. She has interest income of \$1,300 and wages of \$3,000. She has no itemized deductions. Amy uses

Table 8 to find her standard deduction. She enters her wages of \$3,000 on line 1. On line 3 she enters \$3,000, the larger of her wages on line 1 and the \$650 on line 2. Since she is single, Amy enters \$4,000 on line 4. She enters \$3,000 on line 5a. This is the smaller of the amounts on lines 3 and 4. Because she checked one box in the top part of the worksheet, she enters \$1,000 on line 5b. She then adds the amounts on lines 5a and 5b and enters her standard deduction of \$4,000 on line 5c.

Who Should Itemize

You should itemize deductions if your total deductions are more than the standard deduction amount. You should itemize if you do not qualify for the standard deduction, as discussed earlier under *Persons not eligible for the standard deduction*.

Table 8. Standard Deduction Worksheet for Dependents*

| | |
|--|---|
| If you were 65 or older or blind, check the correct number of boxes below. Then go to the worksheet. | |
| You | 65 or older <input type="checkbox"/> Blind <input type="checkbox"/> |
| Your spouse, if claiming spouse's exemption | 65 or older <input type="checkbox"/> Blind <input type="checkbox"/> |
| Total number of boxes you checked <input type="checkbox"/> | |
| 1. Enter your earned income (defined below). If none, enter -0-. | 1. _____ |
| 2. Minimum amount | 2. \$650 |
| 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, enter \$4,000 • Married filing separate return, enter \$3,350 • Married filing jointly or Qualifying widow(er) with dependent child, enter \$6,700 • Head of household, enter \$5,900 | 4. _____ |
| 5. Standard deduction. | |
| a. Enter the smaller of line 3 or line 4. If under 65 and not blind, stop here. This is your standard deduction. Otherwise, go on to line 5b. | 5a. _____ |
| b. If 65 or older or blind, multiply \$1,000 (\$800 if married or qualifying widow(er) with dependent child) by the number in the box above. | 5b. _____ |
| c. Add lines 5a and 5b. This is your standard deduction for 1996. | 5c. _____ |
| Earned income includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income. | |

* Use this worksheet ONLY if someone can claim you (or your spouse if married filing jointly) as a dependent.

You should first figure your itemized deductions and compare that amount to your standard deduction to make sure you are using the method that gives you the greater benefit.

Note: You may be subject to a limit on some of your itemized deductions if your adjusted gross income (AGI) is more than \$117,950 (\$58,975 if you are married filing separately). See the instructions for Schedule A (Form 1040), line 28, for more information on figuring the correct amount of your itemized deductions.

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

- 1) Do not qualify for the standard deduction, or the amount you can claim is limited,
- 2) Had large uninsured medical and dental expenses during the year,
- 3) Paid interest and taxes on your home,

- 4) Had large unreimbursed employee business expenses or other miscellaneous deductions,
- 5) Had large casualty or theft losses not covered by insurance,
- 6) Made large contributions to qualified charities, or
- 7) Have total itemized deductions that are more than the highest standard deduction to which you otherwise are entitled.

If you decide to itemize your deductions, complete Schedule A and attach it to your Form 1040. Enter the amount from Schedule A, line 28, on Form 1040, line 34.

Itemizing for state tax or other purposes. If you choose to itemize even though your itemized deductions are less than the amount of your standard deduction, write "IE" (itemized elected) next to line 34 (Form 1040).

Changing your mind. If you do not itemize your deductions and later find that you should have itemized — or if you itemize your deductions and later find you should not have — you can change your return by filing Form 1040X, *Amended U.S. Individual Income Tax Return*.

Married persons who filed separate returns. You can change methods of taking deductions only if you and your spouse both make the same changes. Both of you must file a consent to assessment for any additional tax either one may owe as a result of the change.

You and your spouse can use the method that gives you the lower total tax, even though one of you may pay more tax than the other. You both must use the same method of claiming deductions. If one itemizes deductions, the other should itemize because he or she will not qualify for the standard deduction (see *Persons not eligible for the standard deduction*, earlier).

Foster Child or Adult

If you receive qualified foster care payments during the year for caring for a qualified foster individual, do not include the payments in your income. However, if you receive such payments, you may not claim that person as a dependent. See *Claiming an exemption*, later. The payments you receive are reimbursements for expenses you incur on behalf of the agency responsible for the foster individual.

Qualified foster individual. This is an individual who is living in a foster family home and who was placed there by:

- An agency of a state or one of its political subdivisions, or
- A tax-exempt child placement agency licensed by a state, if the individual is under age 19.

Qualified foster care payments. These are amounts you receive from a state or one of its

political subdivisions, or from a tax-exempt child placing agency for caring for a qualified foster individual in your home. A qualified foster care payment is also any payment you receive as a "difficulty of care payment."

Difficulty of care payments. These are additional payments you receive for providing care to a qualified foster individual who is physically, mentally, or emotionally disabled. The state must have determined that there was a need for the additional payment, and it must be designated as a difficulty of care payment.

Excess payments. If you receive qualified foster care payments to care for more than 5 adults, or difficulty of care payments for more than 10 children or for more than 5 adults, you must include a portion of those payments in income. Report as income foster care or difficulty of care payments you receive for each adult after the fifth adult you are paid for. Also report as income difficulty of care payments you receive for each child after the tenth child you are paid for. For purposes of determining excess payments, a child is a person under age 19 and an adult is a person over age 18.

Excess expenses. If the expenses you incur to care for foster children or adults are more than the payments you receive, and you have no profit motive in providing foster care, you may take a charitable contribution for the excess expenses on Schedule A (Form 1040) if you itemize deductions. To claim a charitable contribution, you should keep adequate records of the income and expenses of your foster care.

Other payments for foster care. If you are paid to maintain space in your home for foster care, in addition to or instead of receiving qualified foster care or difficulty of care payments, you may be considered self-employed and engaged in a business.

Include in income all payments received to maintain space in your home. Also include in income payments for additional foster individuals as discussed earlier under *Excess payments*. Report them as business income on Schedule C or Schedule C-EZ (Form 1040).

You can deduct business expenses to care for more than 5 foster adults (or for more than 10 foster children if you receive difficulty of care payments) to maintain space in your home, or for costs you incurred to provide foster care services. If you receive qualified foster care or difficulty of care payments, you can deduct a portion of expenses only if you are required to report these payments as income.

Example 1. You receive qualified foster care payments to care for 10 foster children. Since you are not required to include the payments in income, you cannot deduct the excess expenses as business expenses. If you itemize deductions, you can, however, claim the excess expenses as a charitable contribution.

Example 2. You receive difficulty of care payments to care for 11 foster children. Since

you are required to report as income the difficulty of care payment for the eleventh child, you can deduct a pro rata share of business expenses incurred to care for that child.

You cannot claim the child as a dependent because your reimbursed expenses are incurred for the child-placing agency. You incur any unreimbursed expenses in your business.

Example 3. You agreed to provide continuous 24-hour maintenance of three spaces in your home. The spaces are for the temporary and emergency care of children placed there by the local welfare department. You provide the items of support necessary to the children. These include room, board, clothing, personal needs, and spending money. You ask any foster children who come into your home to help with household chores as are normally expected of children in a family. However, they do not perform these chores in return for your support. The welfare department inspects the home periodically to ensure that the foster children placed there receive proper care and gives advice and supervision to you as needed.

The welfare department pays you a monthly fee for each of the three spaces maintained for the children, whether or not the spaces are used.

You are in an independent business and are not an employee of the agency. A part of each payment you receive is for the space you keep available. You must include in income the part that is to maintain space.

Claiming an exemption. You may be able to claim an exemption for a foster child or adult if you do not receive payments for caring for that individual. However, you must meet the five dependency tests as follows:

- 1) Member of household — the individual must be a member of your household for the entire year except for death and temporary absences,
- 2) Citizenship — the individual must be a U.S. citizen or resident, or a resident of Canada or Mexico for some part of the calendar year,
- 3) Joint return — the individual generally cannot file a joint return (but see *Joint Return Test*, earlier),
- 4) Gross income — the individual may not have gross income of \$2,550 or more for 1996 unless he or she is under age 19 or a full-time student under age 24, and
- 5) Support — you must provide over one-half of the individual's support for the year. To figure this, compare the amount you provided with the support received by this person from all sources. You may use *Table 4* in this publication for this purpose. However, if you receive payments from a foster care agency to care for this person, you may not claim his or her exemption.

How To Get More Information



You can get help from the IRS in several ways.

Free publications and forms. To order free publications and forms, call 1-800-TAX-FORM (1-800-829-3676). You can also write to the IRS Forms Distribution Center nearest

you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services*. It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access to Tax Help* in your income tax

package for details. If space permitted, this information is at the end of this publication.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1-800-829-1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1-800-829-4059 to ask tax questions or to order forms and publications. See your income tax package for the hours of operation.

